The Co-operative Bank Finance p.l.c.

(incorporated in England and Wales with limited liability with registered number 11598074)

GBP 200,000,000 Fixed Rate Reset Callable Notes due 2025

Issue Price: 100 per cent.

Legal entity identifier (LEI): 213800KNE8ER4N9BLF11

Application has been made to the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**FCA**") for the GBP 200,000,000 Fixed Rate Reset Callable Notes due 2025 (the "**Notes**") of The Co-operative Bank Finance p.l.c. (the "**Issuer**") to be admitted to the official list of the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's regulated market (the "**Market**"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU. This Prospectus has been approved by the Financial Conduct Authority in accordance with Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). This document comprises a prospectus for the purposes of the Prospectus Regulation.

Interest on the Notes will be payable semi-annually in arrear on 27 May and 27 November in each year. Payments on the Notes will be made without deduction for or on account of taxes of the United Kingdom to the extent described under "*Terms and Conditions of the Notes - Taxation*".

The Notes will mature on 27 November 2025 but may be redeemed before then on the Reset Date (as defined below) at the option of the Issuer in whole but not in part at their principal amount together with accrued interest. The Notes are also subject to redemption in whole at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of the United Kingdom or the regulatory classification of the Notes. See "*Terms and Conditions of the Notes - Redemption and Purchase*".

The Notes will be offered and sold in offshore transactions outside the United States in reliance on Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**").

THE NOTES HAVE NOT BEEN NOR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT, OR ANY STATE SECURITIES LAW, AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.

The Notes will be issued in registered form in minimum denominations of GBP 100,000 and integral multiples of GBP 1,000 in excess thereof. The Notes will be represented by a global registered note certificate (the "**Global Certificate**") which will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for and deposited with a common depositary for Euroclear Bank SA/NV ("**Euroclear**"), and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") on or around 27 November 2020 (the "**Closing Date**"). Definitive note certificates (the "**Definitive Note Certificates**") evidencing holdings of Notes will be available only in certain limited circumstances. See "*Summary of Provisions Relating to the Notes in Global Form*".

Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 5.

The shareholders of The Co-operative Bank Holdings Limited (the "**Holding Company**") may purchase a significant percentage of the Notes offered. The interests of the shareholders of the Holding Company may differ from those of any other Noteholders. See "*Risk Factors – Risks related to the Notes generally - Modification, waivers and substitution*" and "*Risk Factors – Risks related to the market generally – The secondary market generally*" in this Prospectus.

The Notes will be obligations of the Issuer only and Noteholders will have no recourse to The Co-operative Bank p.l.c. (the "**Bank**") or the Holding Company in respect of the Notes. The Notes will not be Protected Liabilities under the FSCS (each as defined below) and, moreover, are not guaranteed or insured by any government, government agency or compensation scheme of the United Kingdom or any other jurisdiction.

> The Issuer is rated Caa1 (long-term and outlook stable) and NP (short-term) by Moody's Investors Service Ltd. ("**Moody's**"). The Notes are expected to be rated Caa1 (outlook stable) by Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Moody's is established in the European Union (the "**EU**"), domiciled in the United Kingdom, and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009 on Credit Rating Agencies as amended by Regulation (EU) No. 513/2011 (the "**CRA Regulation**"). This list is available on the ESMA website (*http://www.esma.europa.eu/page/list-registered-and-certified-CRAs*) (last updated 14 November 2019).

Joint Bookrunners

CREDIT SUISSE | **GOLDMAN SACHS INTERNATIONAL**

25 November 2020

This Prospectus constitutes a prospectus for the purpose of Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer the information contained in this Prospectus is in accordance with the facts and the Prospectus makes no omission likely to affect its import.

This Prospectus is to be read in conjunction with all the documents which are deemed to be incorporated herein by reference (see "*Incorporation by Reference*" below).

This Prospectus has been approved by the FCA, as competent authority under the Prospectus Regulation. The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of either the Issuer or the quality of the Notes that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

None of the Joint Bookrunners (as defined in "*Subscription and Sale*"), the Principal Paying Agent (as defined in "*Terms and Conditions of the Notes*"), Law Debenture Trustees Limited (the "**Trustee**") nor any of their respective directors, affiliates, advisers or agents has made an independent verification of the information contained in this Prospectus in connection with the issue or offering of the Notes and no representation or warranty, express or implied, is made by the Joint Bookrunners, the Trustee or any of their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Joint Bookrunners, the Trustee or any of their respective directors, affiliates, advisers or agents in any respect. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

No person is authorised to give any information or make any representation not contained in this Prospectus in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuer, the Trustee or the Joint Bookrunners or any of their respective directors, affiliates, advisers or agents. The delivery of this Prospectus does not imply that there has been no change in the business and affairs of the Issuer since the date hereof or that the information herein is correct as of any time subsequent to its date.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. In particular, this Prospectus does not constitute an offer of securities to the public in the United Kingdom. Consequently this document is being distributed only to, and is only directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this Prospectus may come are required by the Issuer and the Joint Bookrunners to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Prospectus and other offering material relating to the Notes is set out under "*Subscription and Sale*" and "*Summary of Provisions Relating to the Notes in Global Form*".

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

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

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

(iv) understand thoroughly the terms of the Notes; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

Unless otherwise specified or the context so requires, references to "**£**", "**GBP**", "**sterling**", "**Sterling**" or "**pounds sterling**" are to the lawful currency of the United Kingdom. References to "**billions**" are to thousands of millions.

SINGAPORE SFA PRODUCT CLASSIFICATION

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

MIFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

STABILISATION

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

Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

ROUNDING

Certain figures contained in this Prospectus or referred to or incorporated by reference into this Prospectus, including financial, statistical and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Prospectus or referred to or incorporated by reference into this Prospectus may not conform exactly to the total figure given for that column or row.

NON-IFRS MEASURES

In this Prospectus, the Issuer presents certain financial measures relating to the Bank and the Holding Company, including CET1 capital and other regulatory measures, which are not recognised by IFRS. These measures are presented because the Issuer believes that they and similar measures are widely used in the Bank's industry as a means of evaluating operating performance. These measures may not be comparable to similarly titled measures used by other companies and are not measurements under IFRS or any other body of generally accepted accounting principles, and thus should not be considered substitutes for the financial information set out in the "*Incorporation by Reference*" section of this Prospectus and which has been incorporated by reference into this Prospectus.

These measures include (but are not limited to) Customer net interest margin (NIM), Common Equity Tier 1 (CET1) Capital, Capital Requirements, Operating cost: income ratio and Risk Weighted Assets. These measures are defined in the Glossary to the 2019 Annual Report, which can be viewed online at:

https://www.co-operativebank.co.uk/assets/pdf/bank/investorrelations/2019-results-glossary.pdf

ALTERNATIVE PERFORMANCE MEASURES

In addition to the conventional financial performance measures established by IFRS, certain alternative performance measures (as defined in the ESMA Guidelines on Alternative Performance Measures) ("**Alternative Performance Measures**" or "**APMs**") are included in this Prospectus.

CAPITAL RATIOS

Regulatory capital ratios included in this Prospectus are, unless otherwise stated, given on a consolidated basis in respect of the Issuer, the Bank, the Holding Company and each of their respective subsidiaries and subsidiary undertakings (together, the "**Holding Company Group**") and in respect of the Banking Group (as defined below) (and not on a solo basis).

PRESENTATION OF REGULATORY CAPITAL INFORMATION

The Bank reports on a solo-consolidated basis as the "**Banking Group**" (being the Bank, its subsidiaries and subsidiary undertakings) and as part of the Holding Company Group's consolidated reporting. References to the Bank's regulatory position in this Prospectus are to the consolidated position of the Holding Company Group unless stated.

PILLAR 3 DISCLOSURES

The Bank makes available on the Investor Relations section of the Bank's website (www.co-operativebank.co.uk/investorrelations/financialresults) the Bank's Pillar 3 Disclosures, which are intended to comply with the rules, unless otherwise stated, laid out in the Capital Requirements Regulation ("**CRR**"), Part 8. The disclosure included in the Bank's Pillar 3 Disclosures differs from those stated in the U.S. Securities and Exchange Commission ("**SEC**") Industry Guide 3. Accordingly, the Bank's Pillar 3 Disclosures included on its website may not be comparable to the equivalent information from U.S. companies subject to the reporting and disclosure requirements of the SEC.

PRESENTATION OF FINANCIAL INFORMATION

The historical financial information incorporated by reference into this Prospectus has been audited and prepared in accordance with IFRS.

The consolidated financial statements for the years ended 31 December 2018 and 2019, incorporated by reference herein, comprise the consolidated financial statements for (i) the Holding Company Group, (ii) the Issuer Group, and (iii) the Banking Group. The unaudited condensed consolidated financial statements for the six months ended 30 June 2020 (including an "emphasis of matter" paragraph referring to Note 1.2 (Going concern) of such financial statements), incorporated by reference herein, comprise the consolidated financial statements of the Holding Company Group only.

Since the Holding Company Group is considered to be a continuation of the Bank, the comparative figures presented in the Holding Company Group consolidated financial statements for the year ended 31 December 2019 are those of the Bank for the year ended 31 December 2018. As the Holding Company and the Issuer have no trading operations of their own, the consolidated financial statements, governance and risk management for the Holding Company Group are substantially the same as those for the Bank. The historical financial information incorporated by reference into this Prospectus therefore relates to the Bank, the Issuer and the Group, whose financial statements are prepared on a solo consolidated basis and are reported on a consolidated reporting basis within the Holding Group. However, investors should note that the Notes will be debt obligations of the Issuer only and the Noteholders will have no recourse to the Holding Company or the Bank in respect of the Notes.

The Issuer was incorporated on 1 October 2018 and was subsequently re-registered as a public limited company on 18 March 2019. The inaugural financial information of the Issuer and its consolidated results within those of the Holding Company Group were produced for the year ended 31 December 2019. The Issuer and its subsidiaries and subsidiary undertakings, including the Bank, are referred to herein as the "**Issuer Group**".

FORWARD-LOOKING STATEMENTS

Certain information contained in this Prospectus, including any information as to the Holding Company Group's strategy, market position, plans or future financial or operating performance, constitutes "forward looking statements". All statements, other than statements of historical fact, are forward looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intend", "continue", "budget", "project", "aim", "estimate", "may", "will", "could", "should", "schedule" and similar expressions identify forward looking statements.

Forward looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Issuer and the Bank, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward looking statements. Such factors include, but are not limited to, those described in "*Risk Factors*".

Investors are cautioned that forward looking statements are not guarantees of future performance. Forward looking statements may, and often do, differ materially from actual results. Any forward looking statements in this Prospectus speak only as at the date of this Prospectus, reflect the current view of the board of directors of the Issuer (the "**Board**") and the Bank with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Issuer's and the Bank's operations, results of operations, strategy, liquidity, capital and leverage ratios and the availability of new funding. Investors should specifically consider the factors identified in this Prospectus that could cause actual results to differ before making an investment decision. All of the forward looking statements made in this Prospectus are qualified by these cautionary statements. Specific reference is made to the information set out in "*Risk Factors*", "*Overview of the Issuer*" and "*Overview of the Bank*".

Subject to applicable law or regulation, the Issuer explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward looking statements in this Prospectus that may occur due to any change in the Issuer's expectations or to reflect events or circumstances after the date of this Prospectus.

INCORPORATION BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been approved by the UK's Financial Conduct Authority or filed with it shall be deemed to be incorporated in, and to form part of, this Prospectus:

(a) From the interim financial report of The Co-operative Bank Holdings Limited for the six months ended 30 June 2020 (the "**H1 2020 Interim Report**"), the following pages:

Independent Auditor's Report to the Members of The Co-operative Bank Holdings Limited	35-36
Condensed Consolidated Income Statement	37
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The H1 2020 Interim Report can be viewed online at:

(https://www.co-operativebank.co.uk/assets/pdf/bank/investorrelations/1H_2020_Interim_Financial_Report.pdf)

(b) From the 2019 combined annual report of The Co-operative Bank p.l.c., The Co-operative Bank Finance p.l.c. and The Co-operative Bank Holdings Limited (the "**2019 Annual Report**"), the following pages:

Independent Auditor's Report to the Members of The Co-operative Bank p.l.c.	122-132
Independent Auditor's Report to the Members of The Co-operative Bank Holdings Limited	133-135
Independent Auditor's Report to the Members of The Co-operative Bank Finance p.l.c........	136-148
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The Co-operative Bank Finance p.l.c. Balance Sheet........	231
The Co-operative Bank Finance p.l.c. Statement of Cashflows	233
The Co-operative Bank Finance p.l.c. Statement of Changes in Equity	235
Notes to the The Co-operative Bank Finance p.l.c. Financial Statements	236-241

The 2019 Annual Report can be viewed online at:

(https://www.co-operativebank.co.uk/assets/pdf/bank/investorrelations/2019-annual-report-and-accounts.pdf)

(c) From the 2018 combined annual report of The Co-operative Bank p.l.c. and The Co-operative Bank Holdings Limited (the "**2018 Annual Report**"), the following pages:

Capital	18-19
Auditor's Report	104-113
Consolidated Income Statement	114
Consolidated Statement of Comprehensive Income	115
Consolidated Balance Sheet	116
Consolidated Statement of Cashflows	118-119
Consolidated Statement of Changes in Equity	120
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The 2018 Annual Report can be viewed online at:

(https://www.co-operativebank.co.uk/assets/pdf/bank/investorrelations/2018-annual-report-and-accounts.pdf)

save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Any information incorporated by reference in the documents specified above, which are being incorporated by reference herein, shall not form part of this Prospectus. Any information contained in any of the documents specified above which is not incorporated by reference in this Prospectus is either not relevant for prospective investors for the purposes of Article 6(1) of the Prospectus Regulation or is covered elsewhere in this Prospectus.

Copies of documents deemed to be incorporated by reference in this Prospectus may be obtained, free of charge, from the Issuer's website at https://www.co-operativebank.co.uk/ and the website of the Regulatory News Service operated by the London Stock Exchange at https://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html and are available for inspection and viewing at the National Storage Mechanism of the FCA at https://data.fca.org.uk/#/nsm/nationalstoragemechanism.

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OVERVIEW OF THE NOTES

This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of the Prospectus as a whole, including the information incorporated by reference.

Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this overview.

Issuer:	The Co-operative Bank Finance p.l.c.
Legal Entity Identifier ("LEI") of the Issuer:	213800KNE8ER4N9BLF11.
Website of the Issuer:	https://www.co-operativebank.co.uk/
Trustee:	Law Debenture Trustees Limited.
Principal Paying Agent:	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent:	The Bank of New York Mellon S.A./N.V., Luxembourg Branch.
The Issue:	GBP 200,000,000 Fixed Rate Reset Callable Notes due 2025.
Issue Price:	100 per cent. of the principal amount of the Notes.
Issue Date:	27 November 2020.
Maturity Date:	27 November 2025, subject to Condition 6.2.
Interest Rate:	The Notes will bear interest at the rate of 9.000 per cent. per annum from and including 27 November 2020 (the "**Issue Date**") to but excluding 27 November 2024 (the "**Reset Date**") and thereafter at the Reset Interest Rate up to and including 27 November 2025 (the "**Maturity Date**") (as defined in "*Terms and Conditions of the Notes*").
Yield:	9.000 per cent.[1]
Interest Payment Dates:	Interest will be payable semi-annually in arrear on 27 May and 27 November in each year, commencing on 27 May 2021.
Withholding Taxes:	All payments of principal and interest in respect of the Notes by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Tax Jurisdiction, unless such withholding or deduction is required by law. In such event, in respect of payments of interest (but not principal or any other amount) the Issuer will, save in certain limited circumstances as set out in Condition 7, pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes after such withholding or deduction shall equal the respective amounts of interest which would otherwise have been receivable in respect of the Notes, in the absence of such withholding or deduction, all as described in Condition 7.

[1] This is based on the Initial Interest Rate.

Ranking:	The Notes will be direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* without any preference among themselves and, in the event of a Winding-Up, will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law.
Optional Redemption:	The Issuer may, subject to Condition 6.7 and having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable), elect to redeem the Notes, in whole but not in part, on the Reset Date at an amount equal to their principal amount together with unpaid interest accrued to (but excluding) the Reset Date.
Loss Absorption Disqualification Event Redemption:	Subject to Condition 6.7, the Notes may be redeemed at the option of the Issuer, in whole but not in part, at an amount equal to their principal amount together with unpaid interest accrued to (but excluding) the date of redemption, at any time on the Issuer giving not less than 10 nor more than 30 days' notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable), if the Issuer determines that a Loss Absorption Disqualification Event has occurred. For the avoidance of doubt, any amortisation of the Notes pursuant to Article 72(c) of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No. 648/2012 as amended by Regulation (EU) No. 2019/870 (or any equivalent or successor provision) shall not comprise a Loss Absorption Disqualification Event.
Tax Redemption:	Subject to Condition 6.7, if at any time a Tax Event occurs, the Notes may be redeemed at the option of the Issuer, in whole but not in part, at an amount equal to their principal amount together with unpaid interest accrued to (but excluding) the date of redemption, at any time on the Issuer giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable), as described further in Condition 6.3.
Use of Proceeds:	The estimated net proceeds of the issue of the Notes, expected to amount to approximately GBP 200,000,000, will be on-lent to the Bank. The Notes are intended to count as MREL at the Issuer Group level and the on-loan is intended to count as MREL at Banking Group level. This will further strengthen the Bank's loss absorbing capacity base. The net proceeds received by the Bank will be used by the Bank for general corporate purposes.

Enforcement:	If the Issuer has not made any payment of any amount due on the Notes on the due date and such default continues for a period of 7 days (in the case of principal) or 15 days (in the case of interest), the Trustee may, subject as provided in the Conditions, at its discretion and without further notice, institute proceedings for the winding-up of the Issuer but may take no other action in respect of such default. If the Issuer fails to perform, observe or comply with any obligation, condition or provision relating to the Notes binding on it under the Conditions the Trustee may, subject as provided in the Conditions, at its discretion and without notice, institute such steps, actions and/or proceedings against the Issuer as it may think fit to enforce such obligation, condition or provision provided that the Issuer shall not as a consequence of such steps, actions and/or proceedings be obliged to pay any sum or sums (whether by way of damages or otherwise) sooner than the same would otherwise have been payable by it. No Noteholder shall be entitled to institute proceedings for a winding-up of the Issuer or to prove or claim in a Winding-Up of the Issuer unless the Trustee, having become bound so to proceed in accordance with the Conditions, fails to do so or fails to prove in such winding-up, in each case within a reasonable time and such failure shall be continuing. See Condition 9 for further information.
Form of the Notes:	The Notes will be issued in registered form in minimum denominations of GBP 100,000 and integral multiples of GBP 1,000 in excess thereof. The Notes will be represented by the Global Certificate which will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for and deposited with a common depositary for Euroclear and Clearstream, Luxembourg on or around the Closing Date. Definitive Note Certificates evidencing holdings of Notes will be available only in certain limited circumstances. See "*Summary of Provisions Relating to the Notes in Global Form*".
Listing and Clearing:	Application has been made to list the Notes on the Official List and to trading on the Market. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with the following ISIN and Common Code: ISIN: XS2263766078 Common Code: 226376607
Governing Law:	The Notes will be governed by, and shall be construed in accordance with, English law.
Selling Restrictions:	The offering and sale of Notes is subject to applicable laws and regulations including, without limitation, those of the United States and the United Kingdom. See "*Subscription and Sale*".
Risk Factors:	Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 5.

Ratings of the Notes:	The Issuer is rated Caa1 (long-term and outlook stable) and NP (short-term) by Moody's. The Notes are expected to be rated Caa1 (outlook stable) by Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Moody's is established in the EU, domiciled in the United Kingdom, and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009 on Credit Rating Agencies as amended by the CRA Regulation.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive.

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

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Risks relating to the Bank's Macroeconomic Environment

The Bank's business and financial performance has been and may continue to be affected by the general economic, political and social conditions in the UK and elsewhere, and adverse economic, social or political developments or health epidemics in the UK or elsewhere could cause the Bank's earnings and profitability to decline

The Bank is directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies and the state of the global financial markets both generally and as they specifically affect financial institutions. The global financial crisis experienced from August 2007 through 2010 created unprecedented credit and liquidity conditions and severe dislocation of financial markets around the world. Although the level of market disruption and volatility caused by the global financial crisis has abated, there can be no assurance that these conditions will not recur or that similar events will not occur having similar effects on the financial markets. The global economic, political and social conditions have also been, and are likely to continue to be, affected by concerns over increased geopolitical tensions, including those related to the current U.S. administration's economic and trade policies, tensions in the Middle East and eastern Ukraine, tensions on the Korean peninsula and the effects of contagious diseases with human-to-human airborne or contact propagation effects, such as the coronavirus ("**Covid-19**") which has escalated into a global pandemic. The global economy remains sensitive to drastic measures taken by governments around the world to fight the virus, which have brought about rapid deterioration in economic growth across all countries and regions. The occurrence of epidemics or pandemics is beyond the Bank's control and the Bank can provide no assurance on the future spread of Covid-19 or other contagious diseases in areas in which the Group operates or what the impact on its business will be, due to, among other things, quarantines or other restrictive measures.

There can be no assurances that a potential tightening of liquidity conditions in the future as a result of, for example, further deterioration of public finances of certain European countries will not lead to new funding uncertainty, resulting in increased volatility and widening of credit spreads. If there is a global, regional or national financial crisis, the Bank may experience reductions in business activity, increased funding costs, decreased liquidity, decreased asset values, additional credit impairment losses and lower profitability and revenues. Covid-19 or other contagious diseases could also affect the Group's or its suppliers' operations, which could affect the Group's costs or ability to meet its core activities and initiatives. In addition, the occurrence of such health epidemics and contagious diseases in the United Kingdom can cause operational disruption as the Bank can provide no assurance on what the impact of the future spread of Covid-19 or other contagious diseases on its business will be or how it may need to change ways of working among its employees and locations to ensure business continuity and support to colleagues and customers; for further information see the risk factor entitled "*Risk relating to the impact of Covid-19*". Any of the foregoing factors could have a material adverse effect on the Bank's business, financial condition and results of operations.

These market dislocations were also accompanied by recessionary conditions and trends in the UK and many economies around the world. The widespread deterioration in these economies affected, among other things;

consumer confidence, levels of unemployment, the housing market, the commercial real estate sector; bond markets, equity markets, counterparty risk, inflation, the availability and cost of credit, transaction volumes in wholesale and retail markets, the liquidity of the global financial markets and market interest rates, which in turn had, and continues to have, in a number of respects, a material adverse effect on the Bank's business, operating results, financial condition and prospects.

A number of policy interventions, including reductions in the Bank of England base rate, and the Bank of England's Term Funding Scheme with additional incentives for SMEs ("**TFSME**") have helped to ease these funding pressures. However, if there were to be any tightening of funding conditions in the UK and in Europe, the cost of funding could increase again.

There remain continued challenges and uncertainty for the UK economy, including the combined economic prospects of the Eurozone, which presents a risk of a slowdown in economic activity in the UK's principal export markets, the impact of any future government austerity measures, and the continued pressure on household incomes.

This pressure on households may, if combined with an increase in interest rates and/or unemployment, lead to an increase in arrears in the Bank's residential lending portfolios, including the Optimum Portfolio, and the Bank's unsecured debt products (as described in "*Business Overview*" – "*Product Offering*" – "*Retail Lending*" – "*Other*") and an associated increase in retail impairment provisions.

Should macroeconomic risks increase and/or other factors lead to increased interest rates or unemployment, these could have a potential impact on impairments; for further information see the risk factor entitled "*The Bank's earnings and net interest margins have been adversely affected by a number of factors, and may continue to be adversely affected for so long as one or more of these factors persist. Worsening economic and market conditions and/or increasing interest rates and/or a fall in house prices could result in increased residential mortgage and unsecured loan losses which would adversely impact the Bank's financial and operational performance. In addition, regulatory capital shortfalls and other recent events impacting the Bank may have an adverse effect on the Bank's net interest margin*".

The exit of the UK from the EU on 31 January 2020 and related political events in the UK and Europe could result in prolonged periods of uncertainty or significant macroeconomic deterioration, including, but not limited to, decreased GDP in the UK, increased foreign exchange volatility, in particular a further weakening of the pound sterling as against the euro and other leading currencies, decreases in global stock exchange indices and a further downgrade of the UK's sovereign credit rating. There are concerns that economic and political uncertainty relating to the exit of the UK from the EU could push the UK into an economic recession.

Because a significant proportion of the regulatory regime applicable to the Bank is derived from EU directives and regulations, the UK's exit from the EU could materially change the regulatory framework applicable to the Bank's operations. The directives and regulations cover a range of the Bank's operations and activities and have a broader impact on the financial services industry and the legal and regulatory environment in the UK.

The Bank has carried out an assessment of the implications arising from the UK's exit from the EU and continues to monitor developments. As a UK-centric bank, key areas where the Bank expects to be affected by such developments are expected to relate to customer service requirements for EU based customers, payment services and treasury counterparty transactions.

The exit of the UK from the EU may result in changes in the position of UK banks in respect of participation in European payment schemes such as the Single European Payments Area, which in turn could create additional operational costs and/or costs associated with making alterations to the Bank's payments systems and processes.

If a recession were to occur in the UK, sterling were to further depreciate materially, or the Bank's regulatory environment were to change dramatically, it could have a material adverse effect on the Bank's business, operating results, financial condition and prospects.

Risks relating to the impact of Covid-19

The Covid-19 pandemic creates additional challenges and increases the likelihood of risks relating to the macroeconomic environment and risks relating to the Issuer and the Bank manifesting. Whilst neither the

extent and duration of the Covid-19 pandemic nor its consequences for the global economy can be predicted, the pandemic has had a significant impact on the Bank and the markets in which it operates and may continue to present further risks and challenges.

The global pandemic from the outbreak of Covid-19 is causing widespread disruption to financial markets and normal patterns of business activity across the world, including in the UK. Measures taken to contain the health impacts of the Covid-19 pandemic are resulting in adverse impacts on economic activity across the world, and the duration for which such measures will remain in place is uncertain. The potential adverse impact on interest rates, credit spreads, foreign exchange rates and commodity, equity, bond, and property prices can be seen in significant market falls, reduced liquidity and rises in volatility. The impact on the economy is currently highly uncertain in both its depth and length, and may go beyond current forecasts of the scale of loss of output and recession in the UK and globally.

Governments, central banks and regulators across the world are taking significant action to address the economic impact of the Covid-19 pandemic, which may be temporary, but the economic impact remains likely to lead to a significant loss of output and recession in the UK and globally. Specific measures taken by governments to alleviate the impact on the Bank's customers or borrowers, such as mortgage payment holidays, taken together with lower interest rates and restrictions on fees associated with certain products, may have an adverse impact on the Bank's results of operations, financial conditions or prospects. Additionally, although the UK Government and the Bank of England have provided guarantees to banks relating to lending schemes that have been initiated to support businesses through the current Covid-19 pandemic, there is a risk that in some circumstances, the Bank may not be able to claim under the guarantees, or the claim may be rejected, if, for example, it later transpires that all terms and conditions under the guarantee scheme were not met when the lending was originated. Specific measures taken by the Bank include participation in the Bounce Back Loan Scheme ("**BBLS**") and the UK Coronavirus Large Business Interruption Loan Scheme ("**CLBILS**").

Further measures may also be taken by regulators to address potential capital and liquidity stress, which could limit the Bank's flexibility to manage its business and its capital position, including restrictions on distributions and capital allocation such as those published by the Prudential Regulation Committee's Supervisory Guidance.

In particular, the synchronisation of emergency measures to slow the spread of Covid-19 across the world has brought about rapid deterioration in economic growth across all countries and regions which, even if temporary, is likely to inflict significant damage on the world economy, directly adversely impacting the UK through many channels, including trade and capital flow. The economic consequences of the Covid-19 pandemic, including increased levels of unemployment and corporate insolvencies, could adversely impact the Bank's retail, business or corporate customers and their ability to service their contractual obligations, including to the Bank. Adverse changes in the credit quality of the Bank's borrowers and counterparties or collateral held in support of exposures, or in their behaviour, may reduce the value of the Bank's assets and materially increase the Bank's write-downs and allowances for impairment losses. (see "*The Bank's earnings and net interest margins have been adversely affected by a number of factors, and may continue to be adversely affected for so long as one or more of these factors persist. Worsening economic and market conditions and/or increasing interest rates and/or a fall in house prices could result in increased residential mortgage and unsecured loan losses which would adversely impact the Bank's financial and operational performance. In addition, regulatory capital shortfalls and other recent events impacting the Bank may have an adverse effect on the Bank's net interest margin*"). This could have a material adverse effect on the Bank's results of operations, financial condition or prospects.

As a result of the Covid-19 pandemic, the potential for conduct and compliance risks (see "*Risks relating to the Bank's operations - The Bank is exposed to a number of conduct risks*"), as well as operational risks materialising has increased, notably in the areas of cyber, fraud, people, technology, operational resilience and where there is reliance on third-party suppliers. In addition to the key operational risks, new risks are likely to arise as the Bank will need to change its ways of working whilst managing any instances of Covid-19 infection among its employees and locations to ensure business continuity and support to colleagues and customers.

Any and all such events described above could have a material adverse effect on the Bank's business, financial condition, results of operations, prospects, liquidity, capital position and credit ratings (including potential changes of outlooks or ratings), as well as on its customers, borrowers, counterparties, employees and suppliers.

Until the terms of the UK's exit from the EU are clearer, it is not possible to determine the impact that the UK's departure from the EU may have on European economies or financial markets

The Bank is subject to risks resulting from the UK's withdrawal from the European Union ("**Brexit**") on 31 January 2020. Under the ratified terms of the withdrawal and the framework of the future relationship between the UK and the European Union (the "**article 50 withdrawal agreement**"), a transition period has now commenced which will last until 31 December 2020. During this period, most EU rules and regulations will continue to apply to the UK and it is expected that negotiations in relation to a free trade agreement will be ongoing. The UK legislation ratifying the article 50 withdrawal agreement (the European Union (Withdrawal) Act 2018, as amended by the European Union (Withdrawal Agreement) Act 2020 (as so amended, the "**EUWA**") contains a prohibition on agreeing any extension to the transition period. While this does not entirely remove the prospect that the transition period will be extended (as UK Parliament could pass legislation that would override the effect of the prohibition in the EUWA), the likelihood of a further extension is significantly reduced and the risk is increased that by 31 December 2020 no trade agreement on the future relationship between the UK and the European Union is reached at all or a significantly narrower agreement deal is reached than that envisaged by the political declaration agreed by the European Commission and the UK Government.

The EU and the UK Government have continued preparations for a "hard" Brexit (or "no-deal" Brexit) to minimise the risks for firms and businesses associated with an exit without agreement as to the EU-UK future trade relationship at the end of the transition period. This has included the UK Government publishing further draft secondary legislation under powers provided in the EUWA to ensure that there is a functioning statute book at the end of the transition period.

The Bank is planning the necessary contingency measures for "no-deal" Brexit. Due to the disorderly nature of this specific event and outcome, the impacts are less predictable and may therefore have a greater effect on the UK economy than would have been the case in the event of an agreed withdrawal agreement. The general consensus view is that a "no-deal" Brexit would have a negative impact on the UK economy, affecting its growth prospects, based on scenarios put forward by such institutions as the Bank of England, the UK Government and other economic forecasters. While the longer term effects of the UK's departure from the EU are difficult to predict, there is short term political and economic uncertainty. Mark Carney, the former Governor of the Bank of England warned that the UK exiting the EU without a deal could lead to considerable financial instability, a very significant fall in property prices, rising unemployment, depressed economic growth, higher inflation and interest rates. It is also uncertain whether the Bank of England would be able to apply further interest rate reductions. This could inevitably affect the UK's attractiveness as a global investment centre, and would likely have a detrimental impact on UK economic growth.

Due to the ongoing political uncertainty as regards the terms of the UK's withdrawal from the EU and the structure of the future relationship, the precise impact on the Bank's business is difficult to determine. Among other consequences, the UK's withdrawal from the EU could materially change the legal framework applicable to the Bank's operations, including in relation to its regulatory capital requirements and could result in restrictions on the movement of capital and the mobility of personnel. Any of these factors could result in higher operating costs and no assurance can be given that the UK's withdrawal from the EU will not adversely affect the Bank's business, financial condition and results of operations and/or the market value and/or the liquidity of the Notes in the secondary market.

For further information see the risk factor entitled "*The Bank's business and financial performance has been and may continue to be affected by the general economic, political and social conditions in the UK and elsewhere, and adverse economic, social or political developments or health epidemics in the UK or elsewhere could cause the Bank's earnings and profitability to decline*".

The Bank's earnings and net interest margins have been adversely affected by a number of factors, and may continue to be adversely affected for so long as one or more of these factors persist. Worsening economic and market conditions and/or a fall in house prices could result in increased residential mortgage and unsecured loan losses which would adversely impact the Bank's financial and operational performance. Further reductions in the Bank of England base rate may adversely impact the Bank's net interest margin, and its financial position and prospects. In addition, the future expense of meeting regulatory capital requirements and other recent events impacting the Bank may have an adverse effect on the Bank's net interest margin.

The Bank's net interest margin and, consequentially, earnings are affected by the pricing on the lending products it offers to its customers and the cost of funding. The Bank's net interest margin has been placed under pressure by a number of factors which have negatively impacted the pricing of its lending products and the cost of its funds, such as the low level of the Bank of England base rate since March 2009 and competition in retail funding and lending markets. These factors may continue to adversely affect the Bank's net interest margin for so long as one or more of these factors persist. In addition, the future expense of meeting regulatory capital requirements and other recent events impacting the Bank may have an adverse effect on the Bank's net interest margin.

Competition across the mortgage market is intense, particularly for lower LTV products, and is likely to continue, putting downward pressure on returns available for the lowest risk-weighted mortgage assets and potentially reducing the profitability of higher risk-weighted mortgage assets.

The personal borrowing sector in the UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or falling house prices.

Increased unemployment could lead to higher levels of arrears, in both the Bank's retail residential mortgage loan and unsecured consumer loan portfolios which, in turn, would lead to an increase in the Bank's impairment charges in respect of these portfolios. Increased unemployment could also result in less demand for the Bank's products.

Rising interest rates would put pressure on existing and new borrowers whose loans are linked to the base rate or LIBOR or the Bank's variable rates and who may have become accustomed to the current low interest rate environment. A significant portion of the Bank's outstanding residential mortgage loan products are potentially subject to changes in interest rates. In an increasing interest rate environment, borrowers seeking to avoid increased monthly payments caused by interest rate increases by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates and this could lead to an increase in arrears in the Bank's secured lending portfolios, as well as an increase in the Bank's secured loan impairment charges. The majority of the remaining unsecured loan portfolio is on fixed customer rates.

The decline in UK house prices may be driven by the adverse economic impacts of Covid-19 or a no-deal Brexit (*see "Risks relating to the impact of Covid-19*" and "*Until the terms of the UK's exit from the EU are clearer, it is not possible to determine the impact that the UK's departure from the EU may have on European economies or financial markets"*). If UK house prices were to fall generally or in particular regions to which the Bank has significant exposure, this would be likely to result in an increase in the Bank's secured loan impairment charges as the value of the security underlying its mortgage loans was eroded. The decline in general or regional UK house prices may be driven by the adverse economic impacts of Covid-19. Further, declining UK house price indices negatively impact the Bank's capital position by inflating the risk weighting of its secured portfolio. A key assumption in the judgment of estimated future credit losses and risk weighted assets ("**RWAs**") is the Bank's estimate of future house price index movements (for further information, please see the risk factor entitled "*The Bank's earnings and net interest margins have been adversely affected by a number of factors, and may continue to be adversely affected for so long as one or more of these factors persist. Worsening economic and market conditions and/or increasing interest rates and/or a fall in house prices could result in increased residential mortgage and unsecured loan losses which would adversely impact the Bank's financial and operational performance. In addition, regulatory capital shortfalls and other recent events impacting the Bank may have an adverse effect on the Bank's net interest margin*").

Declining UK commercial property values, or weakening commercial loan performance affected by UK business and economic conditions, may also result in an increase in the Bank's loan impairment charge and inflate commercial loan RWAs.

In addition, increasing interest rates could trigger unforeseen movements in the Bank's existing portfolio; in particular in relation to accelerated run off of demand savings balances or standard variable rate mortgage balances, as customers perceive that there is greater incentive to review their finances. This could adversely affect the Bank's operational and financial performance. Conversely, further decreases in the Bank of England base rate, including a negative rate, may adversely impact the Bank's net interest margin and profitability, as the Bank would likely not fully pass on negative rate costs to retail or SME depositors.

Risks relating to the Issuer

The Issuer is a holding company and has no revenue generating operations of its own

The Issuer is a holding company and its primary assets consist of its holding of all the issued shares in the Bank. On 25 April 2019, the Issuer issued £200,000,000 Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2029 ("**2019 Tier 2 issuance**") and the Issuer will be used to issue other items of capital and further senior MREL debt in the future. The Issuer has no revenue generating operations of its own, and therefore the Issuer's cash flow and ability to service its indebtedness, including the 2019 Tier 2 issuance and the Notes, will depend on the operating performance and financial condition of the Bank, and the receipt by the Issuer of funds from the Bank in the form of interest payments, dividends or otherwise. The Issuer intends to lend the proceeds of the issue of the Notes to the Bank on terms such that the on-loan will rank below certain excluded liabilities of the Bank as set out in Article 72a(2) of CRRII, including but not limited to, eligible deposits of the Bank. The operating performance and financial condition of the Bank and the ability of the Bank to provide funds to the Issuer by way of interest payments, dividends or otherwise will in turn depend, to some extent, on general economic, financial, competitive, market and other factors, including those set out below, many of which are beyond the Issuer's and the Bank's control. The Bank may not generate income and cash flow sufficient to enable the Issuer to meet its payment obligations on the Notes.

If the Bank's future income and cash flow from operations and other capital resources are insufficient for the Issuer to pay its obligations, including payment obligations under the Notes, as they mature or fall due or to fund liquidity needs of the Issuer, the Issuer may, among other things be forced to:

- reduce or delay capital expenditures;
- sell assets;
- obtain additional debt or equity capital;
- restructure or refinance all or a portion of their debt on or before maturity; or
- forego opportunities such as acquisitions of other businesses.

There can be no assurance that any of these alternatives can be accomplished on a timely basis or on satisfactory terms, if at all. In addition, the terms of the Issuer's existing and future debt, including the Notes, may limit its ability to pursue any of these alternatives.

Risks relating to the Bank

Risks relating to the Bank's ability to implement its strategy

A failure to successfully implement, or a delay in implementing, the Bank's strategy (including issuing further MREL-qualifying debt) may adversely impact the Bank's business, operating results, financial condition and prospects, its regulatory capital position and its ability to comply with its regulatory capital requirements

Background

The Bank maintains an annual planning cycle and combines this with a five year business plan. The Bank's 2017 plan (which included a restructuring and recapitalisation (the "**2017 Restructuring and Recapitalisation**")) required approval from the Prudential Regulation Authority ("**PRA**") as at that time (H1 2017) the Bank was not meeting its Overall Capital Requirement ("**OCR**", which is equal to the aggregate of Total Capital Requirements ("**TCR**") and Capital Requirements Directive IV ("**CRD IV**") Buffer requirements). Following the 2017 Restructuring and Recapitalisation and subsequent performance and activity, the Bank now meets its OCR (despite not yet meeting its non-binding PRA buffer guidance (referred to as "**Pillar 2 Guidance**")) and therefore does not require the PRA to approve the Plan (as defined below). In December 2018, the Bank adopted a new five year business plan and began to implement a range of measures aimed at reinvigorating its customer proposition, and improving financial and operational performance. These included measures intended to reinvigorate customer interaction (for example through improved branch and digital channel capabilities); measures intended to improve its financial performance (for example the targeted increase in franchise deposits including SME liabilities); measures intended to improve its operational performance (for example by executing its system and branch transformation plans) and measures intended to improve the Bank's capital adequacy position (see further "*The Bank and the Issuer may be unable to complete capital markets issuances required to meet regulatory capital requirements and MREL compliance" below)*. In 2019, the Bank updated the Plan (the "**2019 Plan**") following the progress made throughout 2019 with particular focus on the material delivery of key strategic projects such as Desktop Transformation and

Separation from the Co-operative Group. The 2019 Plan now looks to 'enable the future' through targeted customer engagement, digitisation, rationalising the Banks mortgage and savings platforms, and investing into growing the SME liability franchise. The 2019 Plan was intended to run from 2020 to 2024. Following the outbreak of the global Covid-19 pandemic, the Bank performed a reforecast of the 2019 Plan which was approved by the Board in July 2020. The reforecasted 2019 Plan (the "**Plan**") sets out an updated outlook over 2020-24 (the "**planning period**", "**plan period**" or "**period of the plan**"), including significant management actions to reduce costs and investments in order to offset income and impairment risks that have arisen due to deterioration in actual and expected economic conditions as a result of the pandemic.

Plan Implementation Risk

There is a risk that the Bank's strategy to deliver the Plan may be insufficient to address the Bank's loss-making performance and/or deliver the projected benefits. The successful execution of the Bank's strategy requires the simultaneous execution of a number of complex and overlapping projects involving significant changes to the Bank's systems and operations, in a manner that does not impact negatively upon the Bank's brand, reputation, customer satisfaction or its relationships with, and ability to retain, its employees. There is a risk that the Bank does not deliver such large-scale changes within the timescales and budgets contemplated by the Plan. Key remaining changes required to execute the Bank's strategy include:

- improving revenue in its businesses;
- implementation of cost reductions;
- implementation of its IT strategy;
- re-vitalisation of its distribution network, including branches and digital; and
- reinvigoration of its SME lending proposition.

Many of the risk factors relating to the Bank and its business set out in this Prospectus could have a significant adverse impact on the Bank's ability to deliver the above changes and its strategy.

The Bank's ability to deliver its strategy and achieve the targets in the Plan is based on underlying assumptions that are subject to significant risks and uncertainties.

The Plan includes key assumptions on which the proposed actions and targets contained therein are premised. If actual operating results differ from those targeted or the assumptions underlying the Plan prove to be incorrect or require change throughout the life of the Plan, the Bank may be unable to take management actions to address these differences effectively. There is a risk that the Bank will be unable to implement the Plan (including issuing further MREL-qualifying debt) as assumed or expected or at all. Should failure to deliver the Plan (including issuing further MREL-qualifying debt) lead to a deficiency in the Bank meeting its various capital buffer requirements under CRD IV (together with the own funds requirement, the so-called "**Pillar 1**" requirements), TCR, OCR, leverage ratio or minimum requirement for own funds and eligible liabilities ("**MREL**") and CRD IV Buffers (together, the "**Capital Requirements**") there is a risk that the PRA may, at its discretion, elect to exercise one or more of its various powers over the Bank. This could include increased regulatory attention or requirements, restriction of distributions, a variation of the Bank's permissions, restricting the Bank's business or, in conjunction with the other UK resolution authorities, imposing a write-down of the Issuer's and/or Bank's regulatory capital instruments and, potentially, the commencement of a wider resolution procedure in respect of the Bank, particularly if it were satisfied that the Bank is failing, or is likely to fail.

The successful development and implementation of the Bank's strategy requires difficult, subjective and complex judgements including about a range of factors which are not within the Bank's control, e.g. forecasts of economic conditions which became more challenging through 2020 due to the highly uncertain economic impacts and outlook from the continuing Covid-19 pandemic. Furthermore, the successful implementation of the Bank's strategy is contingent upon a range of factors which are beyond the Bank's control, including the Covid-19 pandemic subsiding, market conditions, the general business environment, regulation (including currently unexpected regulatory change), the activities of its competitors and consumers and the legal and political environment.

The Bank and the Issuer may be unable to complete capital markets issuances required to meet regulatory capital requirements and MREL compliance

A critical component of the Bank's strategy and the Plan is further capital and MREL issuances. In addition to issuance of the Notes and the 2019 Tier 2 issuance, the Plan assumes that the Issuer will complete further MREL-qualifying debt issuances in 2021, so as to meet its expected ongoing MREL requirements. The H1 2020 Interim Report includes an "emphasis of matter" paragraph which states that completion of the MREL issuance programme, including the issuance of the Notes in a reasonable timeframe, represents a material uncertainty for the Group should the current unpredictable environment caused by Covid-19 continue, which may in turn cast significant doubt on the Group's ability to continue as a going concern.

From 1 January 2019, both the external MREL requirement applicable to the Issuer as the entity that would be subject to the use of resolution powers under the preferred resolution strategy, and the internal MREL requirement (MREL issued from the Banking Group, which is not the resolution entity, to the Issuer) applicable to the Bank were both equal to the TCR of the Bank. From 1 July 2019, the Bank's external and internal MREL requirements increased to the aggregate of (i) £200 million; and (ii) the Bank's TCR (14.7 per cent. of risk weighted assets as at 30 September 2020). From 1 January 2021, the Bank's external and internal MREL requirements will be increased to the aggregate of (i) £400 million; and (ii) the Bank's TCR. The additional MREL above TCR from 1 July 2019 (£200m) and 1 January 2021 (£400m) is required to increase the Issuer Group's loss absorbing capacity and support a single point of entry (through the Issuer), bail-in resolution strategy, which is the Bank of England's preferred resolution strategy for the Issuer Group. From January 2022, the Bank's end state MREL requirement will be defined as the higher of two times TCR or two times leverage ratio. In addition to this issue of Notes and the 2019 Tier 2 issuance, the Issuer plans to raise a further £350 million of MREL in order for the Issuer Group to meet its interim and final MREL requirements by 1 January 2022.

There are risks that the Issuer and the Bank will be unable to raise the required capital and MREL-qualifying debt in wholesale funding markets on acceptable terms, when planned or at all, and that the Issuer and the Bank will be unable to maintain its OCR compliance, and meet its MREL and CRD IV Buffer requirements, and PRA buffer guidance when planned, or at all. The Bank's Plan targets a surplus to the Bank's PRA Buffer guidance within the planning period. To the extent that the Bank does not perform in line with its strategy and the Plan, or regulatory requirements are increased for any reason, additional Common Equity Tier 1 ("**CET1**"), or other capital management may be required over and above that assumed in the Plan. Any failure to raise such further capital could have a material adverse effect on the Issuer and the Bank's regulatory capital position, including their ability to maintain adequate loss-absorbing capacity. A failure by the Issuer and the Bank to meet some of their regulatory capital and loss-absorbing capacity requirements will impact the actions that management are able to take to implement the Plan and may lead to HM Treasury, the PRA, the FCA and the Bank of England (the "**Authorities**") exercising some or all of their powers over the Issuer and Bank, including, among other things, powers of intervention, the power to mandatorily write-down or bail-in the Issuer Group's, Bank Group's and Holding Company Group's capital instruments and potentially eligible liabilities (including the Notes) (see "*—Mandatory write-down and conversion of capital instruments and potentially eligible liabilities may affect the Notes*") and the power to place the Issuer and Bank within the Special Resolution Regime if they consider the Bank would otherwise be likely to fail.

If the Notes are not issued the Bank may be double-counting CET1 towards the MREL and CRD IV Buffer requirements which would be contrary to the PRA's expectations. The principal remedy to any double-counting is the issue of the Notes.

A double-count of CET1 towards MREL and CRD IV Buffer requirements may lead to a risk that the PRA may, at its discretion, elect to exercise one or more of its various powers over the Bank. This could include increased regulatory attention or requirements, restriction of distributions on CET1 and Additional Tier 1 (if applicable) capital, a variation of the Bank's permissions, restricting the Bank's business or, in conjunction with the other UK resolution authorities, imposing a write down of the Issuer's and/or Bank's regulatory capital instruments.

The Bank's net interest margin target is predicated on assumed interest rate increases that are beyond the control of the Bank and the Bank's response to those increases in assets and liabilities pricing materialising as planned

Towards the end of the planning period, the Plan targets increases in the Bank's net interest margin with assumed increases of the Bank of England base rate. These targets are most susceptible to interest rate changes and competitive pressures. "Lower for longer" interest rates (including a flat, zero or negative Bank of England base rate), will restrict the Bank's ability to increase net interest margin and, consequently, restrict organic capital generation and profitability, as well as adversely impacting the Bank's operating cost:income ratio.

There is also a risk that base rates may decrease or not increase as soon or as much as the Bank has assumed, that competitive pressures, and the need to maintain market share to maintain viable market volumes, could reduce the Bank's market share or that regulatory pressures constrain the anticipated growth in the Bank's business volumes.

The Plan assumes product pricing increases due to external factors, including increased retail customer pricing seen in the market generally. If, and to the extent that, these increases are not forthcoming as assumed in the Plan, the Bank's actual net interest margin trajectory could be significantly lower than targeted, which would inhibit the Bank's return to profitability and hinder its ability to generate new capital.

The Bank may be unable to preserve its market share in new business mortgage assets or other products through the life of the Plan as assumed in the Plan at the margins assumed

The Plan assumes that the Bank's market share in new business mortgage assets is preserved, allowing the Bank to increase prime residential mortgage asset volumes, through Platform (as defined below) over the life of the Plan, and that unsecured loan balances decrease. Credit card balances are assumed, in the Plan, to decrease in 2020 before increasing modestly through the remainder of the planning period. The personal financial services industry is mature, so growth often requires taking market share from competitors. The Bank risks losing market share to other banks, building societies, insurance company competitors and new "FinTechs" entrants, which may impact the Bank's plans to increase Bank profitability based on preserving its market share of new mortgage origination and other products over the life of the Plan.

The Plan assumes that the Bank will be able to improve its margin on savings products as the Bank of England base rate rises due to its assumed interest rate pass-back strategy. There is a risk that, if market forces determine that the timing and proportion of interest rates to be passed back to its customers is not feasible, the Bank may not be able to widen its net interest margin to the extent it has projected or at all. The Plan also assumes that the mix of deposits on the balance sheet develops to include a greater proportion of SME deposits, which are typically superior margin products for the Bank.

Furthermore, the pricing strategies of the Bank's competitors could directly impact the pricing of the Bank's products. The Bank has participated in the TFSME scheme to reduce liability expense and expects further TFSME scheme drawings during the access window ending April 2021. However, pressure to re-finance TFSME scheme drawings towards the latter part of the Plan may adversely impact the Bank's ability to price products competitively and achieve its market share targets. These risks may be increased if the Bank's cost saving initiatives result in a lack of ability of the Bank to make the investments necessary in its people, products or systems to preserve and improve its competitive position in an increasingly competitive market within prudent and appropriate risk appetites that do not expose the Bank to additional or new categories of conduct and legal risks.

The Bank may be unable to increase or maintain the level of its mortgage assets

The Plan targets growing the Bank's net, core customer assets in each year of the planning period. This is expected to be driven primarily by "**Platform**", the Bank's mortgage intermediary origination business. The Bank's ability to achieve these targets depends on improvements in its customer proposition, the success of a limited number of intermediaries who also sell mortgages of the Bank's competitors, and the Bank's ability to attract business in a crowded, competitive, and mature UK mortgage market. There is a risk that the growth of these assets will be significantly less than planned, and that mortgage retention and/or new mortgage origination may be significantly less than expected due to any number of internal or external factors. These factors include, for example, a possible contraction of the UK mortgage market, the Bank's reliance on the intermediary mortgage market for new originations similar to competitors, volatility in relation to house prices in the UK and/or the risk of the Bank being unable to support the underwriting process by improving its existing predictive credit modelling capability, and/or the risk that the Bank's relationships with one or more intermediaries may deteriorate for a variety of reasons, including competitive factors, and/or that the outsourced mortgage administration currently managed by Western Mortgage Services Limited ("**WMS**"- a subsidiary of Capita Business Services Limited ("**Capita**")) deteriorates, and/or that the pressure to achieve the targeted increases may create new conduct, legal and regulatory risks.

Transformation programmes are high risk and could fail, may cost more than expected, take longer, or deliver less benefit than planned

The Plan assumes the Bank is able to deliver the transformation programme without material deviation from planned timescales and cost (see "*Overview of the Bank*"- "*Strategic Plan*"). The Bank is targeting total (strategic and operational) project cash spend of approximately £40-45 million in 2020, reducing to £30-35 million in 2021, and to £20-25 million per annum by the end of the Plan. In total, from 2021 the Plan does assume some costs are allocated to, as yet, unknown regulatory and mandatory projects, but limited costs are allocated for change requirements more strategic in nature. Any deficiencies in project scoping, appropriate governance and related programme management processes to assist with the satisfactory delivery of these activities would have an adverse effect on the Bank's operating results and financial condition compared with those targeted in the Plan.

There are risks that the Bank may be unable to complete its transformation programme when planned, that there may be a requirement to upgrade the Bank's systems, infrastructure, processes and controls, and that the programmes as a whole may cost significantly more than targeted or have a reduced scope for the same targeted costs, or deliver less benefit than planned, thereby impacting associated cost reductions or income-generation plans assumed in the Plan. This may have a material adverse impact on the performance of the Bank, which may lead to a failure to meet its Capital Requirements and the risk that the PRA may, at its discretion, elect to exercise one or more of its various powers over the Bank.

The Bank may be unable to access liquidity and funding and/or adequately manage its liquidity position

There is a risk that the Bank may be unable to maintain access at an appropriate cost to liquidity and funding to fund the requisite level of asset origination targeted in the Plan. Insufficient funding may prevent the Bank from, for example, implementing product initiatives and/or transformation programmes required to deliver its strategy. The Plan assumes certain retention and acquisition levels of core customer assets and liabilities, including SME liabilities growth together with TFSME drawings, and wholesale funding issuances, including the issuance of MREL, all of which support the Bank's liquidity position. If the Bank cannot successfully attract or retain business, there is a risk that the Bank may suffer a constraint on liquidity and/or breach its regulatory minimum liquidity requirement. This risk could also manifest itself as a result of the secured (including Bank of England liquidity schemes within the Sterling Monetary Framework ("**SMF**")) or unsecured wholesale markets being inaccessible to the Bank, or as a deviation in its ability to originate and retain asset and liability balances consistent with the Plan. Adverse and unexpected customer behaviour that the Bank is unable to manage could result in the withdrawal of material amounts of customer deposits which would adversely impact the Bank's liquidity position.

Furthermore, whilst the Bank may be able to manage its liquidity position in such circumstances to avoid a breach of regulatory minimum liquidity requirements through any or a combination of options, or by increasing wholesale funding activity, significant levels of customer withdrawals would be likely to adversely affect its net interest income and/or balance sheet growth and, ultimately, the Bank's ability to deliver its strategy. This may have a material adverse impact on the performance of the Bank, which may lead to a failure

to meet its Capital Requirements and the risk that the PRA may, at its discretion, elect to exercise one or more of its various powers over the Bank.

The Bank's high operating cost:income ratio inhibits the Bank's profitability and may hinder its ability to generate new capital

The Bank's high operating cost:income ratio of 112.9 per cent. as at 30 September 2020 (31 December 2019: 106.2 per cent.) inhibits the Bank's profitability and may hinder its ability to generate new capital and may be commercially unsustainable. The Plan targets a reduction in operating costs with a targeted operating cost:income ratio in 2024 of circa 69 -75 per cent. This planned reduction is driven by both a reduction in the cost base and an increase in revenue. These operating cost reduction targets assume that the Bank successfully implements cost reduction initiatives and that operating expenditure and operating project costs are lower than in recent years. Such initiatives are largely focused on third party contracts, a reduction in sites organisation redesign and enhanced system productivity benefits.

There is a risk that if the Bank does not deliver its cost reduction initiatives and/or does not grow its net interest margin in line with its targets, its costs relative to income will not decrease, which will continue to negatively impact its profitability and capital position. Furthermore, the implementation of cost reduction initiatives, for example reductions in full time equivalent ("**FTE**") employee numbers, changes to third-party supplier arrangements, and simplification of the Bank's product offering and distribution, may not achieve the targeted cost savings and, instead, may impede the Bank from preserving its market share and expose the Bank to competitive pressure from competitors investing in their product offerings and/or expose the Bank to additional or new conduct and legal risks and furthermore may limit the Bank's ability to deliver growth in its core customer asset base and mortgage asset volumes as assumed in the Plan.

Asset Quality Ratio (Impairments) may exceed Plan targets

The Bank's business and financial performance has been and may continue to be affected by general economic conditions in the UK and adverse developments in the UK or global financial markets (related or unrelated to Covid-19) could cause the Bank's earnings and profitability to decline. There is a risk impairments exceed the levels assumed in the Plan due to internal or external factors. For example, weak future economic conditions may adversely affect UK unemployment and housing markets. Consequently, current provisions may prove inadequate and impairments may increase to levels much higher than anticipated in the Plan.

Conduct and legal risk provisions may need to be increased beyond those levels assumed in the Plan

The Plan assumes no new categories of conduct and legal risk provisions, and no net increase in provisions for existing categories of conduct and legal risk, charged during the life of the Plan.

There is a risk that the Bank becomes exposed to significant new conduct or legal risks, either as a result of the Bank discovering new categories of conduct and legal risk issues (for example, from the Bank's legacy or new systems and controls, product design and implementation, mis-selling or rate setting of mortgages and other products, or from increasing certain types of products or lending, or the pressures to increase the Bank's new customer assets to meet the Bank's targets, or from regulatory changes imposed on banks generally or on the Bank specifically, or mortgage prisoners' claims). Furthermore, there is a risk that the current level of provision held is not deemed adequate in the future. Conduct provisions for payment protection insurance ("**PPI**") and other known issues, as well as new categories of conduct and legal risk issues that may emerge during the life of the Plan, including as a result of ongoing remediation work which could lead to the identification of new conduct issues, and related remediation and project costs, may be much higher than expected over the life of the Plan.

High operating costs, credit impairment, higher than expected conduct provisions and one-off costs have significantly impacted the Bank's profitability in recent years and there is no certainty the Bank will return to profitability

The Holding Company Group's statutory loss before taxation for the nine months ended 30 September 2020 was £68.1 million (£152.1 million for the twelve months ended 31 December 2019). There remain a number of challenges to profitability ahead, including a continuing need to control and reduce the cost base, generate additional income and manage strategic investment expenditure.

The successful development and implementation of the Bank's strategy and Plan is exposed to a range of internal and external factors. There is, therefore, a risk that the timing or feasibility of the Bank's profitability could differ materially from those anticipated in the Plan as a result of many factors and these differences could be material. Accordingly, the Bank may not return to profitability when or in the amount targeted in the Plan, or at all.

The agreed governance structure of the Bank vests additional rights in the B Shareholders (as defined below) which may affect the Bank's ability to deliver all actions agreed by its board including actions envisaged by the Bank's current strategy and the Plan.

It is uncertain whether the B Shareholders (as defined below) will seek to make changes to the Bank's current strategy and whether or not any such changes would be successfully implemented.

Following the 2017 Restructuring and Recapitalisation (for further information, see "*Overview of the Bank – History and Development*" below) there were several changes to the governance, oversight and management of the Bank. These changes included:

- the establishment of a new holding company for the Bank with a different governance structure to the then existing governance of the Bank to allow B Shareholders greater influence on the governance and oversight of the Bank, although the Holding Company, the Bank and the Issuer have boards with a majority of independent non-executive directors with the same directors serving on all three boards;
- providing that the institutional shareholders that own 10 per cent. or more of the A shares of the Holding Company and satisfy certain other qualifying conditions (the "**B Shareholders**") carry all the voting rights except in limited circumstances and have the benefit of certain shareholder approval and notification and other rights;
- Actions relating to Member Matters (as defined in the Bank's articles of association and further described at page 95 below) may only be taken by the board of the Bank, with the approval of the Issuer by ordinary resolution, and ultimately with the approval of the Holding Company by ordinary resolution of the Issuer. B Shareholder Matters (as defined in the Articles of Association of the Holding Company (the "**Holding Company Articles**")) may only be undertaken by the board of the Holding Company or approved for implementation at Bank entity level or Issuer entity level, with the prior written approval of the holders of more than 50 per cent. of the B shares in issue;
- up to two B Shareholder Nominee Directors of each of the Holding Company and, via the Holding Company's holdings in the Bank, the Bank, may be appointed by the B Shareholders. If the B Shareholder Nominee Directors perform any executive function then they shall report to the Bank and the Holding Company's Chief Executive Officer (who shall be the same person); and

The ownership and governance structure of the Bank concentrates significant rights with the B Shareholders. There is a risk that the B Shareholders may not give any required approval as above for actions contemplated by the Bank's strategy and Plan. In the event that the Bank is unable to implement any chosen additional management actions or otherwise implement any revised strategy as expected or planned or at all, this could have a material adverse effect on the Bank's business, financial condition, operating results and prospects.

The Bank could be subject to a consolidation or sale transaction, possibly in the near term, which could increase competitive pressures and/or materially impact the Bank in other ways

The majority of the ultimate shareholders of the Bank are financial investors, as described in "*Directors, Senior Management and Corporate Governance of the Bank – Ownership and Material Shareholdings*". As such, the Bank's ultimate shareholders are likely to consider any strategic exit opportunities that may emerge, especially in light of the Bank's achievements over the last twelve months and the challenging sector-wide operating environment.

The Bank has recently attracted an approach from a financial sponsor with knowledge and experience of investing in European financial services businesses regarding the possibility of a sale of the Bank and/or the Holding Company. The Bank has instructed its professional advisers to assist with the provision to such

financial sponsor of relevant information to help assess the prospects of this approach. The Bank is in consultation with its ultimate shareholders on an ongoing basis, including in relation to a letter received by the Bank from this financial sponsor containing a non-binding offer. The Bank continues to be in discussions with this financial sponsor, although such discussions remain at a preliminary stage. There can be no certainty that discussions with this financial sponsor will progress further, or that any binding offer will be forthcoming nor whether the Bank's ultimate shareholders will find the terms of a binding offer (if any) acceptable. Even if an acceptable binding offer were to be received, there can be no certainty that such a sale would proceed. The Bank remains committed to delivering its agreed strategy, returning to sustainable profitability, and this includes issuing MREL-qualifying debt through the issuance of the Notes.

Engagement with any parties in respect of any potential sale of the Bank and/or the Holding Company may require substantial amounts of management's time and focus, the deployment of internal resources and potential expenditure, which could adversely affect management's ability to operate the business and the financial condition of the Bank

An offer or approach for a potential sale of the Bank and/or the Holding Company could have an adverse operational impact on the Bank if any such discussions were to reach an advanced stage, as a result of the significant management time and internal resources that can be expected to be required to be dedicated to the provision of information, assistance with a potential buyer's due diligence investigations in relation to the Bank and facilitating negotiations with any such party or parties. This could also result in unforeseen operating difficulties through management bandwidth constraints, as well as additional expenditure being incurred (including professional adviser fees), which may continue for several months or longer. This could have a material adverse impact on the Bank's operations and management's ability to deliver on the Plan.

Any approach for a potential sale of the Bank and/or the Holding Company would be subject to a number of conditions which may include receipt of a binding offer, reaching further agreement on financing and certain other matters, as well as required corporate, shareholder and regulatory approvals, and the arrangements may be terminated by the parties thereto at any stage

Any approach (as described further in "*The Bank could be subject to a consolidation or sale transaction, possibly in the near-term, which could increase competitive pressures and/or materially impact the Bank in other ways"*) for a potential sale of the Bank and/or the Holding Company is likely to be conditioned upon, among other things, (i) the receipt of a binding offer; (ii) the receipt of consents required (if any) under applicable competition or anti-trust laws; (iii) the receipt of corporate approvals, including board approvals; (iv) shareholder approval for required matters; (v) financing; (vi) the execution of a binding shareholders' agreement among existing shareholders of the Bank and other relevant parties; and (vii) agreement on the structure and timing of the transaction. If any such offer was not accepted or any condition to such transaction was not satisfied or waived, the transaction would not be completed. Further, each of the Bank's shareholders or other relevant parties to a sale transaction would have the right to rescind their acceptance of any offer in their sole discretion at any time prior to the execution of final documents.

If a binding offer for a sale of the Bank and/or the Holding Company was to be received and then accepted, the Bank cannot accurately predict whether or when any conditions required to complete any potential sale transaction might be satisfied, if at all, or whether the parties thereto will elect to proceed with an offer. As such, potential investors in the Notes should consider the possibilities that, even if a binding offer was to be received, a sale may or may not be accepted or consummated and investors should make an investment decision with respect to the Notes based on an examination of the Bank irrespective of whether or not potential sale may or occur.

The trading price of the Notes and the Bank's other debt securities and the Bank's financial condition and results of operations may be adversely affected due to these developments.

Even if a possible sale of the Bank and/or the Holding Company is consummated, it may not be consummated in any specified time frame or result in any benefits or synergies

There can be no assurance that a possible sale will be agreed or consummated in a particular time frame, if at all. The process of reaching further agreements on certain matters and the requirements for clearances and approvals could delay completion for a significant period of time or prevent it from occurring. Any delay in completing, or failure to complete a sale transaction as a result of such delay, may prevent full realization, or result in delayed realization, of any synergies and other benefits (if any) to the Bank. The Bank has not made any plans on the

assumption of achieving synergies if a sale is consummated and potential investors in the Notes should not anticipate or expect that a sale transaction, if consummated, would result in any benefits or synergies for the Bank.

If consummated, a sale of the Bank and/or the Holding Company may result in material changes to the Bank's strategy, board of directors and management, and any protracted process relating to a potential sale of the Bank and/or the Holding Company may adversely affect the Bank's ability to attract or retain key personnel

While the Bank's strategy is subject to continual review and may be revised at any time, if a sale is consummated, the Bank's new shareholders will have the ability to, and may, influence or modify the Bank's strategy, operations, management and/or board of directors. As such, the Bank's current strategy, together with the statements regarding the Bank's financial position and results of operations, or plans, objectives, goals and targets, may not reflect the views or intent of the potential acquirer. Accordingly, following completion of a sale transaction, the Bank's strategy could materially change, which may affect the Bank's rating.

The Bank's success prior to and following a sale will depend in part upon its ability to retain its key employees. Prior to and following a sale transaction, the Bank's employees may experience uncertainty about their roles in the new entity following completion. This may adversely affect the Bank's ability to attract or retain key management, sales, marketing, technical and other personnel.

Any possible sale of the Bank and/or the Holding Company could result in certain ancillary service interruptions for the Bank's customers

If any possible sale is consummated, the Bank expects that it will no longer have control over the arrangements with the entities that provide services to the Bank's customers and therefore, there can be no assurances that the relevant services will be provided on the same terms or at all. Further, it is possible that a sale transaction and any resulting process of re-negotiating with third parties for certain ancillary services currently provided by these companies could result in the disruption of the Bank's ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect the Bank's ability to maintain relationships with customers, employees and suppliers.

The Bank has holdings of investment securities, including Warwick Finance One, Three, and Four securitisation notes. Negative changes in the carrying value of investment securities could have a material adverse effect on the Bank's business, operating results, financial condition and prospects. There is a risk that this may have a material adverse effect on the Bank's business, operating results, financial condition, prospects and ability to implement the Plan

As at 30 September 2020, the Bank's portfolio of investment securities (the majority of which are listed) fair valued through other comprehensive income ("**FVOCI**") had a carrying value of £1.3 billion, equal to 5.2 per cent of its total assets at the same date. The Bank's holding in Warwick Finance Three rated notes and residual interest (approximately five per cent. of the Warwick Finance Three capital structure) and the Bank's holdings in Warwick Finance Four rated notes and residual interest (approximately 5 per cent. of the Warwick Finance Four capital structure) are measured at amortised cost, with the exception of the residual interest elements, which are classified at fair value through profit or loss. The Bank's other investment securities (Warwick Finance One Class A Residential Mortgage Backed Securities ("**RMBS**")) are classified as FVOCI. FVOCI investment securities are valued on each balance sheet date with any gains and losses recognised in other comprehensive income, except for those related to credit impairment, which are recognised in the income statement. Gains and losses arising on the sale of FVOCI investment securities are recognised in the Bank's income statement and any cumulative fair value gain or loss previously recognised in other comprehensive income is re-classified to the income statement at the same date.

There is a risk that valuations of the Bank's investment securities in future periods may result in losses or impairments, which could have an impact on the Bank's CET1 capital. In addition, the value that the Bank ultimately realises for its investment securities may be lower than their current carrying value, resulting in losses being recorded in the Bank's income statement, which could be material. Any of these factors could have an adverse effect on the Bank's business, operating results, financial condition, prospects and its ability to implement the Plan.

The Bank has mortgage loan repurchase obligations under the mortgage sale agreements (entered into between the Bank and certain of its subsidiaries (the "**Sellers**") and Warwick Finance One, Warwick Finance Three and Warwick Finance Four for breach of representation and warranty in relation to the mortgage loan assets sold that would cause a material adverse effect on the value of the relevant loan assets. There is a risk that claims under such guarantees could have a material adverse effect on the Bank's business, operating results, financial conditions, prospects and its ability to achieve its strategy.

Risks relating to the legal and regulatory environment in which the Bank operates

The Bank's business, operating results, financial condition and prospects and/or its ability to implement its strategy may be adversely impacted by it not maintaining adequate regulatory capital, by future changes to its regulatory capital requirements and by changes to PRA expectations in respect of capital adequacy

The Bank does not currently comply with its PRA buffer guidance (currently set by the PRA at a level in order to withstand prudential stress test scenarios to be met exclusively with CET1 capital). The Bank does not require PRA forbearance if its PRA buffer guidance is not met. PRA forbearance is required should the Bank not meet its Capital Requirements, which the Bank currently does.

The Plan anticipates that the Bank will meet its PRA Buffer guidance within the planning period and maintain compliance with its Capital Requirements throughout the life of the Plan. The Plan envisages that the Issuer and the Bank will raise a significant amount of additional MREL, the issue of the Notes forms a part of this additional MREL.

While the Bank seeks to address its PRA buffer guidance deficiency, and maintain compliance with its Capital Requirements throughout, failure to implement the Plan may lead to the PRA, at its discretion, electing to exercise one or more of its various powers over the Bank and Issuer. This could include increased regulatory attention or requirements, restriction of distributions, a variation of the Bank's permissions, restricting the Bank's business or, in conjunction with the other UK resolution authorities, imposing a write-down or conversion of the Bank's and/or Issuer's regulatory capital instruments (see "*Mandatory write-down and conversion of capital instruments and potentially eligible liabilities may affect the Notes*") and, potentially, the commencement of a wider resolution procedure in respect of the Bank and Issuer, particularly if it were satisfied that the Bank and Issuer is failing, or is likely to fail. Pursuant to section 7 of the Banking Act 2009 (the "**Banking Act**"), a UK bank and holding company will be considered as failing or likely to fail when, but for financial assistance (if any) provided by HM Treasury or the Bank of England (disregarding ordinary market assistance offered by the Bank of England on its usual terms): it is, or is likely in the near future to be, failing, or likely to fail, to satisfy the PRA's minimum requirements that firms must meet in order to be permitted to carry on the regulated activities in which they engage (the "**PRA Threshold Conditions**") where such failure would justify the variation or cancellation of the relevant UK bank's permission under the Financial Services and Markets Act 2000 ("**FSMA**") to carry on one or more such regulated activities; the value of its assets is, or is likely in the near future to be, less than its liabilities; it is, or is likely in the near future to be, unable to pay its debts or other liabilities as they fall due; or it requires extraordinary public financial support (and such support does not fall within certain limited circumstances).

Furthermore, there is a risk that the Bank's regulatory capital and loss-absorbing capacity requirements and guidance, or PRA expectations and approach with respect to regulatory capital and loss-absorbing capacity requirements, may increase beyond those currently planned for by the Bank and the Issuer. For example, there is a risk the PRA may apply individual capital 'add-ons' to increase the Bank's regulatory capital requirements, to reflect, for example, their judgement that the Bank's risk management framework and governance is inadequate. No such add-ons are assumed in the Plan.

There may be future capital and MREL calls as a result of regulatory and loss absorbing capacity requirements or guidance or as a result of further costs or losses exceeding the Bank's estimates and assumptions underlying its Plan

The issue of the Notes is being undertaken in anticipation of current regulatory and loss absorbing capacity requirements and the amount being raised is based on certain assumptions being made in the Plan. There is no guarantee that the PRA or Bank of England will not enforce stricter regulatory capital or loss absorbing capacity requirements on the Issuer and the Bank (whether specifically applicable to the Issuer and the Bank or to banks more generally), resulting in a need for the Issuer and the Bank to raise further capital or MREL. Future capital calls may also be required as a result of further costs or losses or shortfall in revenues and

MREL exceeding the Bank's estimates. The Issuer and the Bank may be unable to raise any additional capital or MREL it may need on favourable terms, when needed or at all. In such cases, the Issuer and the Bank may breach its regulatory or loss absorbing capacity requirements or expectations and there may be a risk of the PRA exercising any of its wide-ranging powers over the Bank and/or the Issuer, including resolution under the Banking Act.

The financial services industry continues to be the focus of significant legislative and regulatory change which has and could continue to impose operational restrictions on the Bank, increase the Bank's costs and/or capital requirements and/or otherwise materially adversely affect its business, operating results, financial condition and prospects

Regulators and other bodies in the UK, European Union ("**EU**") and worldwide have implemented and continue to consider a range of legislative and regulatory changes. These include, amongst others:

LIBOR

LIBOR and other rates and indices which are deemed to be "benchmarks" have been the subject of recent international, national and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. The Bank's ability to manage the benchmark reforms and implement required systems solutions could adversely impact future business activity. These reforms may cause such benchmarks to perform differently from the past or disappear entirely, or have other consequences which cannot be predicted. Any such consequences could have a material adverse effect on any of the Bank's loans or products linked to such a benchmark.

Regulation (EU) No 2016/1011 (the "**Benchmark Regulation**") was published in the Official Journal of the EU on 29 June 2016 and has been in force since 1 January 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that have applied since 30 June 2016). The Benchmark Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. The Benchmark Regulation applies to "contributors", "administrators" and "users" of "benchmarks" in the EU. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities (such as the Issuer) of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmark Regulation could have a material impact on any of the Bank's loans or products linked to a benchmark rate or index, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the Benchmark Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the benchmark. In addition, the Benchmark Regulation stipulates that each administrator of a benchmark regulated thereunder must be licensed by the competent authority of the Member State where such administrator is located. It cannot be ruled out that administrators of certain benchmarks will fail to obtain a necessary licence, preventing them from continuing to provide such benchmarks. Other administrators may cease the provision of certain benchmarks because of the additional costs of compliance with the Benchmark Regulation and other applicable regulations, and the risks associated therewith. Such factors may have the following effects on certain "benchmarks": (i) discourage market participants from continuing to administer or contribute to the "benchmark"; (ii) trigger changes in the rules or methodologies used in the "benchmark" or (iii) lead to the disappearance of the "benchmark". Further, the implementation of new or replacement benchmark rates and indices may pose operational challenges for the Bank, which may adversely affect its performance and results.

In addition, in the UK, LIBOR is the subject of ongoing regulatory reform. For example, on 27 July 2017, the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Following the implementation of any such potential reforms, the manner of administration of LIBOR may change, with the result that it may perform differently than in the past, it could be eliminated entirely or there could be other consequences that cannot be predicted. Any such consequences could have a material adverse effect on any of the Bank's loans or products linked to LIBOR.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation reforms in making any investment decision with respect to any Notes linked to or referencing a "benchmark".

Consumer Protection

The FCA are continuing to consult on various retail banking regulatory developments that could materially affect the way existing or new products operate, are priced or serviced. The nature and impact of these changes remains uncertain and cannot be specified at present. For example, current market studies, discussions and policy statements include: "Fair Pricing in Financial Services", "High Cost Credit Review for Overdrafts" and "Mortgages Market Study". All of these may impact the Bank's offerings to both new and existing consumers, which in turn may impact the composition of the Bank's balance sheet as a result of changing the way in which products operate, are priced or serviced.

As a result of legal or regulatory developments, the Issuer could be subject to enhanced capital and liquidity requirements

As a result of the recent global financial and economic crisis, the regulatory prudential standards applied to banks have come under scrutiny by legislators, regulators and global standard setters. In July 2009, the Basel Committee announced, among other things, higher capital requirements for trading and securitisation activities. On 16 December 2010, the Basel Committee on Banking Supervision published the main Basel III rules, which mandate extensive enhancements of capital and liquidity standards for banking organisations. On 13 January 2011, it published further material prescribing the conditions that regulatory capital instruments (apart from common equity) must satisfy so that they are fully loss-absorbing. In July 2011, the Basel Committee on Banking Supervision published consultative proposals which imposed additional capital requirements on banks classed as global and systemically important.

The Basel III framework increased minimum common equity and minimum tier 1 capital as a percentage of risk-weighted assets and introduced additional capital conservation and countercyclical buffers ("**CCyB Buffer**"). In addition, Basel III enhanced the risk coverage of the capital framework and increased risk-weights, including, among other things, in relation to trading and securitisation activities and counterparty credit risk exposures. Risk-based capital requirements are complemented by a non-risk-weighted maximum leverage ratio of tier 1 capital to total exposures (including on-balance sheet and off-balance sheet items). Quantitative capital requirements are reinforced by more stringent qualitative capital standards, in particular tighter eligibility conditions for regulatory capital instruments (including, among other things, those issued on 13 January 2011) and revised regulatory adjustments. Further, changes to liquidity standards require banks to hold appreciably higher stocks of high quality liquid assets against the risk of short-term and longer term funding losses.

The Basel III reform package (a regulatory capital and liquidity framework approved by the Basel Committee in 2011) has been implemented in the EEA through the Capital Requirements Regulation (575/2013) ("**CRR**") and the associated directive, the Capital Requirements Directive (2013/36/EU) (the "**CRD**") (together, the "**CRD IV**"), which was published in the Official Journal of the European Union on June 27, 2013. The CRR establishes certain minimum liquidity standards which apply directly to all credit institutions in the EEA and CRD IV reinforces capital standards and establishes a leverage ratio backstop. Full implementation began from 1 January 2014, with particular elements being phased in over a period of time. The requirements largely became effective by 2019, although some minor transitional provisions provide for phase-in until 2024.

In addition, on 23 November 2016, the European Commission published legislative proposals for amendments to CRD IV, the Bank Recovery and Resolution Directive (2014/59/EU) ("**BRRD**") and the SRM Regulation (together, the "**EC Proposals**"), which proposals were subsequently amended during the approval process prior to formal approval of the final text by the European Council in May 2019. The final text of the EC Proposals was published in the Official Journal of the European Union on 7 June 2019 and entered into force, subject to applicable transposition periods and entry into force dates, on 27 June 2019. Among other things, these proposals aim to implement a number of new Basel standards (such as the leverage ratio, the net stable funding ratio, market risk rules and requirements for own funds and eligible liabilities) and to transpose the Financial Stability Board's Total Loss Absorbing Capacity termsheet into European law.

Basel III reform

There is a risk that proposed changes to the prudential regulations will have a material impact on the Bank both in the amount of capital it will be required to hold and the material procedural changes that will be required to

remain compliant. The Basel Committee published a significant amendment to its Basel III capital framework in December 2017. The main focus is on amendments to risk-weighted assets ("**RWAs**"), and includes an amendment of the risk-weighted asset floor (the "**RWA Floor**") to be calibrated against the Basel III standardised approach. This finalises a number of areas that the Basel Committee has been consulting upon in the past few years.

The date for implementation is 2023, with a transitional arrangement for the RWA Floor until 2027. The changes are expected to be implemented within the EU via Regulation (EU) 2019/876 ("**CRRII**") and Directive (EU) 2019/878 ("**CRDV**"). The Bank has factored the anticipated RWA Floor changes into its Plan. On a transitional basis, the impact of this change is expected to be minimal, though the final arrangements (expected in 2027) are expected to have a material impact on the Bank.

For further information on regulatory, legal and conduct related risks that the Bank is or may become exposed to, please refer to the risk factor "*The Bank is exposed to a number of conduct risks*".

<u>CRRII and CRDV</u>

CRRII and CRDV are due to be implemented from June 2021 and December 2020 respectively and upon implementation, the Bank will be subject to the 3 per cent. leverage ratio minimum from June 2021 and this may have an adverse effect on the Bank's businesses, operating results, financial condition and prospects. CRRII and CRDV are two of the pieces of legislation included in the Financial Services (Implementation of Legislation) Bill which received its first reading in the House of Lords in November 2018. The Bill provides the UK Government with the power to choose to implement only those EU files, or parts of those files, which are both appropriate and beneficial for the UK and adjust and improve the legislation as it is brought into UK law to ensure that it works better for UK markets.

Neither the Bank nor the Issuer are currently subject to the PRA's leverage ratio framework which requires firms within it to have a 3 per cent. minimum leverage ratio requirement plus 35% of CCyB Buffer (in June 2017 the Bank of England's Financial Policy Committee ("**FPC**") and the PRA launched consultations on changes to the UK leverage ratio framework relating to the treatment of claims on central banks (CP 11/17), which include a proposed increase in the minimum requirement from 3 per cent. to 3.25 per cent. if claims on central banks were excluded from the leverage ratio calculation).

A number of elements from CRRII have recently been accelerated in line as part of the 'Covid-19 package', a banking package adopted by the European Commission to help facilitate bank lending to households and businesses in the EU amid the COVID-19 pandemic, including the SME supporting factor and the treatment of intangible assets. The Bank is expected to see certain benefits from these measures, although it awaits clarification on the treatment of intangible assets with regards to its capital position.

A failure following implementation to take actions to avoid a breach of the PRA's requirements could lead to the PRA taking enforcement action and could have a material adverse effect on the Bank's businesses, operating results, financial condition and prospects and the approach with respect to such capital requirements may increase beyond those currently planned for by the Bank. It is not possible to predict with any certainty the effect that any of the proposed or recently enacted legislative and regulatory changes listed above will have on the Bank or how any of the proposals discussed above will be implemented in light of the fundamental changes to the regulatory environment proposed by the UK Government. Depending on the specific nature of the requirements and how they are enforced, such changes could have a material adverse effect on the Bank's business, balance sheet composition, operations, profitability, financial condition, structure, strategy, costs and/or capital requirements.

The Bank is under regulatory scrutiny and expects that environment to continue

As a financial services firm, the Bank is subject to extensive and comprehensive regulation under the laws of the jurisdictions in which it does business. These laws and regulations significantly affect the way that the Bank does business, and can restrict the scope of its existing businesses and limit its ability to expand its product offerings, or can make its products and services more expensive for clients and customers. There has also been an increased focus on regulation and procedures for the protection of customers and clients of financial services firms. This has resulted in increased willingness on the part of regulators to investigate past practices of financial services firms both on an industry-wide basis and focusing on particular firms.

The Bank is exposed to many forms of legal and regulatory risks, including that:

- business may not be, or may not have been, conducted in accordance with applicable laws and regulations and financial and other penalties may result, as well as potential liabilities to customers by way of redress for prior breaches;
- contractual obligations may either not operate or be enforceable as intended or may be enforced in a way adverse to the Bank;
- the Bank's assets such as intellectual property may not be adequately protected and the Bank may use intellectual property which infringes, or is alleged to infringe, the rights of third parties; and
- litigation by or against the Bank is not appropriately managed to protect the Bank's reputation and achieve the best outcome and that liability for damages may be incurred to third parties harmed by the conduct of the Bank's business.

The outcome of any potential or future legal, regulatory or other enquiries, investigations or proceedings, is difficult to predict, but regardless of their ultimate outcome, they will involve the Bank incurring significant expense. Consequently, the Bank could be exposed to: substantial monetary damages and fines, other penalties and injunctive relief, potential for additional civil or private litigation, potential for criminal prosecution in certain circumstances, potential regulatory restrictions on the Bank's business, greater scrutiny and/or investigation from regulators and/or regulatory or legislative actions, and/or a negative effect on the Bank's reputation and its brand and its ability to recruit and retain personnel and customers. Any of these risks, should they materialise, could have an adverse impact on the Bank's business, operating results, financial condition and prospects, its regulatory capital position or its ability to comply with regulatory capital requirements, as well as taking up a significant amount of management time and resources.

Any adverse findings of these investigations may, therefore, reduce, directly or indirectly, the attractiveness of the Bank to stakeholders and may lead to customer attrition, reduced workforce morale and difficulties in recruiting and retaining talent. Sustained damage arising from any adverse findings could, therefore, lead to loss of revenue for the Bank and could have a materially negative impact on the Bank's business, operating results, financial condition and prospects.

See the risk factors entitled "*Reputational risk could cause harm to the Bank, its business, operating results, financial condition and prospects and question the Bank's commitment to co-operative values and ethics*", "*The Bank is currently involved in litigation and may in the future become involved in further litigation. The outcome of any legal proceedings is difficult to predict*", "*A failure to successfully implement or a delay in implementing the Bank's strategy may adversely impact the Bank's business, operating results, financial condition and prospects, its regulatory capital position and its ability to comply with its regulatory capital requirements*" and "*The Bank is exposed to a number of conduct risks*" for further information.

Legal and regulatory risk arising from the UK's exit from the European Union could adversely impact the Group's business, operations, financial condition and prospects

Following the UK's exit from the EU, there remains significant uncertainty around the terms of any future trade agreement. This uncertainty may be exacerbated by the possible re-emergence of a further Scottish independence referendum and / or differential arrangements for Northern Ireland relative to the rest of the UK.

The Bank is subject to substantial EU-derived laws, regulation and oversight, which will be impacted as a result of the UK's exit from the EU. In particular, after the transition period, the Bank and its counterparties may no longer be able to rely on the European passporting framework for financial services. This could result in the loss of customers and / or the requirement for the Bank to apply for authorisation in EU jurisdictions where it is to continue business, with associated costs and operational considerations. Any actions taken as a result of the ongoing uncertainty, as well as new or amended legislation and regulation, may have a significant impact on the Bank's operations, profitability and business model.

Risks relating to the Bank's operations

The Bank faces competition in all of the core markets in which it operates. There is a risk that the Bank may lose market share to its competition and this could have a material adverse effect on the Bank's business, operating results, financial condition and prospects

Competition in the UK personal financial services market may adversely affect the Bank's operations. The Bank competes mainly with other providers of personal financial services, including other banks, building societies and insurance companies and, increasingly, new "FinTech" entrants to the market, and operates in an increasingly competitive UK personal financial services market. Each of the main personal financial services markets in which the Bank operates is mature and slow-growing, such that growth requires taking market share from competitors. This places elevated focus on price and service as the key differentiators, each of which carries a cost to the provider. The quality of the Bank's products and systems, including distribution and IT, in turn impact price and service. If the Bank is unable to match its competitors in these respects it risks losing customers to its competitors, which may adversely affect its business and prospects and consequently its ability to meet its Plan. Further, the Bank's offering to customers in relation to COVID-19 related relief in the form of payment deferrals or new lending, for example, or the occurrence of operational incidents may lead to heightened numbers of actual or prospective customers moving to competitors.

The Bank's heavy reliance on mortgage revenues and being able to fund growth in the most cost efficient manner to drive income may increase its susceptibility to competitive risks. Competition could result in the Bank losing existing and potential new customers and, therefore, not preserving its market share as assumed in the Plan in a number of situations, particularly where:

- the Bank is not successful in strengthening its core proposition and brand positioning with retail and SME customers;
- the Bank is unable to match its competitors, for example, in the quality or scope of its product offering and customer service and the provision of additional services such as mobile banking, and in keeping up with consumer demand, regulatory and technological changes;
- the Bank's customer service levels were perceived to be negatively impacted by the implementation of its strategy, including the impact of the Bank's cost reduction measures on service delivery levels, customer service and satisfaction, or were perceived by the market to be only in line with, or materially below, those of the Bank's competitors;
- a loss of customers, or deteriorating customer relationships, as a result of these or other factors, could result in the Bank losing customers' liability/asset balances to competitors, which may in turn have an adverse effect on revenue;
- there remains significant competition for market share across the Bank's retail product lines, and there is a risk that a failure to develop the core proposition and other differentiating factors will result in growth plans reliant on pricing to win market share, which will impact margins;
- there is a risk that insufficient investments in systems (including, in particular, its credit risk systems) will be made relative to regulatory requirements and/or its competitors' level of investment, which will impact the Bank's ability to increase market share;
- there is a risk that levels of marketing investment (required to grow customer awareness and consideration) are insufficient;
- there are similar or increased levels of investment from the Bank's competitors;
- competition for deposit and SME liability balances or competitors accessing the RBS alternative remedies package, each of which may place upward pressure on deposit pricing and weaken any competitive advantage the Bank may have in this market and adversely affect growth expectations;
- competition for the highest quality mortgages is intense, putting downward pressure on returns available for the lowest risk-weighted mortgage assets;

- new business mortgage margins may be inferior to mortgage back-book margins and back-book customers are increasingly pro-active in re-mortgaging;
- risk of competition from a new bank competitor (including, increasingly, new "FinTech" entrants), which could, for example, offer more innovative and more customer- or user- experience focused services;
- risk that the Bank fails to operationally implement and/or commercially respond to future zero or negative Bank of England Base Rate scenarios;
- Covid-19-related measures are not made available by the Bank or operational incidents stimulate potential or actual customer movement to competitors; and
- any failure to attract new, or retain existing, customers or to maintain the Bank's market share may result in the loss of the Bank's customer asset and liabilities balance to its competitors, which may in turn impact the Bank's ability to deliver its strategy. See the risk factor entitled "*Reputational risk could cause harm to the Bank, its business, operating results, financial condition and prospects and question the Bank's commitment to co-operative values and ethics*" for further information.

The occurrence of any of the above situations could materially adversely affect the Bank's business, operating results, financial condition and prospects.

The Bank's business is subject to inherent risks concerning liquidity, particularly if the availability of applicable sources of funding such as retail deposits becomes limited and/or more expensive and this may have an adverse effect on the Bank's business, profitability and ability to meet its liabilities as they fall due

The Bank is subject to liquidity risk as an inherent part of its business. Liquidity risk is the risk that an institution may not have sufficient funds at any point in time to make full payment in respect of liabilities falling due, or can only do so at excessive cost. This may result in an inability to operate in the ordinary course and/or a failure to meet liquidity or regulatory capital requirements, and/or may adversely impact the Bank's business and/or the implementation of its strategy.

The Bank raises the majority of its funding through accepting retail and commercial deposits. Whilst the Bank undertakes strategic transactions, or during times of continued adverse press attention and speculation, the Bank's liquidity risk may significantly increase as a result of the difficulty in accurately modelling expected customer behaviour in these circumstances. Adverse and unexpected customer behaviour that the Bank is unable to manage could result in the withdrawal of material amounts of customer deposits which would adversely impact the Bank's liquidity position which in turn could adversely affect the Bank's business, profitability and ability to meet liabilities as they fall due.

The Bank uses a combination of asset pools to manage its liquidity. Primary liquidity consists of liquid assets that are eligible under European Banking Authority regulations (high quality liquid assets). Secondary liquidity comprises liquid unencumbered investment securities not included as part of primary liquidity, as well as other forms of contingent liquidity sources. In extreme circumstances, this may prevent the Bank from meeting its financial obligations as they fall due, meeting its regulatory minimum liquidity requirements or fulfilling its commitments to lend, thereby impacting the Bank in its ability to deliver its strategy. In such circumstances, the relevant Authorities may exercise any of their wide-ranging powers over the Bank, including imposing a resolution procedure under the Banking Act.

The Bank's ability to access retail and wholesale funding sources on satisfactory economic terms or at all is subject to a variety of factors, some of which are outside the control of the Bank. Factors which apply generally include: general economic conditions (including interest rates) and market volatility, market dislocation, confidence in the UK banking system and the economy in general and the financial services industry specifically, regulatory requirements and major disasters. These risks can also be exacerbated or driven by institution-specific factors also, such as over-reliance on a particular source of funding, perceived credit risk of institutions, and any inability to access central bank liquidity facilities at all or on commercially acceptable terms. There is also a risk that the funding structure employed by the Bank may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long term for the Bank to grow its business. The Bank is a participant in the Bank of England's sterling monetary framework and, as such, is

subject to certain eligibility criteria at the Bank of England's discretion (as detailed in Chapter VIII of the Bank of England's Red Book). The Bank may be granted access to the Bank of England's Discount Window Facility (the "**DWF**"). This is a bilateral facility which offers liquidity insurance for idiosyncratic and system-wide shocks and is designed in order to address short-term liquidity shocks without disturbing the Bank of England's incentives for prudent liquidity management. At the Bank of England's discretion, eligible banks may, therefore, borrow gilts or cash for 30 days, against a wide range of collateral in return for a fee. Eligible banks can apply to roll DWF drawings in order to achieve an effectively longer term of drawing. In the event that the Bank was not granted access to the DWF and the Bank at such time was dependent on the contingent or actual provision of liquidity from the DWF, the absence of such liquidity may have an adverse effect on the Bank's business, results and financial condition, and could, in extreme circumstances, prevent the Bank from meeting its financial obligations as they fall due, from meeting its minimum liquidity requirements or from fulfilling its commitment to lend. The Bank has outstanding TFSME drawings and anticipates further TFSME drawings before the scheme access window closes (currently expected to close in April 2021). There is a risk the Bank and/or its competitors are required to repay any TFS or TFSME drawings earlier than planned which may impair growth versus Plan expectations, increase funding costs and adversely affect the Bank's performance. All drawings under SMF schemes are subject to the Bank of England's discretion and so there is a risk that the Bank may not be able to draw from any scheme as targeted, which may increase liquidity risk.

The Bank's operations are highly dependent on the proper functioning of IT and communication systems

The Bank relies extensively on IT and communication systems to conduct its business, including the pricing and sale of its products, payment processing, data collection, assessing acceptable levels of risk exposure, setting required levels of provisions and capital, and maintaining customer service and accurate records and security.

IBM is the main provider of infrastructure for the core banking services under an Enterprise Services ("ES") contract (see "Material Contracts" below).

A number of the Bank's services are dependent on extended support arrangements, End of Life ("EOL"), obsolete or out-of-support technologies (both in terms of hardware and software). As a result these components no longer receive regular updates (both functional and security related), and/or vendor support. This increases the likelihood of extended periods of service outage, caused by technology faults, introduction of change, failure of aging systems/components or exploitation of known security vulnerabilities.

The Bank proved its critical services disaster recovery capability during the implementation of the separation from Co-operative Group in 2016 and 2017 when services were moved from Group data centres to the IBM data centre at Warwick, which included the setting up of disaster recovery capability in a separate data centre in Birmingham. The Bank has regularly proven its ability to failover (switch to standby systems) and recover its digital (online and mobile) services. Payment scheme compliance is also adhered to by running various aspects of the Bank's payment services from its disaster recovery and business continuity sites. The Bank's industry standard acceptance criteria for all new projects that become live includes testing the disaster recovery capability. Due to the disruptive nature of a disaster recovery event it is not possible to prove a full data centre recovery, however, the Bank continues to test its critical business services via scheduled component service testing.

The simplification of the Bank's IT estate aims to reduce running costs and complexity with the aim of improving operational resilience. In addition to the simplification programme, the Bank intends to remediate the Bank's IT estate and address the Bank's technical issues.

Operations are highly dependent on the proper functioning of IT and communication systems which comprise a complex array of legacy systems and some newer in-house and third party IT systems. Any delays in, or failure by the Bank to deliver the remediation of the IT estate in line with the requirements of the strategy may extend an on-going risk of technology failure, result in significant additional investment costs, subject the Bank to further regulatory scrutiny which may result in the PRA and/or the FCA taking action in relation to any future breaches of threshold conditions and impact the Bank's ability to deliver its business strategy, which may, in turn, adversely affect the future operational and financial performance of the business.

The Bank is dependent on third-party providers of services, IT, software, data and other assets

There is a risk that third-party providers could fail to supply services, IT, software, data or other assets that they have agreed to provide, either adequately or at all or at a higher cost than expected. If third-party providers fail to provide or procure the services that they have contracted to provide, or to provide them in a timely manner or to agreed levels, or the arrangements with those providers are terminated for whatever reason, such a failure on termination could have a material adverse effect on the Bank's ability to conduct its business, operating results, financial condition and prospects. Significant failures could lead to a loss of confidence and customers. The Bank may be unable to source an alternative provider for the services, IT, software, data or other assets on a timely basis, on equivalent terms or without significant expense, within the short time required, or at all. The additional costs and expenses incurred in doing so may have a material adverse effect on the Bank's cost base. This could have a material adverse effect on the Bank's business, operating results, financial condition and prospects.

There is also a risk that contracts with third-party providers on which the Bank relies may be or may have been poorly negotiated and/or poorly managed, particularly as the Bank has limited experience in negotiating such contracts with third parties. The Bank's material third party relationships are with IBM, and Sopra Banking for the provision of IT related services, and Capita for the provision of mortgage administration services (see "*Material Contracts*" for further information). On 1 August 2019, the Bank served notice to Sopra Steria to exit the relationship when the contract ended on 31 January 2020, following which the Sopra Steria IT related support and maintenance services were brought in house, providing an opportunity for the Bank to simplify its operating model. The Bank maintains a relationship with Sopra Banking.

The Bank has outsourced its mortgage processing services for all of its residential mortgage portfolios to Capita since August 2015. In January 2017, the Bank and Capita resolved a contractual dispute and agreed revised terms relating to provision of mortgage administration services by Capita, as the transformation activity contemplated in the original contract was not being progressed. A new contract was put in place with Capita effective 1st November 2019, with a maturity date of 31st December 2025.

Any change to, failure to renegotiate, end of or termination of an existing third party contract, or reduction in third-party service or product quality or any failure by a third-party to comply with the Bank's licensing or regulatory requirements, including requirements with respect to the handling of customer data, could cause a material disruption to or adverse financial and/or reputational impact on the Bank's business. Any of these events could have a material adverse effect on the Bank's business, operating results, financial condition and prospects.

The Bank will continue to rely on the Co-operative brand

The Bank is dependent on the strength of the "Co-operative Bank" brand (which it owns), the wider "Co-operative" brand (as used by Co-operative Group and other co-operative societies) and its reputation with customers and potential customers of the Bank. Whilst the Bank seeks to manage material risks to The Co-operative Bank brand through careful monitoring, ultimately the Bank is exposed to the risk that Co-operative Group or another co-operative acts, fails to act or is speculated to act in a way such as to bring the Bank brand into disrepute. This could include litigation, employee misconduct or the misconduct (including criminal activity) of anyone associated with the Co-operative brand (whether through Co-operative Group, the Bank or otherwise), operational failures, accidents, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential customer information, inadequate products and services, amongst other factors, and could negatively impact the Co-operative brand or Co-operative Group's reputation. For example, adverse findings about Co-operative Group arising out of investigations into past actions could adversely affect the Co-operative brand. Should, as a result of matters relating to Co-operative Group, the Bank's brand, levels of customer satisfaction or the co-operative movement more generally be damaged, this could have a negative effect on the Bank's business, operating results, financial condition and prospects and negatively impact the ability of the Bank to achieve its stated strategy. See the risk factor entitled "*Reputational risk could cause harm to the Bank, its business, operating results, financial condition and prospects and question the Bank's commitment to co-operative values and ethics*" for further information.

Other risks associated with the Co-operative brand include;

- *Co-operative status and name (including trademark and membership issues)* – the Bank's participation in Co-operative Group membership scheme ended in 2018 and the Bank may face challenges on the use of the term "co-operative". This could result in a loss of support from Co-operatives UK Limited ("**Co-operatives UK**") for the Bank's continued use of the term "co-operative". Co-operative Group has objected to the Bank's application to register "the Co-op Bank" and "Co-op Bank" as trademarks.

- *Co-operative Group launching its own financial services competitor* - the risk that Co-operative Group or another co-operative may build a brand in financial services. This creates risk to the Bank's ability to retain its brand territory and risk that Co-operative Group may eventually challenge the Bank's ability to use "co-operative" in its name as described above.

There are risks associated with the Loss Sharing Deed agreed between the Bank and its former parent, Co-operative Group

A remaining risk that the Bank faces from its relationship and arrangements with Co-operative Group and its affiliates is linked to the Benefit of the Loss Sharing Deed.

In 2015 the Bank and Co-operative Group entered into the Loss Sharing Deed which relates to the surrender of group relief from entities in the Bank's tax group to entities in Co-operative Group tax group. The Loss Sharing Deed addresses, amongst other things, the terms on which Co-operative Group will pay the Bank for certain tax losses surrendered historically.

As part of the Restructuring and Recapitalisation, on 14 July 2017, the Bank and Co-operative Group entered into the Tax Deed of Amendment to amend the Loss Sharing Deed. This amendment clarified that: Co-operative Group will not take any action the principal purpose of which is to avoid making or reducing a payment to the Bank under the Loss Sharing Deed and that Co-operative Group will provide such information consistent with past practice that the Bank reasonably requires to enable the Bank to calculate what payments are or may become due under the Loss Sharing Deed.

The Group's third quarter trading update report, released on 6 November 2020, includes a charge in the amount receivable from Co-operative Group for tax losses surrendered (a "**Surrendered Loss Debtor**") of £47.8 million as at 30 September 2020 (31 December 2019: £47.8 million). In summary, the Bank will receive payment from Co-operative Group under the Loss Sharing Deed when Co-operative Group realises the benefit of the losses surrendered and at the corporation tax rate at which the benefit is realised. These payments are expected to be made over a number of years. In accordance with IFRS 9, the Surrendered Loss Debtor is fair valued in the Bank's balance sheet by discounting estimated future payments to be received under the Loss Sharing Deed.

The estimated fair value of the asset is highly sensitive to a number of forward looking assumptions, some of which are outside the control of the Bank, including:

- the forecast repayments provided by Co-operative Group for the periods to 2024;
- the assumptions used in the discount rate;
- Co-operative Group's capital expenditure qualifying for capital allowances in future periods;
- Co-operative Group's taxable profits in future periods;
- the Bank's extrapolation of the forecast repayments for the periods after 2024;
- changes in tax legislation, including the rate of corporation tax and the rates at which capital allowances on qualifying capital expenditure are available;
- Co-operative Group's capacity to claim the tax losses; and
- the quantum of the liquidity adjustment.

The Bank is also exposed to the credit risk of Co-operative Group with respect to the remaining balance.

A material reduction in the amount of the Bank's Surrendered Loss Debtor may, in turn, have a material adverse impact on the Bank's financial and capital condition.

The Bank could be negatively affected by a deterioration or a perceived deterioration in the soundness of other financial institutions and counterparties

There is a high level of interdependence between financial institutions as a result of their credit, trading, clearing and other relationships. The Bank routinely executes transactions with counterparties in the financial services

industry, resulting in large daily settlement amounts and significant credit exposure. As a result, the Bank is and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions. Within the financial services industry, the default of any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by the Bank or by other institutions. This systemic risk could have a material adverse effect on the Bank's ability to raise new funding and on its business, financial condition, results in operations, liquidity and/or prospects. The current Covid-19 pandemic materially heightens this risk. See "*Risks relating to the impact of Covid-19*".

Reputational risk could cause harm to the Bank, its business, operating results, financial condition and prospects and question the Bank's commitment to co-operative values and ethics

The Bank's reputation is one of its most important assets. Its ability to attract and retain customers and deposits and to conduct business with its counterparties could be adversely affected to the extent that its reputation or its brand is damaged. The act of addressing or failing to address, or appearing to fail to address, issues that could give rise to reputational risk is likely to cause harm to the Bank and its business prospects. The Bank's reputation could be impacted by both known issues and issues not yet identified (some of which could only have an ancillary connection to the Bank). For example, litigation, or the misconduct of employees or other persons (including criminal activity) at any time associated with the Co-operative brand or the "Co-operative Bank" brand, operational failures, accidents, the outcome of regulatory investigations, media speculation and negative publicity, breaches of data protection or other laws, products considered to be inappropriate and sub-standard customer service, among other factors, could impact the Bank's reputation. Reputational damage could arise from, without limitation, any of the following (along with media speculation regarding the same where relevant):

- the reputational damage arising from downgrades to the Bank's credit ratings and the implementation of the Bank's strategy;
- a requirement to raise further capital in the future, which could affect, or be perceived to affect, confidence in the Bank;
- a failure to implement and execute the Bank's strategy and Plan in whole or in part;
- any perception that the Bank is vulnerable to market conditions and other factors over which the Bank has limited or no control, such as the interest rate environment and the impacts of Covid-19;
- a perception that the Bank has moved away from its co-operative values and ethics or that there are breaches of the Bank's values and ethics policy by the Bank or its employees;
- a reduction in the Bank's customer service levels mainly as a result of cost reductions and outsourcing;
- a conflict between the mutual and ethical reputation of the Co-operative brand with the value maximisation objective of the shareholders of the Bank's ultimate holding company (see "*Directors, Senior Management and Corporate Governance of the Bank*" below) and the duties of the board to such Shareholders, and more generally the Bank's association with the Co-operative brand, including any actions or omissions or speculation by or about Co-operative Group (see further "*There are risks associated with the separation of the Bank from its former parent, Co-operative Group*" and "*The Bank will continue to rely on the Co-operative brand*");
- a material or major failure of or inability to promptly recover key services, recover IT capability, or other infrastructure, particularly where this disrupts the Bank's ability to service customer transactions for a prolonged period, see further "*The Bank's operations are highly dependent on the proper functioning of IT and communication systems*";
- the risk that The Secretary of State for Business, Energy and Industrial Strategy may direct the Bank to change its registered name, or that the FCA or a third-party may prevent the use of the "Co-operative" name, or take other action regarding the Bank's branding;
- matters relating to Co-operative Group or its governance or to its current or former officers, employees or

management, including their professional or personal misconduct, which adversely impact the Bank's brand;

- adverse findings following from any legal or regulatory investigation into the Bank's conduct or investigations connected to the Bank; see the risk factor entitled "*The Bank is under regulatory scrutiny and expects that environment to continue.*";
- failing appropriately to address potential conflicts of interest;
- breaching or facing allegations of having breached legal and regulatory requirements, including those relating to Anti Money Laundering ("**AML**") sanctions, anti-bribery and corruption requirements and a subsequent enforcement action or regulatory investigation;
- acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices);
- failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record-keeping;
- internal or external fraud;
- failing properly to identify legal, regulatory, reputational, credit, liquidity and market risks inherent in products offered;
- failure to adhere to the Bank's ethical policies;
- cyber or denial of service attacks; and
- resignation of the Bank's auditors.

A failure to address these or any other relevant issues appropriately could make significant numbers of customers, depositors and investors unwilling to do business with the Bank. For example, if negative newsflow continued for a significant period of time, there is the risk that the Bank would lose a material number of customers and liability/asset balances to competitors. This could materially adversely affect the Bank's business, operating results, financial condition and prospects and could damage its relationships with its regulators. The Bank cannot ensure that it will be successful in avoiding damage to its business from reputational risk.

The Bank is exposed to a number of conduct risks

The Bank is exposed to many forms of conduct-related risk. Conduct risk is the risk that the Bank's behaviours, offerings or interactions will result in unfair outcomes or harm for customers, and the Bank or its staff, do not observe appropriate market conduct principles. In recent years, the Bank has undertaken redress and remediation activity in relation to the mis-selling of Payment Protection Insurance ("**PPI**") and packaged bank accounts, breaches of the Consumer Credit Act ("**CCA**") and mortgage interest rate calculations and mortgage arrears charges. The provisioned liability in relation to these issues has reduced significantly relative to historical levels.

This notwithstanding, there is a risk of exposure to significant new conduct or legal risks, either by discovering significant risk issues from legacy systems and controls or from regulatory changes imposed on banks generally. There is a risk that the cost of redress, remediation and project costs may be higher than current provisions and that expected over the life of the Plan. Specifically in relation to PPI, whilst the deadline for complaints has passed, there remain a number of risks that may result in further cost to the Bank, including any change in the regulator's current approach, or increases in litigation claims (for further information on PPI, see "*Litigation*" below). Inherent risks remain relating to the mis-selling of financial products, acting in breach of regulatory principles or requirements and giving negligent advice or other conduct determined by the regulators to be inappropriate, unfair or non-compliant with applicable law or regulations. Any failure to manage these risks adequately could lead to further provisions, costs and liabilities and/or reputational damage.

As part of its strategy to identify and resolve outstanding liability issues, the Bank has a structured risk based product review process, which may result in the discovery of further conduct-related issues. It is recognised

that whilst progress has been made in identifying conduct issues, no assurance can be given that further issues or breaches will not be identified.

Failure to appropriately manage conduct and regulatory risks could lead to significant liabilities or reputational damage, reduce (directly or indirectly) the attractiveness of the Bank to stakeholders, including customers, and may lead to negative publicity, loss of revenue, litigation, higher scrutiny and/or intervention from regulators, regulatory or legislative action, loss of existing or potential client business, reduced workforce morale, and difficulties in recruiting and retaining talent. Sustained damage arising from conduct and reputation risks could have a materially negative impact on the Bank's business, operating results, financial condition and prospects, its regulatory capital position, its ability to comply with regulatory capital requirements and customer relations.

The Bank's business includes providing residential mortgages in the UK. As such, the Bank is susceptible to changes in UK mortgage rules and regulation which could impact its ability to retain current mortgage customers and/or attract new mortgage customers.

The FCA published its Mortgages Market Study Final Report (MS16/2) in March 2019. The report illustrated a number of areas for improvement in the mortgage market relating to customer choice and the ability of customers to switch mortgage providers. On 28 October 2019, the FCA published Policy Statement PS 19/27 entitled *"Changes to mortgage responsible lending rules and guidance – feedback on CP19/14 and final rules"* setting out detailed proposals to remove regulatory barriers to changing mortgages for "mortgage prisoners". The term "mortgage prisoners" has been defined by the FCA to mean mortgage customers who would benefit from changing their mortgage product (either with their existing lender or with a new lender) but are unable to do so despite being up to date with their current mortgage payments. The changes to the FCA's Mortgages and Home Finance: Conduct of Business sourcebook (the "**MCOB**") set out in PS19/27, which came into force on 28 October 2019, should make it easier for a customer who is a mortgage prisoner to switch to a new lender. This could lead to an increase in redemptions of mortgages sooner than anticipated, thereby reducing the interest payable on those loans. The rules, based on pre-Covid-19 conditions, require firms to write to customers who may be eligible letting them know they may be able to switch their mortgage. However, the FCA decided that given lenders' inability to offer new switching options to mortgage prisoners in view of Covid-19 it would be wrong to require letters to be sent to consumers at this time. The FCA therefore extended the window during which it expects firms to contact consumers about switching options by three months to 1 December 2020.

On 31 January 2020, the FCA published Policy Statement "*Mortgage advice and selling standards: feedback to CP 19/17 and final rules*" (PS20/1). The final rules on mortgage advice and selling standards are aimed at giving consumer more choice in how they buy a mortgage. The changes include expanding the perimeter on what is mortgage advice and requiring advisers to explain why they have not recommended the cheapest of the suitable mortgages available. The changes came into force on 31 January 2020.

It is possible that further changes may be made to the MCOB as a result of current and future reviews, studies and regulatory reforms which could have a material adverse effect on the Bank's business, finances or operations. Any failure to comply with these rules may entitle a borrower to claim damages for loss suffered or set-off the amount of the claim against monies owing under a regulated mortgage contract and the new rules may also negatively affect mortgage supply and demand.

Anti-money laundering, anti-bribery, sanctions and other compliance risks

Combating money laundering, bribery and terrorist financing and compliance with economic sanctions continues to be a major focus of the FCA, as highlighted in the Bank's Plan. Amendments to the Money Laundering Regulations 2017 (with further amendments to follow, as a result of further revisions to EU legislation in 2018) and Brexit considerations will remain a key focus throughout 2020 and beyond. UK and EU legislation and regulations impose obligations on the Bank to maintain appropriate policies, procedures, systems and controls to detect, prevent and report money laundering and terrorist financing. Failure by the Bank to implement and maintain adequate policies, procedures and controls to combat money laundering, bribery and terrorist financing or to ensure economic sanction compliance could have serious legal and reputational consequences for the institution, including exposure to fines, public censure, penalties and damages, which may have a material adverse impact on the Bank's operational and financial performance.

The Group must comply with applicable capital adequacy regulations

While the Group monitors its regulatory environment, it is not always possible to predict the nature, scope or effect of future regulatory requirements or interpretation of the current regulatory requirements to which it might be subject and, in particular, the manner in which existing laws and regulations might be administered, interpreted or enforced. Compliance with these requirements is also in part dependent upon the effective operation of the Group's policies, systems and controls, which may not always operate as intended. Although the Group believes that its current policies, processes and procedures are adequate and designed to support its ability to comply with applicable capital adequacy regulations and other related rules and regulations, these policies, processes and procedures may not always do so and, therefore, cannot eliminate the risk of actions by third parties or the PRA that result in violations of applicable regulations, for which the Group might be held responsible. Any of these events may have severe consequences, including criminal sanctions, fines, restrictions on its business operations and reputational damage, which could have a material adverse effect on the Group's business financial condition and results of operation.

Failure adequately to maintain and protect customer and employee information could have a material adverse effect on the Bank

The Bank is exposed to the risk that the personal data processed for its purposes could be accessed and/or used without authorisation, whether by employees or other third parties, or otherwise lost or disclosed in breach of data protection laws. If the Bank or any of the third-party service providers on which it relies fail to process such personal data in a secure manner or if any such theft or loss of personal data were otherwise to occur, the Bank could face action under data protection laws. This could also result in damage to the Bank's brands and reputation, as well as the loss of new or repeat business, any of which could have a material adverse effect on the Bank's business, operating results, financial condition and/or prospects.

The Bank has outsourced its mortgage processing services for all of its residential mortgage portfolios to Capita since August 2015. Capita staff who administer the Bank's mortgage business do so via IT platforms shared with some of the Bank's savings business, which provides them with access to data that does not relate directly to their business activities. If Capita or other third-party staff do not act in accordance with established controls and procedures, there is a risk personal data could be accessed and/or used without authorisation, or otherwise lost or disclosed in breach of data protection laws.

The Bank is dependent on its Directors, senior management team and skilled personnel and the loss of one or more Directors or members of senior management or the loss of or failure to recruit and retain skilled personnel may have an adverse effect on the Bank's business, operating results, financial condition and prospects and its ability to achieve its strategy

People risk is defined as the risk associated with inappropriate employee behaviour, inadequate resource (people, capability and frameworks), resulting in customer or financial detriment, and/or legal or regulatory censure.

The Bank depends on the continued contributions of its Directors, senior management and other key persons with the experience, knowledge and skills in banking necessary for its success.

The failure to have succession plans in place for the Chairman, Senior Independent Director and other members of the board and to recruit and retain non-executive directors in a timely manner to serve on the board could negatively impact on the effective governance and oversight of the Bank. The loss of one or more members of the Bank's executive team without finding suitable replacements or having appropriate succession plans in place may delay or impact on the ability of the Bank successfully to implement its strategy, lead to a disruption of the business and a loss of specialist knowledge.

Retention of personnel remains a significant risk due to budgetary constraints limiting changes to fixed pay, ability to offer variable pay, scale and complexity of change, headcount reductions including the reduction of around 350 roles, and 18 branch closures announced in August 2020, and the ongoing pressure on cost reduction. The risk remains if senior or specialist staff exit unexpectedly or earlier than planned, the Bank may experience difficulties in replacing those individuals with appropriate and sufficiently skilled candidates, potentially exposing the Bank to operational disruption and delay in the execution of key Plan deliverables.

The Bank's accounting policies and methods are critical to how it reports its financial condition and results of operations. They require the Bank to make estimates about matters that are uncertain

The preparation of financial statements in accordance with the international financial reporting standards issued by the International Accounting Standards Board (the "**IASB**") as adopted by the European Commission for use in the EU ("**IFRS**") requires the use of estimates. It also requires management to exercise significant judgment in applying relevant accounting policies so that they comply with IFRS.

In the H1 2020 Interim Report and the 2019 Annual Report, the basis of preparation and accounting policies disclosures have identified certain accounting policies in respect of which significant judgment is required in determining appropriate assumptions and estimates when valuing assets, liabilities, commitments, provisions and contingencies. Significant judgement is also used in developing targets, forecasts and assumptions and, accordingly, there is a risk that if the judgement exercised or the estimates or assumptions used subsequently turn out to be incorrect, then this could result in significant loss to the Bank, beyond that anticipated or provided for, which could have an adverse impact on the Bank's financial condition, operating results and prospects.

The critical judgements (in line with the 2019 Annual Report) and estimates relate to, *inter alia*, the assumptions used in the determination of loan impairment provisions, conduct risk and legal provisions, Surrendered Loss Debtor, pension schemes, and effective interest rate.

The Bank has established policies and control procedures that are intended to ensure that these judgements (and the associated assumptions and estimates) that are applied in its financial statements are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing accounting policies and methodologies is applied in an appropriate manner. The Bank cannot guarantee that it will not be required to make (potentially material) changes in accounting policies, methodologies or estimates or restate prior period financial statements in the future.

There is also a risk the Bank's accounting policies and related judgements, estimates and determinations are challenged by regulatory bodies, including the Financial Reporting Council. This or any of the above potential challenges to the Bank's accounting policies or managements' judgements, estimates and determinations, and any associated restatements of previously published financial statements and any related litigation against the Bank arising from any such restatements could have a material adverse effect on the Bank's financial condition, operating results or prospects.

The Bank and its customers are exposed to risks and potential loss associated with cyber-crime and fraud

As with other financial institutions, reflecting the increased use of technology in financial services, the Bank and its customers are at risk of actual or attempted cyber attacks from parties with criminal or malicious intent, including attacks designed to overload the Bank's systems. These risks are accentuated as the Bank increasingly digitalises its products, services, key functions and distribution channels and as cyber attacks become more sophisticated and prevalent. The Bank is subject to the risk that any cyber attack may result in temporary loss of operational availability of the Bank's systems to its employees and/or customers which could have a material adverse effect on the Bank's business, financial condition, operating results and prospects.

There is a risk that the Bank may not continue to invest sufficiently in its information security controls in response to emerging threats, such as cyber crime and fraud, and to seek to ensure that controls for known threats remain robust. The risks associated with cyber attacks, where an individual or group seeks to exploit vulnerabilities in IT systems for financial gain or to disrupt services, are a material risk to the Bank and the UK financial system, which has a high degree of interconnectedness between market participants, centralised market infrastructure and in some cases complex legacy IT systems. There is a known vulnerability to cyber-attacks inherent in older technologies, especially with older operating systems. The Bank has some exposure to such systems. There is a risk that the Bank's infrastructure and controls may be seen to be ineffective or have material weaknesses or significant deficiencies and any failure of the controls to anticipate, prevent or mitigate a network failure or disruption could entail a temporary loss of operational availability to employees and/or customers and could result in significant financial losses and a material adverse effect on the Bank's operational performance and reputation.

Furthermore, any breach in security of the Bank's systems, for example from increasingly sophisticated attacks by cyber crime groups or fraudulent activity in connection with customer accounts, could disrupt its business, result in the disclosure of confidential information, create significant financial and/or legal exposure and damage the Bank's reputation and/or brand.

Additionally, the Bank and its customers are exposed to increased levels of card, account, identity and other frauds, some of which are more sophisticated, organised and technology-led. This growth and increased sophistication increases the fraud risks to which the Bank is exposed and the Bank's systems based preventative measures may be less developed than those of other banks, may not prove effective in all circumstances to prevent fraud and, without further investment, may be increasingly exposed to fraud risk from increasingly sophisticated attacks by cyber crime groups or fraudulent activity. This may mean that the Bank is potentially exposed to greater levels of attack and resultant losses than other institutions. There is increased focus by the UK Government, regulatory bodies, law enforcement and consumer protection groups in respect of bank-related fraud and the impact upon customers. There is particular focus on Authorised Push Payment (APP) fraud and changes to regulation or regulatory expectations have the potential to increase the level of fraud of this type for which the Bank, as opposed to its customers, is held liable. This would increase fraud events from present levels and increase the Bank's losses.

Any of these activities may be difficult to prevent or detect, and the Bank's internal policies to mitigate these risks may be inadequate or ineffective. The Bank may not be able to recover the losses caused by these activities or events, and it could suffer reputational harm as a result of them, either of which could have a material adverse effect on its business, financial condition, operating results or prospects.

Rating downgrades and/or negative market sentiment with respect to the Bank, the sector and/or the UK may have an adverse effect on the Bank's performance

The Issuer is rated Caa1 (long-term and stable outlook) and NP (short-term) by Moody's. The Notes are expected to be rated Caa1 (outlook stable) by Moody's.

The Bank does not currently have an investment grade rating. The Bank is currently rated:

- B- (long-term and ratings watch negative) and B (short-term) by Fitch; and
- B3 (long-term senior unsecured rating, stable outlook) and NP (short-term) by Moody's.

Credit rating downgrades affect the Issuer and the Bank's funding profiles and the cost of raising new funding. The impact on access to funding and increased cost of funding may, over the long- term have an adverse effect on the Bank's business, operating results, financial condition and prospects and/or adversely affect the Bank's ability to deliver the Plan.

Furthermore, any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur, which could be exacerbated by Brexit uncertainties, could depress consumer confidence (which could result in withdrawals of customer deposits), restrict the availability, and increase the cost, of funding for the Bank and/or its customers, further depress economic activity, or inhibit any recovery, increase unemployment and reduce asset prices, destabilise the markets, impact the Issuer or the Bank's individual ratings and borrowing costs and have a material adverse effect on the Bank's operating results and financial condition.

There is also a risk that the implementation of the Plan or other actions taken by the Bank may not improve the Issuer or the Bank's credit rating. See further "*A failure to successfully implement, or a delay in implementing, the Bank's strategy may adversely impact the Bank's business, operating results, financial condition and prospects, its regulatory capital position and its ability to comply with its regulatory capital requirements*". Further negative change in sentiment to the Bank as a result of adverse publicity, market or other conditions could result in the Issuer and the Bank's credit rating remaining below investment grade and/or being reduced further, which may impact the ability of the Bank and the Issuer to raise additional capital or MREL in the future, when needed, on acceptable terms, or at all. Any future declines in those aspects of the Issuer and the Bank identified by the rating agencies as significant business or a failure by the Bank to achieve its strategic objectives could also adversely affect the rating agencies' perception of the Issuer and/or the Bank's credit and cause them to take negative ratings actions.

The Bank is currently involved in litigation and may in the future become involved in further litigation. The outcome of any legal proceedings is difficult to predict

The Bank is engaged in various legal proceedings in the United Kingdom, involving claims both by and against it, which arise in the ordinary course of business, including (but not limited to) debt collection, mortgage enforcement, consumer claims and contractual disputes. Whilst the Bank does not expect the

ultimate resolution of any of these known legal proceedings to which the Bank is party to have a material adverse effect on the results of operations, cash flows or its financial position, and whilst provisions have been recognised for those cases where the Bank is able reliably to estimate the probable loss where the probable loss is not de minimis, the outcome of litigation is difficult to predict and there can be no assurance that such provisions will be sufficient to cover the costs associated with such litigation. The outcome of any such litigation could adversely impact the Bank's reputation and brand, could result in additional similar claims being brought and/or, if perceived as a systemic or pervasive conduct issue, could result in further investigations or enquiries by the Bank's regulators. The costs of pursuing or defending legal proceedings, and the outcome of any such proceedings, could have a material adverse impact on the financial condition of the Bank.

The Bank's policies and processes for risk management may prove inadequate for the risks faced by its business. Any failure properly to manage the risks which it faces could cause harm to the Bank and its business prospects

Managing Risks

The Bank's embedded risk-management framework ("**RMF**") may lead to the identification of further risks and control failings which could potentially impact the business, operating results, financial condition and prospects of the Bank.

The Bank's RMF divides its "business as usual" risks into areas such as credit risk, liquidity risk, market risk and operational risk:

Credit Risk

Credit risk is an inherent part of the business activities of the Bank (and all other banks). It is inherent in both traditional banking products (loans, mortgages and other credit products) and in "traded products" (derivative contracts such as forwards, swaps and options), repurchase agreements, securities borrowing and lending transactions. The risks arising from the general economic environment continue as a result of the prolonged period of significant turbulence and uncertainty affecting the global economy, financial systems and continued economic malaise. The Bank continues to be exposed to these risks and their consequences, including lower consumer confidence, high levels of unemployment, interest rate volatility and the increased cost of credit, which may result in increased credit risk and could have a material adverse effect on the Bank's business, operating results, financial condition and prospects.

Liquidity Risk

The Bank faces liquidity risk, particularly if the availability of traditional sources of funding such as retail deposits becomes limited and/or becomes more expensive. This may have an adverse effect on the Bank's business, profitability, financial condition and ability to meet its liabilities as they fall due. See the risk factor entitled "*The Bank's business is subject to inherent risks concerning liquidity, particularly if the availability of applicable sources of funding such as retail deposits becomes limited and/or more expensive and this may have an adverse effect on the Bank's business, profitability and ability to meet its liabilities as they fall due*" for further information.

Market Risk

The Bank risks losses arising as a result of the value of financial assets or liabilities (including off-balance sheet instruments) being adversely affected by movements in market rates or prices. The Bank's Treasury function manages and creates market risk through its portfolio management activities and hedging programmes.

Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from assets and liabilities denominated in foreign currency. The Bank also faces risks arising out of changes in interest rate levels, yield curves and spreads, which may affect the Bank's interest rate margin realised between lending and borrowing costs. The Bank seeks to minimise the volatility of future earnings from interest rate changes and all fixed interest rate risk exposure is removed from business and consolidated centrally where it is managed within agreed limits. See the risk factors entitled "*The Bank's earnings and net interest margins have been adversely affected by a number of factors and may continue to be adversely affected for so long as one or more of these factors persist. Worsening economic and market conditions and/or*

increasing interest rates and/or a fall in housing prices could result in increased residential mortgage and unsecured loan losses which would adversely impact the Bank's financial and operational performance. In addition, regulatory capital shortfall and other recent events impacting the Bank may have an adverse effect on the Bank's net interest margin" for further information.

Model Risk
The Bank uses models which are mathematical representations of business systems designed to help describe, predict, experiment with or optimise decisions and scenarios and are used throughout the Bank's business. There is a risk that adverse outcomes might occur as a result of weaknesses or failures in the design or use of a model. The Bank has a large number of new Internal Ratings Based ("**IRB**") models with the Credit Card model still pending approval. There is a risk that the PRA's review of this model, failures in the use of the IRB models generally, or failures in the application of the standardised approach to capital calculation, may result in changes to the Holding Company Group and the Banking Group regulatory capital position or erroneous regulatory capital being calculated.

Operational Risk

Operational risk levels remain elevated due to a number of specific issues such as manual processes, legacy systems and processes for which remediation continues. Systems of control have been historically weak, however since 2018 significant progress has been made to meet regulatory expectations in the overall effectiveness and embeddedness of the RMF. The focus through 2020 and 2021 will be to ensure robust risk and control activities remain an integral part of the business as usual activities. There is an increased awareness of the RMF and work continues to further embed all elements. Key activity includes:

- Further embedding of the RMF through a normalisation process and collegiate working across all three lines of defence;
- Ongoing oversight of models; and
- Focus on rationalising and aligning data sources used for financial reporting.

There is an increase in dependency on outsourcing contracts and partners for critical infrastructure and operational capability, often at significant expense. There is a risk that any outsourcing arrangements are not properly scoped in determining business requirements; that the Banking Group or the supplier may default on or otherwise seek to avoid contractual requirements; that the outsourcing is not properly managed or delivered upon as expected by the outsourced provider on an ongoing basis. In addition if any of the key outsourcing partners of crucial services cannot or will not continue to provide the outsourced functions and services for a sufficient time and with provision of adequate assistance to enable transfer to an alternative provider, then the business may face significant disruption to services and functions, reputational damage and possible regulatory scrutiny, which may adversely affect the business operating results and financial condition.

There can be no assurance that further risks and control failings will not be identified, or that the Bank's approach to risk management will prove to be adequate. Such further risk and failings could have a significant adverse effect on the Bank's business, operating results, financial condition and/or prospects.

Union representation subjects the Bank's business to the risk of interruptions through strikes or delays resulting from any restructuring of the Bank or in renegotiating labour contracts

The Bank collectively recognises Unite for most employees. As at 30 June 2020, a significant majority of the Bank's employees were union members, including senior individuals. The Bank has not experienced any significant business interruption as a result of labour disputes at any of its businesses since September 2005, and the Bank considers its relations with employees to be sound.

However, the Bank's strategy includes a cost-cutting exercise, which incorporates workforce redundancies. Union representation subjects the Bank's business to increased risk of interruptions through strikes or delays resulting from any restructuring of the Bank or in renegotiating labour contracts. In addition, the terms and conditions for the majority of the staff are negotiated through collective bargaining with the unions. The Bank may be unsuccessful in concluding any negotiations with unions or reaching an agreement with the unions, including regarding redundancies. A failure to conclude negotiations and reach agreement, or any protracted negotiations, or any breach of an agreement with the unions may result in interruptions to the business through strikes or delays, a diversion of management time from running the Bank's business and implementing the

Bank's strategy, a deterioration in employee relationships, an adverse impact on the Bank's reputation and/or an adverse impact on the Bank's customer relationships. Such interruptions may, in turn, impact on the Bank's business, operating results, financial condition and ability to achieve its strategy.

There can be no assurance that such arrangements will always be in place in the future or that the Bank will be able to continue to negotiate wages and salaries and terms and conditions of employment on terms that support its ability to offer its services at competitive prices.

The contributions that the Bank is required to make to its pension schemes may change over time. The Bank may be obliged to make large one-off payments to its pension schemes if certain events occur

The Bank is the Principal Employer of the Bank's section of the Co-operative Pension Scheme ("**Pace**"), which has both an active defined contribution section and a closed defined benefit section, and a wholly-owned subsidiary controlled by the Bank is the Principal Employer for the purposes of the Britannia Pension Scheme ("**BPS**"), which is a closed defined benefit scheme.

As part of the agreement to sectionalise Pace in 2018, £276.9 million of contingent security (in the form of AAA rated RMBS, with a 22 per cent. haircut, decreasing over time in line with contributions paid into the Bank section of the scheme) was pledged, becoming enforceable in the event that deficit recovery payments are not met, insolvency or the failure to adhere to terms of the security deed. Cash contributions to the scheme of £100 million over 10 years were also agreed in 2018. The Bank has paid £25 million of these scheduled contributions.

In 2020, following the completion of the 2019 triennial valuation, the Bank and the Pace Trustee agreed that, with a surplus having arisen on the Bank section on a Technical Provisions basis, no further contributions would be payable into the scheme and instead could be diverted to an escrow arrangement. Pace would have a right to these contributions in certain circumstances (including on the insolvency of the Bank). The terms of this escrow arrangement are documented in a payment agreement and a security deed, each entered into in June 2020, and £12.5 million has been placed into this escrow arrangement.

The 2017 triennial valuation of BPS was completed in March 2018, following which no deficit contributions were required, though contingent security remains in place (in the form of £175.6 million retained RMBS notes, with a 22 per cent. haircut).

The Bank continues to actively participate in management of the pension fund investment strategy in partnership with both the BPS and Pace Trustees.

Whilst both schemes employ hedging techniques to mitigate exposure to macro-economic factors, there is a risk of macro-economic volatility in relation to both scheme's investments and actuarial assumptions. If sufficiently severe, this could impact CET1 resources, OCR, and PRA Buffer requirements and could result in a materially adverse effect on the business's financial condition and prospects. There are also risks that should the Bank's covenants weaken, further contingent security may need to be provided to the schemes, and if the schemes' financial position worsens, further deficit contributions could be required in the future. This could also have a material adverse effect on the Bank's financial condition and prospects.

Many of the Bank's business, operational, reporting and financial processes rely on significant manual processes and intervention, which is inefficient and significantly increases the risk of errors in the Bank's operational processes, including customer-facing processes, data and financial reporting, by comparison with automated processes

Key business and operational processes, including processes supporting payments and financial reporting (including, inter alia, statutory, regulatory and management reporting, which incorporates management reporting of actual results, planning, forecasting, generating appropriate assumptions and stress testing reporting), rely on manual process steps and on manipulation of data using spreadsheets and other end-user tools, some of which are not subject to the same controls as the Bank's core systems. Data validation in some cases relies on manual checks where automated checks might be expected, leading to a heightened risk of processing errors and hence to the possibility of financial loss, adverse customer impact, compliance breaches and reputational harm to the Bank. Errors may also be made in the assumptions used in forecasting, which can lead to adjustments being required to the Bank's budget. The Bank periodically experiences actual and near-miss risk events, including where manual errors cause incorrect payments to be made or nearly made. Where such payment is retrieved from a customer, this is termed a "near-miss". Where such payment is not recovered, this constitutes an actual operational loss event.

The Bank's financial reporting processes are complex, reflecting reliance on legacy systems which have not been fully integrated following the merger of the Bank and Britannia. The Bank relies on manual processes to consolidate the Bank's financial results and other data, and there is a significant use of spreadsheets, manual controls and adjustments and other end user computing systems, as opposed to fully automated consolidation and reporting processes. The retained evidence supporting the operation and review of these manual controls and substantiation of balances is frequently inadequate and is the subject of controls remediation. The manual nature of the processes increases the risk of a material misstatement in financial reporting.

There is a risk that the Bank's financial statements or related financial disclosures and other reporting or financial planning, including the accuracy of the Bank's targets and assumptions, may contain errors that could be material or need to be restated which could lead to actual exposures outside the Bank's risk appetite, unanticipated losses and regulatory censure.

As a result of the 2017 Restructuring and Recapitalisation, the Bank's legal entity structure and financial reporting increased in complexity, with amongst other things, the introduction of the Holding Company as the ultimate parent company and more recently, the introduction of an intermediate holding company, The Co-operative Bank Finance p.l.c (the Issuer), resulting in the requirement for consolidated financial and regulatory group reporting for the Holding Company and the Issuer going forwards. The increased volume of reporting required, in addition to the existing complex and manual processes described above, further increase such risks. Should any of these risks materialise, they could have a material adverse effect on the Bank's business, operating results, financial condition and ability to achieve its targets.

Provisions for liabilities in the Bank's accounts may not be adequate

Provisions are recognised for legal or constructive obligations arising from past events, if it is probable (more likely than not) that there will be outflows of financial resources and the amounts can be reliably estimated. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic resources is uncertain and cannot reasonably be measured. Contingent liabilities are not recognised on the balance sheet, but are disclosed unless the outflow of resources is remote. These liabilities may be underestimated or there may be liabilities of which the Bank is currently unaware.

Where provisions have already been taken in published financial statements or results announcements, these have been recognised, in accordance with IAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*", as the best estimate of the expenditure required to settle the obligation as at the reporting date. Such estimates are inherently uncertain and it is possible that the eventual outcomes may differ materially from current estimates, resulting in future increases or decreases to the required provisions (as has, for example, been the case in relation to the provisions that the Bank has made in relation to PPI redress payments), or actual losses that exceed or fall short of the provisions taken. Examples of contingent liabilities in relation to which this risk might apply include provisions in respect of conduct and legal risk and pensions.

Changes in the Bank's accounting policies or in accounting standards could materially affect how it reports its financial condition and operating results

From time to time, the IASB and/or the EU change the IFRS that govern the preparation of the Bank's financial statements. These changes can be difficult to predict and could materially impact how the Bank records and reports its financial condition and results of operations. In some cases, the Bank could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

For example, changes to International Financial Reporting Standard 9 (Financial Instruments: Recognition and Measurement) ("**IFRS 9**")**,** which became effective on 1 January 2018 may have a material impact on Bank in relation to future measurement and impairment of financial instruments. The Bank adopted IFRS 9 in 2018. The impact of the transition to IFRS 9 on 1 January 2018 was a net decrease in total shareholders' equity of £17.1 million (net of tax). This comprises a net decrease in shareholders' equity of £1.2 million arising from the application of the new impairment requirements of IFRS 9 (including £0.2 million relating to the impairment impact on a joint venture) and a decrease in shareholders' equity of £15.9 million arising from the application of the new classification and measurement requirements of IFRS 9. The implementation of IFRS 9 may introduce heightened volatility in future accounting periods than experienced before IFRS 9's implementation.

The IASB may make other changes to financial accounting and reporting standards that govern the preparation of the Bank's financial statements, which the Bank may adopt, or which the Bank may adopt prior to the date on which such changes become mandatory if determined to be appropriate by the Bank, or which the Bank may be required to adopt. Any such change in the Bank's accounting policies or accounting standards could materially affect its reported financial condition and results of operations.

The Bank is exposed to a number of tax risks including risk of changes in tax legislation and its interpretation and a change in the rate of corporate and other taxes

The Bank’s activities are conducted principally in the UK and it is, therefore, subject to a range of UK taxes at various rates. Future actions by the UK Government to change tax rates or to impose additional taxes could reduce the Bank’s profitability. Additional or revised tax legislation or changes to its interpretation might also affect the Bank’s financial condition in the future, including an impact on the Bank’s tax costs and the utilisation of tax losses. In addition, the Bank is subject to tax audits and enquiries by HMRC which could result in additional tax charges, including interest and penalties relating to past periods of up to six years. Any such charges could be material, which might also affect the Bank’s financial condition in the future.

There is risk that the Bank could suffer losses due to additional tax charges (including interest and penalties), other financial costs or reputational damage due to: failure to comply with, or correctly assess the application of, relevant tax laws; failure to deal with tax authorities in a timely, transparent and effective manner (including in relation to historical transactions); incorrect calculation of tax estimates for reported and forecast tax numbers; or provision of incorrect tax advice. Such charges, or conducting any challenge to a relevant tax authority, could lead to adverse publicity, reputational damage and costs materially exceeding current provisions, in each case to an extent which could have an adverse effect on the Bank’s operations, financial condition and prospects.

The Bank may suffer loss as a result of fraud or theft

As a financial institution, the Bank is subject to a heightened risk that it will be the target of criminal activity, including fraud or theft. Due to the nature of the Bank’s business, it has exposure to many different customers and third-party service providers. The Bank’s selection and screening processes with respect to its third-party service providers and lending customers, as well as its internal relationship management processes, may be ineffective if the Bank’s customers or third-party service providers engage in fraudulent activity.

For example, the Bank is exposed to potential losses resulting from customers or third-party service providers providing the Bank with falsified or fictitious information in order to secure financing or receive sales commissions. Such fraudulent activity could have a material adverse effect on the Bank’s business, financial condition, operating results or prospects. The Bank is also reliant on the accuracy and completeness of information it receives from its third-party service providers, credit reference agencies and customers. If the Bank receives inaccurate or misleading financial statements, credit reports or other financial information relating to its borrowers, such borrowers may be more likely to default on their obligations to the Bank, which could have a material adverse effect on the Bank’s business, financial condition, operating results or prospects.

In addition, losses arising from staff misconduct may result from, amongst other things, failure to document transactions properly or obtain proper internal authorisation in an attempt to defraud the Bank, or from theft by staff of customer data or physical theft at the Bank’s premises. Such behaviour may be difficult to prevent or detect, and the Bank’s internal policies to mitigate these risks may be inadequate or ineffective. The Bank may not be able to recover the losses caused by these activities, and it could suffer reputational harm as a result, each of which could have a material adverse effect on its business, financial condition, operating results or prospects.

Risks related to the structure of the Notes

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Notes will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the ownership interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their ownership interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Notes will be represented by the Global Certificate, the Issuer will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of an ownership interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in a Global Certificate.

Holders of ownership interests in a Global Certificate will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Optional redemption by the Issuer

In accordance with the Conditions of the Notes, the Notes will be subject to optional redemption by the Issuer. This feature is likely to limit the market value of the Notes while it is applicable. On the Reset Date, when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to the Reset Date.

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

Redemption prior to maturity for tax reasons

In the event that the Issuer would be obliged to increase the amounts payable in respect of the Notes due to any change in or amendment to (including a prospective change or amendment to) the laws or regulations of the United Kingdom, or any political sub-division or any authority therein or thereof having power to tax or in the application or official interpretation thereof, which change or amendment becomes effective on or after the Issue Date, and if such obligation cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may redeem all outstanding Notes in accordance with the Conditions of the Notes. As with the optional redemption feature of the Notes referred to above, it may not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate.

Redemption prior to maturity following a Loss Absorption Disqualification Event

In accordance with the Conditions of the Notes, the Issuer may redeem outstanding Notes, in whole but not in part, at an amount equal to their principal amount together with unpaid interest accrued to (but excluding) the date of redemption, at any time on the Issuer giving not less than 10 nor more than 30 days' notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable) if the Issuer determines that a Loss Absorption Disqualification Event has occurred.

As with the optional redemption feature of the Notes referred to above, it may not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate.

The claims of holders of the Notes will be structurally subordinated

The on-loan of the proceeds of the Notes from the Issuer to the Bank will be on terms such that the on-loan will rank below certain excluded liabilities of the Bank as set out in Article 72a(2) of CRRII, including but not limited to, eligible deposits of the Bank.

For the avoidance of doubt, the holders of the Notes shall, in a liquidation of the Issuer, have no claim in respect of the surplus assets (if any) of the Issuer remaining in any liquidation following payment of all amounts due in respect of the liabilities of the Issuer.

The remedies available to Noteholders under the Notes will be limited

Noteholders may not at any time demand repayment or redemption of their Notes, although in a Winding-Up, the Noteholders will have a claim for an amount equal to the principal amount of the Notes then outstanding plus any accrued interest. The sole remedy in the event of any non-payment of principal or interest under the Notes, subject to certain conditions as described in Condition 9 (*Default and Enforcement*), is that the Trustee,

on behalf of the Noteholders may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding shall, or if so directed by an Extraordinary Resolution of the holders of the Notes shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), institute proceedings for the winding-up of the Issuer and/or prove for any payment obligations of the Issuer arising under the Notes in any winding-up or other insolvency proceedings in respect of such non-payment.

The remedies under the Notes will be more limited than those typically available to senior (non-MREL) creditors. For further details regarding the limited remedies of the Trustee and the Noteholders, see Condition 9 (*Default and Enforcement*).

There is no limit on the amount or type of further bonds or other indebtedness that the Issuer may issue, incur or guarantee

There is no restriction on the amount of notes, bonds or other liabilities that the Issuer may issue, incur or guarantee and which rank *pari passu* with, the Notes. The issue or guaranteeing of any such Notes or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Noteholders during a winding-up or administration or resolution of the Issuer and may limit the Issuer's ability to meet its obligations under the Notes.

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

Under the Banking Act, substantial powers are granted to the Authorities as part of an SRR. These powers enable the authorities to deal with, amongst others, a UK bank or building society and holding company (each a "**relevant entity**") in circumstances in which the Authorities consider that the resolution conditions are satisfied. The stabilisation options which may be commenced by the Authorities are: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" wholly owned by the Bank of England; (iii) transfer of all or part of the business of the relevant entity to an asset management vehicle owned and controlled by the Bank of England; (iv) temporary public ownership (nationalisation) of all of part of the relevant entity; and (v) a bail-in tool which permits the Bank of England to (a) cancel, modify or convert the form of a liability owed by, amongst others, a relevant entity or provide that a contract under which, amongst others, a relevant entity has a liability is to have effect as if a specified right had been exercised under it or (b) transfer securities issued by, amongst others, a relevant entity to a bail-in administrator. In each case, the Authorities have wide powers under the Banking Act 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.

The paragraphs below set out some of the possible consequences of the SRR and the exercise of those powers under the SRR. The taking of any action under the Banking Act could adversely affect Noteholders.

The SRR may be triggered prior to insolvency of the Issuer

The purpose of the stabilising options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the stabilisation options may be exercised if (i) the relevant Authority is satisfied that a relevant entity (such as the Issuer) is failing, or is likely to fail, (including where the relevant entity is failing or likely to fail to meet the threshold conditions specified in FSMA) (ii) following consultation with the other Authorities, the relevant Authority determines that it is not reasonably likely that (ignoring the stabilising options) action will be taken that will enable the relevant entity to satisfy those conditions, (iii) the Authorities consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors) and (iv) the relevant Authority considers that the specific resolution objectives would not be met to the same extent by the winding up of the relevant entity. It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

On 26 May 2015, the European Banking Association ("**EBA**") published guidelines on the circumstances in which an institution shall be deemed as "failing or likely to fail" by supervisors and resolution authorities. The guidelines set out the objective criteria which should apply when supervisors and resolution authorities, including the Authorities, make such a determination.

Although the Banking Act provides for conditions to the exercise of any resolution powers and the EBA guidelines set out the objective elements for determining whether an institution is failing or likely to fail, it is uncertain how the Authorities would assess such conditions in any particular situation. The relevant Authorities are also not required to provide any advance notice to Noteholders of their decision to exercise any resolution power. Therefore, Noteholders may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on the Issuer or the Notes.

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

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

- transferring the Notes out of the hands of the holders;
- delisting the Notes;
- writing down (which may be to nil) the Notes or converting the Notes into another form or class of securities such as ordinary shares; and/or
- modifying or disapplying certain terms of the Notes.

The SRR may be triggered prior to the insolvency of the Issuer. The purpose of the Stabilisation Options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns.

The relevant Authorities may exercise the bail-in tool under the Banking Act to recapitalise a relevant entity in resolution by allocating losses to its shareholders and unsecured creditors (which include Noteholders) in a manner that (i) ought to respect the hierarchy of claims in an ordinary insolvency and (ii) is consistent with shareholders and creditors not receiving a less favourable treatment than they would have received in ordinary insolvency proceedings of the relevant entity (known as the "no creditor worse off" safeguard). In addition, even in circumstances where a claim for compensation is established under the "no creditor worse off" safeguard in accordance with a valuation performed after the resolution action has been taken, it is unlikely that such compensation would be equivalent to the full losses incurred by the Noteholders in the resolution and there can be no assurance that Noteholders would recover such compensation promptly.

The bail-in tool includes the power to cancel a liability or modify the terms of contracts for the purposes of reducing or deferring the liabilities of the relevant entity under resolution and the power to convert a liability from one form or class to another. The exercise of such powers may result in the cancellation of all, or a portion, of the principal amount of, interest on, or any other amounts payable on, the Notes and/or the conversion of all or a portion of the principal amount of, interest on, or any other amounts payable on, the Notes into shares or other securities or other obligations of the Issuer or another person, including by means of a variation to the terms of the Notes.

The taking of any such actions could materially adversely affect the rights of Noteholders, and such actions (or the perception that the taking of such actions may be imminent) could materially adversely affect the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Noteholders will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred or at all.

Mandatory write-down and conversion of capital instruments and potentially eligible liabilities may affect the Notes

Currently, the Banking Act requires that the relevant Authorities permanently write-down, or convert into equity, Tier 1 Capital instruments and Tier 2 Capital instruments at the point of non-viability of the relevant entity or group and before, or together with, the exercise of any stabilisation power (except where the bail-in tool is to be utilised for other liabilities, in which case such capital instruments would be written down or converted into equity pursuant to the exercise of the bail-in tool, as described above, rather than the mandatory write-down and conversion power applicable only to the capital instruments of the Issuer). BRRD provides that (following the coming in effect of Directive (EU) 2019/879 ("**BRRD 2**")), from 28 December 2020, the write-down and conversion power set out above will extend to include internal eligible liabilities (i.e. eligible liabilities of an entity in a banking group other than the resolution entity such as the internal notes which will be issued by the Bank to the Issuer in order for the proceeds of the Notes to be on-lent, which notes count as MREL) and further to include external eligible liabilities (such as the Notes) if used in combination with a resolution power. BRRD 2 is one piece of legislation included in the Financial Services (Implementation of Legislation) Bill which received its first reading in the House of Lords in November 2018. The Bill provides the UK Government with the power to choose to implement only those EU files, or parts of those files, which are both appropriate and beneficial for the UK and adjust and improve the legislation as it is brought into UK law to ensure that it works better for UK markets. The Banking Act further gives the relevant Authorities the power to cancel, reduce or defer the equity liabilities of a bank, which may include equity liabilities into which the Notes have been converted (including divesting shareholders of a bank of their shares) in a resolution scenario.

For the purposes of the application of such mandatory write-down and conversion power, the point of non-viability is the point at which the relevant Authority determines that the relevant entity (or, if applicable, its parent or group) meets the conditions for resolution (but no resolution action has yet been taken) or that the relevant entity or the Issuer Group will no longer be viable unless the relevant capital instruments are written-down or converted or the relevant entity (or, if applicable, its parent or group) requires extraordinary public support without which, the relevant UK resolution authority determines that, the relevant entity or group would no longer be viable.

The internal notes issued by the Bank to the Issuer in order for the proceeds of the Notes to be on-lent, may, subject as set out above with regards to the implementation of BRRD 2, be subject to write-down or conversion into equity on application of such powers (without requiring the consent of the Noteholders), which may result in the Issuer suffering additional losses on such internal notes. The exercise of such mandatory write-down and conversion power under the Banking Act or any perceived increased likelihood of such exercise could, therefore, materially adversely affect the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

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

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

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

The Notes will not be 'protected liabilities' for the purposes of any Government compensation scheme

The FSCS established under the Financial Services and Markets Act 2000 is the statutory fund of last resort for customers of authorised financial services firms paying compensation to customers if the firm is unable, or likely to be unable, to pay certain claims (including in respect of deposits and insurance policies) made against it (together "**Protected Liabilities**").

The Notes will not, however, be Protected Liabilities under the FSCS and, moreover, will not be guaranteed or insured by any government, government agency or compensation scheme of the United Kingdom or any other jurisdiction. To the extent that interest payments are not made under the Notes or Noteholders lose their investment in the Notes whether due to regulatory action or otherwise, no claim can be made by a Noteholder to the FSCS for any losses they may suffer.

The interest rate on the Notes will be reset on the Reset Date, which may affect the market value of the Notes

The Notes will initially accrue interest at a fixed rate of interest to, but excluding, the Reset Date. From, and including, the Reset Date, however, the interest rate will be reset to the Reset Interest Rate (as described in Condition 4 (*Interest)*). This Reset Interest Rate could be less than the initial rate of interest, which could affect the amount of any interest payments under the Notes and so the market value of an investment in the Notes.

Risks related to the Notes generally

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

Modification, waivers and substitution

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

The shareholders of the Holding Company have agreed to purchase a significant percentage of the Notes offered. Under the Trust Deed, there is no restriction on the exercise of voting rights with respect to the Notes held by such shareholders and their affiliates. The interests of the shareholders of the Holding Company may differ from those of any other Noteholders. For further information, see Condition 13.

The Conditions of the Notes will also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification (subject to certain exceptions in the Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the conditions or any of the provisions of the Trust Deed or may determine that any condition, event or act which, but for such determination, would constitute an event giving rise to the right of the Trustee described in Condition 9 (*Default and Enforcement*) shall not be treated as such which in any such case, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or (ii) the substitution in place of the Issuer as the principal debtor under the Notes and the Trust Deed of the Holding Company of the Issuer or a Successor in Business of the Issuer (as defined in the Trust Deed) in the circumstances and subject to the conditions set out in Condition 15 (*Substitution*) of the Notes.

Risks related to the market generally

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

The secondary market generally

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. In addition, the shareholders of the Holding Company have agreed to purchase a significant percentage of the Notes offered. The holding and any sale of Notes by these parties may adversely affect the liquidity of the Notes and may also affect the price of the Notes in the secondary market, particularly if some or all of these holders elect to sell their Notes at the same time. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in GBP. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than GBP. These include the risk that exchange rates may significantly change (including changes due to devaluation of GBP or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An

appreciation in the value of the Investor's Currency relative to GBP would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

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

TERMS AND CONDITIONS OF THE NOTES

The £200,000,000 Fixed Rate Reset Callable Notes due 2025 (the "**Notes**", which expression shall in these terms and conditions (the "**Conditions**"), unless the context otherwise requires, include any further notes issued pursuant to Condition 14 and forming a single series with the Notes) of The Co-operative Bank Finance p.l.c. (the "**Issuer**") are constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated from time to time, the "**Trust Deed**") dated on or around 27 November 2020 (the "**Issue Date**") and made between the Issuer and Law Debenture Trustees Limited (the "**Trustee**", which expression shall include its successor(s)) as trustee for the Noteholders (as defined below).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed, which includes the forms of the Notes. Copies of the Trust Deed, the agency agreement dated the Issue Date (such agency agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") made between the Issuer, the Trustee, The Bank of New York Mellon S.A./N.V., Luxembourg Branch, as registrar (the "**Registrar**", which expression shall include any successor registrar appointed from time to time), The Bank of New York Mellon, London Branch as principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor principal paying agent appointed from time to time and, together with any additional paying agents appointed from time to time, the "**Paying Agents**") and the Calculation Agent (as defined herein) are available for inspection (by prior appointment) during normal business hours by the Noteholders at the registered office for the time being of the Trustee, being at the date of issue of the Notes at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1 Form, Denomination and Title

1.1 Form and Denomination

The Notes are issued in registered form in amounts of £100,000 and integral multiples of £1,000 in excess thereof (referred to as the "**principal amount**" of a Note). A note certificate (each a "**Certificate**") will be issued free of charge to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer will procure to be kept by the Registrar.

1.2 Title

Title to the Notes passes only by registration in the register of Noteholders. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions "**Noteholder**" and (in relation to a Note) "**holder**" means the person in whose name a Note is registered in the register of Noteholders (or, in the case of a joint holding, to the joint holder whose name appears first on the register of Noteholders in respect of such joint holding (the "**representative joint Noteholder**")).

2 Transfer of Notes and Issue of Certificates

2.1 Transfers

A Note may, subject to the Conditions below, be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer duly completed and signed, at the specified office of the Registrar.

2.2 Delivery of new Certificates

Each new Certificate to be issued upon transfer of Notes will, within five business days of receipt by the Registrar of the duly completed form of transfer together with a valid Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which banks are open for business in the city in which the specified office of the Registrar with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the register of Noteholders or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of transfer of Notes will be effected without charge by or on behalf of the Issuer or the Registrar but upon payment (or the giving of such indemnity as the Registrar may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that Note.

2.5 Regulations

All transfers of Notes and entries on the register of Noteholders will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Trust Deed. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

3 Status of the Notes

3.1 Status

The Notes are direct, unconditional, unsecured and unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and, in the event of a Winding-Up, will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law.

In these Conditions:

"**Winding-Up**" means:

(i) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation, the terms of which reorganisation, reconstruction or amalgamation have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and do not provide that the Notes thereby become redeemable or repayable in accordance with these Conditions);

(ii) following the appointment of an administrator of the Issuer, an administrator gives notice that it intends to declare and distribute a dividend; or

(iii) liquidation or dissolution of the Issuer or any procedure similar to that described in paragraph (i) or (ii) of this definition is commenced in respect of the Issuer, including any bank insolvency procedure or bank administration procedure pursuant to the Banking Act 2009.

3.2 Set-Off

Subject to applicable law, no Noteholder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Notes or the Trust Deed and each Noteholder, by virtue of its subscription, purchase or holding of any Note shall be deemed, to the extent permitted under applicable law, to have waived all such rights of set-off.

4 Interest

4.1 Interest and Interest Payment Dates

The Notes bear interest on their outstanding principal amount from and including the Issue Date at the applicable Interest Rate in accordance with the provisions of this Condition 4. Interest shall be payable semi-annually in arrear on 27 May and 27 November in each year from (and including) 27 May 2021 up to (and including) the Maturity Date (each an "**Interest Payment Date**").

4.2 Interest Accrual

Each Note will cease to bear interest from (and including) its due date for redemption unless, upon due surrender of the relevant Certificate, payment of any amounts due in respect of such Note are improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Trust Deed.

4.3 Calculation of Interest

Interest shall be calculated on the basis of (i) the actual number of days in the period from (and including) the date from which interest begins to accrue (the "**Accrual Date**") to (but excluding) the date on which it falls due divided by (ii) the actual number of days from (and including) the Accrual Date to (but excluding) the next following Interest Payment Date (the "**Day Count Fraction**").

Interest shall be calculated per £1,000 in principal amount of the Notes. Accordingly, the amount of interest payable in respect of a Note for a relevant period shall be calculated by (i) multiplying the Day Count Fraction by the product of £1,000 and the applicable Interest Rate, (ii) rounding the resultant figure to the nearest £0.01 (£0.005 being rounded upwards) and (iii) multiplying that rounded figure by a fraction the numerator of which is the principal amount of such Note and the denominator of which is £1,000.

4.4 Initial Interest Rate and Reset Interest Rate

Interest will accrue:

(a) at 9.000 per cent. per annum (the "**Initial Interest Rate**") from (and including) the Issue Date to (but excluding) 27 November 2024 (the "**Reset Date**"); and

(b) thereafter at the Reset Interest Rate,

and references in these Conditions to the "**applicable Interest Rate**" shall be construed accordingly.

The amount of interest payable on each Interest Payment Date up to (and including) the Reset Date will be £45 per £1,000 in principal amount of Notes.

The "**Reset Interest Rate**" shall be the sum of the Benchmark Gilt Rate in respect of the Reset Period (expressed as a rate per annum) (as determined by the Calculation Agent on the date falling two Business Days prior to the Reset Date (the "**Reset Determination Date**")) and the Reset Margin, where:

"**Benchmark Gilt**" means, in respect of the Reset Period, such United Kingdom government security having a maturity date on or about the last day of such Reset Period as the Calculation Agent, following consultation with the Issuer and with the advice of the Reference Banks, may determine to be appropriate;

"**Benchmark Gilt Rate**" means, in respect of the Reset Period, the gross redemption yield (as calculated by the Calculation Agent in accordance with generally accepted market practice at such time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of the Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered prices of such Benchmark Gilt quoted by the Reference Banks at 3.00 p.m. (London time) on the Reset Determination Date on a dealing basis for settlement on the next following dealing day in London. If at least four quotations

are provided, the Benchmark Gilt will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Benchmark Gilt will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Benchmark Gilt will be the rounded quotation provided. Where no quotations with respect to the Benchmark Gilt are provided by the relevant Reference Banks, the Reset Interest Rate shall be the Initial Interest Rate;

"**Calculation Agent**" means The Bank of New York Mellon, London Branch (or any alternative or successor calculation agent appointed by the Issuer for this purpose);

"**dealing day**" means a day on which the London Stock Exchange plc (or such other stock exchange on which the Benchmark Gilt is at the relevant time listed) is ordinarily open for the trading of securities;

"**Reference Banks**" means five leading gilt dealers, brokers of gilts and/or gilt-edged market makers in the principal interbank market relating to sterling as selected by the Issuer in consultation with the Calculation Agent or an investment bank of international repute;

"**Reset Margin**" means 9.034 per cent. per annum; and

"**Reset Period**" means the period from (and including) the Reset Date to (but excluding) the Maturity Date.

4.5 Determination and Notification of the Reset Interest Rate

The Calculation Agent will, as soon as practicable after 3.00 p.m. (London time) on the Reset Determination Date, determine the Reset Interest Rate and shall promptly thereafter notify the same to the Issuer, the Paying Agents, the Trustee and any stock exchange on which the Notes are for the time being listed or admitted to trading. As soon as reasonably practicable thereafter (and in any event no later than the second Business Day following the Reset Date), the Calculation Agent shall cause notice of the Reset Interest Rate to be given to the Noteholders in accordance with Condition 12.

The Reset Interest Rate so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of a manifest error, and the amended Reset Interest Rate shall promptly thereafter be notified to the Issuer, the Paying Agents, the Trustee, any stock exchange on which the Notes are for the time being listed or admitted to trading and to the Noteholders in accordance with Condition 12.

4.6 Determinations by Trustee; determinations binding

The Trustee (or an agent appointed by it) shall, if the Calculation Agent does not for any reason determine the Reset Interest Rate in accordance with Condition 4.5, determine the Reset Interest Rate. In doing so, the Trustee (or its agent) shall (if and to the extent that, in its opinion, it can practicably do so) apply the foregoing provisions of this Condition 4, with any consequential amendments it considers necessary, and in all other respects it shall determine the Reset Interest Rate in such manner as it shall deem fair and reasonable in all the circumstances (having regard to the provisions of this Condition 4). Such determination shall be deemed to be a determination thereof by the Calculation Agent.

All notifications, determinations and calculations made or obtained by the Calculation Agent (or by the Trustee or its agent) for the purposes of this Condition 4 shall, in the absence of wilful default or manifest error, be binding on the Issuer, the Trustee, the Registrar, any Paying Agent and the Noteholders and (in the absence of bad faith) no liability to the Issuer or the Noteholders will attach to the Calculation Agent or the Trustee (or its agent) in connection with the exercise of any of their duties and discretions with respect to the Notes.

5 Payments

5.1 Payments in respect of Notes

All payments in respect of the Notes will be made in sterling and payable to the Noteholder (in the case of a joint holding of Notes, the representative joint Noteholder) appearing in the register of Noteholders in respect of the Note of which they are the holder at the close of business on the fifteenth day before the relevant due date (the "**Record Date**"). Payments of principal and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of the Registrar or any Paying Agent.

Payment shall be made by transfer on the due date or, if the due date is not a Business Day, on the immediately following Business Day, to a sterling account maintained by the payee with a bank or building society in the United Kingdom.

5.2 Payments subject to applicable laws

Save as provided in Condition 7, payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws or regulations to which the Issuer or the Paying Agents are subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements.

5.3 No commissions

No commissions or expenses shall be charged by the Issuer, the Registrar or any Paying Agent to the Noteholders in respect of any payments made in accordance with this Condition.

5.4 Payments on Business Days

Payment instructions (for value the due date or, if that is not a Business Day (as defined below), for value the first following day which is a Business Day) will be initiated on the Business Day preceding the due date for payment or, in the case of a payment of principal or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of the Registrar or any Paying Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day or if the Noteholder is late in surrendering its Certificate (if required to do so).

In these Conditions, "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London and (in the case of surrender or presentation of a Certificate only) in the place in which the Certificate is surrendered or presented.

5.5 Partial payments

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the register of Noteholders with a record of the amount of principal or interest in fact paid.

5.6 Interpretation of Principal and Interest

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include any additional amounts which may be payable with respect to principal under Condition 7 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include any additional amounts which may be payable with respect to interest under Condition 7 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

6 Redemption and Purchase

6.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as specified below, the Notes will be redeemed by the Issuer at their principal amount on 27 November 2025 (the "**Maturity Date**").

6.2 Redemption on the Reset Date at the option of the Issuer

The Issuer may, subject to Condition 6.7 and having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable), elect to redeem the Notes, in whole but not in part, on the Reset Date at an amount equal to their principal amount together with unpaid interest accrued to (but excluding) the Reset Date.

6.3 Redemption for Tax Reasons

Subject to Condition 6.7 below, the Notes may be redeemed at the option of the Issuer, in whole but not in part, at an amount equal to their principal amount together with unpaid interest accrued to (but excluding) the date of redemption, at any time on the Issuer giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of the aforementioned notice that:

(a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged either to pay additional amounts as provided or referred to in Condition 7 or to account to any taxing authority in the Tax Jurisdiction for any amount (other than tax withheld or deducted from interest payable on such Notes) in respect of such payment in each case as a result of any change in or amendment to (including a prospective change in or amendment to) the laws or regulations of the Tax Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; or

(b) interest payments under or with respect to the Notes are no longer fully deductible for UK corporation tax purposes as a result of any change in or amendment to (including a prospective change in or amendment to) the laws or regulations of the Tax Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date,

and (in either case) such obligation cannot be avoided by the Issuer taking reasonable measures available to it (each a "**Tax Event**"), provided that no such notice of redemption shall be given earlier than 90 days prior to (in the case of (a) above) the earliest date on which the Issuer would be obliged to pay such additional amounts or make a payment in respect of which it would be obliged to account to any taxing authority as aforesaid were a payment in respect of the Notes then due or (in the case of (b) above) the start of the accounting period of the Issuer in which interest payments on the Notes would cease to be so deductible.

"**Tax Jurisdiction**" means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax.

Upon the expiry of such notice, the Issuer shall, subject to Condition 6.7, redeem the Notes.

6.4 Loss Absorption Disqualification Event Redemption

Subject to Condition 6.7 below, the Notes may be redeemed at the option of the Issuer, in whole but not in part, at an amount equal to their principal amount together with unpaid interest accrued to (but excluding) the date of redemption, at any time on the Issuer giving not less than 10 nor more than 30 days' notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable), if the Issuer determines that a Loss Absorption Disqualification Event has occurred. For the avoidance of doubt, any amortisation of the Notes pursuant to Article 72(c) of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No. 648/2012 as amended by Regulation (EU) No. 2019/870 (or any equivalent or successor provision) shall not comprise a Loss Absorption Disqualification Event.

This Condition 6.4 will not apply to the extent such application would cause a Loss Absorption Disqualification Event to occur.

In these Conditions:

"**Applicable Banking Regulations**" means at any time the laws, regulations, requirements, guidelines, rules, standards and policies relating to capital adequacy and/or minimum requirement for own funds and eligible liabilities and/or loss absorbing capacity for credit institutions then in effect in the United Kingdom (or in such other jurisdiction in which the Issuer as part of the Holding Company Group may be organised or domiciled) and applicable to the Issuer, including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy and/or minimum requirement for own funds and eligible liabilities and/or loss absorbing capacity for credit institutions then in effect of the Competent Authority and/or Resolution Authority and/or, if and as applicable, any regulation, directive or other binding rules, standards or decisions adopted by the institutions of the European Union;

"**Bank**" means The Co-operative Bank p.l.c.;

"**Banking Group**" means the Bank and its subsidiaries;

"**Competent Authority**" means the Prudential Regulation Authority or such other authority (whether in the United Kingdom or elsewhere) having primary supervisory authority with respect to prudential matters concerning the Holding Company Group, the Issuer Group or the Banking Group;

"**Holding Company**" means The Co-operative Bank Holdings Limited;

"**Holding Company Group**" means the Issuer, the Bank, the Holding Company and each of their respective subsidiaries and subsidiary undertakings;

"**Issuer Group**" means the Issuer and its subsidiaries;

a "**Loss Absorption Disqualification Event**" shall be deemed to occur if as a result of any amendment to, or change in, any Applicable Banking Regulation, or any change in the application or official interpretation of any Applicable Banking Regulation, in any such case becoming effective on or after the Issue Date, the Notes are or (in the opinion of the Issuer or the Competent Authority and/or the Resolution Authority (as appropriate)) are likely to be fully or partially excluded from the Issuer's (whether on an individual or a consolidated basis) minimum requirements for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments, in each case as such minimum requirements are applicable to the Issuer (whether on an individual or a consolidated basis) and determined in accordance with, and pursuant to, the relevant Applicable Banking Regulations; provided that a Loss Absorption Disqualification Event shall not occur where the exclusion of the Notes from the relevant minimum requirement is due to the remaining maturity of the Notes being less than any period prescribed by any applicable eligibility criteria for such minimum requirements under the relevant Applicable Banking Regulations effective with respect to the Issuer (whether on an individual or a consolidated basis) on the Issue Date; and

"**Resolution Authority**" means the Bank of England or any successor or replacement thereto or such other authority in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, such other jurisdiction) having primary responsibility for the recovery and/or resolution of the Holding Company Group, the Issuer Group or the Banking Group.

Upon the expiry of such notice, the Issuer shall, subject to Condition 6.7, redeem the Notes.

6.5 Purchases

Subject to Condition 6.7 below, the Issuer or any of its subsidiaries may at any time purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to the Registrar or any Paying Agent for cancellation.

6.6 Cancellation

All Notes which are redeemed, and any Notes which are purchased and surrendered for cancellation pursuant to Condition 6.5, shall be immediately cancelled and cannot be reissued or resold.

6.7 Redemption and Purchase Conditions

The Issuer shall not be permitted to redeem or purchase the Notes prior to the Maturity Date unless the following conditions are satisfied:

(a) the Issuer has given any requisite notice to the Competent Authority and/or the Resolution Authority (as appropriate) and has obtained, if and as required, the Competent Authority's and/or the Resolution Authority's (as appropriate) prior permission (or, as appropriate, waiver) in relation to the redemption or purchase (as the case may be) of the Notes;

(b) either: (A) the Issuer having replaced the Notes with own funds or eligible liabilities instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or (B) the Issuer having demonstrated to the satisfaction of the Competent Authority that the own funds and eligible liabilities of the Issuer would, following such redemption or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Competent Authority considers necessary at such time; and

(c) any redemption or purchase of the Notes must be carried out in accordance with the Applicable Banking Regulations.

Notwithstanding the above conditions, if, at the time of any redemption or purchase, the prevailing Applicable Banking Regulations permit the repayment or purchase only after compliance with one or more alternative or additional pre-conditions to those set out above in this Condition 6.7, the Issuer shall comply with such other and/or, as appropriate, additional pre-condition(s).

Prior to the publication of any notice of redemption pursuant to this Condition 6 (other than redemption pursuant to Condition 6.2), the Issuer shall deliver to the Trustee, to make available for inspection (by prior appointment) at its specified office to the Noteholders, (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (ii) in the case of a redemption pursuant to Condition 6.3 only, an opinion of independent legal or tax advisers of recognised standing to the effect either that such a circumstance does exist or that, upon a change in or amendment to the laws (including any regulations thereunder) or in the interpretation or administration thereof of the Tax Jurisdiction which at the date of such certificate is proposed to be made and in the opinion of such independent legal or tax advisers and the Issuer (based on such opinion) is reasonably expected to become effective on or prior to the date when the relevant payment in respect of such Notes would otherwise be made, becoming so effective, such circumstances would exist.

The Trustee shall be entitled to accept and rely upon the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders.

7 Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer will be made free and clear of, and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by, within, or on behalf of the Tax Jurisdiction (as defined in Condition 6.3), unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes after such withholding or deduction shall equal the respective amounts which would otherwise have been receivable in respect of the Notes, in the absence of such withholding or deduction, except that no such additional amounts shall be payable with respect to any Note:

(a) to, or to a third party on behalf of a, holder which is liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the Tax Jurisdiction other than the mere holding of such Note; or

(b) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day.

As used herein, the "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 12.

Notwithstanding any other provisions of the Trust Deed, all payments of principal, interest and any other amount by or on behalf of the Issuer in respect of the Notes shall be made net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or any intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**Fatca Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of Fatca Withholding.

8 Prescription

Claims in respect of principal and interest will become void unless made within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

9 Default and Enforcement

9.1 If default is made in the payment of any principal or interest due on the Notes or any of them on the due date and such default continues in the case of principal for a period of 7 days and in the case of interest for a period of 15 days, the Trustee may, subject as provided below, at its discretion and without further notice, institute proceedings for the winding-up of the Issuer, but may take no other action in respect of such default.

9.2 In the event of a Winding-Up of the Issuer (whether or not instituted by the Trustee pursuant to the foregoing), the Trustee may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the holders of the Notes shall, (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction) give notice to the Issuer that the Notes are, and they shall thereby become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed. In such event, the Trustee shall be entitled to prove in the Winding-Up of the Issuer and shall have no other remedy against the Issuer.

9.3 Without prejudice to Condition 9.1, if the Issuer fails to perform, observe or comply with any obligation, condition or provision relating to the Notes binding on it under these Conditions (other than any payment obligations of the Issuer arising from the Notes or the Trust Deed including, without limitation, payment of principal or interest in respect of the Notes and any damages awarded for breach of obligations) the Trustee may, subject as provided below, at its discretion and without notice, institute such steps, actions and/or proceedings against the Issuer as it may think fit to enforce such obligation, condition or provision provided that the Issuer shall not as a consequence of such steps, actions and/or proceedings be obliged to pay any sum or sums (whether by way of damages or otherwise) sooner than the same would otherwise have been payable by it.

9.4 The Trustee shall not be bound to take the action referred to in Condition 9.1, Condition 9.2 or Condition 9.3 unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction in connection therewith.

9.5 No remedy against the Issuer, other than as referred to in this Condition 9, shall be available to the Trustee or the Noteholders for the recovery of amounts owing in respect of the Notes as aforesaid (including damages awarded for breach of any obligations) and no holder of a Note shall be entitled to institute proceedings for the winding-up of the Issuer or to prove or claim in a Winding-Up of the Issuer unless the Trustee, having become bound so to proceed in accordance with Condition 9.4, fails to do so or fails to prove in such winding-up, in each case within a reasonable time and such failure shall be continuing.

10 Replacement of Certificates

Should any Certificate be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

11 Registrar and Paying Agents

The names of the initial Registrar and Principal Paying Agent and their initial specified offices are set out below.

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

(a) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority); and

(b) there will at all times be a Paying Agent and a Registrar.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

In acting under the Agency Agreement, subject as provided therein, the Registrar and the Paying Agents will act solely as agents of the Issuer, and will not assume any obligations or relationships of agency or trust to or with the Noteholders, except that (without affecting the obligations of the Issuer to the Noteholders to repay the Notes and to pay interest thereon) funds received by the Paying Agents for the payment of any sums due in respect of the Notes shall be held by them on behalf of the Noteholders until the expiry of the relevant period of prescription under Condition 8. The Agency Agreement contains provisions for the indemnification of the Registrar and the Paying Agents.

12 Notices

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the register of Noteholders maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading. Any notice shall be deemed to have been given on the second calendar day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

13 Meetings of Noteholders, Modification and Waiver

13.1 Meetings of Noteholders

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

the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes (including the provisions regarding status referred to in Condition 3, modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes) or certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting.

13.2 Modification and Waiver

The Trust Deed provides that the Trustee may agree, without the consent of the Noteholders, to any modification (subject to certain exceptions as provided in the Trust Deed) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or may determine that any condition, event or act which, but for such determination, would constitute an event giving rise to the rights of the Trustee described in Condition 9, shall not be treated as such which in any such case, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or to any modification of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement (subject to certain exceptions as provided for in the Trust Deed) which is, in the opinion of the Trustee, of a formal, minor or technical nature or which is made to correct a manifest error or which, in the opinion of the Trustee, is not materially prejudicial to the interests of Noteholders. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

13.3 Rights of Trustee

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

13.4 Compliance with Applicable Banking Regulations

The Issuer shall comply with Applicable Banking Regulations in connection with any modification or proposed modification of these Conditions or the Trust Deed.

14 Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders but subject to any prior permission (or, as appropriate, waiver) required from the Competent Authority, to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single series with the outstanding Notes.

15 Substitution

The Trustee may, without the consent of the Noteholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes and the Trust Deed of the Holding Company of the Issuer or a Successor in Business of the Issuer (each as defined in the Trust Deed), subject to (i) the Trustee being satisfied that the interests of the Noteholders

will not be materially prejudiced by the substitution, and (ii) certain other conditions set out in the Trust Deed being complied with.

Any such substitution shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such substitution shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

The Issuer shall comply with Applicable Banking Regulations in connection with any substitution of the Issuer (or any previous substitute) under this Condition.

16 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from instituting proceedings to enforce repayment or exercise any powers, duties, authorities or discretions unless indemnified and/or secured and/or pre-funded to its satisfaction.

The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice or any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

The Trustee is not responsible for monitoring or supervising the performance by the Registrar, the Paying Agents and/or any other person of its obligations to the Issuer and may assume these are being performed unless and until it has actual knowledge to the contrary.

17 Contracts (Rights of Third Parties) Act 1999

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

18 Governing Law

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

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

1. Global Certificate

The Notes will be evidenced on issue by the Global Certificate (deposited with, and registered in the name of a nominee (the "**registered holder**") for, a common depositary for Euroclear and Clearstream, Luxembourg).

Interests in the Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*Book-Entry ownership*". By acquisition of an interest in a Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, if it determines to transfer such beneficial interest prior to the expiration of the 40 day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S.

Interests in the Global Certificate will be subject to certain restrictions on transfer set forth therein and in the Trust Deed and the Global Certificate will bear a legend regarding such restrictions substantially to the following effect:

"**THIS GLOBAL CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND THE ISSUER HAS NOT BEEN REGISTERED AS AN "INVESTMENT COMPANY" UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "1940 ACT"). NEITHER THIS GLOBAL CERTIFICATE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND UNDER CIRCUMSTANCES WHICH DO NOT REQUIRE THE ISSUER TO REGISTER UNDER THE 1940 ACT.**"

Except in the limited circumstances described below, owners of interests in the Global Certificate will not be entitled to receive physical delivery of certificated Notes in definitive form (the "**Definitive Note Certificates**"). The Notes are not issuable in bearer form.

2. Amendments to the Conditions

The Global Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments due in respect of Notes shall be made to or to the order of the registered holder and such payment will discharge the obligations of the Issuer in respect of the relevant payment under the Notes. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg as the case may be, for its share of each payment made to or to the order of the registered holder.

Notices

For so long as all of the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative accountholders rather than by publication as required by Condition 12 (*Notices*) provided that, so long as the Notes are admitted to listing or trading on any stock exchange, such notice (if such notice is required) is also given in a manner which complies with the rules and regulations of such stock exchange or other relevant authority. Any such notice shall be deemed to have been given to the Noteholders on the second calendar day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Record Date

For so long as all Notes are held in Euroclear and Clearstream, Luxembourg, the Record Date shall be determined in accordance with Condition 5.1 (*Payments in respect of Notes*) provided that the words

"fifteenth day" shall be deemed to be replaced with "ICSD Business Day". "**ICSD Business Day**" means a day on which the Clearing Systems are open for business.

Calculation of Interest

For so long as all of the Notes outstanding are represented by the Global Certificate, interest will be calculated in respect of the aggregate principal amount of the Notes represented by the Global Certificate (and not per £1,000 in principal amount of Notes as provided in Condition 4.3 (*Calculation of Interest*)) but otherwise in accordance with Condition 4 (*Interest*).

Transfers

Book-entry interests in the Notes represented by the Global Certificate are transferable only in accordance with, and subject to, the provisions hereof and the rules and operating procedures of Euroclear and Clearstream, Luxembourg. Transfers of such book-entry interests will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

3. Exchange for and transfers of Definitive Note Certificates

Registration of title to Notes in a name other than that of The Bank of New York Depositary (Nominees) Limited (or any replacement or successor nominee for Euroclear and Clearstream, Luxembourg) will be permitted only if both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so and no alternative clearing system satisfactory to the Trustee is available.

Thereupon, the holder of the Global Certificate (acting on the instructions of one or more of the Accountholders) may give notice to the Issuer of its intention to exchange the Global Certificate for definitive Note Certificates on or after the Exchange Date (as defined below).

On or after the Exchange Date, the registered holder may surrender the Global Certificate to or to the order of the Registrar. In exchange for the Global Certificate, the Registrar will deliver, or procure the delivery of, definitive Note Certificates printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Global Certificate, the Issuer will procure that it is cancelled and, if the registered holder so requests, returned to the registered holder together with any relevant definitive Note Certificates.

For these purposes, "**Exchange Date**" means a day specified in the notice requiring exchange falling not less than 10 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Registrar is located.

Subject as provided in the following paragraph, until the exchange of the whole of the Global Certificate as aforesaid, the registered holder hereof shall in all respects be entitled to the same benefits as if he were the registered holder of definitive Note Certificates, representing the Notes for the time being represented by the Global Certificate, in the form set out in Part 2 of Schedule 1 to the Trust Deed.

4. Euroclear and Clearstream, Luxembourg

References herein to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

5. Book-entry ownership

For so long as all of the Notes are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes

(including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than with respect to the payment of principal, premium and interest on such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the Global Certificate in accordance with and subject to its terms and the terms of the Trust Deed.

6. Covenant to pay

The Issuer, subject to and in accordance with the Conditions and the Trust Deed, promises to pay to the registered holder of the Global Certificate on 27 November 2025 and/or on such earlier date(s) as the Notes represented by the Global Certificate may become due and repayable in accordance with the Conditions and the Trust Deed, the amount payable under the Conditions in respect of such Notes on each such date and to pay interest on the principal amount of the Notes outstanding from time to time represented by the Global Certificate calculated and payable as provided in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes represented by the Global Certificate and the Trust Deed together with any other sums payable under the Conditions and the Trust Deed. At maturity, and prior to the payment of any amount due, the registered holder of the Global Certificate shall surrender the Global Certificate at the specified office of the Registrar at Vertigo Building – Polaris, 2-4 rue Eugène Ruppert, 2453 Luxembourg or such other office as may be specified by the Issuer and approved by the Trustee.

7. Redemption, purchase and cancellation of Notes

On any redemption or purchase and cancellation of any of the Notes represented by the Global Certificate, details of such redemption or purchase and cancellation (as the case may be) shall be entered by or on behalf of the Registrar in the Register and such entry shall be signed by or on behalf of the Registrar. Upon any such redemption or purchase and cancellation the principal amount outstanding of the Global Certificate and the Notes held by the registered holder of the Global Certificate shall be reduced by the principal amount of such Notes so redeemed or purchased and cancelled. The principal amount outstanding of the Global Certificate and of the Notes held by the registered holder of the Global Certificate following any such redemption or purchase and cancellation as aforesaid or any exchange as referred to above shall be the outstanding principal amount most recently entered in the Register.

8. Prescription

Claims against the Issuer in respect of principal and interest on the Notes represented by the Global Certificate will become void after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 7 (*Taxation*)).

USE OF PROCEEDS

The estimated net proceeds of the issue of the Notes, expected to amount to approximately GBP 200,000,000, will be on-lent to the Bank. The Notes are intended to count as MREL at the Issuer Group level and the on-loan is intended to count as MREL at Banking Group level. This will further strengthen the Bank's loss absorbing capacity base. The net proceeds received by the Bank will be used by the Bank for general corporate purposes.

OVERVIEW OF THE ISSUER

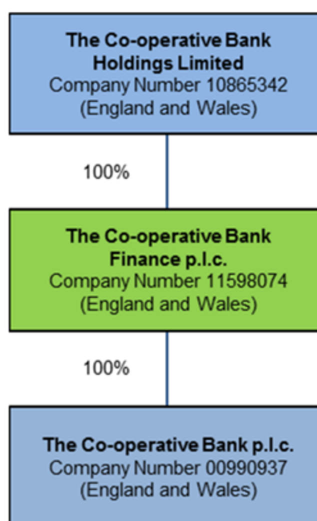
Date of incorporation, registered address, share capital

On 1 October 2018, The Co-operative Bank Finance Limited (previously known as Balloon Street IssuerCo Limited) was incorporated as a private company limited by shares in England and Wales with registration number 11598074. The Co-operative Bank Finance Limited was as at the date of its incorporation, and continues to be as at the date hereof, a wholly owned subsidiary of the Holding Company.

On 11 February 2019, The Co-operative Bank Finance Limited was registered in the register of members of the Bank as the holder of the entire issued share capital of the Bank. The Co-operative Bank Finance Limited was subsequently re-registered as The Co-operative Bank Finance p.l.c., a public company limited by shares, on 18 March 2019, in accordance with the procedure set out in sections 90 to 96 (inclusive) of the Companies Act 2006. The main purpose of the Issuer is to facilitate the issuance of the Notes and future issuances of capital and MREL, to operate as the entity subject to regulatory resolution powers for the Issuer Group and to act as a holding company holding the shares in the Bank.

The Issuer has its registered office at PO Box 101, 1 Balloon Street, Manchester M60 4EP, United Kingdom. The telephone number of the Issuer's registered office is +44 161 832 3456. The Issuer's website address is https://www.co-operativebank.co.uk/. Any information contained on the Company's website does not form part of this Prospectus unless explicitly incorporated by reference into this Prospectus. The issued share capital of the Issuer comprises 9,029,130,201 ordinary shares of nominal value £0.0001 each. The share capital of the Company is fully paid-up.

The current group structure is set out below:



No assets other than holding of Bank shares and on-loan of proceeds of the Notes

As at the date of the Prospectus, the Issuer has (i) no assets other than the sum of £536,457,247 representing its investment holding in Bank shares, the investment in Tier 2 notes issued by the Bank using the proceeds of the 2019 Tier 2 issuance and, upon their issue, the investment in MREL Notes issued by the Bank using the proceeds of the Notes and (ii) no liabilities other than the Notes (upon their issue), the 2019 Tier 2 issuance and equity (being fully paid-up share capital and share premium).

Directors

The articles of association of the Issuer as in force as at the date of the Prospectus provide that, unless otherwise determined by an ordinary resolution of the Issuer, the number of its directors shall comprise a maximum of twelve. The articles of association of the Issuer entitles its sole member to designate any two directors as B Directors (as defined therein) and for the membership of the Board to at all times be comprised of up to two B Directors, a majority of independent directors (including the chairman of the Board of directors of the Issuer)

and the chief executive officer and may include the chief financial officer and/or the chief operating officer of the Issuer from time to time.

The boards of the Issuer and the Bank are comprised of the same directors. The directors of the Issuer as at the date hereof, and their correspondence addresses, are as follows:

No	Director	Designation	Correspondence Address
1.	Robert "Bob" Graham Dench	Chairman	PO Box 101, 1 Balloon Street, Manchester M60 4EP, United Kingdom
2.	Nicholas “Nick” Stuart Slape	Chief Executive Officer	PO Box 101, 1 Balloon Street, Manchester M60 4EP, United Kingdom
3.	Morteza Mahjour	B Director	PO Box 101, 1 Balloon Street, Manchester M60 4EP, United Kingdom
4.	Derek James Weir	Senior Independent Director	PO Box 101, 1 Balloon Street, Manchester M60 4EP, United Kingdom
5.	Glyn Michael Smith	Non-Executive Director (independent)	PO Box 101, 1 Balloon Street, Manchester M60 4EP, United Kingdom
6.	Sir William “Bill” Gennydd Thomas	Non-Executive Director (independent)	PO Box 101, 1 Balloon Street, Manchester M60 4EP, United Kingdom
7.	Suzan "Sue" Harris	Non-Executive Director (independent)	PO Box 101, 1 Balloon Street, Manchester M60 4EP, United Kingdom
8.	Sally-Ann Hibberd	Non-Executive Director (independent)	PO Box 101, 1 Balloon Street, Manchester M60 4EP, United Kingdom
9.	Christopher "Chris" David Davis	Chief Operating Officer	PO Box 101, 1 Balloon Street, Manchester M60 4EP, United Kingdom

The Issuer is not aware of any potential conflicts of interest between the duties to the Holding Company Group of each of the members of the Board listed above and his private interests or other duties.

Accounting and expected reporting cycle and date of first expected published accounts

The accounts of the Issuer were prepared for the three month period from incorporation to 31 December 2018, for the year to 31 December 2019 and for the six months ended 30 June 2020 and consolidated with those of the Holding Company Group. The Issuer has not conducted any trading activities since its incorporation. The auditors for the Issuer are Ernst & Young LLP.

Shareholders

The issued share capital of the Issuer comprises 9,029,130,201 ordinary shares of nominal value £0.0001 each. The share capital of the Issuer is fully paid-up and is held in its entirety by the Holding Company.

OVERVIEW OF THE BANK

The business of the Bank has a history dating back to 1872 as the original "Loans and Deposit" department of Co-operative Wholesale Society Limited. Since its establishment, the Bank's aim has been to provide an ethical alternative to larger competitors.

The Bank's vision is to be an efficient and financially sustainable UK retail and Small to Medium sized Enterprises ("**SME**") bank that is distinguished by its values and ethics. These are underpinned by an Ethical Policy which has been developed over 25 years and is unique within the UK banking market in that it is customer-led.

As at 30 September 2020, the Bank had total assets of £24,685.7 million (£23,435.5 million as at 31 December 2019) and approximately 3.4 million customers which are serviced through a network of 68 branches, two customer contact centres and digital banking channels (online and mobile banking). The Bank is based in Manchester and employed 3,228 people as at 30 June 2020 across the UK. The Bank's core brand is "The Co-operative Bank", and it also operates through intermediary mortgage brand "Platform", "Britannia", and "smile", offering a customer-centric product range that is simple, clear, fair and transparent. The Bank announced in August 2020 a proposal to reduce its number of roles by around 350 and its network of branches by 18 to 50, which it expects to implement before the end of 2020.

The Bank focuses on three market segments in the UK market:

Retail Deposits –

- Personal current accounts for retail customers
- Fixed and variable saving products for retail customers

Retail Assets -

- Residential and buy to let mortgages for retail customers
- Home insurance (referral service only)
- Personal loans, credit cards and overdraft facilities for retail customers

SME Banking –

- Business current accounts, deposits and lending tailored to small and medium sized businesses

Rating

The Bank is currently rated B- (long-term senior unsecured, rating watch negative) and B (short-term) by Fitch; and B3 (long-term senior unsecured rating, stable outlook) and NP (short-term) by Moody's. The Issuer is rated Caa1 by Moody's (long-term and stable outlook) and NP (short-term). The Notes are expected to be rated Caa1 (outlook stable) by Moody's.

HISTORY AND DEVELOPMENT

1872: The Bank was formed as the banking department of the Co-operative Wholesale Society Limited ("**CWS**").

1970: The Bank was incorporated as a separate legal entity, The Co-operative Bank Limited.

1973: Transfer of the business of the banking department of the former Scottish Co-operative Wholesale Society to the Bank.

1975: The Bank obtained clearing bank status.

1981: The Bank re-registered under the Companies Act 1980 as a public company.

1992: The Bank launched its unique customer-led Ethical Policy defining the types of businesses it would invest in.

1993: The Bank re-registered in its present name.

2001: CWS changed its name to Co-operative Group (CWS) Limited.

2007: Co-operative Group (CWS) Limited changed its name to Co-operative Group Limited following the merger with United Co-operatives Limited.

2009: The Bank merged with Britannia Building Society. The retail residential lending and savings franchise transferred from Britannia and the pre-merger businesses of the Bank continue to trade as separate businesses under the "Britannia", "The Co-operative Bank" and "smile" brand names respectively.

2013: To meet a £1.5 billion "**CET1**" capital shortfall, Co-operative Group and the Bank completed a recapitalisation plan (the "**2013 Recapitalisation Plan**"), announced on 17 June 2013, which included: the "**2013 Liability Management Exercise**"; CET1 capital contributions from Co-operative Group subsidiary, the Co-operative Banking Group ("**CBG**"); and interest savings on securities surrendered in the 2013 Liability Management Exercise.

2014: During 2014, the Bank improved its capital position by successfully raising an additional £400 million of CET1 capital in May 2014.

2015-2016: The Bank successfully implemented a number of key turnaround measures, including: (i) significant Non-core Business de-leveraging; (ii) reductions in the Bank's operating base; (iii) addressing legacy conduct issues; and (iv) successfully remediating a breach of FCA Threshold Conditions (relating to non-compliance in relation to the Bank's IT systems recoverability) confirmed by the FCA in 2017.

2017: The Bank completed a further liability management and capital-raising exercise with existing investors that generated an additional £712.5 million of CET1 (before costs), including £250 million of new CET1 (the "**Restructuring and Recapitalisation**"). This activity significantly improved the Bank's CET1 ratio and total capital ratio to 24.7 per cent. as at 31 December 2017. The activity also included the creation of a newly incorporated, private holding company, the Holding Company, which at the time owned 100 per cent. of the Bank's shares.

The Bank completed a programme of activity to further embed a robust Risk Management Framework and governance oversight, and further improved its capital resilience through further non-core deleveraging.

2018: The Bank accessed £960 million of TFS funding, supporting positive new mortgage lending growth.

The sectionalisation of the Bank's share of the Pace pension scheme was completed, marking a key step towards full separation from Co-operative Group.

A new Chairman, Chief Executive Officer (CEO) and Chief Financial Officer (CFO) were appointed, together with a renewed executive leadership team. The board agreed on the 2019 Plan.

2019: The Bank focused on the implementation of a multi-year transformation. Through delivering the Bank's strategy and 2019 Plan (as described below), the Bank aimed to improve profitability, and meet regulatory and loss absorbing capacity requirements. The Issuer (the Bank's parent company) completed the 2019 Tier 2 issuance in April 2019. The Bank received a 2.15 per cent. reduction as at December 2019 (equivalent to a £102 million reduction in the Bank's total capital requirement as at December 2019) in its individual capital requirement as a result of its 2019 capital supervisory review and evaluation process, reducing from 8.69 per cent. to 6.54 per cent. of RWAs. The board agreed the updated Plan.

2020: Full IT separation from Co-operative Group completed in January 2020. The Bank performed a re-forecast of its 2019 Plan in response to the more uncertain and challenging economic and operating environment for UK banks caused by the emergence of the Covid-19 pandemic.

The Bank repaid its full £960 million of TFS funding outstanding whilst simultaneously drawing down £1 billion of TFSME scheme funding. The Bank announced it was reducing around 350 roles, including the closure of 18 branches, to support cost reduction activity and manage the operating impacts emerging from Covid-19.

STRATEGY AND STRENGTHS

Summary

The Bank's strategy aims to enable it to realise its vision to be an efficient and financially sustainable UK retail and SME bank that is distinguished by its values and ethics.

The multi-year transformation plan, which is embedded within the Plan, focuses on investment in developing digital customer propositions, enhancing competitive products, and nurturing existing branch and telephony distribution channels to build sustainable competitive advantage. This comprises three phases:

1- *"Fix the basics"*- In 2019, the Bank focused on continuing to energise and engage its loyal customer base through its ethical brand and customer-first approach to service. The Bank further invested in its digital capability and concluded the separation of all IT systems from Co-operative Group in January 2020. This activity was critical to the Bank maintaining operational performance following the emergence of Covid-19 in 2020.

2- *"Enable the future"*- Since the beginning of 2020, the Bank has begun to build on opportunities for growth across the product portfolio, whilst also simplifying and rationalising its supplier base and IT platforms.

3- *"Establish sustainable advantage"*- From 2022, the Bank aims to gain a sustainable, long-term competitive advantage from delivery of its strategy and Plan, which is expected to deliver an improved operating cost: income ratio, a strong capital position and resilient Net Interest Margin ("**NIM**").

The strategy and Plan were agreed by the board in December 2018 and were updated in December 2019 (the "**2019 Plan**") to cover the period from 2020 to 2024.

Following the global outbreak of the Covid-19 pandemic, the Bank performed a re-forecast of its 2019 Plan in H1 2020 which was approved by the Board in July 2020 (the "**Plan**"). The Plan sets out an updated outlook over the 2020-24 planning period founded on a base set of economic assumptions. The Plan includes significant management action to reduce costs and investments in order to offset greater income and impairment risks that have arisen due to deterioration in actual and expected economic conditions as a result of the Covid-19 pandemic, as described further in the "emphasis of matter" paragraph in the Holding Company's H1 2020 Interim Report.

Through delivering the Bank's strategy, the Bank aims to improve profitability and achieve, in the longer term, compliance with all regulatory capital requirements, including its PRA buffer guidance, within the Plan period.

Co-operative values and ethics continue to be at the heart of the business

As 'the original ethical bank,' the Bank's customer-led Ethical Policy has been central to the way it has done business for over 25 years. At a time when environmental and ethical concerns are of increasing importance for consumers, the Bank's commitment to values and ethics is at the heart of everything it does.

The Bank's distinctive ethical brand has its heritage in the value and ethics of the co-operative movement and is defined by its customer-led Ethical Policy. The policy has been in place since 1992 and for over 25 years has represented a clear point of difference that sets the Bank apart from its competitors, and the Bank remains the only UK high-street bank with a customer-led Ethical Policy. The policy has evolved in consultation with over 320,000 customer responses and reflects all aspects of the Bank's business, from its products and services, its workplace and culture, its relationships with suppliers, and its impact on the environment, to the causes which the Bank supports and its involvement in local communities. The Ethical Policy continues to be a key reason customers join the Bank. The Bank continues to promote its unique customer-led ethical banking brand as an attractive option to a broad audience of retail and SME customers, who are seeking an ethical banking provider.

Environmental commitments have always been part of the Bank's Ethical Policy and the Bank continues to refuse banking services to businesses who contribute to climate change through the production or extraction of fossil fuels. In 2019, the Bank further committed to reducing its own impact on the environment by aiming to send zero waste to landfill by the end of 2020.

In addition the Bank has been 'beyond carbon neutral' since 2007, taking steps to reduce its carbon footprint as much as possible by sourcing electricity from renewable energy suppliers and reducing business travel. The Bank reduced its carbon emissions by more than 25% in 2019 and any residual carbon emissions is offset by supporting environmental projects around the world.

Values and ethics are embedded through the product range. One example of this is the Everyday Rewards scheme which gives eligible current account customers the option to donate their monthly earned rewards to one of five charity partners. The Bank has continued its work to end youth homelessness in partnership with the leading young people's homelessness charity Centrepoint and made a donation to the charity for every mortgage product sold. Together with colleagues and customers the Bank has raised £1.5 million to tackle this key social issue, helping fund a national helpline for Centrepoint, and a specialist helpline service based in Manchester. The Bank continues to support local charities and organisations through the Customer Donation Fund, donating £99,948 to 106 community projects in 2020. Since the scheme started in 2003, almost £937,000 has been shared by 1072 community organisations.

The co-operative heritage and commitment to the values of the co-operative movement continue to be key for the Bank's customers and remains central to the Bank's strategy. The Bank's 2016 "My money, my life" campaign in partnership with domestic abuse charity Refuge resulted in the launch of a new banking industry code of practice for customers affected by financial abuse, demonstrating the impact of the Bank and its customers' campaigning activity. In 2020, the Bank worked with Refuge to revisit and expand upon its previous findings to examine the impact of Coronavirus and lockdown, and investigate the impact that digital banking and online transactions might have on patterns of economic abuse.

Standing up for human rights has been a key commitment within the Bank's customer-led Ethical Policy, since its launch in 1992. In 2019, the Bank renewed its long-standing partnership with Amnesty International UK by sponsoring Rise Up, a programme to develop human rights defenders of the future. The Bank also promoted Amnesty International UK's Write for Rights campaign to customers and colleagues, resulting in over 8,500 letters of support to individuals standing up for human rights issues in the UK and around the world.

The Bank was founded on co-operative values and remains committed to supporting the co-operative movement. Working in partnership with Co-operatives UK, the Bank has committed to supporting 'The Hive' until at least 2023, a business support programme for new and existing co-operatives, which has now helped over 900 groups across the UK since its launch in March 2016.

The Bank aims to support customers through the channels of their choice.

With increasing numbers of customers adopting digital services, internet and mobile banking applications will become the digital access point to the Bank's ethical proposition. Key customer journeys will be digitally enabled to ensure customers experience real time, convenient banking which meets their expectations. The branch network will represent the physical access point to the Bank's ethical banking proposition and focal point for the Bank's role in local communities. The branch network is empowered to manage local markets and engage with local communities. Customer contact colleagues will continue to support customer needs for advice, empathetic support and complex problem solving.

Award winning customer service and products driving a loyal customer base

The Bank's customer-facing colleagues provide award winning service to customers every day, through the branch network and telephony channel. In January 2020, the Bank was awarded 'Branch Network of the Year' by Moneyfacts for the third year running reflecting the service that branch colleagues provide to customers. This followed recognition at the Moneywise Consumer Service Awards in June 2019 when the Bank won the title of 'Most Trusted Mainstream Bank' and was awarded Highly Commended for 'Best Branch Service' and 'Best Contact Centre Service'. The Contact Centre Association (CCA) continues to recognise the service the Bank provides. In 2018 the Bank received four accolades from the CCA, including a 'Highly Commended' for Innovation in Customer Service and multiple awards for the Leadership Team, including 'Director of the Year', and two awards in 2019 for Innovation in Leadership and Member of the year. This is recognition of the Bank's leadership and employees who drive the Bank's customer first approach.

The Bank also offers a multi-award winning range of products meeting its customers' needs. The "Everyday Rewards" current account achieved Recommended Provider status from consumer organisation Which? and also received a Fairer Finance gold ribbon award. The Bank was awarded winner of the 'Best Current Account Provider' at the 2020 Moneyfacts awards earlier this year. The Bank's three core SME current account products are rated Five Stars by Moneyfacts and the Bank was recently voted Moneyfacts Best Charity Bank for the fifth

consecutive year. The Bank was also awarded "Changing Lives in the Community' award at the UK Card & Payments Awards earlier in 2020.

The Bank's loyal customer base is a testament to its ethical and customer-first service approach.

Committed colleagues and effective leadership

The Bank has committed colleagues, demonstrated through consistently strong colleague engagement survey scores. The customer-facing service colleagues provide outstanding service to the Bank's customers every day as evidenced above.

Bob Dench joined the Bank Board in February 2018 and was appointed Chairman of the Bank in March 2018. Subsequently, Andrew Bester was appointed as Chief Executive Officer in July 2018, Nick Slape was permanently appointed as Chief Financial Officer in January 2019, having been appointed as interim Chief Financial Officer in 2018. Nick Slape was appointed to the role of Chief Executive Officer, following the resignation of Andrew Bester, from 31 October 2020 after Andrew Bester stepped down in early October. Chris Davis joined the Bank as Chief Operating Officer in June 2019. A renewed executive team has been established with the experience and industry knowledge required to lead the Bank, drive the strategy and deliver the Plan.

De-risking and separation from Co-operative Group

In 2017, the Bank successfully migrated the majority of its operational IT systems from the IT systems of Co-operative Group. The Bank also completed a further Optimum (as defined below) de-leveraging transaction in 2017 to improve further capital resilience subsequent to the 2017 Restructuring and Recapitalisation. Furthermore, the Bank continued a programme to further embed its Risk Management Framework- thereby improving its control and governance.

In 2018, the sectionalisation of the Pace pension scheme, which was previously a joint scheme with Co-operative Group, was successfully concluded and reflected in the 2018 Annual Report and Accounts. The significant de-risking measures described above and Bank performance enabled the Bank to meet its TCR in 2018- a position it has maintained, and plans to maintain over the planning period in addition to other regulatory and loss absorbing capacity requirements.

In 2019, the Bank completed a fourth Optimum de-leveraging transaction and in January 2020 concluded full IT separation from the Co-operative Group's systems.

The de-risking activity completed to date provides the Bank with a capital position from which to deliver its strategy and the Plan (as defined below).

Strategic Plan (the "Plan")

The Bank maintains an annual planning cycle. The Bank adopted its 2019 Plan in December 2018 following its approval by the Board. The 2019 Plan, a five year strategic business plan covering the period from 2019 to 2023, was updated in December 2019 (as so updated, the "**2019 Plan**") to cover the period from 2020 to 2024 and aims to give effect to the Bank's vision to be an efficient and financially sustainable UK retail and SME Bank that is distinguished by its values and ethics.

Following the global outbreak of the Covid-19 pandemic, the Bank performed a re-forecast of its 2019 Plan in H1 2020 which was approved by the Board in July 2020 (the "**Plan**"). The Plan sets out an updated outlook over the 2020-24 planning period founded on a set of base economic assumptions. The Plan includes significant management action to reduce costs and investments in order to offset greater income and impairment risks that have arisen due to deterioration in actual and expected economic conditions as a result of the Covid-19 pandemic, as described further in the "emphasis of matter" paragraph in the Holding Company's H1 2020 Interim Report.

The key financial pillars of the Plan, as adopted, include: (i) improving revenues and NIM; (ii) reducing operational costs to improve the operating cost:income ratio ("**CIR**"); (iii) investing resources to unlock future growth and de-risk the future of the Bank (iv) maintaining CET1 requirements, Leverage Ratio requirements, TCR and OCR, and achieving interim and end-state MREL requirements by 1 January 2022; and (v) meeting the Bank's PRA buffer guidance within the planning period. As the Bank currently meets its OCR, it does not require PRA approval of the Plan.

The key capital and operational components of the Plan and accompanying assumptions include, but are not limited to:

- increasing the Bank's mortgage assets. The remainder of the customer assets are not expected to grow significantly, such as Unsecured Loans, Credit Cards and Corporate, which means that growth in the customer balance sheet is expected to be driven through increased mortgage lending, primarily through Platform. The Bank continually reviews options to maximise revenue streams across the asset base whilst improving the current product and service offering for customers;

  - maintaining levels of customer liabilities in the near term, where growth in SME balances is offset by the run off of more expensive term deposits as the Bank seeks to lower its cost of retail funding in a low interest rate environment, made possible as a result of the availability and access of Term Funding Scheme with Small and Medium Size Enterprise incentives ("**TFSME**") funding. SME growth is driven by both expected utilisation of the RBS alternative remedies package, capability and innovation fund investment and an improvement in the Bank's product offering and servicing. From 2023, a return to growth in retail liability balances is targeted as the Bank seeks to prepare for TFSME refinancing starting in 2024;

  - initial stabilising of NIM before growing in future years driven by Bank of England base rate rises, and continued growth of low cost SME liabilities. NIM stabilisation is supported by the availability and access of TFSME funding at, or close to, base rate interest rates, alongside reduction in the cost of retail deposits driven by pricing activity following the Bank of England base rate cuts in March 2020, and a switch in the mix of liability funding, where more expensive term deposits decrease.

  - reducing the Bank's operating cost base, thereby improving the Bank's operating cost: income ratio. The cost base is expected to reduce in 2020 as identified cost reduction initiatives such as the proposed organisational redesign reducing role numbers by around 350 and the branch network by 18 more than offset continued investment into the Bank's franchise;

  - maintaining a low risk and strong credit quality asset portfolio. The Plan does not assume growth in the Unsecured Loans, except for steady growth in Credit Cards post 2021 and BAU SME (standard SME lending products excluding BBLS and CLBILS) assets as the Bank seeks to diversify its offerings and help support income growth. Total SME asset balances decline marginally beyond 2020, as BAU SME asset growth replaces government backed SME lending throughout 2020, via the BBLS and CLBILS programmes introduced to support the economy during and after the Covid-19 pandemic. Due to the steady growth in these products and, coupled with a strong credit quality mortgage portfolio, the Bank continues to assume a low projected asset quality ratio relative to its peers. However, an expected deterioration in economic conditions foresees impairments rising in the early years of the Plan. The Plan assumes no further redress and associated remediation costs are required for any conduct risk issue above existing conduct risk provisions;

  - delivery of the Bank's reprioritised strategic projects on time and to budget, with the majority of investment in project expenditure expected in the early years of the Plan. A number of key deliverables have already been delivered such as the full IT separation from Co-operative Group and the completion of the Desktop Transformation Programme (as defined below). Key deliverables the delivery of enhanced SME capability, supported by C&I funding, along with other revenue generative initiatives, and completion of a number of regulatory and mandatory projects; and

  - completing further MREL-qualifying debt issuances within the planning period. The issuance of this debt is critical in delivering and maintaining final MREL compliance requirements.

A summary of the key targets for the years ending 2020 and 2024 are outlined in the table below[2]:

Plan Targets	2019 Actual	End of year 2020 Targets(5)	End of year 2024 Targets(5)
NIM(1)	1.75%	140-145bps	170-180bps
CIR	106%	110-115%	65-75%
Franchise Investment(2)	£147m	£40-£45m	£20-£25m
Asset Quality Ratio(3)	(1bp)	10-15bps	5-10bps
CET1 Ratio	19.6%	16-17%	19-20%
Core Customer Assets	£16.8bn	£18-£18.5bn	£20-£21bn
TCR and CRD IV Buffers	Compliant	Maintained	
MREL (Interim and Final)(4)	N/A	Maintained	
PRA Buffer guidance	Not met	Targeted within the Plan period	

(1) NIM is calculated as total net interest income over average gross customer assets.
(2) Franchise Investment is cash spend excluding capitalisation. Franchise investment includes both above and below the line spend, of which above the line spend only is included within the operating cost:income ratio calculation.
(3) Cost of Risk is calculated as impairments divided by gross loans and advances.
(4) If the Notes are not issued the Bank may be double-counting CET1 toward its MREL and CRD IV Buffer requirements in 2020. This scenario would be contrary to PRA expectations and may lead to a risk that the PRA may, at its discretion, elect to exercise one or more of its various powers over the Bank. This could include increased regulatory attention or requirements, restriction of distributions on CET1 and Additional Tier 1 capital, a variation of the Bank's permissions, restricting the Bank's business or imposing a write down of the Issuer's and/or Bank's regulatory capital instruments. The principal remedy to any double-counting of CET1 towards MREL and CRD IV Buffer requirements in 2020 is the issue of the Notes.
(5) Targets are based on assumptions that the Bank's management considers to be reasonable and involve risks and uncertainties that could cause actual events, results or conditions to differ materially from those expressed or implied.

The Plan was based on a number of key assumptions, forecasts and targets not limited to the above relating to a variety of factors within and outside of the control of the Bank and the Bank's prospects of implementing its strategy are sensitive to those factors.

The principal economic assumptions that the Plan was based on include but are not limited to the key assumptions below that the Bank's management considered to be reasonable:

- First UK Bank of England base rate rise to 0.25 per cent. in May 2022, rising to 0.75 per cent. by 2024;
- UK enters recession in Q2 and GDP falls 27% from Q4 2019, before rebounding strongly in Q3 2020;
- UK GDP declines by 14.3 per cent. p.a. in 2020 before rebounding 15.1 per cent. p.a. in 2021;
- UK Unemployment rises to peak of 10 per cent. in Q3, declines to 6 per cent. by the end of 2021 and further to 3.5 per cent. by 2024; and
- UK house prices fall 8 per cent. year-on-year in 2020. UK house price growth returns in Q1 2021, where prices rise 2 per cent. in 2021 and 4 per cent. in 2022-24.

As a result of the Covid-19 pandemic and the subsequent reductions in the Bank of England base rate in 2020, which were unforeseen at the time of setting of the 2019 Plan, the Bank has revised downwards previous targets on NIM in 2020 by 10-15bps in the Plan. After an initial stabilisation period, the Bank continues to project a recovery in NIM in the later years of the Plan, supported by future increases in the Bank of England base rate, alongside continued growth in low cost SME funding.

The cost:income ratio has been revised upwards in 2020 in the Plan due to the income pressures expected in a lower rate environment, however the upward revision is partly offset by cost actions taken by management following the Covid-19 pandemic. In August 2020, the Bank announced proposals to reduce around 350 roles,

[2] These targets are not statements of historical fact nor are they forecasts or guarantees of future performance. Rather, they are based on current management views and assumptions that involve known and unknown risks, uncertainties and other factors that are subject to change and which may cause the actual results, performance, achievements or developments of the Bank or the industry in which it operates to differ materially from any targeted future results, performance, achievements or developments expressed or implied from the forward looking targets. These targets have not been subject to an audit by the Bank's accountants or any other professional advisers.

including the closure of 18 branches. Aside from the specific branches affected, the reduction in roles focussed on middle management positions and head office roles.

The Bank's re-forecast CET1 ratio guidance remains broadly unchanged on the FY 2019 guidance, where continued NIM compression is offset by management action to reduce costs and investments.

The Bank's MREL requirement increased to £200 million over TCR in July 2019. Any delay to the timing of issuing the Notes (as MREL qualifying debt) due to the market impact from Covid-19 or other factors could cause the Bank to double-count CET1 toward this requirement and the CRD IV buffer which would be contrary to PRA expectations. This double-counting would be mitigated through issuances of the Notes, as MREL qualifying debt.

While the Bank continues to focus on delivering the next phase of its transformation plan, its ultimate shareholders are likely to consider any strategic exit opportunities that may emerge, especially in light of the Bank's achievements of the year ended 31 December 2019 and the 9 months ended 30 September 2020, and the challenging sector-wide operating environment created by the emergence of the Covid-19 pandemic. The Bank has recently attracted an approach from a financial sponsor with knowledge and experience of investing in European financial services businesses regarding the possibility of a sale of the Bank and/or the Holding Company. The Bank has instructed its professional advisers to assist with the provision to this financial sponsor of relevant information to help assess the prospects of this approach. The Bank is in consultation with its ultimate shareholders on an ongoing basis, including in relation to a letter received by the Bank from this financial sponsor containing a non-binding offer. The Bank continues to be in discussions with this financial sponsor, although such discussions remain at a preliminary stage. There can be no certainty that discussions with this financial sponsor will progress further, or that any binding offer will be forthcoming nor whether the Bank's ultimate shareholders will find the terms of a binding offer (if any) acceptable. Even if an acceptable binding offer were to be received, there can be no certainty that such a sale would proceed. The Bank remains committed to delivering its agreed strategy, returning to sustainable profitability, and this includes issuing MREL-qualifying debt through the issuance of the Notes.

BUSINESS OVERVIEW

PRODUCT OFFERING

The Bank operates through "The Co-operative Bank", "Britannia" and "smile" brands, together with the Bank's intermediary mortgage brand, "Platform", offering a customer-centric product range that is simple, clear, fair and transparent.

Retail Deposits

Current Accounts

As at 30 September 2020, the Bank had 'franchise' current account balances of £5.1 billion (£4.3 billion as at 31 December 2019), with approximately 605,000 primary current accounts (being accounts that turnover £800 or more per month on average) (31 December 2019: 618,000).

The Bank offers a standard current account which can include "Everyday Rewards" where customers receive a monthly financial reward based on usage. In addition, the Bank also offers a basic current account called "Cashminder", directed at simple, in-credit banking. The Bank also maintains a book of historical packaged, fee-paying current accounts which are not presently part of the Bank's on-sale product range. Building on the "Everyday Rewards" current account product and overdraft proposition, the Bank developed a new packaged current account called "Everyday Extra" which launched on 26 April 2017.

The Bank's Current Account strategy is to retain existing current account customers and achieve targeted further growth through its ethical brand positioning, re-vitalised branch network and improved digital channel functionality.

Savings

As at 30 September 2020 the Bank had £17.1 billion of retail customer deposit balances (£16.7 billion as at 31 December 2019), including current account balances.

Since 2013, the Bank has re-oriented its savings product balances from fixed-term deposits to 'franchise' variable rate deposits. The Bank intends to continue with a variable rate access products bias in its savings product strategy within the Plan.

The Bank's fixed rate savings accounts earn a fixed rate of interest for a chosen term and funds therein cannot be withdrawn until maturity (without incurring interest rate penalties), except in exceptional circumstances.

The Bank's savings strategy is to grow the Bank's market share of deposit balances, through offering a savings proposition which focusses on retention and deepening existing customer relationships. The Bank intends also to attract customers who find ethical banking to be an appealing proposition. The Bank seeks to develop new product propositions and provide enhanced service, with a focus on digital in line with changing customer and business needs.

To support savings growth, systems transformation activity is expected to deliver a new, single platform in 2021-2022, at which point all new savings business is expected to be offered under The Co-operative Bank brand for the first time. All new savings business is expected to provide smooth account opening and servicing journeys for customers.

Retail Lending

Mortgage Lending and Insurance

As at 30 September 2020, the Bank had a total outstanding mortgage portfolio of £3.6 billion issued under the Co-operative Bank brand and the Britannia brand (£4.1 billion as at 31 December 2019) and a total outstanding mortgage portfolio of £12.9 billion issued under the Platform brand (£12.2 billion as at 31 December 2019). As at 30 September 2020, the Bank's total issued residential mortgage lending secured on residential property (excluding buy-to-let) was £15.2 billion and the total buy-to-let mortgage portfolio was £1.3 billion.

During the nine months ended 30 September 2020, the Bank's total new mortgage completions amounted to £2.2 billion and total mortgage balances increased from £16.3 billion to £16.5 billion.

The Bank's mortgage lending supports its customers' home ownership aspirations and needs throughout their different life stages. Lending can take the form of either prime residential lending (where the borrower is the owner and occupier of the mortgaged property and meets the Bank's credit requirements for prime lending) or buy-to-let lending (which are loans advanced to borrowers who intend to let the mortgaged property).

The Bank currently offers fixed rate and variable rate mortgages. Fixed rate mortgages have a set rate for an initial set period, after which the rate either reverts to the Bank's standard variable rate (which is set at the Bank's discretion), or a rate linked to the Bank of England base rate.

The Bank's fixed rate mortgages currently offer a term of two, three or five years, with the fixed rate charged determined by the loan-to-value ratio and fixed rate duration of the mortgage in question.

As part of the Bank's strategy, the Bank intends to continue to offer a simple range of mortgage products without complex features and consistent with its risk appetite and market conditions. Since 2018, the Bank has been active in new segments of the lending market such as Help to Buy mortgages. Customer mortgages are currently originated exclusively through authorised brokers or intermediaries.

Platform operates a dedicated brand within the UK intermediary market and is focused on prime residential mortgages and buy to let lending. This offers flexibility to the Bank in terms of market participation, product and pricing and, given the specialist nature of the broker market, this approach enables the Bank to access segments of the mortgage market that would be harder to reach through The Co-operative Bank brand alone. Intermediaries range from large UK companies (including Legal & General and Openwork) to small independent mortgage advisers. Through Platform, the Bank holds extensive relationships with intermediaries across the UK.

In the market as a whole, intermediated lending accounted for an estimated 73 per cent. of all regulated mortgage lending in 2019. Intermediary lending is expected to remain the Bank's primary retail mortgage origination channel, with a diversified product offering and transformation and service improvements expected to deliver net lending growth over the life of the Plan. This platform will form the foundation for further development and transformation work enabling the delivery of future mortgage lending growth.

A significant priority has been to provide support for our customers during the Covid-19 pandemic, particularly those customers who are, or may be, facing financial difficulties. In the nine months ended 30 September 2020, the Bank approved over 17,000 three month mortgage payment deferrals (c.12 per cent. of retail and c.25.0 per cent. of Optimum Portfolio customers). Only c19.0 per cent. of the original population was granted a second three month mortgage deferral from July to September.

The Bank, WMS, Capita and Securitisation Servicing Entities entered into a Master Services Agreement on 1 August 2015 (the "**Capita (WMS) Agreement**"), which was subsequently updated in 2019 embedding agreed principles to enhance service levels for the Bank's mortgage customers. Under the Capita (WMS) Agreement the Bank outsourced the majority of its mortgage processing for its mortgage portfolio to WMS (including mortgage operations, contact centre and arrears). The Bank retained a number of more sophisticated operational activities, including retail sales (which are advised sales), manual underwriting, buy-to-let mortgage applications, unresolved complaints and administration and arrears in relation to sensitive and vulnerable customers. The mortgage operations unit manages and oversees the outsourced mortgage operation, which largely operates on Capita-owned IT systems (see "Material Contracts" for further information).

The Bank continues to offer a home insurance proposition through a referral arrangement with Legal & General.

Unsecured Lending

The Bank's unsecured lending portfolio consists of credit cards, personal loans and overdraft facilities. The Bank currently offers a small range of credit cards to existing customers who hold a current account and an overdraft proposition to both existing and new customers.

The Bank continually evaluates its unsecured proposition to provide customers with a broader range of lending options whilst driving effective commercial performance.

Credit cards

As at 30 June 2020, the Bank had approximately 340,000 retail credit card accounts of which approximately 227,000 were active during the month of June 2020 (in that the relevant account recording a debit or a credit

during that month constituted activity for these purposes). As at 30 September 2020, the Bank's retail credit card portfolio contained receivables of £0.2 billion.

The Bank markets and processes credit card applications itself (using its credit scoring system), and credit card holders receive differing credit limits, depending on their credit score. Credit limits are regularly reviewed in line with customer need and risk appetite.

Overdrafts

Overdrafts are offered to customers with current accounts with the Bank. In line with peers in the market, the Bank offers two types of overdraft; arranged overdrafts and unarranged overdrafts. Arranged overdrafts are where an overdraft is requested by the customer and agreed to in writing by the Bank. Arranged overdraft facilities are reviewed each year.

Unarranged overdrafts are where a customer pays or withdraws money from their account, either in excess of their credit balance where no arranged overdraft has been agreed or in excess of their overdraft limit where it has been agreed.

As at 30 September 2020, the Bank had arranged and unarranged overdraft chargeable balances (excluding undrawn commitments and accounting adjustments) of approximately £14.3 million (reduced from £21.8 million as at 31 December 2019).

Personal unsecured loans

The Bank exited the direct loans market in April 2018. In November 2019, the Bank launched a loans proposition through a strategic partnership with Freedom Finance. The Bank acts as a credit broker with customers being introduced to a provider from a chosen panel of lenders. The loans are not completed on to the Bank's balance sheet.

SME Banking

The Bank currently serves over 89,000 customers as at 30 September 2020, the majority of which are smaller UK businesses and community organisations. The Bank offers an award winning set of business current accounts which is supported by a simple savings proposition. As at 30 September 2020, the Bank had £2.8 billion of SME customer deposit balances. The Bank also offers a lending proposition for SME customers, offering a charge card to help businesses with cash flow management, a simple overdraft proposition, and a variable rate loan proposition for lending up to £250,000.

In the first half of 2020, the Bank also added loans and overdrafts under the CLBIL and BBL schemes to its SME lending product set in order to support customers through the Covid-19 pandemic. The Bank is also an accredited lender under the CLBIL scheme which supports larger SMEs impacted by Covid-19 and enables the Bank to offer support to our larger relationship managed SME customers through this scheme. As at 30 September 2020, the Bank had £0.4 billion loans outstanding to SME customers, including CLBILS, BBLS and CLBILS assets.

The Bank's primary service channel for its SME customers is its online banking platform, which 60 per cent. of its customers use regularly. This is supported by a telephony service team and 68 branches to satisfy customers' transactional needs. Like its personal customers, SME customers can also access the Post Office network as an additional transactional channel.

The Bank targets SME liabilities growth through current account and deposit acquisition from customers with whom the Bank's ethical principles and values resonate. This strategy has been supported by the Bank's participation in the Royal Bank of Scotland ("**RBS**") 'Incentivised Switching Scheme' throughout 2019 and 2020, and investment in modernising and digitising the Bank's proposition following the successful application for a grant of £15 million from the Capability and Innovation Fund (as further described below).

In late 2018, the Bank received approval to participate in the RBS "Incentivised Switching Scheme" through which RBS are incentivising some of their SME customers to move their banking to challenger banks in order to drive increased competition in the UK SME banking market. To support the Bank's participation in the scheme and the Bank's wider SME proposition, the Bank has invested in marketing to raise awareness of its SME proposition and has made improvements to the customer journey by simplifying and digitalising the Bank's account opening process, which went live in February 2019 ahead of the start of the Incentivised Switching

Scheme. As at 30 September 2020, the Bank had attracted 11 per cent. of customers who had switched through the Incentivised Switching Scheme, which was higher than the 6 per cent. expected in the Plan.

Furthermore, in May 2019, the Bank received confirmation that it had been successful in an application for £15 million of funding from the Capability and Innovation Fund, which will provide challenger banks and FinTechs with funding to invest in their products and services for SMEs. This is intended to drive competition and is part of the overall RBS Alternative Remedies Package alongside the Incentivised Switching Scheme as referenced above. The Bank has committed to match this funding with £17m of its own investment, and as such will be investing an aggregate of £32m in its SME proposition over the next 3 years. The Bank will focus this investment, on enhancing its digital service for SMEs, providing new products and personalised business support tools, and investing in infrastructure and automation to make everyday banking easier for SME customers. The Bank is making progress with the development of these products and services and is on track with the delivery of these improvements for customers in line with its initial delivery plan.

Treasury

The Treasury department is responsible for management of the Bank's liquidity portfolios (including non-High Quality Liquid Assets ("**HQLA**"), the Legacy Portfolio (as defined below), wholesale funding activities (secured and unsecured) and ensuring that the Bank's market risk exposure is maintained within the Bank's risk appetite.

Treasury manage the HQLA portfolio to support regulatory liquidity compliance within a clearly defined mandate and market risk appetite. The non-HQLA portfolio consists mainly of the notes retained as part of the Warwick Finance securitisations.

Treasury are also responsible for hedging the Bank's interest rate risk, acting as the central clearing mechanism for the Bank's interest rate exposures generated through customer activity and behavioural balance sheet adjustments. The net position is managed within narrow market risk limits to minimise potential volatility to the Bank's earnings resulting from unexpected movements in interest rates.

The Bank's wholesale funding activity is managed within Treasury. As part of this activity, the Bank has an active secured funding capacity (through the Silk Road RMBS franchise and the Moorland Regulated Covered Bond programme) including ensuring that the Bank's mortgage portfolio is available for either central bank funding facilities or external securitisations. This capacity has been frequently used in recent years to access market-wide Bank of England funding initiatives, such as TFS, TFSME and bilateral funding transactions. Treasury are also responsible for the management of the Banking Group's unsecured funding activity.

Other

In addition to the Bank's current product offering, the Bank also has a relatively small stock of historical residential mortgage loans (the "**Optimum Portfolio**") that were advanced to borrowers who self-certified their income and to other borrowers who do not meet the Bank's current prime borrower credit requirements. The Optimum Portfolio's size has reduced to £162 million as at 30 September 2020 following a series of de-leveraging transactions in 2015, 2017, and 2019. Since 2010, the Bank has ceased to originate mortgages from these self-certified, almost prime or non-conforming borrowers. The Bank has contacted Optimum Portfolio customers who may be able to switch to a lower rate product if they meet the Bank's current retail product lending criteria.

The Bank also manages a closed portfolio of £762 million of corporate assets and £47 million unsecured assets (together with the Optimum Portfolio, the "**Legacy Assets**") as at 30 September 2020 which are inconsistent with the Bank's current business strategy and risk appetite.

The Bank's unsecured assets are a portfolio of personal loans and career development ("**PCDL**") loans, the majority of which are fixed rate lending to customers, who have an existing relationship with the Bank. The Legacy Assets have been actively deleveraged over a number of years which has significantly reduced the exposure. The main elements of the Legacy Assets are now in the lower risk sectors of Housing Associations and Project Finance Initiatives ("**PFI**"). These loans have lower yields than are currently available in the market.

Distribution Channels

The Bank offers and will continue to offer a multi-channel proposition to customers, covering branch, online, mobile, intermediary/broker (through Platform) and telephony, with a core focus on digital enablement and an upgrading the branch estate.

Digital

The Bank provides a digital offering for its Retail customers across the public website, online banking and mobile app. This is supplemented with a virtual contact team that supports customers through web-chat and secure message capability. The Bank's SME digital offering is provided through the public website and online banking proposition. The delivery of an SME mobile app is a key priority in 2020.

In 2019, 61,000 accounts were opened through the digital channel across the Banks core Retail and SME product sets which represents a 71 per cent. increase on 2018 volumes. This performance was driven by enhancements to the digital on-boarding capability and the delivery of the Banks first mobile app sales journey (Online Saver).

The primary service channel for retail banking is the Bank's online banking and mobile platform, of which approximately 62 per cent. of customers are digitally active as at 30 June 2020. In total 25.6 million payments were made through the Bank's digital platforms in 2019 which equates to 91 per cent. of all payments initiated through a customer channel. On average there are 6.4 million mobile app and online banking log-ins per month.

The focus on digital in 2020 will be to build on capabilities delivered in 2019, including:

- Increased focus on personalised, real time and straight through customer journeys that digitise back-end colleague processes; and
- Supporting SME transformation including delivery of a new mobile app and migration of customers to the new online banking platform.

Online presence and reach is projected to grow in 2020 through continuing customer adoption by delivering simple, more intuitive customer journeys and increased straight-through processing. Ongoing digital transformation activity is expected to further enhance sales and servicing capabilities across the product range.

Branches

The Bank currently operates a network of 68 branches across England, Wales & Scotland, 18 of which are due to be closed by 1 December 2020, as announced in August 2020 as part of the Bank's cost reduction initiatives. The Bank's branch network facilitated approximately 750,000 customer transactions for the six months ended 30 June 2020, although volumes have been subdued in light of the Covid-19 pandemic. This face-to-face channel services both personal and SME customers with day-to-day transactions and enquiries, distribution of products and services and supporting customers. This ensures the Bank continues to support customers in addition to supporting brand awareness and brand consideration.

The remaining 50 branches are well dispersed across England and Wales. 32 per cent. of branches are located in Northern England, 32 per cent. in the Midlands & East Anglia, 16 per cent. in London & South-east England and the remaining branches are located in Wales, South-west England and Scotland.

The branch network continues to deliver outstanding, award winning customer service, being recognised by Moneyfacts as Branch Network of the Year in 2018, 2019 and 2020.

In addition to providing industry leading customer service, the branch network is responsible for the acquisition of a proportion of the Bank's new current accounts and savings customers. The Bank's customers can also make banking transactions through the Royal Mail Post Office network.

Customer Contact Centres

The Bank has two primary contact centres, supported by two further outsourced contact centres managed by Capita. All contact centres are based in the UK. The telephony teams address simple and complex customer needs across the full product range. The Bank's contact centres also provide support to customers through key life events, including bereavement and financial difficulty. Since 2016, the Bank has partnered with Citizens Advice Manchester ("**CAM**") to support Personal and Business customers with specialist advice to resolve root causes to financial difficulty. Historically, referrals came from the Bank's Financial Support team but this has been extended more recently to contact centres and branches, especially since the onset of the Covid-19 pandemic. The Bank's referral programme provides dedicated funds and resources to CAM so that customers receive a holistic assessment within 48 hours to identify the correct support needed. To date, the Bank has referred over 1,842 Co-operative Bank customers to CAM with over 5,311 problems ranging from debt advice, housing and benefit issues to access to food. Approximately 54 per cent. of issues are dealt with on the first call,

with other cases referred to internal teams (such as Legal or Debt Advice) or where appropriate, referred for face-to-face support at centres nationwide.

RISK MANAGEMENT OF THE BANK

The board oversees and approves the Bank's Risk Management Framework ("**RMF**") and is supported by the Risk Committee ("**RC**") of the Bank. The RC's purpose is to review the Bank's principal risk categories and risk appetite; report its conclusions to the board for approval and oversee the implementation of the RMF, whilst anticipating changes in business conditions. The RMF's supporting risk policies and control standards include consideration of the Holding Company's and intermediate holding company's risk appetite, where appropriate.

There is a formal structure for identifying, reporting, monitoring and managing risks. This comprises, at its highest level, Risk Appetite statements which are set and approved by the board and are supported by granular Risk Appetite measures across the principal risk categories. This is underpinned by an RMF that sets out the high level policy, standards, roles, responsibilities, governance and oversight for the management of all principal risks.

Approach to Risk Management

Responsibility for Risk Management resides at all levels within the Bank and is supported by board and management level committees. A three lines of defence model is deployed on the following basis:

- *First Line* - The First Line are responsible for owning and managing all risks within defined appetites, complying with Risk Policies and Control Standards, ensuring supporting procedures are documented and maintained using the Bank's Risk and Control Self-Assessment (RCSA), and are responsible for reporting the performance, losses, near misses and status of risks through governance;
- *Second Line* - The Risk function acts as the Second Line of defence. The Risk Framework Owners ("**RFOs**") are responsible for setting Risk Policies, Control Standards, Bank-wide procedures and Risk appetite. RFOs sit within the Second Line, with the exception of some specialist areas where the RFO sits within First Line (for example Legal, Financial Reporting and People), the Second line Risk Function will provide oversight over the RFO activities in such cases; and
- *Third Line* - The Internal Audit function assesses the adequacy and effectiveness of the control environment and independently challenges the overall management of the RMF.

Risk Management Strategy and appetite

The board has primary responsibility for identifying the key business risks faced, approving the Risk Management Strategy through the setting of the Bank's Risk Appetite, which defines the type and amount of risk the firm is prepared to take both qualitatively and quantitatively in pursuit of its strategic objectives. In addition, the board approves key documents including the Internal Liquidity Adequacy Assessment Process ("**ILAAP**") and the Internal Capital Adequacy Assessment Process ("**ICAAP**").

Risk Appetite is translated into specific risk measures which are tracked, monitored and reported to the appropriate Risk Committees. The Risk Appetite framework has been designed to create clear links to the strategic planning process whereby appropriate metrics and limits for each risk category are established, calibrated and reported.

Our Risk Culture

A critical supporting factor of the RMF is the Risk culture in the Bank, this is a shared set of values and behaviours that defines how all colleagues approach the management of Risk. This culture begins at the top of the organisation with the Bank's Executive team who lead by example with consistent and clear communication of their commitment to managing risk at all levels of the organisation. Risk management is included in every colleague's objectives each year and is embedded within the Bank scorecard against which performance is measured.

The Bank has committed to embedding a strong culture of risk management and provides regular training and opportunities for colleagues to refresh knowledge on the RMF and opportunities for leaders to share knowledge and experience in respect of risk management in their roles.

Risk Management Governance

The Board is the key governance body and is responsible for strategy, performance, and ensuring appropriate and effective risk management. It has delegated responsibility for the day-to-day running of the business to the Chief Executive. The Chief Executive has established the Executive Committee to assist in the management of the business and deliver against the approved strategic plan in an effective and controlled manner.

The Board has established Board committees and senior management committees to oversee the RMF, including identifying the key risks faced and assessing the effectiveness of any risk management actions. The formal committees in operation at the date of this Prospectus which oversee the effective management and oversight of the RMF are detailed in the table below:

Committee	Reports to:	Risk focus
Board		The Board has collective responsibility for the long term success of the Holding Company Group and the Bank. Its role is to provide leadership of the firm within a framework of prudent and effective controls which enable risk to be assessed and managed. It sets the values and standards and ensures that the obligations to its shareholders, customers and other stakeholders are understood and met. The board sets the strategy and approves plans presented by management for the achievement of the strategic objectives it has set. It determines the nature and extent of the significant risks it is willing to take in achieving its strategic objectives and is responsible for ensuring maintenance of sound risk management and internal control systems.
Risk Committee (RC)	Board	The purpose of the Risk Committee is to review and challenge the risk appetite and RMF, and approve the risk appetite and risk policy in alignment with the RMF.
Executive Committee (ExCo)	CEO	ExCo is responsible for defining and successfully implementing the board approved strategy successfully by monitoring and managing delivery against plan and applying appropriate risk management actions to emerging risks.
Asset and Liability Committee (ALCo)	ExCo	ALCo is primarily responsible for overseeing the management of capital, market, earnings, liquidity and funding risks. Its responsibilities include identifying, managing and controlling the balance sheet risks in executing its chosen business strategy, ensuring that the capital and liquidity position is managed in line with policy and that adequate capital is maintained at all times.
Executive Risk Oversight Committee (EROC)	RC	EROC provides a mechanism to ensure all risks are reviewed, challenged and approved in line with decisions made at the ExCo. EROC achieves some of its objectives through delegating responsibility to sub-committees, Operational, Compliance and Financial Crime, Pension Risk, Model Risk and Credit Risk Oversight Committees. EROC will escalate where appropriate to the Board via RC.
Model Risk Oversight Committee (MROC)	EROC	MROC ensures that the model rating systems and material models are operating effectively. This includes providing Executive level review and challenge of the model risk and the impact of model risks on the Bank's business model and strategies. Provide oversight of the Bank's IRB (Internal Rating Based) permissions, including the exemptions where the Bank applies Standardised Approach to calculate Pillar 1 capital requirements.
Credit Risk Oversight Committee (CROC)	EROC	CROC is responsible for monitoring significant credit risks and issues within the entire credit lifecycle, the controls and management actions being taken to mitigate them and to hold to account the Executives responsible for actions. CROC continuously reviews the credit risk strategy, making recommendations to EROC as appropriate.
Operational, Compliance & Financial Crime Risk Oversight Committee (OCROC)	EROC	OCROC is responsible for monitoring significant operational risks and issues including significant conduct, regulatory, product, reputational, fraud and AML risks and issues, the controls and management actions being taken to mitigate them and to hold to account the Executives responsible for actions. OCROC oversees the current and emerging operational risk profile, ensuring key risk exposures are managed within risk appetite and reported to EROC as appropriate, including the monitoring of adherence to the RMF alongside a process for continuous

Committee	Reports to:	Risk focus
		improvement.
Pension Risk Oversight Committee (PROC)	EROC	PROC oversees all aspects of pension arrangements in which the Group or Bank is active in or sponsors, to ensure cost, risk, capital, investment and employee requirements are met.

Principal risk categories

The RMF sets out the principles that define the risk taxonomy, identifies processes, ownership, responsibilities and the risk oversight required to support effective implementation of risk management. Details of the principle risks can be found below:

Principal risk	Definition	Further constituent parts / Risk Taxonomy
Capital Risk	The risk that the Bank's regulatory capital resources are inadequate to cover its regulatory capital requirements.	
Credit Risk	The risk to earnings and capital arising from a customer's failure to meet their legal and contractual obligations. Credit Risk can be broken down into three sub-risks, identified in the next column.	• Credit risk Treasury • Credit risk Retail • Credit risk SME
Model Risk	The potential for adverse consequences caused by models. Model risk can lead to financial loss, regulatory penalty or fine, poor business or strategic decision making, incorrect financial reporting, damage to a Bank's reputation or adverse customer outcomes.	
Market Risk	The risk of loss as a result of the value of financial assets or liabilities (including off-balance sheet instruments) being adversely affected by the movement in market prices, interest rates or exchange rates. This loss can be reflected in the near term earnings by changing net interest income, or in the longer term as a result of changes in the economic value of future cash flows.	
Pension Risk	The risk to Bank capital and company funds from exposure to defined benefit scheme liabilities (to the extent that liabilities are not covered by scheme assets) and risks inherent in the valuation of scheme liabilities. Uncertainty in the estimated size of the liabilities and volatility in future investment returns from the assets may cause volatility in the pension fund deficit.	
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events. Operational Risk has 13 sub-risks identified in the next column.	• Regulatory Risk • Conduct Risk • Product Risk • Fraud Risk • AML Risk • Financial Reporting Risk • Information & Data Risk • Payments Risk • Legal Risk

Principal risk	Definition	Further constituent parts / Risk Taxonomy
		• Technology Risk • Change Risk • People Risk • Third Party Supplier Risk
Liquidity and Funding Risk	The risk that the Bank is unable to meet its obligations as they fall due or can only do so at excessive cost.	
Reputational Risk	The risk of damage to reputation, brand or image as perceived by internal or external stakeholders as a result of its conduct, performance, the impact of operational failures or other external issues.	

INFORMATION TECHNOLOGY

IT Transformation

The strategy around transforming IT commenced in 2013 and was based on a risk-based approach. The first phase of this IT transformation was driven by the need to recover from a breach in FCA Threshold Conditions relating to unproven end-to-end disaster recovery capability in 2015. Consequently, in 2015 a separation programme was set up with the prime objective of migrating the critical business systems away from Co-operative Group to the Bank's strategic data centres run by IBM.

The separation programme successfully completed this migration in early 2017 to satisfy and remove the FCA Threshold Conditions breach, and it created a robust disaster recovery ("**DR**") and business continuity capability within the Bank.

Since the end of 2017, further significant progress has been made in:

- *Digital, Online and App Capabilities* – advances have been made across the Bank's digital platform with a new, secure internet banking site served from a modern, scalable infrastructure hosted by IBM. The new internet banking site was re-designed based upon customer usability and works across any device. Further, new functions have also been added, such as paperless statements, transaction search, secure messaging, term deposit maturity processes, current account application processes and mobile one-time payments. In November 2018, the mobile platform was migrated to the same IBM-hosted infrastructure as secure internet banking.

- *Separation from Co-operative Group* - the full operational separation of the Bank from Co-operative Group via new infrastructure and the migration of business and technical applications from the shared infrastructure with Co-operative Group to IBM, was completed in January 2020.

- *Desktop Transformation Programme* - the Bank completed the rollout of Windows 10 in Q4 2019

The Bank has a control framework to govern transformation programme delivery. All of the projects in the investment portfolio of the Bank's transformation programme are tracked and reported via a central transformation and change function to the Executive Committee and Bank's board.

The Bank will continue to work towards a cost base that is the right size for the Bank, focusing investment in the right places whilst continuing to 'right-size' its operating cost base to support a sustainable future. This will be delivered through simplifying its IT estate to enhance its customer propositions, meet regulatory requirements and remove business impediments. The Bank expects significant project costs in the short term to complete its transformation objectives before this expenditure declines to reflect a steady phase of change thereafter.

The Bank's transformation activity in 2020 onwards will focus on four key areas:

- Ongoing regulatory compliance and resilience upgrades to critical IT, cyber and data services;
- Building the Bank's SME products and services capability;
- Migration towards a managed service for the Bank's payment systems and operations; and
- Digital investment in web and mobile to improve customer journeys and experience.

IT systems overview

The Bank's IT architecture supports the end-to-end activities of a full-service retail and business clearing bank.

The Bank relies on approximately 420 IT applications to support its range of retail and business financial products, customer services and the related business and operational support functions. These applications are hosted on IT infrastructure located in two strategic IBM data centres and five legacy data centres managed on behalf of the Bank by IBM.

The Bank's core systems consist of proprietary customer, account and payment solutions based on an IBM mainframe platform for heritage Co-operative Bank products, and IBM hosted mid-tier platforms for heritage Britannia products. This forms the basis of the Bank's IT architecture to which key vendor-supplied banking

product and service platforms (for example, from IBM - see "*Material Contracts*") are connected to deliver regulatory-compliant banking functionality.

A certain amount of duplication of functionality remains within the Bank's IT applications estate, where the IT acquired with the Britannia merger in August 2009 still runs alongside the equivalent Bank applications. The most notable examples of this are the platforms that support mortgage and savings products. Elimination of this duplication represents a rationalisation and simplification opportunity for the Bank in its systems transformation plans.

The Bank utilises third-party IT-outsourced services for some "back-office" services (including HR, payroll and procurement), with an Oracle-based enterprise solution used by the Bank's finance function. The Bank aims to exit the legacy data centres, either by further migration activity or by transitioning services to new suppliers or by implementing replacement services, each of which will allow duplicative systems to be decommissioned.

The next phase of the Bank's IT infrastructure plans are focused on simplifying its technology, application and data estate and removing legacy technology. This will be achieved by building a new mortgages and savings platform, and then retiring the legacy systems. Simplifying its payments estate and moving to 'payments as a service' processing where possible. Continuing its digitisation programme and developing new SME systems and capability. Finally, it will continue to invest in modernising and renewing its cyber data capabilities.

The Bank operates within its technology risk appetite as set within its RMF.

IT Security

The Bank has a data centre network security architecture with multiple layers of physical networking and firewalls. A number of security solutions are used including Oracle Identity and Access Management, IBM QRadar Security Event Monitoring, hardware cryptography and content inspection. Further improvements to the security of the Bank's end user devices (including laptops and PCs) were executed in conjunction with the Bank's wider desktop replacement strategy, including remote colleague virtual private network access, and anti-malware solutions.

The Bank operates an IT risk management framework conformed to the principles of the widely recognised COBIT standard (Control Objectives for Information Technology) for the management of systems availability, security and effectiveness. Significant investment has been made in IT risk reduction since 2014, which has resulted in material improvement to the Bank's position against its IT risk appetite. Information security risks are managed as part of a wider IT risk portfolio, with a formal IT risk committee convening monthly to track and support risk management. The Bank believes that this focus on IT risk has strengthened the IT risk and security capability within the Bank.

Business Continuity

The Bank's data centre strategy is based on a primary/secondary approach with the disaster recovery capabilities being provided at a secondary data centre with recovery time objectives being aligned to the criticality of the services. The Bank operates a schedule of service continuity testing that proves this capability. The Bank also has a dedicated business resilience team, providing incident management capabilities and appropriate crisis management processes. The Bank has made contingency plans to accommodate for disasters that render its offices unavailable and has three work area recovery sites for this eventuality. These work area recovery sites are tested on an annual basis to ensure that they are fit for purpose and the last testing took place in the third quarter of 2019.

LITIGATION

Save as disclosed in this section, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened or of which the Bank is aware) during the 12 months preceding the date of this Prospectus which may have, or have had, a significant effect on the financial position or profitability of the Issuer and/or the Bank and/or the Bank and its subsidiaries.

PPI

For a number of years, the Bank, along with many other financial services providers, sold PPI alongside mortgage and non-mortgage credit products. The Bank stopped selling unsecured loan PPI in January 2009, credit card PPI in November 2009 and mortgage PPI in March 2012. However, products still exist within the Bank which will include an element of PPI from historical sales.

In line with industry practice, provisions were made in respect of customer complaints relating to the historical mis-selling of PPI, though following the FCA’s time-bar which came into effect on 29 August 2019 and the subsequent completion of complaint handling, the majority of the liability that existed under the FCA’s rules (specifically the FCA's policy statement 10/12 dated August 2010, which detailed how the FCA expects banks to investigate PPI complaints) has been extinguished.

Total PPI provisions of £600.3 million have been taken as at 30 September 2020 (£600.3 million as at 31 December 2019). As at 30 September 2020, the Bank had an unutilised provision of £7.3 million (31 December 2019: £57.5 million) primarily in respect of offers made to customers that have not yet been accepted and/or settled, and the Bank’s exposure to a cohort of complaints submitted by the Official Receiver which are yet to be resolved.

In November 2014, the Supreme Court handed down a decision in *Plevin v Paragon Personal Finance Ltd [2014] UKSC 61*. The decision concerned the lack of disclosure to the customer by Paragon of the commission amounts received in respect of sales of PPI.

In response to this, the FCA published new rules and guidance on the handling of complaints in light of the *Plevin* decision, with firms required to pay redress to customers in cases where a certain level of commission was received by the firm but was not disclosed to the customer both at the point of sale and throughout the life of the product.

Since the implementation of the FCA’s rules and guidance, following the *Plevin* decision, the Bank has received a low volume of PPI litigation claims (as opposed to complaints) from customers regarding the disclosure of commission. Customers are able to claim for a higher level of compensation via litigation than they would otherwise have been awarded via a complaint under the FCA rules and guidance. The time-bar only applies to complaints, and the Bank has continued to receive a low level of litigation claims since the time-bar came into effect. The Bank is aware that following the time-bar, certain law firms and claims management companies are advertising the litigation route and that this has garnered some media interest, though it remains too early to say what impact this will have on the Bank operationally or financially.

CCA

In compliance with the Consumer Credit Act 1974 (the “**CCA**”), the Bank is obliged to send loan account customers annual statements and, where accounts are in default, notices of sums in arrears. Those documents must be sent at specific times and must also comply with the information requirements for such documents which are contained within the CCA's associated regulations. The Bank failed to comply with some of its obligations under the CCA (in relation to both its secured and unsecured books).

As a result, the Bank engaged in the process of a redress and remediation programme to ensure that all impacted (and open) customer accounts were remedied in accordance with the provisions of the CCA and all customers whose accounts were closed received sufficient financial redress. This redress and remediation programme has now been completed. As at the date of this Prospectus it is not possible for the Issuer or the Bank to confirm that additional CCA breaches will not be uncovered moving forward which could impact the financial condition of the Bank.

Mortgages

The Bank, in selling regulated mortgages, must adhere to specific guidelines, principles and regulations. The Bank outsources its mortgage origination system and servicing operations but remains liable for the mortgages originated through such outsourcing model.

In 2014, the Bank identified a number of issues and defects in certain of its historical mortgage documentation which raised legal and conduct risks, including breaches of the FCA's Mortgage Conduct of Business rules. The Bank's Mortgages Bulk Remediation and Redress programme (the "**MBRR**") was set up to address these.

The MBRR was the 'skilled persons' review into potential detriment to the Bank's mortgage customers arising from poor arrears handling. The Bank completed the recommendations from this review and implemented enhanced policies and processes which are designed to deliver improved customer outcomes. This remediation programme has been completed.

Between 2014 and October 2018, both the MBRR and the programme which succeeded it in September 2016, the Mortgage Rectification and Redress programme (the "**MRR**"), sought to address issues relating to: (i) arrears fees and charges; (ii) incorrect application of terms and conditions to borrowers' accounts; (iii) early repayment charges; (iv) discount rate expiry; (v) "Platform" first payments; (vi) issues arising in relation to FG17/4 and the auto capitalisation of arrears; (vii) CCA further advances; and (viii) incorrect calculation of monthly payments on one of the Bank's mortgage systems. The accounts of all customers impacted by the above issues were, in accordance with the Bank's Remediation Programme Redress Standards, remediated and customers redressed accordingly. The MRR has been completed and was closed down formally at the end of October 2018 but there is the risk that the Bank or the FCA may identify further issues which require remediation work. Since the completion of the major mortgage remediation programmes in 2018, a small number of less significant legacy mortgage related issues have been identified and remediated at a total cost of £6.5m.

As at the date of this Prospectus it is not possible for the Issuer or the Bank to confirm that additional issues relating to the Bank's mortgage documentation will not be uncovered which could impact the financial condition of the Issuer or the Bank.

MATERIAL CONTRACTS

The following is a summary of contracts (not being entered into in the ordinary course of business) which have been entered into by the Bank or its subsidiaries (i) within the two years immediately preceding the date of this Circular and which are material; or (ii) which contain any provision under which the Bank or its subsidiaries has any obligation or entitlement which is material to the Bank as at the date of this document.

IBM Outsourcing Agreement

On 23 January 2015, the Bank entered into a contract with IBM (the "**ES Contract**") to provide a new infrastructure and migrate its business and technical applications from the shared infrastructure with the wider group of The Co-operative Group into IBM managed data centres and receive a full suite of managed services, enabling:

(a) improved IT infrastructure and resilience, including the provision of demonstrable disaster recovery capability; and

(b) separation of the Bank's IT systems from those of the Co-operative Group;

At the time of signing, the contract anticipated that the Bank would pay IBM a one-time charge to lead and implement the transition of the applications and services to the IBM data centres.

The managed services under the ES Contract run for an initial 10 year period (with options to terminate throughout the life of the contract) and include service management services (such as incident and problem management, operational change management, service level management, asset management, configuration management, IT service continuity and infrastructure design authority services), service desk services, infrastructure services (such as server provisioning), enterprise computing – extended infrastructure services (such as batch operations service, data transport services, database management services and middleware management services), enterprise computing – hosting services (such as a backup and restore service, data centre facilities service, mainframe service, infrastructure disaster recovery service and storage service), network services (such as a managed LAN service), IT security services (such as web application firewalls, managed firewall service, secure web gateway, security information and event management service, vulnerability management service, intrusion detection and prevention and compliance management), and technology currency and refresh services.

The scope of the ES Contract (and associated one-off charges) has changed and increased over time due to many factors such as requirements for further assistance in respect of separation, additional requirements relating to the infrastructure and further clarity over additional services which needed to be migrated from Co-operative Group. Initial migration was completed and the managed services formally commenced in February 2017. Monthly run charges consist of a fixed cost element (management, main frame batch and data centre local area network), variable "price x quantity" charges (mainframe components and mid-range servers) and commissioning/decommissioning charges.

On 30 September 2019, the Bank entered into an amendment to the ES Contract under which the Bank agreed:

(a) subject to certain exceptions, that it will, for the period from 30 September 2019 to the expiry of the ES Contract (currently anticipated to expire on until March 2026) source any replacement or new requirement for IT infrastructure services from IBM (provided that, in relation to any new requirement, IBM can provide the requirement and are competitive in the market);

(b) to minimum charges commitments for infrastructure resource charges and consulting and project charges; and

(c) to the increase of termination charges. Should such termination charges be payable by the Bank they would be a material.

Capita (WMS) Agreement

The Bank, WMS, Capita and Securitisation Servicing Entities entered into a Master Services Agreement on 1 August 2015 (the "**Capita (WMS) Agreement**"). Under the Capita (WMS) Agreement the Bank outsourced the majority of its mortgage processing of the majority of its mortgage portfolio to WMS (including mortgage

operations, contact centre and arrears). The Bank retained a number of more sophisticated operational activities, including retail sales (which are advised sales), manual underwriting, buy-to-let mortgage applications, unresolved complaints and administration and arrears in relation to sensitive and vulnerable customers.

Approximately 700 of the Bank's staff transferred to WMS as part of the transaction. The share capital of WMS also transferred as part of the transaction to Capita Asset Services (UK Holding) Limited under a sale and purchase agreement dated 1 August 2015, which resulted in the IT administration system used to support mortgages secured through the Bank's broker network transferring as part of the assets owned by WMS. The Capita (WMS) Agreement includes a mix of fixed and variable charges for WMS' servicing of the Bank's mortgages, with different charges applicable to new business activities (such as mortgage origination, further advances and variations) and mortgage servicing (arrears and non-arrears).

On 16 February 2017, it was agreed that WMS would continue to use the three existing mortgage systems (rather than the original intention of the Capita (WMS) Agreement which was to replace the three systems with a new single system). It was also agreed that the Bank would retain the financial risk of maintaining the regulatory compliance of the WMS managed IT platform used to support mortgages secured through the Bank's broker network (100 per cent. of new mortgage business). The Bank retains maintenance and compliance risk of its two retail mortgage systems throughout.

On 30 October 2019, the Bank, WMS and Capita amended and restated the Capita (WMS) Agreement extending the term of the updated agreement to 31st December 2025. The amended and restated Capita (WMS) Agreement contemplates the staged migration away from three mortgage systems to a single system provided by a third party service provider.

CFS Management Services Limited 2006 Services Agreement

On 16 February 2006, the Bank and CFSMS entered into an agreement pursuant to which CFSMS provides assets such as office equipment, materials and office space, other facilities and services, as well as consultants who act as secondees to the Bank, in order that Bank can carry on its business. In addition, CFSMS can request Bank to provide assets and its employees to CFSMS (the "**2006 Services Agreement**").

This is a cost-based agreement (including an appropriate share of employer contributions to the pension and share of any other payments CFSMS may be required to pay to the pension scheme by the trustees) terminable by CFSMS on a minimum of six months' notice. The Bank has limited rights to terminate, namely, with CFSMS' consent and where CFSMS is subject to a change of control. Following notice of termination there is a run-off period of (i) up to 12 months (unless a longer period is agreed between the parties) following termination in respect of CFSMS provided assets and consultants; and (ii) up to 3 months (unless a longer period is agreed between the parties) following termination in respect of Bank provided assets or employees.

The Bank provides CFSMS with an unlimited indemnity for: (i) all liabilities, losses, damages, costs and expenses of any nature incurred by CFSMS as a result of CFSMS entering into the 2006 Services Agreement, providing assets and consultants and performance of the services by the assets and consultants; (ii) all losses, claims, damages and expenses (including all legal fees) in relation to any infringement or alleged infringement of any Intellectual Property Rights suffered by CFSMS as a result of CFSMS' or the Bank's use or possession of the Materials or any part thereof (with "Materials" being deliverables created or provided by the supplier or a consultant in relation to the services, the supplier materials and the third party materials); and (iii) all claims and proceedings brought by any person in respect of any loss, damage or distress to that person or in the exercise of that person's statutory rights by reason of any wrongful disclosure, use or destruction of any protected data by the Bank or any consultant or breach of its obligations or warranties under clause 9 (Data Protection). CFS's decision on disputes between the Bank and CFSMS is final and binding.

There has been a progressive separation of employees, assets and third-party services shared with CFSMS and its group undertaken since 2014.The Bank's use of infrastructure shared with CFSMS and its group ended on completion of IT separation from Co-operative Group in January 2020 but the 2006 Services Agreement has not yet been formally terminated. Following termination the Bank continues to hold a contingent liability in relation to the indemnity provided.

The Co-operative Group - Data Protection Agreement

The Bank and Co-operative Group entered into a data processing agreement in 2015 (the "**Data Protection Agreement**"), which has three purposes:

(i) to create a legal obligation on both the Bank and Co-operative Group to provide to each other, and to each other's subcontractors, the data that is necessary to carry out the Bank and Co-operative Group IT separation programmes. This includes all data held by each of the parties' group members, which for Co-operative Group includes all of Co-operative Group's subsidiary undertakings;

(ii) to establish an appropriate data protection and security framework for the disclosure and processing of data in order to facilitate the completion of the separation programmes; and

(iii) to provide an appropriate data protection and security framework for all other disclosures or processing of data that is taking place between Co-operative Group and the Bank, and their group members, in relation to which no written agreement containing adequate data protection provisions currently exists.

On 18 June 2015, the Bank (as data importer) and Co-operative Group (as data exporter) entered into a data processing agreement (for transfers outside EEA) utilising the "model clauses" adopted by the EU commission in respect of transfers of data in relation to activities to separate the data of each of the parties.

The agreement includes the ability for the Bank to appoint sub-processors with Co-operative Group's consent. In addition, an enduring confidential information and personal data processing agreement dated 3 July 2017 between the Bank, CFSMS, The Co-operative Banking Group Limited, CIS General Insurance Limited and Co-operative Group was entered into (the "**Enduring Agreement**"). The Enduring Agreement covers specified databases containing shared information belonging to the parties where it is not possible to separate the information using reasonable means. Under the Enduring Agreement each party that holds information in a data set will be provided with a copy of the relevant database and the Enduring Agreement sets out the basis upon which the parties may access the database and deal with both confidential information and personal data of data subjects contained within the databases.

The Co-operative Group - Data Centre Access Agreement

Co-operative Group, under the ITSA and a separate IT Services Agreement entered into between Co-operative Group and CISGIL dated 28 July 2015 ("**CISGIL ITSA**"), provides IT related services to, amongst others, CISGIL. Data owned by both the Bank and CISGIL is currently hosted on servers within the Tytherington Data Centre. Co-operative Group has agreed to sell the whole share capital in CISGIL to Markerstudy Holdings (UK) No.2 Limited and have entered into a migration and transitional services agreement to continue to provide, for a time, services it previously provided to CISGIL ("**CISGIL TSA**").

Upon termination of the ITSA, Co-operative Group will still require access to the Tytherington Data Centre, which is leased by the Bank, in order to continue to provide services to CISGIL under either the CISGIL ITSA or CISGIL TSA. As a consequence, the Bank and Co-operative Group have entered into an Access Agreement in relation to the Tytherington Data Centre on 5 August 2019 ("**Data Centre Access Agreement"**).

Under the Data Centre Access Agreement, in consideration of the payment of various charges and for a defined period, the Bank affords Co-operative Group (and its suppliers) accompanied access to the Tytherington Data Centre to house, access, maintain and, upon expiry or termination of the CISGIL ITSA and CISGIL TSA, decommission specific Co-operative Group equipment listed within the Data Centre Access Agreement.

Co-operative Group indemnifies the Bank against losses or damages the Bank incurs for any damage caused (by Co-operative Group or its suppliers) to the Tytherington Data Centre, any Bank equipment and for causing breach of any provisions of the lease, up to a value of £10m. The Bank indemnifies Co-operative Group against any losses or damages incurred by Co-operative Group for any damage caused (by the Bank or its suppliers) to the Co-operative Group equipment or Bank data or Co-operative Group data hosted or stored on the Co-operative Group equipment, up to a value of £10m.

The Bank has the ability to terminate the Data Centre Access Agreement in the event of (i) non-payment of the various charges; (i) Co-operative Group breach of terms; (iii) Co-operative Group insolvency; and (iv) the landlord serving a notice under clause 5.2.3 (damage or destruction by an insured risk) or clause 6.1 (forfeiture) of the lease if the Co-operative Group confirms it does not want to challenge the notice.

The Co-operative Group - Tax Loss Sharing

As part of the negotiations relating to the separation of the Bank from Co-operative Group, the Bank and Co-operative Group entered into a loss sharing deed on 26 January 2015 relating to the surrender of group relief between the Banking Group (namely the Bank and any company which is a subsidiary or subsidiary undertaking of that company) and the Trading Group (namely Co-operative Group and any company which is a (direct or indirect) holding company or (direct or indirect) subsidiary or subsidiary undertaking of that company and any subsidiary or subsidiary undertaking of any such holding company) (the "**Loss Sharing Deed**").

The Loss Sharing Deed sets out the basis of the agreement by Co-operative Group to take steps to allow it to claim tax losses from the Bank for the accounting periods to 31 December 2012 and 2013. The Loss Sharing Deed also addresses the terms of the payment by Co-operative Group to the Bank for those tax losses.

On 14 July 2017, the Bank and Co-operative Group entered into a Tax Deed of Amendment to the Loss Sharing Deed which amends and supplements the Loss Sharing Deed to clarify that Co-operative Group will not take any action the principal purpose of which is to avoid making or reducing the amount of any payment to the Bank under the Loss Sharing Deed; and Co-operative Group will provide such information which is consistent with past practice that the Bank reasonably requires to enable the Bank to calculate what payments are or may become due under the Loss Sharing Deed.

The H1 2020 Interim Report includes a charge in the amount receivable from Co-operative Group for tax losses surrendered (a "**Surrendered Loss Debtor**") of £47.8 million (as at 31 December 2019: £47.8 million), this having been prepared on a basis consistent with the Loss Sharing Deed. The Bank receives payment from Co-operative Group when Co-operative Group realises the benefit of the losses surrendered and at the corporation tax rate at which the benefit is realised.

PACE Trustees Limited - Pensions Deed

On 28 June 2017, the Bank, Co-operative Group and PACE Trustees Limited (the "**Pace Trustee**") entered into a pensions deed (appending the pensions term sheet and draft heads of terms) (the "**Pensions Deed**"). Pursuant to the terms of the Pensions Deed (amongst other things) the Bank, Co-operative Group, and the Pace Trustee agreed to put into effect a legally binding heads of terms (the "**Pace Heads of Terms**"). The Pace Heads of Terms agreement was subsequently entered into on 14 July 2017.

Under the Heads of Terms, the Bank committed to make payments to the Bank Segregated Scheme Section of the Pace, in amounts of £12.5 million per annum for the calendar years 2018 to 2022 (inclusive) and £7.5 million per annum for the calendar years 2023 to 2027 (inclusive), in aggregate amounting to £100 million.

On 25 January 2018, the Bank, Co-operative Group and Pace Trustee entered into The Co-operative Pension Scheme (PACE) Separation Implementation Agreement as amended by an amendment agreement dated 23 May 2018 (the "**Separation Implementation Agreement**"). The Separation Implementation Agreement sets out further detail of the terms required to effect the arrangements referred to in the Pace Heads of Terms. The Separation Implementation Agreement is supplemental to and does not amend the Pace Heads of Terms.

In August 2018, the Bank and the Pace Trustee entered into a security deed pursuant to which the Bank has granted security to the Pace Trustee over certain charged securities and accounts, against its obligation to make payments to the Bank Segregated Scheme Section of Pace, up to a maximum amount of £250 million. Furthermore, in June 2020 the Bank and the Pace Trustee entered into a second security deed pursuant to which the Bank has granted security to the Pace Trustee over certain charged accounts against its obligations to make payments to the Bank Segregated Scheme Section of Pace, increasing over the period of 2020 to 2026 from £12.5 million up to a maximum amount of £75 million.

Bank and Banking Competition Remedies Limited - Incentivised Switching Agreement

On 18 January 2019, the Bank and Banking Competition Remedies Limited (the "**BCR**") entered into an Incentivised Switching Agreement ("**IS Agreement**") setting out the terms on which the Bank is to participate in the offer of account switching Williams & Glyn (part of the RBS Group) business banking customers.

The IS Agreement is entered into in connection with the alternative remedies package agreed between HM Government and the European Commission to replace the original State aid commitment on the RBS to divest its Williams & Glyn business.

Under the terms of the IS Agreement, the Bank grants an unlimited indemnity in favour of RBS, the BCR and their respective representatives against all loss, payments, costs, expenses, damage, actions, claims or demands (including any loss of profit or indirect or consequential loss or any loss of goodwill or possible business after termination of the IS Agreement, whether actual or prospective) which RBS, the BCR and/or their respective representatives may incur or suffer in relation to or arising out of: (A) the performance of its obligations under or in connection with the IS Agreement; (B) the content of (including any untrue statement contained in) the company offering or any other communication materials or conduct of the Bank in relation to the incentivised switching scheme; (C) the Bank's use of the personal data of target customers; (D) any conduct of the Bank in relation to a target customer; (E) any failure by the Bank to comply with applicable law, the terms of the IS Agreement including its schedules and related terms & conditions; (F) any breach of, or failure by the Bank to comply with, "know your customer" or other similar checks required under the Anti-Money Laundering Regulations and all other Applicable Laws in relation to any target customer that transfers to the Bank; (G) any matters relating to the treatment of a target customer after they have transferred any products or services to the Bank; and/or (H) the fraud, negligence or wilful default of the Bank.

Bank and Banking Competition Remedies Limited - Capability and Innovation Fund Agreement

On 30 June 2019, the Bank and Banking Competition Remedies Limited ("**IB**") entered into a Capability and Innovation Fund Agreement ("**C&I Agreement**") with the BCR following the Bank's successful application for a grant of £15 million from the Capability and Innovation Fund. The purpose of the £425 million Capability and Innovation Fund is to encourage eligible bodies, including challenger banks and FinTechs, to (i) develop and improve their capability to compete with RBS in the provision of banking services to SMEs; and (ii) develop and improve the financial products and services which are available to SMEs.

Under the terms of the C&I Agreement, the Bank grants an indemnity, capped at the amount of funding received by the Bank, in favour of the IB and its representatives against all loss, payments, costs, expenses, damage, actions, claims or demands (including any loss of profit or indirect or consequential loss or any loss of goodwill or possible business after termination of the C&I Agreement, whether actual or prospective) which the IB and/or its representatives may incur or suffer in relation to or arising out of: (A) the performance of its obligations under or in connection with the C&I Agreement; (B) the content of (including any untrue statement contained in) the Bank's application documents; (C) the use of the funding amount by the Bank; (D) any failure by the Bank to comply with applicable law or the terms of the C&I Agreement including the related terms and conditions; or (E) the fraud, negligence or wilful default of the Bank.

DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE OF THE BANK

Directors

The following table lists the names and positions of the current Directors and the Company Secretary.

Name	Position
Robert “Bob” Graham Dench	Chairman
Nicholas “Nick” Stuart Slape	Chief Executive Officer
Derek James Weir	Non-Executive Director & Senior Independent Director
Glyn Michael Smith	Non-Executive Director
Sir William “Bill” Gennydd Thomas	Non-Executive Director
Morteza Mahjour	Non Independent Non-Executive Director
Suzan “Sue” Harris	Independent Non-Executive Director
Sally-Ann Hibberd	Independent Non-Executive Director
Christopher “Chris” Davis	Chief Operating Officer
Catherine Elizabeth Green	Company Secretary

Bob Dench – Chairman

Bob joined the Bank Board on 1 February 2018 and was appointed as Chair on 14 March 2018. Bob has enjoyed a long career in banking, and was Chair of Paragon Banking Group plc from 2007 until May 2018, having joined its Board in 2004. He chaired Paragon through the financial crisis and oversaw a reconfiguring of the business model as Paragon obtained its banking licence. Previously, he served on the boards of AXA UK and Ireland from 2004, as Senior Independent Director of AXA UK until December 2016 and Chair of AXA Ireland from 2007 to 2017. He was also Chair of AXA PPP Healthcare Limited from 2013 to 2017. Prior to that, he spent 28 years at Barclays, in a number of senior executive roles across the group in the UK, US and Australia.

Nick Slape – Chief Executive Officer

Nick joined the Bank Board in December 2019, having joined the Bank in October 2018 as Chief Financial Officer. Following Andrew Bester stepping down as CEO, Nick assumed full CEO responsibilities from 31 October 2020. He worked closely with Andrew Bester in shaping the Bank’s plan, putting in place the financial strategy and was considered a natural choice to lead the Bank towards achieving sustainable profitability. He spent five years as Chief Financial Officer of the Commercial Division at Lloyds Banking Group. He has worked in the financial services sector in the UK and overseas for more than 30 years and has extensive operational and financial experience in strategic and financial planning and control. Throughout his career he has worked at a number of investment banks including Lehman Bros, Dresdner Bank, Deutsche Bank and Merrill Lynch. Nick is a Fellow of The Chartered Institute of Management Accountants.

Derek Weir – Non-Executive Director and Senior Independent Director

Derek joined the Bank Board in July 2014 and was appointed Chair of the Risk Committee on 26 January 2016. He was appointed as Senior Independent Director on 5 April 2018. He has over 25 years of financial services experience, holding a range of senior positions in corporate and commercial banking. During this time he held posts, both in the UK and internationally, at Barclays Bank plc and Royal Bank of Scotland plc, including being the Managing Director responsible for Commercial Banking in the UK for Royal Bank of Scotland plc. Derek is currently a Non-Executive Director of Motherwell Football Club Community Trust and a Director of Kerrach Limited. Derek is also a Director of Halo Urban Regeneration Company Limited.

Glyn Smith – Non-Executive Director

Glyn joined the Bank Board in October 2016 as Chair of the Audit Committee. He has over 40 years’ experience in the financial services sector, most notably in a number of senior executive roles in Barclays Bank and as Group Finance Director of the Portman Building Society. Since 2003, he has held numerous Non-Executive Directorships and chaired the Audit Committees of organisations across both the public and private sectors. These have included Coventry Building Society, Domestic & General Group and Stroud & Swindon Building Society in the financial services sector. Glyn is a Chartered Accountant and is currently also a Non-

Executive Director and Chair of the Audit and Risk Committees of Reclaim Fund Ltd and Chair of West Bromwich Building Society Pension Trustees.

Sir Bill Thomas – Non-Executive Director

Sir Bill joined the Bank Board in October 2013. He is a former Senior Vice President of Hewlett - Packard and served as a corporate officer on the Executive Committee of EDS plc as Executive Vice President. He has IT expertise and is an experienced leader and general manager with a track record in leading major change in large organisations. He has extensive commercial and operational experience, working domestically and internationally with both public and private sector organisations. He served as a member of the Council and President of the Alumni Association at Cranfield University and chaired the School of Management advisory board. He serves as the Chair of the Royal Navy and Royal Marines Charity, as the Chair of Spirent Communications plc and as the Chair of Clarkson plc. Additionally, he is an advisor to FireEye Inc and Non-Executive Director and Chair of Chiron Topco Limited (registered in Jersey) for which Node 4 Limited (private equity IT services) is the main trading company in the group. He is also a partner in Hopton Estates.

Morteza Mahjour – Non-Independent Non-Executive Director

Morteza joined the Bank Board on 12 December 2019. He is a seasoned Chief Information and Operations Officer with over 30 years of experience in technology and financial services globally. He is passionate about driving business and digital transformation and execution excellence. Previous positions include group CIO at Lloyds Banking Group, Chief Information and Operations Officer at the Royal Bank of Canada, and senior advisory engagements. He has experience leading transformation for growth and has international expertise in financial services, customer segments and regulatory requirements.

He is currently a partner at M&L Technology Advisory, where he provides strategic advisory services to senior executives and boards. He has a Bachelor of Electrical Engineering from McGill University and is qualified with the Institute of Corporate Directors.

Sue Harris –Independent Non-Executive Director

Sue joined the Bank Board in May 2019. She has held senior executive positions in the financial services and retail sectors, most recently at Lloyds Banking Group (LBG) as Group Audit Director and prior to that, as the Group's Financial Control Director. She led negotiations with HMT for potential accession into the Government Asset Protection Scheme, as part of LBG's recapitalisation. She was the Finance Director of LBG's Retail Bank and Finance Director of Cheltenham & Gloucester. She was Managing Director Finance at Standard Life and formerly Head of Corporate Development and Group Treasurer of Marks & Spencer. She is a former Non-Executive Director of Bank of Ireland UK, Abcam plc (an AIM listed biotech company), St. James's Place, Chair of the Finance and Audit Committees at Mencap (the leading charity for people with a learning disability) and Chair of Trustees of KCP Youth.

She is a Non-Executive Director of Schroders & Co. Limited and Chair of the Audit and Risk Committee of Schroder's Wealth Management Division. She is also a Non-Executive Director of Barclays Pension Funds Trustees Limited, FNZ (UK) Ltd and Wates Group Limited. She is Chair of the Audit and Assurance Council at the Financial Reporting Council and is a member of the Codes and Standards Committee. She is a member of the external advisory board of the School of Chemistry at the University of Manchester.

Sally-Ann Hibberd –Independent Non-Executive Director

Sally-Ann joined the Bank Board in August 2019. She has a broad background in financial services and technology. She previously served as Chief Operating Officer of the International division and, latterly, as Group Operations and Technology Director of Willis Group, and held a number of senior executive roles at Lloyds TSB.

Sally-Ann is currently a Non-Executive Director and Chair of the Risk Committee at Equiniti Group plc; a Non-Executive director of IG Group plc; a non-executive member of the governing body of Loughborough University; and an advisory board member at Go Beyond Partners. She previously served as a Non-Executive Director of NFU Mutual and Shawbrook Group Plc.

Chris Davis – Chief Operating Officer

Chris joined the Bank Board on 23 July 2019 and has over 30 years of banking experience. Immediately prior to this, Chris was Vice President at IBM responsible for the Banking consulting practice. Previously Chris held a series of high profile banking COO roles at Ulster Bank, RBS and Williams & Glyn. He has a proven track record in start-ups / challenger banks, business turnarounds, cost reduction, strategy, managing operations, transformation programmes, account / relationship management, payments and technology. He is a Certified Bank Director and previously served as a Non-Executive Director at Chetwood Financial Limited and as Chair of Ulster Bank Commercial Services Limited.

The business address of each of the Directors is c/o Secretariat, 1st Floor, PO Box 101, 1 Balloon Street, Manchester, M60 4EP.

Board Committees

The Bank board has established Board Committees, namely the Risk Committee, the Values & Ethics Committee, the Remuneration Committee and the Nomination Committee.

All Bank board Committees have Terms of Reference describing the authority delegated to such Committee by the board. Each of these Committees has a role in ensuring effective oversight by the board of the Bank and its subsidiaries.

The boards of the Holding Company, the Issuer and the Bank have established a Joint Audit Committee.

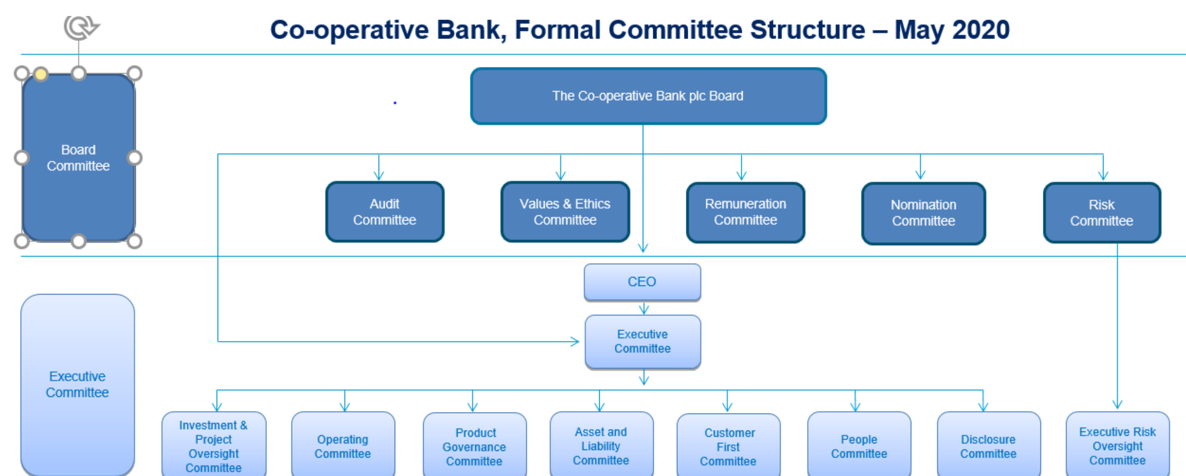
The Joint Audit Committee has Terms of Reference describing the authority delegated to the Committee by the boards. The Committee has a role in ensuring effective oversight by the boards of the Holding Company, the Issuer, the Bank and its subsidiaries.

Senior Management

As set out in the Committee Governance Structure below, the Bank has established a range of ExCo member-led committees to lead day-to-day management of the Bank's business.

Including the Chief Executive Officer and Chief Financial Officer, there are thirteen members of ExCo, each with significant industry experience and leadership expertise in their responsible function.

Committee Governance Structure



Ownership and Material Shareholdings

The Bank is a public limited company with debt securities listed on the London Stock Exchange. Its equity is not listed.

As at 25 November 2020, the Bank's sole shareholder is the Issuer. The sole shareholder of the Issuer is the Holding Company, which is a private company limited by share capital.

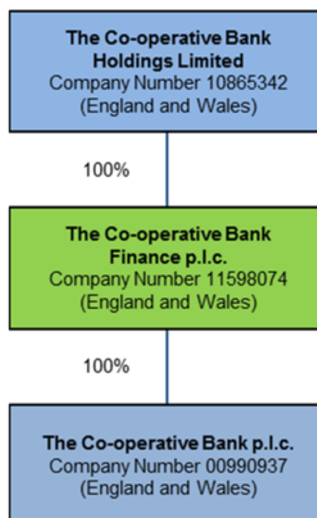
The former significant Bank shareholder, Co-operative Group, reduced its residual holding in the Holding Company to 1 per cent. at the completion of the recapitalisation on 1 September 2017 and has since effected a disposal of this holding.

As at 25 November 2020, the B Shareholders of the Holding Company owned 85 per cent. of A shares. As at 25 November 2020 the B Shareholders of the Holding Company were:

B Shareholders	Percentage of B Shares
Anchorage Illiquid Opportunities Offshore Master V.L.P	24.10%
SP Coop Investments, Ltd	22.89%
Goldentree Asset Management Lux S.A.R.L.	16.87%
Cyrus Opportunities Master Fund II Ltd	12.05%
Invesco Asset Management Limited for and on behalf of its discretionary managed clients via The Bank of New York Nominees Limited	12.05%
Blue Mountain Cayman SPC for and on behalf of Balloon SP	12.05%

On 1 October 2018, the Issuer, a private company limited by share capital, was incorporated as a wholly owned subsidiary of the Holding Company (which is a private company limited by share capital). The Issuer changed its name to The Co-operative Bank Finance Limited on 7 February 2019 and on 11 February 2019 became the immediate parent of the Bank, with the Holding Company remaining the ultimate parent of the Bank. On 18 March 2019, the Issuer was incorporated as a public limited company.

The Issuer was incorporated with the purpose of creating a new public holding company from which MREL qualifying investments and capital instruments may be issued. The current group structure is set out below:



Shareholders

The Holding Company's share capital is divided into Class A ordinary shares of £0.0001 each (the "**A Shares**") and Class B redeemable preference shares of £0.01 each (the "**B Shares**"). The A shares are entitled to dividends to be paid out of the profits of the Holding Company, but the B Shares do not carry any right to participate in the profits of the Holding Company, except as provided for on a Bank Exit (any transaction or arrangement which results in the Holding Company ceasing to be the Bank's direct or indirect Holding Company or ceasing to hold directly or indirectly substantially all of the assets of the Bank) or IPO Exit (admission of the A Shares of the Holding Company to a securities exchange, as defined in the Holding Company Articles). On a return of capital on liquidation, dissolution or winding up, the surplus assets of the Holding Company are applied first, in respect of each B Share, an amount equal to the nominal value (and if such proceeds are insufficient, allocated between them pro rata to the aggregate amount due to each), and second, the balance remaining (if any) shall be distributed to the shareholders of A Shares (the "**A Shareholders**") pro rata by reference to the number of A Shares held by them respectively.

No A Shareholder is entitled to receive notice of, nor attend to vote at a general meeting of the Holding Company, save where a resolution is to be proposed at such meeting abrogating or varying any of the rights or privileges attached to the A Shares; for the winding up or dissolution of the Holding Company; in respect of the purchase or redemption (save for the redemption of B Shares) of any share capital of the Holding Company; or in respect of a Bank Exit or IPO Exit. Each and every shareholder of B Shares (a "**B Shareholder**") is entitled to receive notice of, attend and vote at a general meeting of the Holding Company, with one vote in respect of each B Share registered in the name of the holder.

Member Matters (as defined in the Bank's articles of association) may only be taken by the board of the Bank, with the approval of the Issuer by ordinary resolution (which in turn is approved by the Holding Company). B Shareholder Matters (as defined in the Holding Company Articles) may only be undertaken by the board of the Holding Company or approved for implementation at Bank level or Issuer level, with the prior written approval of the holders of more than 50 per cent. of the B Shares in issue.

The B Shareholders are entitled to appoint up to two Directors to the board of the Holding Company, the Holding Company is entitled to appoint up to two Directors to the Board of the Issuer and the Issuer is entitled to appoint up to two Directors to the board of the Bank, who are designated as B Directors of the Holding Company, Issuer and the Bank. As at 25 November 2020 only one B Director, Morteza Mahjour, is appointed to each of the boards. If the B Shareholder Nominee Directors perform any executive function then they shall report to the Bank and the Holding Company's CEO (who shall be the same person).

On 1 September 2017, the Holding Company and the B Shareholders entered into a B Shareholders Agreement for the purpose of setting out the Exit Premium principles in accordance with the Holding Company Articles. Subject to other provisions of Holding Company Article 12, if at any time an A Shareholder (together with its affiliates): is the registered holder of equal to or greater than 10 per cent. of the A Shares then in issue (the "**B Threshold**"); has been and is approved by the PRA as a Controller of the Company; and executes a deed of adherence to the B Shareholders' Agreement, (together, the "**Qualifying Conditions**"), such A Shareholder shall be deemed a 'Qualifying Shareholder' and the Holding Company shall have the power to allot and issue to them, one B Share for every 1 per cent. held of the A Shares then in issue (rounded down to the nearest whole percentage point).

TAXATION

The following is a general summary of the English law tax consequences as at the date hereof in relation to payments made under the Notes in relation to the sale or transfer of Notes. It is not exhaustive and purchasers are urged to consult their professional advisers as to the tax consequences to them of holding or transferring Notes.

United Kingdom Taxation Considerations

The following is a summary of certain United Kingdom stamp duty and stamp duty reserve tax considerations and the United Kingdom withholding tax treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. Save where expressly stated to the contrary, it is based on current United Kingdom tax law and the practice of Her Majesty's Revenue & Customs ("**HMRC**"), which (in the case of such practice) may not be binding on HMRC and which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general guide and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that might be relevant to a prospective Noteholder. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

UK Withholding Tax

Quoted Eurobond Exemption

The Notes will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange within the meaning of Section 1005 Income Tax Act 2007. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Notes will be "listed on a recognised stock exchange" for this purpose if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and either they are included in the United Kingdom official list (within the meaning of Part 6 of the FSMA) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange within the meaning of Section 1005 Income Tax Act 2007.

The London Stock Exchange is a recognised stock exchange for these purposes, and accordingly the Notes will constitute quoted Eurobonds provided they are and continue to be included in the United Kingdom official list and admitted to trading on the London Stock Exchange.

In all cases falling outside the exemption described above, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available following a direction to the contrary received by the Issuer from HMRC pursuant to the provisions of any applicable double taxation treaty, or to any relief which may apply under domestic law. However, this withholding will not apply if the relevant interest is paid on Notes with a maturity date of less than one year from the date of issue and which are not issued with the intention of rendering, or under a scheme or arrangement the effect of which is to render such Notes part of a borrowing with a total term of a year or more.

Provision of Information

HMRC has powers to obtain information, including in relation to interest or payments treated as interest and payments derived from securities. This may include details of the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information in connection with transactions relating to the Notes. Information obtained by HMRC may be provided to tax authorities in other countries.

Other considerations

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

Stamp duty and stamp duty reserve tax

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Notes.

Other Tax Considerations

Proposed Financial Transaction Tax

The European Commission has published a proposal for a Directive for a common Financial Transaction Tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are exempt.

Under current proposals, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Credit Suisse Securities (Europe) Limited and Goldman Sachs International (the "**Joint Bookrunners**") have, pursuant to a Subscription Agreement dated 25 November 2020, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Notes at 100 per cent. of their principal amount. In addition, the Issuer has agreed to reimburse each Joint Bookrunner for certain of its expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Bookrunners to terminate it in certain circumstances prior to payment being made to the Issuer.

The Joint Bookrunners have, directly or indirectly through affiliates, provided investment and commercial banking, financial advisory and other services to the Issuer and its affiliates from time to time, for which they have received monetary compensation. One of the Joint Bookrunners is advising the Bank in relation to the possibility of a sale of the Bank and/or the Holding Company. The Joint Bookrunners may from time to time also enter into swap and other derivative transactions with the Issuer and its affiliates. In addition, the Joint Bookrunners and their respective affiliates may in the future engage in investment banking, commercial banking, financial or other advisory transactions with the Issuer or its affiliates.

The shareholders of the Holding Company have agreed to purchase a percentage of the Notes offered. The holding and any sale of Notes by these parties may adversely affect the liquidity of the Notes and may also affect the prices of the Notes in the secondary market, particularly if some or all of these holders elect to sell their Notes at the same time. Under the Trust Deed, there is no restriction on the exercise of voting rights with respect to the Notes held by such shareholders and their affiliates. The interests of the shareholders of the Holding Company may differ from the interests of other Noteholders.

General

No action has been or will be taken by the Issuer or the Joint Bookrunners that would, or is intended to, permit a public offer of the Notes or possession or distribution of this Prospectus or any other offering or publicity material relating to the Notes in any country or jurisdiction where any such action for that purpose is required.

Accordingly, the Joint Bookrunners have each undertaken that they will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

United Kingdom Selling Restrictions

Each Joint Bookrunner has represented and agreed that:

(a) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer were not an authorised person, apply to the Issuer.

United States Selling Restrictions

The Notes have not been and will not be registered under the Securities Act and each Joint Bookrunner has understood and agreed that the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to any other exemption from the registration requirements of the Securities Act. Each Joint Bookrunner has represented, warranted and agreed that it has not offered or sold, and will not offer or sell, any Notes except in accordance with Rule 903 of Regulation S under the Securities Act. Each Joint Bookrunner has also represented, warranted and agreed that it has offered and sold the Notes, and will offer and sell the Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "**distribution compliance period**"), only in accordance with Rule 903 of Regulation S under the Securities Act. Each Joint Bookrunner has agreed that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by Regulation S."

Each Joint Bookrunner has represented, warranted and agreed that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

Terms used above have the meaning given to them by Regulation S.

Hong Kong Selling Restrictions

Each Joint Bookrunner has represented and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore Selling Restrictions

Each Joint Bookrunner has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Bookrunner has represented and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

*Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

Prohibition of Sales to EEA AND UK Retail Investors

Each Joint Bookrunner has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area and the United Kingdom. For the purposes of this provision the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

GENERAL INFORMATION

1. Legal Entity Identifier (LEI)

The LEI for the Issuer is 213800KNE8ER4N9BLF11.

2. Clearing Systems

The Notes have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems with a Common Code of 226376607. The International Securities Identification Number for the Notes is XS2263766078.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L1855 Luxembourg.

3. Admission to Trading

The admission of the Notes to the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that admission of the Notes to the Official List and to trading on the Market will be granted on or before 27 November 2020, subject only to the issue of the Global Certificate. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in GBP and for delivery on the third working day after the day of the transaction. The total expenses related to the admission to trading of the Notes are estimated to be approximately £5,515.

4. Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Notes. The issue of the Notes was authorised by resolution of the Board of Directors of the Issuer passed on 20 November 2020.

5. Material Adverse Change

Except as disclosed in Note 1.2 to the H1 2020 Interim Report, there has been no significant change in the financial performance or financial position of the Holding Company since 30 June 2020 and except as disclosed in '*Risk Factors - The Bank's business and financial performance has been and may continue to be affected by the general economic, political and social conditions in the UK and elsewhere, and adverse economic, social or political developments or health epidemics in the UK or elsewhere could cause the Bank's earnings and profitability to decline'* with respect to the impact that the health crisis resulting from the Covid-19 pandemic may have and '*Risk Factors - Risks relating to the impact of Covid-19*', there has been no material adverse change in the prospects of the Holding Company or of the Holding Company Group since 31 December 2019.

Except as disclosed in Note 1.2 to the H1 2020 Interim Report, there has been no significant change in the financial performance or financial position of the Bank since 30 June 2020 and except as disclosed in '*Risk Factors - The Bank's business and financial performance has been and may continue to be affected by the general economic, political and social conditions in the UK and elsewhere, and adverse economic, social or political developments or health epidemics in the UK or elsewhere could cause the Bank's earnings and profitability to decline'* with respect to the impact that the health crisis resulting from the Covid-19 pandemic may have and '*Risk Factors - Risks relating to the impact of Covid-19*', there has been no material adverse change in the prospects of the Bank since 31 December 2019.

Except as disclosed in Note 1.2 to the H1 2020 Interim Report, there has been no significant change in the financial performance or financial position of the Issuer since 30 June 2020 and except as disclosed in '*Risk Factors - The Bank's business and financial performance has been and may continue to be affected by the general economic, political and social conditions in the UK and elsewhere, and adverse economic, social or political developments or health epidemics in the UK or elsewhere could cause the Bank's earnings and profitability to decline'* with respect to the impact that the health crisis resulting from the Covid-19 pandemic may have and '*Risk Factors - Risks relating to the impact of Covid-19*', there has been no material adverse change in the prospects of the Issuer or of the Issuer Group since 31 December 2019.

6. Litigation

Except as disclosed in this Prospectus on pages 84 and 85, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer, the Bank or of the Holding Company Group.

7. Documents on Display

For so long as any of the Notes is outstanding, copies of the following documents may be inspected in electronic format at https://www.co-operativebank.co.uk/investorrelations:

(a) the Memorandum and Articles of Association of the Issuer;

(b) the Trust Deed;

(c) the Agency Agreement; and

(d) this Prospectus and any supplements thereto.

This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html.

8. Auditors

The consolidated accounts of the Holding Company, the Issuer and the Bank for the financial years ended 31 December 2019 and 31 December 2018 incorporated by reference in this Prospectus have each been audited by Ernst & Young LLP ("**EY**"), who have rendered an unqualified audit report on each such accounts of the Holding Company and the Bank for each of these periods. EY is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

The consolidated accounts of the Holding Company for the six months ended 30 June 2020 include an "emphasis of matter" paragraph, which refers to Note 1.2 (Going concern) of such accounts and which states that in the opinion of the Directors, completion of the Group's MREL issuance programme in a reasonable timeframe, should the current unpredictable environment continue, represents a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. However, after making enquiries and considering the current forecasts, in particular those up to 31 July 2021, the Directors have a reasonable expectation that the Group will complete its MREL issuance programme and continue to have adequate resources to continue in business over the going concern period.

The auditors of the Holding Company, the Issuer and the Bank have no material interest in the Holding Company and the Bank.

EY are also the auditors of the Issuer and have confirmed that there are no conflicts with their appointment in this capacity.

9. Certificates

Any certificate, confirmation, advice or report of the Auditors (as defined in the Trust Deed), accountants, or any other expert or any person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed may be relied upon without liability by the Trustee as sufficient evidence of the facts stated therein whether or not such certificate, confirmation, advice or report and/or any engagement letter or other document entered into by the Trustee, the Issuer or any other person in connection therewith contains a monetary or other limit on the liability of the Auditors or such other person in respect thereof.

Registered Office of the Issuer

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United Kingdom

Auditors of the Holding Company, the Issuer and the Bank

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