PROSPECTUS dated 4 April 2022

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

(incorporated in England and Wales with limited liability with registered number 11598074)
Legal entity identifier (LEI): 213800KNE8ER4N9BLF11

£250,000,000 Fixed Rate Reset Callable Notes due 2027

Issue Price: 100.000 per cent.

The £250,000,000 Fixed Rate Reset Callable Notes due 2027 (the "**Notes**") are expected to be issued by The Co-operative Bank Finance p.l.c. (the "**Issuer**") on 6 April 2022 (the "**Issue Date**"). The Notes will constitute direct, unconditional, unsecured, unguaranteed and unsubordinated obligations of the Issuer, ranking *pari passu* without any preference among themselves and, in the event of a Winding-Up (as defined herein), at least *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. The Notes will be issued on the terms and conditions set out under "*Terms and Conditions of the Notes*" (the "**Conditions**", and references to a numbered "**Condition**" should be read accordingly).

Interest will accrue on the outstanding principal amount of the Notes from (and including) the Issue Date up to (but excluding) 6 April 2026 (the "**Reset Date**") at the initial rate of 6.000 per cent. per annum, and thereafter at the Reset Interest Rate determined in accordance with Condition 4. Interest will be payable in equal instalments semi-annually in arrear on 6 April and 6 October in each year, commencing on 6 October 2022.

Unless previously redeemed or purchased and cancelled, the Issuer will redeem the Notes on 6 April 2027 (the "**Maturity Date**"). The Issuer may elect, in its sole discretion (but subject to compliance with applicable prudential requirements), to redeem the Notes (in whole but not in part) at their principal amount together with accrued and unpaid interest up to (but excluding) the date of redemption (i) on the Reset Date or (ii) at any time following the occurrence of a Tax Event or a Loss Absorption Disqualification Event, all as further described in Condition 6.

Application has been made to the Financial Conduct Authority (the "**FCA**") in its capacity as competent authority under the Financial Services and Markets Act 2000 (as amended, the "**FSMA**") for the Notes 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 main 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 Regulation (EU) No 600/2014 on markets in financial instruments as it forms part of United Kingdom ("**UK**") domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**") ("**UK MiFIR**").

This Prospectus has been approved by the FCA in accordance with Regulation (EU) 2017/1129 as it forms part of UK domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**"). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation and such approval should not be considered as an endorsement of the Issuer nor as an endorsement of 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.

The Notes will be offered and sold in offshore transactions outside the United States to persons who are not U.S. persons (as defined in 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.

Prohibition on sales to EEA and UK retail investors - The Notes are not intended to be offered, sold or otherwise made available, and should not be offered, sold or otherwise made available, to retail investors in the European Economic Area (the "**EEA**") or the UK. See further under "*Offer Restrictions*" below.

The Notes will be issued in registered form in denominations of £100,000 and integral multiples of £1,000 in excess thereof. The Notes will be represented initially upon issue by a global registered note certificate (the "**Global Certificate**") which will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") on or around the Issue 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 the section "*Risk Factors*" herein.

By its acquisition of any Note (or any interest therein), each holder (and each beneficial owner) of Notes will acknowledge and accept that the Amounts Due or any other liability arising under the Notes may be subject to the exercise of the UK Bail-in Power by the Resolution Authority, and will acknowledge, accept, consent to, and agree to be bound by the effects thereof, all as defined and further described in Condition 19.

The Notes will be obligations of the Issuer only and holders of the Notes 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 will not be guaranteed or insured by any government, government agency or compensation scheme of the UK or any other jurisdiction.

The Reset Interest Rate (as defined in Condition 4) in respect of the Notes will (subject as provided in that Condition) be determined by reference to the applicable annual mid-swap rate for swap transactions in pounds sterling (with a maturity equal to one year) where the floating leg pays compounded daily SONIA annually, which is calculated and published by ICE Benchmark Administration Limited or any successor thereto on the relevant screen page on the Reset Determination Date. As at the date of this Prospectus, ICE Benchmark Administration Limited is included in the FCA's register of administrators under Article 36 of Regulation (EU) No 2016/1011 as it forms part of UK domestic law by virtue of the EUWA (the "**UK Benchmarks Regulation**").

The Issuer is rated "B1" (long-term and outlook stable) and "NP" (short-term) by Moody's Investors Service Ltd. ("**Moody's**"). The Notes are expected to be rated "B1" 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 a credit rating agency established in the UK and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009 as it forms part of UK domestic law by virtue of the EUWA (the "**UK CRA Regulation**"). Moody's appears on the latest update of the list of registered credit rating agencies published by the FCA at *https://www.fca.org.uk/markets/credit-rating-agencies/registered-certified-cras* in accordance with the UK CRA Regulation. Moody's has its credit ratings endorsed by Moody's Deutschland GmbH, which is established in the EU and registered with the European Securities and Markets Authority ("**ESMA**") under Regulation 1060/2009/EC as amended. Moody's Deutschland GmbH, which endorses the credit ratings of Moody's is included in the list of credit rating agencies available on the ESMA website (*http://www.esma.europa.eu/page/list-registered-and-certified-CRAs*).

Joint Lead Managers

GOLDMAN SACHS INTERNATIONAL **NATWEST MARKETS**

IMPORTANT NOTICES

This Prospectus constitutes a prospectus for the purpose of the UK 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 this Prospectus does not omit anything likely to affect the import of such information.

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

None of the Joint Lead Managers (as defined in "*Subscription and Sale*"), Law Debenture Trustees Limited (the "**Trustee**") or any of their respective directors, officers, employees, 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 any of them 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 Lead Managers, the Trustee or any of their respective directors, officers, employees, 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, financial, legal, business, tax or accounting advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

Neither of the Joint Lead Managers nor the Trustee make any representation or warranty or assurance as to the suitability of the Notes to fulfil any green, social, environmental or sustainability criteria required by any prospective investors. The Joint Lead Managers and the Trustee have not undertaken, nor are they responsible for, any assessment of the eligibility criteria for Eligible Green Assets (as defined in "*Use of Proceeds*" below), any verification of whether the Eligible Green Assets meet such criteria or the monitoring of the use of proceeds of the Notes (or amounts equal thereto) by the Issuer or the Bank. Investors should refer to the GSS Framework and the Second Party Opinion (each as defined in "*Use of Proceeds*" below), as the same may be amended, superseded or replaced from time to time, and any public reporting by or on behalf of the Group in respect of the application of the proceeds of the issue of the Notes (or amounts equal thereto) for further information. Neither the GSS Framework nor the Second Party Opinion is incorporated by reference in, nor forms part of, this Prospectus and neither of the Joint Lead Managers nor the Trustee makes any representation as to the suitability or reliability or contents thereof for any purpose nor is any opinion or certification of any third party a recommendation by the Joint Lead Managers to sell or hold the Noted. In the event the Notes are listed, or admitted to trading on a dedicated "green", "social" or "sustainable" or other equivalently-labelled segment of any other stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Joint Lead Managers that such listing or admission will be obtained or maintained for the lifetime of the Notes.

No person is authorised to give any information or to 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 Lead Managers or any of their respective directors, officers, employees, affiliates, advisers or agents. The delivery of this Prospectus does not imply that there has been no change in the business or affairs of the Issuer since the date hereof or that the information herein is correct as of any time subsequent to its date.

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;

(v) be familiar with and understand the potential impacts on their investment of the recovery and resolution powers available to the UK resolution authorities under the Banking Act 2009, as amended, with respect to credit institutions (such as the Bank), their group companies (such as the Issuer) and securities issued by any of them (such as the Notes); and

(vi) 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.

THE GROUP

For the purposes of this Prospectus, "**Group**" means the Issuer and its subsidiaries (or, where applicable, those of its subsidiaries which are within the prudential and/or resolution group of which the Issuer forms part) taken as a whole. The "**Holding Company Group**" refers to the Holding Company and its subsidiaries and subsidiary undertakings (including the Issuer and the Bank) taken as a whole.

OFFER RESTRICTIONS

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, persons who (i) are outside the United Kingdom or (ii) if they are inside the United Kingdom, are not retail investors (as defined below) and who are (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) other persons to whom it may be lawfully communicated under 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 Lead Managers to inform themselves about and to observe all 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*".

PROHIBITION OF SALES TO EEA 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 EEA. 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 "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

PROHIBITION OF SALES TO 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 UK. For these purposes, a "**retail investor**" means a person who is one (or more) of: (i) a retail client as defined in point (8) of Article 2 of Regulation (EU) 2017/565 as it forms part of UK domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (8) of Article 2(1) of UK MiFIR. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (as amended, the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

UK MIFIR PRODUCT GOVERNANCE - 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 only eligible counterparties (as defined in the FCA Handbook Conduct of Business Sourcebook) and professional clients (as defined in UK MiFIR) 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 the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") 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.

MIFID II PRODUCT GOVERNANCE - TARGET MARKET

Solely for the purposes of the 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 distributor should take into consideration the manufacturer's 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 manufacturer's target market assessment) and determining appropriate distribution channels.

SINGAPORE SFA PRODUCT CLASSIFICATION

In connection with Section 309B of the Securities and Futures Act 2001 (2020 Revised Edition) 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).

NOTICE TO PROSPECTIVE INVESTORS IN AUSTRALIA

This Prospectus does not constitute a prospectus, a disclosure document or a product disclosure statement for the purposes of the Corporations Act 2001 (Cth) ("**Corporations Act**") and does not purport to include all the information required for a prospectus, a disclosure document or a product disclosure statement under the Corporations Act. No prospectus, product disclosure statement or other disclosure document under Australian law has been lodged with the Australian Securities and Investments Commission in relation to the offering of the Notes.

The provision of this Prospectus to any person does not constitute an offer of, or an invitation to apply for, the Notes in Australia. Any offer in Australia of the Notes may only be made to persons who are "sophisticated investors" or "professional investors" within the meaning of sections 708(8) and (11) of the Corporations Act, respectively and who are a "wholesale client" within the meaning of section 761G of the Corporations Act. This Prospectus is not intended to be distributed or passed on, directly or indirectly, to any other class of persons in Australia.

Any person to whom the Notes are issued or sold must not offer Notes for sale in Australia in the period of 12 months after the date of issue of the Notes except where disclosure to investors is not required under the Corporations Act or where the offer is made pursuant to a prospectus, disclosure document or product disclosure statement that complies with the Corporations Act. Any person acquiring the Notes must observe such Australian on-sale restrictions.

STABILISATION

In connection with the issue of the Notes, Goldman Sachs International (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) 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 the Stabilising Manager (or persons acting on behalf of the 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 Stabilising Manager (or person(s) acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

PRESENTATION OF FINANCIAL INFORMATION

The historical financial information incorporated by reference into this Prospectus has been audited and prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The consolidated financial statements for the years ended 31 December 2020 and 2021, incorporated by reference herein, comprise the consolidated financial statements for the Group.

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. 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.

ALTERNATIVE PERFORMANCE 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 "*Documents Incorporated 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, Banking net interest margin ("**NIM**"), Common Equity Tier 1 ("**CET1**") Capital ratio, Underlying cost: income ratio, Statutory cost: income ratio, Asset quality ratio, Adjusted Return on Tangible Equity and Risk Weighted Assets. These measures are defined in the Glossary to the 2021 Annual Report, which can be viewed online at: *https://www.co-operativebank.co.uk/assets/pdf/bank/investorrelations/2021-annual-report-and-accounts.pdf*

PRESENTATION OF REGULATORY CAPITAL INFORMATION

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).

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 Chapter 4 (*Disclosure (Part Eight CRR)*) of the Part of the PRA Rulebook with title "*Disclosure (CRR)*" (as the same may be amended or replaced). 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.

CURRENCY AND ROUNDING

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.

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.

FORWARD-LOOKING STATEMENTS

Certain information contained in this Prospectus, including any information as to the Group's and/or 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.

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.

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DOCUMENTS INCORPORATED BY REFERENCE

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

(a) From the 2021 combined annual report of the Holding Company, the Issuer and the Bank (the "**2021 Annual Report**"), the following pages:

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The 2021 Annual Report can be viewed online at: *https://www.co-operativebank.co.uk/assets/pdf/bank/investorrelations/2021-annual-report-and-accounts.pdf*

(b) From the 2020 combined annual report of the Holding Company, the Issuer and the Bank (the "**2020 Annual Report**"), the following pages:

Section	Page(s)
Independent Auditor's Report to the Members of The Co-operative Bank p.l.c.	136 - 146
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The 2020 Annual Report can be viewed online at: *https://www.co-operativebank.co.uk/assets/pdf/bank/investorrelations/2020-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 UK 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*.

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/ Neither the website of the Issuer nor any information contained thereon is incorporated into, nor forms part of, this Prospectus, save as expressly provided under "*Documents Incorporated by Reference*" above.
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:	£250,000,000 Fixed Rate Reset Callable Notes due 2027
Issue Price:	100.000 per cent. of the principal amount of the Notes
Issue Date:	6 April 2022
Maturity Date:	6 April 2027
Reset Date:	6 April 2026
Status of the Notes:	The Notes will be direct, unconditional, unsecured, unguaranteed and unsubordinated obligations of the Issuer and will rank *pari passu* without any preference among themselves and, in the event of a Winding-Up (as defined in Condition 3), will rank at least *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.
Interest Rate:	The Notes will bear interest on their outstanding principal amount at the initial rate of 6.000 per cent. per annum from (and including) the Issue Date up to (but excluding) the Reset Date, and thereafter at the Reset Interest Rate determined in accordance with Condition 4. Interest will be payable in equal instalments semi-annually in arrear on each Interest Payment Date.
Interest Payment Dates:	6 April and 6 October in each year, from (and including) 6 October 2022 up to (and including) the Maturity Date.

Redemption at Maturity:	Unless previously redeemed or purchased and cancelled as provided in Condition 6, the Notes will be redeemed by the Issuer at their principal amount on the Maturity Date.
Optional Redemption on the Reset Date:	The Issuer may, subject to Condition 6.7 and having given not less than 15 nor more than 30 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.
Redemption following a Tax Event:	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 15 nor more than 60 days' notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable and shall specify the date set for redemption), as further described in Condition 6.3.
Redemption following a Loss Absorption Disqualification Event:	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 15 nor more than 60 days' notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable and shall specify the date set for redemption), if the Issuer determines that a Loss Absorption Disqualification Event has occurred, as further described in Condition 6.4.
Default and Enforcement:	Rights of enforcement in the event of payment default or breach of other obligations under the Notes or the Trust Deed are limited, as further provided in Condition 9. In particular, if the Issuer fails to pay 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 sole remedy of the Trustee (failing which, the Noteholders) will be to institute proceedings for the winding-up of the Issuer in England (but not elsewhere) and prove and/or claim in such winding-up in respect of the Notes. No Noteholder 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 or to take any other enforcement action against the Issuer in respect of the Notes or the Trust Deed unless the Trustee, having become bound so to proceed in accordance with the Conditions, fails or is unable to do so case within a reasonable time and such failure shall be continuing, in which case the Noteholder shall, with respect to the Notes held by it, have only such rights against the Issuer as those which the Trustee is entitled to exercise in respect of such Notes. See Condition 9 for further information.

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, the Issuer will, in respect of payments of interest (but not principal or any other amount) 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, save in certain limited circumstances as set out in Condition 7, all as further described in Condition 7.

Modification:

The Conditions of the Notes will contain provisions for calling meetings of Noteholders to consider and vote upon matters affecting their interests generally. Extraordinary Resolutions may also be passed by Noteholders by way of (i) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding or (ii) a resolution passed by way of electronic consents given by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding.

These provisions enable defined majorities of the Noteholders to bind all Noteholders. An Extraordinary Resolution passed at any meeting of Noteholders or in writing or by way of electronic consents will be binding on all Noteholders, whether or not they are present at the meeting or voting in favour or, as the case may be, whether or not signing the written resolution or providing electronic consents.

Substitution of the Issuer:

The Conditions and the Trust Deed provided that 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 the Conditions) as the principal debtor under the Notes and the Trust Deed of the Holding Company or a Successor in Business (as defined in the Trust Deed) of the Issuer or a subsidiary of the Issuer or of the Holding Company, 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.

Form of the Notes:

The Notes will be issued in registered form in denominations of £100,000 and integral multiples of £1,000 in excess thereof. The Notes will be represented initially upon issue by the Global Certificate which will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg on or around the Issue 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:	Application has been made to list the Notes on the Official List and for the Notes to be admitted to trading on the Market with effect from on (or around) the Issue Date.
Clearing:	The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with the following ISIN and Common Code: ISIN: XS2464403877 Common Code: 246440387
Governing Law:	The Notes and the Trust Deed 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*".
Prohibition of sales to EEA and UK retail investors:	The Notes are not intended to be offered, sold or otherwise made available, and should not be offered, sold or otherwise made available, to retail investors in the EEA or the UK. See further under "*Offer Restrictions*" above and *Subscription and Sale*" below.
Risk Factors:	Investing in the Notes involves a high degree of risk. See the section of this Prospectus headed "*Risk Factors*".
Ratings of the Notes:	The Notes are expected to be rated "B1" by Moody's. As defined by Moody's, obligations rated "B" are judged to be "*speculative and are subject to high credit risk*". The modifier "1" indicates that "*the obligation ranks in the higher end of its generic rating category*". (*Source: Moody's: https://www.moodys.com/ratings-process/Ratings-Definitions/002002*) 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.
Use and Estimated Net Amount of Proceeds:	The proceeds of the issue of the Notes will be on-lent to the Bank. The Notes are intended to count towards the resources of the Group available for meeting its minimum requirement for own funds and eligible liabilities ("**MREL**") and the on-loan is intended to count as MREL of the Bank and its group. This will further strengthen the Bank's loss absorbing capacity base. The Issuer and the Bank intend that the Bank will use an amount equal to the net proceeds of the issue of the Notes (expected to amount to approximately £249,000,000) for the purposes of advancing loans to customers for financing and/or refinancing, in whole or in part, Eligible Green Assets in accordance with the Group's GSS Framework from time to time. See further "*Use of Proceeds*".

Recognition of UK Bail-in Power:	Notwithstanding, and to the exclusion of, any other term of the Notes or any other agreements, arrangements, or understandings between the Issuer and any Noteholder or beneficial owner of any Notes, by its acquisition of any Note (or any interest therein), each Noteholder (and each beneficial owner of Notes) will acknowledge and accept that the Amounts Due or any other liability arising under the Notes may be subject to the exercise of the UK Bail-in Power by the Resolution Authority, and will acknowledge, accept, consent to, and agree to be bound by the effects thereof, all as further described in Condition 19.

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 ISSUER, THE BANK AND THE GROUP

The Bank is a wholly-owned subsidiary of the Issuer and is the principal operating subsidiary within the Group. The Issuer is an intermediate holding company, its principal asset being its investment in the Bank. Accordingly, risks affecting the financial condition, business and operations of the Bank will also affect the Issuer and the Group, and the description of risks set out below as they relate to the Bank should be read accordingly.

Risks relating to the Bank's Macroeconomic and Geopolitical 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 in the United States and China), including those related to economic and trade policies, tensions in the Middle East and 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**") pandemic. The global economy remains sensitive to drastic measures taken by governments around the world to fight the virus, which 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 the UK or other 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 continue to review and adapt 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 "*Risks 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 prior to 2021, and the Bank of England's Term Funding Scheme with additional incentives for small and medium-sized enterprises ("**SMEs**") ("**TFSME**") have helped to ease these funding pressures. However, the TFSME and other government funding facilities introduced to support the economy during the Covid-19 pandemic are now closed to new drawings and, as such, the cost of funding could increase again, particularly if there were to be any further tightening of funding conditions in the UK and in Europe.

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.

In addition, inflationary pressures in the UK and other developed economies are expected to result in central banks raising interest rates in 2022 and over time, resulting in increased costs of funding for the Bank. If inflation outpaces wage-growth, and/or if unemployment rises, this pressure on households may lead to an increase in arrears in the Bank's residential lending portfolios, and the Bank's unsecured debt products (as described in "*Business Overview*" – "*Product Offering*" – "*Retail Lending*" – "*Unsecured Lending*") and an associated increase in retail impairment provisions. See also 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 a fall in house prices could result in increased residential mortgage 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 exit of the UK from the EU on 31 January 2020 and related political events in the UK and Europe has resulted in prolonged periods of uncertainty, including, but not limited to, whether there will be 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.

Because a significant proportion of the regulatory regime applicable to the Bank has been 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 continue 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 has created additional challenges and resulted in unprecedented restrictions on individuals and businesses all around the world. The Covid-19 pandemic, and the measures implemented by governments around the world in response, have severely impacted both the UK and global economies and the economic environment in which the Bank operates, and may continue to present further risks and challenges.

The UK experienced an unprecedented contraction in economic activity during 2020 as a result of the pandemic and associated government intervention to reduce the spread of the virus. While the average independent forecast for the UK economy, as collated by HM Treasury in September 2021, expects GDP to increase by 6.9 per cent. in 2021 and by 5.5 per cent. in 2022, in part due to the anticipated success of vaccination programmes and further adaptation of the UK and global economies, there can be no guarantee that new vaccine-resistant variants of Covid-19 will not emerge and that there will not be further governmental action, both domestically and abroad, to control the spread of the virus.

Although the UK Government and the Bank of England provided guarantees to banks relating to lending schemes that have been initiated to support businesses through the 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 included participation in the Bounce Back Loan Scheme ("**BBLS**"), the UK Coronavirus Business Interruption Loan Scheme ("**CBILS**") and the UK Coronavirus Large Business Interruption Loan Scheme ("**CLBILS**").

In response to the pandemic, the Bank of England cut interest rates to historically low levels which may result in longer term economic effects, potentially putting pressure on the Bank's financial performance. However, the Bank of England has since raised interest rates, and further increases are expected in 2022 and over time. 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 a fall in house prices could result in increased residential mortgage 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*".

Further measures may also be taken by regulators to address potential capital and liquidity stress, which could limit the Bank's ability 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.

The synchronisation of emergency measures to slow the spread of Covid-19 across the world brought about rapid deterioration in economic growth across all countries and regions which is likely to inflict long-term 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 a fall in house prices could result in increased residential mortgage 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*"). 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 continues to review and adapt 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.

The relationship of the UK with the EU after the withdrawal of the UK from the EU may affect UK and European economies and/or financial markets

The Bank is subject to risks resulting from the UK's withdrawal from the European Union ("**Brexit**") on 31 January 2020, on which date the UK ceased to be a member of the EU and the EEA. By virtue of the European Union (Withdrawal) Act 2018, as amended, and the EU-UK Withdrawal Agreement which entered into force on 1 February 2020 (the "**Withdrawal Agreement**"), EU law and EU-derived domestic legislation continued to apply to and in the UK during a transition period lasting until 31 December 2020, and much of the body of existing EU law continues to be retained as part of domestic UK law for the time being.

On 24 December 2020, an agreement in principle was reached in relation to the EU-UK Trade and Cooperation Agreement (the "**Trade and Cooperation Agreement"**), to govern the future relations between the EU and UK following the end of the transition period. The Trade and Cooperation Agreement entered into force on 1 May 2021. The Trade and Cooperation Agreement does not, however, create a detailed framework to govern the cross-border provision of regulated financial services from the UK into the EU and from the EU into the UK. The Trade and Cooperation Agreement covers trade in goods and services, establishes a framework for cooperation as to a citizen's security and a governance mechanism. Within the Trade and Cooperation Agreement, the UK and the EU made a Joint Declaration on financial services

regulatory cooperation. In March 2021, the parties agreed a memorandum of understanding establishing the framework for this cooperation. Despite the memorandum of understanding, there is a significant risk that the UK and the EU will not reach an agreement on their future relationship in financial services, or may reach a significantly narrower agreement than that envisaged by market participants. There are a number of other areas of uncertainty in connection with the future of the UK and its relationship with the EU and it is not currently possible to determine the impact that the UK's departure from the EU and/or any related matters may have on general economic conditions in the UK, or the impact of these matters on the business of or on the regulatory position of the Issuer, the Bank or its counterparties relating to EU regulation or more generally.

To minimise the risks for firms and businesses, the UK government implemented secondary legislation under powers provided in the EUWA to ensure that the UK had a functioning statute book from 31 December 2020. The UK's financial services regulators have also been granted temporary transitional powers to delay or modify certain regulatory obligations firms face pursuant to a statutory instrument made under Section 8 of the EUWA. These modifications are temporary and there can be no assurance that such arrangements will continue to be available in the future.

The pan-EU authorities, such as the European Commission, did not put in place temporary legislative regimes similar to those in place in the UK to enable continued passporting access, for a time-limited period, for UK firms after they lost their passporting rights from the end of the transition period on 31 December 2020.

Due to the continued 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, over time, 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 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 loan-to-value ("**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, other benchmark rates such as SONIA 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.

A decline in UK house prices may be driven by the adverse economic impacts of Covid-19 or Brexit (see "*Risks relating to the impact of Covid-19*" and "*The relationship of the UK with the EU after the withdrawal of the UK from the EU may affect UK and European economies and/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.

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, 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 Bank of England base rate costs to retail or SME depositors.

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 ongoing Covid-19 pandemic may heighten this risk. See "*Risks relating to the impact of Covid-19*".

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 own funds instruments and other 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

In December 2018, the Bank adopted a new five year business plan (the **"2019 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 2021, the Bank updated the 2019 Plan (the "**Plan**") following the progress made to deliver the strategic objectives with particular focus on the material delivery of key strategic projects such as Separation from the Co-operative group (including pension scheme and IT services separation) and Desktop Transformation, through upgrading IT hardware and software. The Plan continues to focus on targets for improved growth and efficiency. The Plan sets out the refreshed and extended outlook over 2022-2026 (the "**planning period**"), with the Bank targeting balance sheet growth, cost control, further technology transformation and sustained profitability.

Plan Implementation Risk

There is a risk that the Bank's strategy to deliver the Plan may be insufficient to address the Bank's previous 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 and diversifying revenue in its businesses;
- further cost reductions;
- implementation of its IT strategy; 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 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 own funds instruments or other MREL-qualifying debt) as assumed or expected or at all. Should failure to deliver the Plan lead to a deficiency in the Bank meeting its various capital requirements (as described under "*The prudential environment applicable to the Bank and the Group continues to evolve*" below) 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 resolution authorities, imposing a write-down of the Issuer's and/or Bank's regulatory capital instruments, including the Notes, 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 remain challenging 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 continuing to subside, market conditions, interest rates, 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 for the Group to issue further regulatory capital instruments and other debt qualifying for inclusion in the Issuer's and the Group's minimum requirements for own funds and eligible liabilities ("**MREL**"). The issue of the Notes is being undertaken in anticipation of current regulatory and MREL 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 Bank and/or the Group (whether specifically applicable to the Bank and/or the Group or to banks more generally), resulting in a need for the Bank and the Group 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 Bank and the Group 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 Bank and the Group may breach their respective 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 or the Group, including resolution or pre-resolution measures under the UK Banking Act 2009 (the "**Banking Act**").

From 1 January 2021, both the external interim MREL requirement applicable to the Issuer (as the 'resolution entity' that would be subject to the use of resolution powers under the preferred resolution strategy), and the internal interim MREL requirement (MREL issued from the Bank, which is not the 'resolution entity', to the Issuer) applicable to the Bank were equal to the aggregate of (i) £400 million; and (ii) the Bank's total capital requirement (being 14.1 per cent. of risk weighted assets as at 31 December 2021). The additional MREL above its total capital requirements is required to increase the 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 Group. From 1 January 2023, the Bank's end-state MREL requirement will be increased from the current interim requirement and defined as the higher of (i) two times the Bank's total capital requirement or (ii) (only if the Bank is then subject to a binding leverage ratio requirement, which it currently is not) two times the Bank's leverage ratio. In addition to previous MREL issuances and

the proposed issue of Notes under this Prospectus, the Issuer may issue further MREL qualifying debt in order for the Group to meet its end state MREL requirements by 1 January 2023.

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 Bank and the Group will be unable to maintain their capital requirements compliance, and meet the MREL and capital buffer requirements, and pillar 2 guidance, when planned, or at all. The Bank's Plan targets a surplus to the Bank's pillar 2 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 Bank's and the Group's regulatory capital position, including their ability to maintain adequate loss-absorbing capacity. A failure by the Bank and/or the Group 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 Group's capital instruments (including the Notes) and potentially other eligible liabilities (see "*The UK Banking Act 2009 confers substantial powers on the UK resolution authorities, designed to enable them to take a range of actions in relation to UK deposit-taking institutions (and their groups) which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer, the Group, the Bank or the Notes could materially adversely affect the value of the Notes and/or the rights of Noteholders*") and the power to place the Issuer and Bank within the Special Resolution Regime (the "**SRR**") if they consider the Bank would otherwise be likely to fail.

If the further MREL qualifying instruments contemplated in the Plan are not issued, the Bank may in the future be double-counting CET1 towards the then-applicable interim or end-state MREL and capital buffer requirements, which would be contrary to the PRA's expectations. The principal remedy to any double-counting is the issue of further MREL qualifying instruments.

A double-count of CET1 towards MREL and capital buffers may result in automatic restrictions under the prudential rules (for example, if the minimum mandatory buffer requirements under CRD IV are not met, mandatory restrictions on distributions on CET1 and Additional Tier 1 capital (if in issue) apply under the Capital Buffer part of the PRA Rulebook) and/or 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 (which the PRA may elect to implement even if the mandatory capital and buffer requirements are met, for example if there is a failure to meet in full the PRA buffer guidance). This could include increased regulatory attention or requirements, a variation of the Bank's permissions, restricting the Bank's business or, in conjunction with the other 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

Through the planning period, the Plan targets increases in the Bank's net interest margin driven by 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 underlying 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 profit margin, 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 intermediary lending over the life of the Plan, and that unsecured loan balances decrease. Credit card balances are assumed to increase modestly through 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 'Fintech' 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 deposit and lending customers are 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 participated in the TFSME scheme to reduce liability expense (which closed in October 2021). However, pressure to re-finance TFSME scheme drawings towards the latter part of the planning period may adversely impact the Bank's ability to price deposit and lending 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 (a subsidiary of Capita Business Services Limited ("**Capita**")) (but expected to be insourced to the Bank in 2022) deteriorates, and/or that the pressure to achieve the targeted increase in mortgage assets 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*"- "*Strategy and Strengths*" - "*Strategic Plan*"). The Bank is targeting total (strategic and operational) project cash spend of approximately £46 million plus £14 million to fund permanent resource to develop digital transformation in 2022, with a focus on consolidating and upgrading its core mortgage and savings systems. In total, beyond 2022 the Plan does assume some costs are allocated to, as yet, unknown regulatory and mandatory projects, but limited costs are allocated for change requirements which are 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, and wholesale funding issuances, including the issuance of own funds and other MREL qualifying instruments, 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 costs inhibit the Bank's profitability and may hinder its ability to generate new capital

The Bank's high underlying cost:income ratio of 88.4 per cent. as at 31 December 2021 (31 December 2020: 113.8 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 targeted total statutory costs in 2024 of less than £300 million. This is driven by a planned reduction in the cost base, which in part is to be enabled by successful transformation project delivery beforehand. These 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 and enhanced system productivity benefits.

There is a risk that if the Bank does not deliver its cost reduction initiatives there will be a negative impact on its profitability and capital position. Furthermore, the implementation of cost reduction initiatives, for example reductions in full time equivalent employee numbers, changes to third-party supplier arrangements, systems transformation activity, 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 could cause the Bank's earnings and profitability to decline. There is a risk that impairment losses 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 impairment losses may increase to levels much higher than those 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 planning period.

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) or existing conduct and legal risk issues develop. As such, 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 any other present or future provisions that may be made from time to time in respect of known issues (such as those described in the section "*Litigation*"), 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 Group's profitability in recent years and may impact its ability to maintain profitability in the coming years

The Holding Company Group's statutory profit before taxation for the year ended 31 December 2021 was £31.1 million (£103.7 million loss for the year ended 31 December 2020). There remain a number of challenges to maintaining 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 the Plan is exposed to a range of internal and external factors. There is, therefore, a risk that the timing or feasibility of the Group'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 and the Group may not continue to operate profitably to the extent 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 each have a board with a majority of independent non-executive directors and 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) 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) 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 Directors (as defined in the articles of association of the Holding Company, the Issuer and the Bank) of each of the Holding Company and, via the Holding Company's holdings in the Issuer, the Issuer, and via the Issuer's holdings in the Bank, the Bank, may be appointed by the B Shareholders. If the B 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 approval required above for actions contemplated by the Bank's strategy and the 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, merger, acquisition 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 acquisition, merger or sale opportunities that may emerge, especially in light of the Bank's achievements over the last twelve months and the challenging sector-wide operating environment and outlook. Any such action could impact the

Bank's future 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 and may not be an accurate guide to future performance of the Bank following such transaction. Following completion of a consolidation, merger, acquisition or sale transaction, the Bank's strategy could materially change, which may adversely affect the Bank's financial condition, results of operations and business performance as well as its ability to attract or retain key personnel.

Engagement with any parties in respect of any potential consolidation, merger, acquisition or sale of or by the Bank 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

Any potential consolidation, merger, acquisition, or sale of or by the Bank (and/or the Issuer and/or 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 due diligence investigations in relation to the Bank or the target third party 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.

Risks relating to the regulatory environment in which the Bank operates

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, the Bank and the Group (whether specifically applicable to the Bank and/or the Group or to banks more generally), resulting in a need for the Bank and the Group to raise further own funds or other MREL-qualifying instruments. 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 Bank and the Group 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 Bank and the Group may breach their 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 prudential environment applicable to the Bank and the Group continues to evolve

Development of the prudential framework

Following the global financial crisis which commenced in 2007/8, the Basel Committee issued guidance on a number of fundamental reforms to the regulatory capital framework (such reforms are collectively referred to as "**Basel III**"), including additional capital requirements, higher capital ratios, more stringent eligibility requirements for capital instruments, leverage ratio requirements and liquidity requirements. The original components of the Basel III reform package were implemented in the EEA through Regulation (EU) No 575/2013 (the "**Capital Requirements Regulation**" or the "**CRR**") and Directive 2013/36/EU (the "**Capital Requirements Directive**" or the "**CRD IV**"), which were published in the Official Journal of the European Union on 27 June 2013. The CRR established a single set of harmonised prudential rules which apply directly to all credit institutions in the EEA, with CRD IV containing other provisions required to be transposed into

national law. Full implementation began from 1 January 2014, with particular elements being phased in over a period of time, now expected to be required to be fully effective by 2030.

On 7 December 2017, the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision, endorsed the outstanding Basel III post-crisis regulatory reforms (the "**final Basel III standards**").

These are intended to help reduce excessive variability in risk-weighted assets and improve the comparability and transparency of banks' risk-based capital ratios and include the following elements:

- a revised standardised approach for credit risk, to improve the robustness and risk sensitivity of the existing approach;

- revisions to the internal ratings-based approach for credit risk, where the use of the most advanced internally modelled approaches for low-default portfolios will be limited;

- revisions to the credit valuation adjustment ("**CVA**") framework, including the removal of the internally modelled approach and the introduction of a revised standardised approach;

- a revised standardised approach for operational risk, which will replace the existing standardised approaches and the advanced measurement approaches;

- revisions to the measurement of the leverage ratio and a leverage ratio buffer for global systemically important banks ("**G-SIBs**"), which will take the form of a Tier 1 capital buffer set at 50 per cent. of a G-SIB's risk-weighted capital buffer; and

- an aggregate output floor, which will ensure that banks' RWAs generated by internal models are no lower than 72.5 per cent. of RWAs as calculated by the Basel III framework's standardised approaches. Banks will also be required to disclose their RWAs based on these standardised approaches.

On 23 November 2016, the European Commission published a package of legislative proposals providing for reform of the prudential and resolution frameworks for EU banks and credit institutions, including the implementation of certain additional elements of Basel III (though not all of the final Basel III standards) and of the Financial Stability Board's proposed minimum total loss-absorbing capacity standards. These proposals covered amendments to CRR, CRD IV, the BRRD and Regulation (EU) No. 806/2014 (the "**Single Resolution Mechanism Regulation**" or "**SRMR**"). The final legislation implementing these proposals was published in the Official Journal of the European Union on 7 June 2019. The legislation consists of Regulation (EU) No. 2019/876 ("**Capital Requirements Regulation II**" or "**CRR II**"), Directive (EU) No. 2019/878 ("**Capital Requirements Directive V**" or "**CRD V**"), Directive (EU) No. 2019/879 ("**BRRD II**") and Regulation (EU) No. 2019/877 ("**SRMR II**") and came into force on 27 June 2019 (together the "**EU Banking Reform Package**"), with certain provisions applying from 27 June 2019, one provision relating to exemptions from deductions of equity holdings applying retrospectively from 1 January 2019 and other provisions gradually being phased in and/or being subject to national implementation. Most CRR II provisions applied from 28 June 2021, which is after the transition period, and as such the CRR II provisions were not onshored into UK law. To implement the remaining elements of the Basel Standards into the UK, HM Treasury has revoked a number of existing CRR articles and the PRA published the policy statement 17/21 in July 2021 covering the following elements:

- revisions to the standardised approach for counterparty credit risk;

- a binding net stable funding ratio ("**NSFR**") (which requires credit institutions and systemic investment firms to finance their long-term activities (assets and off-balance sheet items) with stable sources of funding (liabilities) in order to increase banks' resilience to funding constraints). This

means that the amount of available stable funding will be calculated by multiplying an institution's liabilities and regulatory capital by appropriate factors that reflect their degree of reliability over a year. The NSFR will be expressed as a percentage and set at a minimum level of 100 per cent., indicating that an institution holds sufficient stable funding to meet its funding needs during a one-year period under both normal and stressed conditions;

- amendments to regulatory returns and disclosure templates; and
- introduction of disclosures for Interest Rate Risk in the Banking book into Pillar 3. This refers to the current risk to capital and earnings from adverse movements in interest rates that impact the banking book positions. When interest rates change, the present value and timing of future cash flows also alters.

Under the terms of the Withdrawal Agreement, the UK was required to transpose CRD V into national law, given that the application date (29 December 2020) fell before the Brexit transition period ended – this Directive, with some exceptions (including those aspects due to enter into force after 31 December 2020), now forms part of retained or onshored EU law in the UK. Equally, those provisions of the CRR II and BRRD II which applied before the end of the transition period also form part of retained EU law, with some exceptions.

On 29 April 2021, the UK's Financial Services Act 2021 (the "**FSA 2021**") received Royal Assent. A key element of the FSA 2021 is the UK implementation of the outstanding Basel III standards. The FSA 2021 provides for the implementation of those aspects of the Basel III standards (which were finalised between 2010 and 2017) that were introduced into the EU as part of the EU Banking Reform Package but that did not apply across the EU until after the end of the Brexit transition period, and consequently were not implemented in the UK. It also provides for the implementation of the final Basel III standards agreed between 2017 and 2019 (for example, in relation to the calculation of RWAs) that have not yet been implemented by either the EU or the UK.

On 21 March 2022, the PRA announced that it intends to publish a consultation paper on the implementation of the final Basel III standards (which it refers to as 'Basel 3.1') in the UK in the fourth quarter of 2022, and that its current intention is to consult on a proposal that these changes will become effective on 1 January 2025. Given the anticipated five-year phase-in period, these new standards would become fully effective by 2030.

The Government and the PRA remain committed to the UK's implementation of the Basel standards.

The capital requirements of the Bank and the Group

The capital requirements of the Bank and the Group are assessed on both a risk-weighted basis and a total leverage basis:

- ***Risk-based capital requirements***: Under the current prudential framework as at the date of this Prospectus, the Bank and the prudential Group to which it belongs (which is consolidated at the level of the Holding Company) are required to hold minimum amounts of regulatory capital equal to 8 per cent. of risk-weighted assets (the "**Minimum Capital Requirement**" or "**MCR**"), plus additional capital buffers comprising a capital conservation buffer and a counter-cyclical buffer. The PRA may also impose a systemic risk buffer (intended to prevent and mitigate macroprudential or systemic risks). Banks may also be designated as 'global systemically important institutions' ("**G-SII**") or 'other systemically important institutions' ("**O-SIIs**"), which designation may attract further buffer requirements (although the Bank is not presently designated as either a G-SII or an O-SII). These combined buffer requirements (the "**buffer requirement**") and the Minimum Capital Requirement together are referred to as "**Pillar 1**" capital requirements, and are applied generally to banks or, for certain of the buffers, banks having certain characteristics.

In addition to the Pillar 1 capital requirement, the PRA may impose individual capital add-ons specific to an institution, which can include an add-on to the Minimum Capital Requirement (often referred to as "**Pillar 2A**", the "**Pillar 2 Requirement**" or "**P2R**") and/or an add-on to the buffer requirements (often referred to as "**Pillar 2B**", the "**PRA buffer**", "**Pillar 2 Guidance**" or "**P2G**").

The Minimum Capital Requirement and Pillar 2A requirement must be met with at least 56.25 per cent. CET1 capital and at least 75 per cent. Tier 1 capital, with not more than 25 per cent. Tier 2 capital. The buffer requirement and PRA buffer must be met solely with CET1 capital. The PRA presently requires that the level of the PRA buffer is not publicly disclosed (unless required by law).

As at the date of this Prospectus, the overall capital requirement (excluding the PRA buffer) of the Bank (and of the Group, which has the same requirements as the Bank) is 16.6 per cent. of its risk-weighted assets, comprising the MCR of 8 per cent., a capital conservation buffer of 2.5 per cent., a counter-cyclical buffer of 0.0 per cent. and a Pillar 2A requirement of 6.1 per cent. of its risk weighted assets (as at 31 December 2021). The Group is also required to meet overall MREL requirements designed to support the preferred resolution strategy for the Group (as further discussed below). The Bank and the Group may also decide to hold additional amounts of capital and MREL-eligible instruments, as part of its risk and growth strategies.

As at 31 December 2021, the Bank's (and the Group's) CET1 ratio was 20.7 per cent. (including intangibles benefit of 0.6 per cent.) and its total regulatory capital ratio was 25.4 per cent. The Bank (and the Group) does not currently comply with its Pillar 2B guidance (currently set by the PRA at a level in order to withstand prudential stress test scenarios, and to be met exclusively with CET1 capital). The Bank does not require PRA forbearance if its Pillar 2B guidance is not met, though the PRA does have powers it can exercise whilst the Bank is in deficit to its Pillar 2B guidance, should the PRA not be satisfied with the capital restoration plan submitted by the firm. While the automatic distribution constraints associated with failure to meet in full the mandatory capital buffer requirements under CRD IV do not apply to the Pillar 2B guidance, the PRA may still use its discretion to impose restrictions on discretionary distributions in such circumstances (as is currently the case with respect to the Group). PRA forbearance is required should the Bank not meet its Pillar 1 and Pillar 2A requirements, which the Bank currently does meet as at the date of this Prospectus. The Group may raise capital in order to enable it to meet its Pillar 2B requirements, but there is a risk that the Group is unable to raise such capital, or unable to do so at what it considers to be a reasonable cost. The Bank's ability to write new business and to carry out the Plan may be constrained going forwards if it is unable to raise sufficient capital, which in turn could have a material adverse impact on its performance and results of operations.

Any failure by the Bank or the Group to meet their risk-weighted capital requirements in full may have an adverse effect on their reputation as well as their businesses, operating results, financial condition and prospects, could result in regulatory intervention and, in a severe scenario, could result in the Bank's authorisation being revoked and/or restrictions on the Bank's ability to write new business.

- ***Leverage-based requirements***: The UK leverage ratio framework sits in parallel with the risk-weighted capital requirements. The calculation determines a ratio based on the relationship between Tier 1 capital and total (i.e. non-risk-weighted) exposures, including off-balance sheet items. The leverage ratio does not distinguish between unsecured and secured loans, nor does it recognise the ratio of LTV of secured lending. The UK leverage ratio was originally set at 3 per cent. of risk-weighted assets and in 2017 was increased to 3.25 per cent. of exposures (excluding central bank reserve exposures), to reflect the removal of central bank deposits from the leverage exposure measure. At least three-quarters of the leverage ratio requirement must be met with CET1 capital and up to one-quarter may be met with Additional Tier 1 capital. In addition, the UK leverage ratio framework includes two additional buffers that are to be met using CET1 capital only: an Additional Leverage Ratio Buffer ("**ALRB**"), applying to the largest UK banks and set at 35 per cent. of the

corresponding risk-weighted systemic buffer rate, and a macro-prudential Countercyclical Leverage Buffer ("**CCLB**"), which is set at 35 per cent. of the corresponding risk-weighted countercyclical buffer (and rounded to the nearest 0.1 per cent., with 0.05 per cent. being rounded up).

As at the date of this Prospectus, the Bank and the Group do not have a binding leverage ratio requirement, as the Bank has retail deposits below £50 billion. However, the Bank and the Group are subject to a supervisory expectation that they will maintain a 3.25 per cent. leverage ratio as calculated under the UK leverage ratio framework. Accordingly, the Bank and the Group monitor and report their leverage ratio on this basis, and as at 31 December 2021, the Bank's (and the Group's) UK leverage ratio as calculated using the PRA definition was 3.8 per cent. Any non-compliance with this leverage ratio expectation may have an adverse effect on the Bank's businesses, operating results, financial condition and prospects.

*RWA floors and Internal Ratings Based ("**IRB**") modelling*

The Basel Committee published their final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The rules were originally subject to a stated transitional period from 2022 to 2027, which was subsequently deferred by 12 months in light of Covid-19. Following the expiration of the Brexit transition period, the application of the output floor in the UK is a matter for the UK legislature and the Issuer's prudential regulators. HM Treasury and the PRA confirmed in April 2020 that they remain committed to the full, timely and consistent implementation of the Basel standards. On 21 March 2022, the PRA announced that it intends to publish a consultation paper on the implementation of the final Basel III standards (which it refers to as 'Basel 3.1') in the UK in the fourth quarter of 2022, and that its current intention is to consult on a proposal that these changes will become effective on 1 January 2025. Given the anticipated five-year transitional period, these new standards would become fully effective by 2030.

On 29 April 2021, the FSA 2021 received Royal Assent. A key element of the FSA 2021 is the UK implementation of the outstanding Basel III standards including the final Basel III standards. The FSA 2021 enables the implementation of the outstanding Basel III standards by giving HM Treasury the power to repeal the elements of UK CRR that need to be updated to reflect the latest Basel standards. Following repeal, many of the updates will be implemented through rules made by the PRA. This will primarily involve technical changes to the UK prudential framework as it relates to credit risk, market risk, counterparty credit risk, operational risk, large exposures, collective investment units, liquidity standards and reporting, among others.

In addition, the PRA has published a number of consultation and policy papers relating to the calculation of risk-weights. In June 2017, the PRA published a policy statement relating to residential mortgage risk-weights, including proposals to align firms' IRB modelling approaches for residential mortgage risk-weighted assets and sets out a number of modifications to the IRB modelling methodologies for residential mortgages. The PRA set the expectation for firms to update IRB models by 1 January 2022. On 14 May 2020, the PRA published a policy statement on probability of default and loss given default estimation for credit risk ("**PS 11/20**"). The provisions in this policy took effect on 1 January 2022. The PRA also published a Policy Statement, '*Internal Rating Based UK mortgage risk weights: Managing deficiencies in model risk capture*' on 6 July 2021 implementing an exposure weighted average risk weight of at least 10 per cent. for all UK residential mortgage exposures to which a firm applied an IRB approach. The PRA made a number of changes to its draft proposals in CP14/20, namely: (i) the PRA decided not to introduce the proposed 7 per cent. minimum risk weight expectation on individual UK mortgage exposures. Instead, the PRA stated that it would consider carefully the calibration of the incoming 'probability of default' and 'loss given default' floors for mortgage exposures as part of the PRA's implementation of the final Basel III standards; and (ii) mortgage exposures classified as in default will be excluded from the 10 per cent. average minimum risk weight expectation. The Policy Statement was implemented on 1 January 2022. Additionally, on 7 April 2021, the PRA published CP 7/21 "*Credit risk: The identification of the nature, severity and duration of an*

economic downturn for the purposes of IRB models". The Bank has factored the anticipated RWA floor changes and the impact of other expected IRB model development changes into its Plan. On a transitional basis, the impact of these changes on the Bank is expected to be minimal, though the end-point arrangements (expected in 2030) are expected to have a material impact on the Bank's capital ratios.

The Bank has a large number of new IRB models. There is a risk that the PRA's review of the models, 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 Group's and the Bank's regulatory capital position or erroneous regulatory capital being calculated.

MREL and resolution strategy

The Group is also subject to MREL requirements designed to support its preferred resolution strategy. The preferred resolution strategy for the Group has been set by the Bank of England as "bail-in", through a single point of entry (the Issuer). 'Bail-in' would be expected to result in the write down or conversion of all or a large part of the Group's own funds and other eligible liabilities (and could in addition result in the write down or conversion of other, more senior-ranking liabilities of the Issuer), although the actual approach taken, should the Group require resolution, will depend on the circumstances at the time of a failure, and all available options would be considered by the Bank of England.

In accordance with the 'bail-in' resolution strategy, the Bank and the Group must maintain MREL resources comprising certain levels of own funds and other 'eligible liabilities' which are available to be bailed-in (i.e. written down or converted to equity) in a financial stress scenario. The MREL requirements are calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities, and are intended to comprise both a 'loss absorption' component (designed to absorb the losses in the Group) and a 'recapitalisation' component (designed to replenish the capital base of the Group after it has been eroded through loss absorption).

The BoE has set the Bank and the Group an interim MREL requirement of the aggregate of (i) £400 million and (ii) its total capital requirement of 14.1 per cent. of the Bank's RWAs as at 31 December 2021. From 1 January 2023, the end-state MREL requirement of the Bank and the Group will be increased from the current interim requirement and defined as the higher of (i) two times the Bank's total capital requirement or (ii) (only if the Bank is then subject to a binding leverage ratio requirement) two times the Bank's leverage ratio.

Any failure by the Bank or the Group to meet their MREL requirements in full may have an adverse effect on their reputation as well as their businesses, operating results, financial condition and prospects and could result in regulatory intervention.

Post-Brexit changes to the UK prudential and resolution regimes

HM Treasury has elected not to implement certain parts of the EU Banking Reform Package which were not required to be implemented until after the end of the Brexit transition period under the Withdrawal Agreement, including Article 1(17) of BRRD II, which revised the framework for MREL requirements in the EU.

In addition, certain provisions of the EU Banking Reform Package which were implemented by 28 December 2020 were brought into effect on terms that they automatically ceased to apply following the expiration of the Brexit transition period. These provisions include the following:

- Article 1(6) of BRRD II, which inserted a new Article 16a in BRRD to provide the resolution authority with the power to prohibit an entity from distributing more than the 'maximum distributable amount' relating to the minimum requirement for own funds and eligible liabilities, where the entity fails to meet the combined buffer requirement, subject to certain conditions;

- Article 1(20) of BRRD II, which introduced a new Article 48(7) of BRRD, making changes to priority of debts in insolvency;
- Article 1(21) of BRRD II, which updated Article 55 of BRRD on the contractual recognition of bail-in; and
- Article 1(30) of BRRD II, which amended the existing in-resolution moratorium power under Article 69 of BRRD.

Furthermore, in CP17/20, the PRA indicated that it anticipated making certain further changes to the prudential regime, including changes to the application of Maximum Distributable Amounts restrictions in order to improve firms' ability to use their combined buffers as intended when subject to a severe but plausible stress. The proposed changes include (i) removing the restriction which precludes firms from making distributions that would cause their CET1 levels to fall into the combined buffer, and (ii) amending the definition of the Maximum Distributable Amounts to include certain profits already recognised as CET1 over the preceding four calendar quarters, net of distributions. The PRA's Policy Statement PS26/20 in relation to CRD V confirmed these proposed changes.

The EU financial services rules onshored during the process of leaving the EU are part of UK law and as such are the responsibility of HM Treasury. It is the express intention of HM Treasury that the rules will move into the regulators' rule books to provide the FCA and PRA with additional powers.

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. 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 "*The UK Banking Act 2009 confers substantial powers on the UK resolution authorities, designed to enable them to take a range of actions in relation to UK deposit-taking institutions (and their groups) which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer, the Group, the Bank or the Notes could materially adversely affect the value of the Notes and/or the rights of Noteholders*") 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.

Furthermore, there is a risk that the Bank's regulatory capital and loss absorbing capacity requirements and guidance, or the PRA's 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 of an increase in RWAs beyond the levels assumed in the Plan following the implementation of PS 11/20 or that the PRA may at their discretion may apply or increase individual capital buffers which increase the Bank's regulatory capital requirements.

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. In July 2021, the FCA announced its '*Mortgage Prisoners review: terms of reference*' with the mandate to report to HM Treasury on the outcome of the review. The FCA reviewed the effect of its interventions to remove regulatory barriers to switching. The report was laid before Parliament in November 2021.

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, although under certain transitional provisions firms had until 30 July 2020 to comply. In response to the Covid-19 pandemic, the FCA has also introduced a number of temporary changes to mortgage regulation in the UK, including through guidance on payment deferrals (FS20/17) and repossessions (FS21/2) (collectively, the "**Guidance**"), with updated guidance on payment deferrals and guidance on tailored support for customers published in January 2021 and again in June 2021. The Guidance allowed eligible customers to defer up to six monthly payments until 31 July 2021, on which date the payment deferrals and support under the Guidance ended.

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.

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, the EU and worldwide have implemented and continue to consider a range of legislative and regulatory changes. These include, amongst others:

LIBOR

The London interbank offered rate ("**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 reform. 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 "**EU 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. 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). Regulation (EU) 2016/1011 as it forms part of UK domestic law by virtue of the EUWA (the "**UK Benchmarks Regulation**"), among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits use in the UK by UK supervised entities (such as the Issuer) of "benchmarks" of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The UK Benchmarks 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 UK 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. 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 has been the subject of ongoing regulatory scrutiny. The FCA indicated through a series of announcements that the continuation of LIBOR would not be guaranteed after 2021. On 5 March 2021, ICE Benchmark Administration Limited ("**IBA**"), the administrator of LIBOR, published a statement confirming its intention to cease publication of all LIBOR settings, together with the dates on which this will occur, subject to the FCA exercising its powers to require IBA to continue publishing such LIBOR settings using a changed methodology. Concurrently, the FCA published a statement on the cessation and loss of representativeness of all LIBOR currencies and tenors, following the dates on which IBA has indicated it would cease publication (the "**FCA Announcement**"). Permanent cessation occurred immediately after 31 December 2021 for all Euro and Swiss Franc LIBOR tenors and certain Sterling, Japanese Yen and US Dollar LIBOR settings and will occur immediately after 30 June 2023 for certain other USD LIBOR settings. In relation to the remaining LIBOR settings (1-month, 3-month and 6-month Sterling, US Dollar and Japanese Yen LIBOR settings), the FCA will consult on, or continue to consider the case for, using its powers to require IBA to continue their publication under a changed methodology for a further period after end-2021 (end-June 2023 in the case of US Dollar LIBOR). The FCA Announcement states that consequently, these LIBOR settings will no longer be representative of the underlying market that such settings are intended to measure immediately after 31 December 2021, in the case of the Sterling and Japanese Yen LIBOR settings and immediately after 30 June 2023, in the case of the USD LIBOR settings. Any continued publication of the Japanese Yen LIBOR settings will also cease permanently at the end of 2022.

The cessation of LIBOR and the transition to risk-free or other rates or benchmarks 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 EU Benchmark Regulation and/or the UK Benchmarks Regulation reforms in making any investment decision with respect to the Notes.

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. These changes 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

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 an increased willingness on the part of regulators to investigate past practices of financial services firms both on an industry-wide basis and on particular firms individually.

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. Financial and other penalties may result as well as liabilities to customers by way of redress for prior breaches;
- contractual obligations may not operate or be enforceable as intended or may be enforced in a way that has adverse consequences for 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 outcomes of any potential or future legal, regulatory or other enquiries, investigations or proceedings are 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 additional civil or private litigation; potential 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 a 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 (including issuing further own funds instruments and other 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" 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

The continuing effects of the UK's exit from the EU are difficult to predict and there remains both short-term and long-term political and economic uncertainty around the departure that may have a negative impact on the UK economy, affecting its growth.

Following the end of the transition period, the EUWA provided that certain existing EU legislation which had direct effect in the UK was retained in UK law as well as existing UK laws which implemented EU obligations. The UK government was given powers to amend this retained EU legislation so that it works effectively when the UK left the EU. The UK government has used this power to make numerous statutory instruments which amended retained EU financial services legislation. The UK government's intention was that the same rules and laws apply at the point the transition period ends, as far as possible, but with the necessary amendments to reflect the UK's position outside the EU.

The Bank is subject to substantial EU-derived laws, regulation and oversight, which were impacted as a result of the UK's exit from the EU. In particular, the pan-EU authorities, such as the European Commission, did not put in place temporary legislative regimes similar to those in place in the UK to enable continued passporting access, for a time-limited period, for UK firms after they lost their passporting rights from the end of the transition period on 31 December 2020. Whilst the initial impact has had limited impact on the Bank's business, future changes 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, 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.

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 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;

- there is a 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;

- there is a risk that the Bank fails to operationally implement and/or commercially respond to future zero or negative Bank of England Base Rate scenarios;

- 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 applicable prudential requirements (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 had outstanding TFSME drawings of £5.2 billion as at 31 December 2021. There is a risk the Bank and/or its competitors are required to repay any Term Funding Scheme ("**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.

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 "B1" (long-term and positive outlook) and "NP" (short-term) by Moody's. The Notes are expected to be rated "B1" 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 Ratings Limited "**Fitch**"); and

- "Ba3" (long-term senior unsecured rating, positive outlook) and "NP" (short-term) by Moody's.

Credit rating downgrades adversely 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, 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 (including issuing further own funds instruments and other 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*". 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 resources 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'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 and management, assessing acceptable levels of risk exposure, setting required levels of provisions and capital, and maintaining customer service, accurate records and security. The Bank relies on key providers of infrastructure for its core banking services.

A number of the Bank's services are dependent on extended support arrangements, End of Life, 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 demonstrated 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 the Co-operative 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 also regularly successfully demonstrated 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 or compromise, 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, 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 or 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 Kyndral, IBM and Sopra Banking for the provision of IT related services, and, until December 2022, 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 1 November 2019, with a maturity date of 31 December 2025. In December 2021 the Bank served a termination notice on Capita to insource mortgage servicing from December 2022.

Any change to, failure to renegotiate, end or termination of an existing third party contract, 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 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 have 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 cybercrime 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 increasingly 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 cybercrime 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 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.

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. In December 2021 the Bank served a termination notice on Capita to insource mortgage servicing from December 2022.

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 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.

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, any failure or compromise of the Group's IT systems, 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 the 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 "*The Bank will continue to rely on the Co-operative brand*");
- a material or major failure of or inability to promptly recover key services, 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 may 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);

- a perception that the Bank is failing to meet its environmental, social and governance ("**ESG**") targets, or is perceived to be making less or slower progress compared with its competitors;

- 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;

- a failure to adhere to the Bank's ethical policies;

- cyber or denial of service attacks;

- any actual or anticipated use of powers under the Banking Act with respect to the Bank, the Issuer or the Group or any of their securities; and

- the 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 PPI and packaged bank accounts, breaches of the Consumer Credit Act 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, 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 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 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 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 a fall in house prices could result in increased residential mortgage 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*" 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.

Operational Risk

Operational risk levels are elevated due to factors including, but not limited to, a number of specific issues such as reliance on manual controls for key processes (such as payments) and legacy IT systems ("**Technical Debt**") that may cause business disruption and concerns from the evolving external cyber threats. In each case, programmes of work are in place to seek to remediate; however, there can be no assurance that such programmes will fully or adequately protect the Group against such cyber threats. Systems of control have been historically weak, however, since 2018 significant progress has been made to meet regulatory expectations of the overall effectiveness and embeddedness of the RMF. The focus through 2022 will be to seek to ensure robust risk and control activities remain an integral part of the business as usual activities while looking to simplify and ensure focus on material aspects of risk management. There is an awareness of the RMF with an improvement shown in key RMF metrics, supported by the following activity:

- deeper embedding of the RMF through collegiate working across all three lines of defence and simplification to assist the first line of defence by focusing resources appropriately;

- ensuring that significant risks (such as Technical Debt) are accurately reflected in the RMF to understand their impacts against risk appetite and the operational risk profile; and

- implementing and embedding new regulatory requirements, for example, operational resilience and third party supplier management for material and outsourced services within the RMF.

Third party management and service outsourcing is a key area for risk focus. The risk of a supplier not being able to provide the service they are contracted to could lead to significant disruption to services and functions, reputational damage and possible regulatory scrutiny, all of which may adversely affect the business, operating results and financial condition of the Group. The work on operational resilience and the introduction of this as a thematic principal risk is designed to support the mitigation of this risk; however, there can be no assurance that these initiatives can fully or adequately protect the Group against this risk.

Climate change risks

The physical and transition risks of climate change are becoming ever more apparent and have the potential to pose a significant threat to the Bank without a coordinated and timely response.

Climate change, and businesses' response to the emerging threats posed by it, are under increasing scrutiny by governments, regulators and the public alike. These include physical risks resulting from changing climate and weather patterns and extreme weather-related events, as well as transition risks resulting from the process of adjustment towards a lower carbon economy. Governments and regulators may introduce increasingly stringent rules and policies designed to achieve targeted outcomes, which could increase compliance costs for the Group, drive asset impairments and result in regulatory fines or other action if the Group is unable to implement adequate reforms sufficiently quickly. How the Group assesses and responds to these developments and challenges could increase its costs of business, and a failure to identify and adapt its business to meet new rules or evolving expectations, or any perception that it is under-performing relative to its peers, could result in reputational damage and/or the risk of legal claims.

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 its 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 its 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 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 increases 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.

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, a 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. This risk may be increased by the Bank employing hybrid working practices for head office colleagues where office interaction is more limited than before the emergence of COVID-19. 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.

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 and inadequate resources (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 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 and 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 reliable variable pay, scale and complexity of change, and the ongoing pressure on cost reduction. The risk remains that 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.

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 31 December 2021, 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 may consider and implement workforce redundancies from time to time. 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, 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 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.

Legal, Accounting and Tax risks

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 – see the section "*Litigation*" for further information. 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 any litigation is inherently 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 (including if an adverse outcome results in similar additional claims being brought), could have a material adverse impact on the financial condition of the Bank.

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. 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 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 ("**IFRS**") issued by the International Accounting Standards Board (the "**IASB**") as adopted by the European Commission for use in the EU 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 2021 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, 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 2021 Annual Report) and estimates relate to, *inter alia*, the assumptions used in the determination of loan impairment provisions, unconsolidated structured entities, pension schemes, the recognition and measurement of deferred tax assets in respect of future taxable profits and effective interest rate.

The Bank has established policies and control procedures that are intended to ensure that the 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.

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 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, changed the classification and measurement of some financial assets, the recognition and the financial impact of impairment and hedge accounting. 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 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.

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 into account 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.

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 legally segregated section of the Co-operative Pension Scheme ("**Pace**") sponsored by the Bank (the "**Bank Section**"), which has both an active defined contribution section and a closed defined benefit section ("**Pace DB**"), 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, contingent security (in the form of AAA rated Residential Mortgage Backed Securities ("**RMBS**"), with a 22 per cent. haircut, decreasing over time in line with contributions paid into the Bank's section of the scheme) was pledged, becoming enforceable in the event that deficit recovery payments are not met, on insolvency of the Bank or in the event of a failure to adhere to terms of the security deed. As at 31 December 2021, the Bank was obliged to provide contingent security of £244.9 million. Post-haircut, this amounted to £191.0 million. 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, to repair a deficit against the low risk target basis (a secondary funding measure for Pace) or to enable Pace to meet the premium payable against the scheme assets in order to fully insure the Bank Section of the liabilities with a third party insurance company. The terms of this escrow arrangement are documented in a payment agreement (the "**Payment Agreement**") and a security deed (the "**Security Deed**"), each entered into in June 2020. Other than on Bank insolvency, the Pace Trustee is not entitled to request cash contributions under this arrangement until March 2023 at the earliest, following which time the Pace Trustee is entitled to request a maximum of £45.0 million, rising to a maximum of £75.0 million in total by 2027. As at 31 December 2021, £25.0 million in cash was pledged in this escrow arrangement. A further payment of £12.5 million was made into the escrow arrangement in January 2022.

The Bank also provides security to the BPS in the form of £175.6 million AAA-rated RMBS notes, subject to a 22 per cent. haircut at 31 December 2021. This security becomes enforceable in the event that deficit recovery payments are not met, as agreed with the BPS Trustee, on insolvency of the Bank or a failure to adhere to the terms of the Security Deed.

The Bank continues to actively participate in the 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, capital requirements, and additional 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 under 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.

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 decision of 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.

RISKS RELATING TO THE RECOVERY AND RESOLUTION REGIME

The UK Banking Act 2009 confers substantial powers on the UK resolution authorities, designed to enable them to take a range of actions in relation to UK deposit-taking institutions (and their groups) which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer, the Group, the Bank or the Notes could materially adversely affect the value of the Notes and/or the rights of Noteholders

Under the "**Banking Act**", substantial powers are granted to the UK resolution authorities (the Bank of England, the PRA and HM Treasury) as part of a 'special resolution regime' (the "**SRR**"). These powers enable the UK resolution authorities to deal with, amongst other entities, a UK bank or building society (each a "**relevant entity**") and its group in circumstances in which the UK resolution authorities consider that relevant pre-conditions are satisfied, through a series of stabilisation options. The implementation of any such resolution or pre-resolution powers would be effected without the need for the content or approval of the Noteholders, and may have a material adverse effect on the ability of the Issuer to meet its obligations under the Notes and/or on the Notes themselves and the rights of the Noteholders in respect thereof.

These powers include 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) in respect of the Issuer (as resolution entity for the Group), the Bank and/or their securities (subject to certain protections). Such powers could materially adversely affect the Issuer's ability to make payments of interest or principal in respect of the Notes.

Exercise of these powers in respect of the Notes could further involve, (among other things):

- transferring the Notes out of the hands of the Noteholders;
- delisting the Notes;
- writing down (which may be to nil) the Notes or converting the Notes into another form or class of securities (including, potentially, ordinary shares of the Issuer, which in turn could be subject to further resolutions powers); and/or

- modifying or disapplying certain terms of the Notes, which could include modifications to (without limitation) the term of the Notes, the interest provisions (including reducing the amount of interest payable, the manner in which interest is calculated and/or changing the scheduled interest payment dates, including by suspending payment for a temporary period), and/or the redemption provisions (including the timing of any redemption options and/or the amount payable upon redemption), and may result in the disapplication of enforcement rights.

The preferred resolution strategy applicable to the Group is bail-in. The UK resolution authorities may exercise the bail-in tool under the Banking Act to recapitalise a relevant entity in resolution by allocating losses to (amongst others) its capital providers and unsecured creditors (which would 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, although this may not apply in relation to an application of the write-down and conversion power in circumstances where a stabilisation power is not also used). Accordingly, the ranking of Notes in insolvency can be expected to have a direct impact on the relative losses imposed on Noteholders in a resolution, including bail-in. This means that, if the bail-in tool were to be applied, the Notes would be expected to be written down or converted to equity instruments in full before more senior-ranking obligations of the Issuer suffer losses.

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 equity securities 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, the price or value of their investment in the Notes, the liquidity and/or volatility of any market in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes. In certain circumstances, if such actions were to leave Noteholders worse off than they would have been in an ordinary insolvency of the Issuer, the Noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act. However, there can be no assurance that any such compensation will be available, and if available such compensation will be limited to a return to restore the Noteholder to the position it would have been in had the Issuer instead entered into ordinary insolvency proceedings. 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.

In addition, if the market perceives or anticipates that any action may be taken under the Banking Act in respect of the Issuer, the Bank or any of their respective securities (including the Notes), this may have a significant adverse effect on the market price of the Notes and/or the liquidity and/or volatility of any market in the Notes, whether or not such powers are ultimately exercised. In such case, investors may experience difficulty in selling their Notes, or may only be able to sell their Notes at a significant loss.

Mandatory write-down and conversion of capital instruments and relevant internal liabilities may affect the Notes, including outside formal resolution proceedings

In addition to the stabilisation options which may be used in a formal resolution of an institution, the Banking Act provides the UK resolution authorities with additional powers, including a capital write-down and conversion tool which enables (and, if the institution enters into resolution, requires) the UK resolution authorities to permanently write-down, or convert into equity, any own funds instruments of the institution (as well as intra-group MREL liabilities) at the 'point of non-viability' of the relevant entity, which powers may be used independently of (or in conjunction with) the exercise of any stabilisation power.

For the purposes of the application of such mandatory write-down and conversion power, the 'point of non-viability' is the point at which (i) the UK resolution authorities determine that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken), (ii) the UK resolution authorities determine that the relevant entity or its group will no longer be viable unless the relevant capital instruments and relevant internal liabilities are written-down or converted or (iii) extraordinary public financial support is required by the relevant entity other than, where the entity is an institution, for the purposes of remedying a serious disturbance in the UK economy and to preserve financial stability.

The Issuer intends to on-lend the proceeds of the Issue of the Notes to the Bank by way of subscribing for securities to be issued by the Bank (the "**Intra-Group Notes**") in a form which is eligible to count towards the MREL resources of the Bank and its group. If such Intra-Group Notes were to be subjected to write-down or conversion into equity on application of such powers (without requiring the consent of the holders thereof) independently of whether the Issuer or the Bank is in, or subsequently enters into, resolution, this may materially adversely affect the ability of the Issuer to make payments of interest and principal on the Notes. This may result in the Noteholders losing some or all of their investment in the Notes, even if the Issuer is not put into resolution. The "no creditor worse off" safeguard would not apply to Noteholders in such a scenario.

The exercise of such mandatory write-down and conversion power under the Banking Act could, therefore, materially adversely affect the rights of holders of the Notes, and such exercise (or the perception that such exercise may occur) could materially adversely affect the price or value of their investment in the Notes and/or may adversely affect the price, liquidity and/or volatility in any market for the Notes.

The circumstances under which the UK resolution authorities would exercise resolution or other powers under the Banking Act are uncertain, and the use or anticipated use of such powers may adversely affect the price or value of Notes

There is considerable uncertainty regarding the specific factors, beyond the goals of addressing banking crises pre-emptively and minimising taxpayers' exposure to losses (for example, by writing down relevant capital instruments before the injection of public funds into a financial institution), which the UK resolution authorities would consider in deciding whether to exercise the resolution and capital write down and conversion powers under the Banking Act with respect to the Issuer, the Bank, the Notes and/or the Intra-Group Notes, and the UK resolution authorities are afforded considerable discretion in this regard. Many of the factors may be outside of the Issuer's control or not directly related to it.

Accordingly, it may not be possible for investors or prospective investors in the Notes to predict accurately (or at all) if and whether the UK resolution authorities may take action under the Banking Act in respect of the Issuer, the Bank, the Notes and/or the Intra-Group Notes, or what action may be taken and the level of losses that would be borne by investors in the Notes as a result. Any indication or expectation that resolution or other powers may be used by the UK resolution authorities in respect of the Issuer, the Bank and/or the Notes could materially adversely affect the price, liquidity and/or volatility in any market for the Notes, and uncertainty as to whether or when the UK resolution authorities may take action, and the nature and extent of that action, may exacerbate these risks.

RISKS RELATED TO THE STRUCTURE OF THE NOTES

The claims of holders of the Notes will be structurally subordinated

The Notes are the obligation of the Issuer only. The Issuer is a holding company with no revenue generating operations of its own and conducts substantially all of its operations through its subsidiaries (in particular, the Bank). Accordingly the claims of the Noteholders under the Notes will be structurally subordinated to the claims of all creditors of the Issuer's subsidiaries (including the creditors of the Bank). The Bank and the Issuer's other subsidiaries are separate and distinct legal entities from the Issuer, and have no obligation to

pay any amounts due under the Notes. The Issuer's right to participate in the assets of any subsidiary if such subsidiary is liquidated will be subject to the prior claims of such subsidiary's creditors and any preference shareholders (except in the circumstance, and to the extent, that the Issuer is also a creditor of such subsidiary with claims that are recognised to be ranked ahead of or *pari passu* with any such claims).

Accordingly, if the Bank or another of the Issuer's subsidiaries were to be wound up, liquidated or dissolved, (i) Noteholders would have no right to claim in such winding up or to proceed against the assets of such subsidiary, and (ii) the Issuer would only recover any amounts (directly, or indirectly through its holdings of other subsidiaries) in the liquidation of that subsidiary in respect of (a) any debts of such subsidiary where the Issuer (directly or indirectly) is the creditor, but subject to the claims on the assets of such subsidiary of all other creditors ranking in priority to, or *pari passu* with, the Issuer (or another of its subsidiaries), and (b) its direct or indirect holding of ordinary shares in such subsidiary, if and to the extent that any surplus assets remain following payment in full of the claims of all creditors and preference shareholders (if any) of that subsidiary.

As well as the risk of losses in the event of a Group subsidiary's insolvency, the Issuer may suffer losses if any of its loans to, or investments in, its subsidiaries are subject to statutory write-down and conversion powers or if the subsidiary is otherwise subject to resolution proceedings. Loans to the Bank may contain contractual mechanisms that, upon the occurrence of a trigger related to the prudential or financial condition of the Group or the Bank, would automatically result in a write-down or conversion into equity of such loans, or the UK resolution authorities may elect to write down or convert such loans using resolution or capital write-down and conversion powers under the Banking Act 2009 irrespective of any such contractual provisions in certain circumstances.

The Issuer intends to on-lend the proceeds of issue of the Notes to the Bank by subscribing for the Intra-Group Notes (as defined above), in a form which is eligible to count towards the MREL resources of the Bank and its group, including that the Intra-Group Notes will form part of the class of 'secondary non-preferential debts' of the Bank, as defined in Section 387A(3)(b) of the Insolvency Act 1986, as amended (the "**Insolvency Act**"). Accordingly, the claims of the Issuer in respect of such Intra-Group Notes will rank below the claims of (i) all depositors of the Bank, (ii) all creditors in respect of unsubordinated and unsecured liabilities of the Bank which constitute 'ordinary non-preferred debts' as defined in Section 387A(3)(a) of the Insolvency Act and (iii) all other obligations of the Bank which are preferred by law to secondary non-preferential debts. As such, the Intra-Group Notes will rank below the vast majority of the liabilities of the Bank.

The Issuer intends that payments made by the Bank to the Issuer under the Intra-Group Notes would be available by the Issuer to make payments under the Notes. However, there can be no assurance that this will be the case. For example, if such Intra-Group Notes were to be written down or converted to equity instruments by the UK resolution authorities in circumstances where the Notes are not also written down or converted to equity, or if payments are made by the Bank under such Intra-Group Notes but the Issuer is required to utilise those funds to make payments under its other obligations, there can be no assurance that the Issuer would be able to generate sufficient funds to make payments under the Notes.

More generally, the operating performance and financial condition of the Bank and the Issuer's other subsidiaries, and their ability 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 above in this section "*Risk Factors*", 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 make payments on the Notes in full or at all. Further, the ability of a subsidiary to make distributions or payments (directly or indirectly) to the Issuer, or the amount of such distributions or payments, may be materially impacted by changes in legal, accounting and/or tax requirements or guidelines over time.

Further, the Issuer retains absolute discretion to restructure any loans to, or any other investments in, any of its subsidiaries, including the Bank (which includes the Intra-Group Notes), at any time and for any purpose

including, without limitation, in order to provide different amounts or types of capital or funding to such subsidiary as part of meeting regulatory capital, MREL and total loss absorbing capacity requirements in respect of the Bank and/or the Group. A restructuring of a loan or investment made by the Issuer in a Group subsidiary could include changes to any or all features of such loan, including its legal or regulatory form, how it would rank in the event of resolution and/or insolvency proceedings in relation to the Group or such subsidiary, and the inclusion of a mechanism that provides for an automatic write-down and/or conversion into equity upon specified triggers. Any restructuring of the Issuer's loans to and investments in any of the Group subsidiaries (including the Intra-Group Notes) may be implemented by the Issuer without prior notification to, or consent of, Noteholders, and may have an adverse effect on the ability of the Issuer to make payments under the Notes.

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.

No rights of set-off

In addition to the structural subordination of the Notes, no Noteholder will be able to exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, arising under or in connection with the Notes and each Noteholder shall, by virtue of its holding of any such Note, be deemed to have waived all such rights of set-off.

There is no limit on the amount or type of further bonds or other indebtedness that the Issuer or the Bank 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. In addition, there is no restriction on the amount of notes, bonds or other liabilities that the Bank or any other subsidiary of the Issuer may issue, incur or guarantee. The issue or guaranteeing of any such obligations 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.

Early redemption at the option of the Issuer

In accordance with the Conditions of the Notes, the Issuer may, at its discretion (but subject to certain conditions set out in Condition 6), elect to redeem the Notes at their principal amount, together with accrued and unpaid interest, (i) on the Reset Date or (ii) at any time following the occurrence of a Tax Event or a Loss Absorption Disqualification Event.

This feature is likely to limit the market value of the Notes. At any time when the Notes may be redeemed, their market value will generally not rise substantially above the price at which they can be redeemed, and this may also be true prior to such time.

In addition, the circumstances in which a Tax Event or a Loss Absorption Disqualification Event are matters beyond the Issuer's control, and it may not be possible for an investor or prospective investor in the Notes to predict accurately whether and when any such event may occur. As at the date of this Prospectus, the Issuer is the 'resolution entity' designated by the Bank of England in respect of the Bank's 'resolution group'. The Issuer expects that the full principal amount of the Notes will be eligible for inclusion in the MREL resources of the Group upon issue. If the Bank of England were subsequently to require all of the Group's MREL-eligible instruments instead to be issued at the Holding Company level of the Group, or if it were to determine that the Notes should no longer count towards the Group's MREL resources, or that a haircut should be applied to the amount of MREL benefit of the Notes to the Group, this may result in a Loss Absorption Disqualification Event.

If the Issuer elects to redeem the Notes when its cost of borrowing is lower than the interest rate on the Notes, 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.

The remedies available to Noteholders under the Notes will be limited

The rights of enforcement of Noteholders (and the Trustee on their behalf) in respect of the Notes is limited. The Noteholders may not at any time demand repayment or redemption of their Notes (without prejudice to their ability to claim in a Winding-Up in respect of the principal amount of their Notes and any accrued and unpaid interest thereon).

The sole remedy in the event of any non-payment of principal or interest under the Notes when due 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, or if so directed by an Extraordinary Resolution of the holders of the Notes shall), subject to being indemnified and/or secured and/or prefunded to its satisfaction, institute proceedings for the winding-up of the Issuer in England (but not elsewhere) and may prove and/or claim in such winding-up, but may take no other action in respect thereof.

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 or to take any other enforcement action against the Issuer in respect of the Notes or the Trust Deed unless the Trustee, having become bound so to proceed in accordance with Condition 9, fails or is unable to do so within a reasonable time and such failure or inability is continuing, in which case the Noteholder shall, with respect to the Notes held by it, have only such rights against the Issuer as those which the Trustee is entitled to exercise in respect of such Notes as set out in Condition 9.

The remedies under the Notes will be much more limited than those typically available to senior creditors in respect of debts that do not count towards the MREL resources of the issuing entity. For further details regarding the limited remedies of the Trustee and the Noteholders, see Condition 9.

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

The United Kingdom Financial Services Compensation Scheme (the "**FSCS**") established under the FSMA 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 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 initially be fixed, and 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, the interest rate will be reset to the Reset Interest Rate (as described in Condition 4).

Instruments (such as the Notes) which bear a fixed rate of interest over a period of time, are subject to the risk that increases in prevailing interest rates over that period may reduce the market price of such instruments.

In addition, the Reset Interest Rate could be less than the initial fixed rate of interest applicable to the Notes, which could adversely affect the amount of any interest payments under the Notes as well as the market price of the Notes.

Limitation on gross-up obligation under the Notes

The Issuer's obligation to pay additional amounts in respect of any withholding or deduction in respect of taxes imposed in a Tax Jurisdiction under Condition 7 applies only to payments of interest due and payable under the Notes and not to payments of principal or any other amounts. As such, the Issuer would not be required to pay any such additional amounts under the terms of the Notes to the extent any withholding or deduction were to be applied to payments of principal upon any redemption of the Notes.

Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Notes, the Noteholders would, upon repayment or redemption of the Notes, be entitled to receive only the net amount of such redemption or repayment proceeds after deduction of the amount required to be withheld. Therefore, Noteholders may receive less than the full amount due under the Notes, and the market value of the Notes may be adversely affected as a result.

Modification, waivers and substitution

The Conditions contain provisions for calling meetings of Noteholders (including in a physical place or by any electronic platform (such as conference call or videoconference)) to consider matters affecting their interests generally. The Trust Deed further provides that (i) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding or (ii) a resolution passed by way of electronic consents given by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding shall, in each case, for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held.

Any resolution passed at a meeting of Noteholders or in writing or by way of electronic consents will be binding on all Noteholders, whether or not they are present at the meeting or voting in favour or, as the case may be, whether or not signing the written resolution or providing electronic consents, and including Noteholders who vote against the relevant resolution.

In addition, the Trustee may agree, without the consent of the Noteholders, to (i) any modification of the Conditions or of any other provisions of the Trust Deed or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error, (ii) any other modification to (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the Conditions or of the provisions of the Trust Deed or the Agency Agreement which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders and (iii) the substitution of the Issuer as principal debtor under the Notes, in the circumstances described in Condition 15.

Further, pursuant to Condition 4.7, if a Benchmark Event occurs in respect of the Notes, certain changes may be made to the interest calculation provisions of the Notes in the circumstances set out in Condition 4.7 without the requirement for consent of the Noteholders.

The regulation and reform of "benchmarks" may adversely affect the value of the Notes

Interest rates and indices which are deemed to be "benchmarks" are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on securities linked to or referencing such a "benchmark".

The UK Benchmarks Regulation, among other things, applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed). Regulation (EU) 2016/1011 (the "**EU Benchmarks Regulation**") includes similar provisions with respect to the use in the EEA by EEA-supervised entities of benchmarks of administrators that are not authorised or endorsed by the relevant European authorities.

The Reset Interest Rate (as defined in Condition 4) in respect of the Notes will (subject as provided in that Condition) be determined by reference to the applicable annual mid-swap rate for swap transactions in pounds sterling (with a maturity equal to one year) where the floating leg pays compounded daily SONIA annually, which is calculated and published by ICE Benchmark Administration Limited or any successor thereto on the relevant screen page on the Reset Determination Date. Any change or proposed change to, or proposed termination of, the calculation or determination of the mid-swap rate by ICE Benchmark Administration Limited or any successor thereto, and/or any proposed or actual elimination of, SONIA, or changes in the manner of administration of SONIA, could require an adjustment to the terms and conditions, and/or result in other consequences in respect of the Notes, which could adversely affect the amounts of interest (if any) paid under the Notes and/or the value of the Notes. Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the UK Benchmarks Regulation reforms in making any investment decision with respect to the Notes.

The Conditions provide for certain fallback arrangements in the event that the applicable mid-swap rate, its screen page or a component part of its calculation (such as SONIA) becomes unavailable or a Benchmark Event otherwise occurs, including the possibility that the rate of interest could be set by reference to a successor rate or an alternative reference rate and that such successor rate or alternative reference rate would be subject to an adjustment spread (which could be positive, negative or zero) or a formula for determining an adjustment spread, all as determined by an Independent Adviser in consultation with the Issuer. There can be no assurance that these provisions, if applied, would result in a neutral or positive outcome for Noteholders. Further, even if a Benchmark Event occurs, such amendments may not be applied in respect of the Reset Period, for example if the Independent Adviser is unable to make the relevant determinations, or if, in the determination of the Issuer, the same could reasonably be expected to cause the then current or future disqualification of the Notes from the MREL resources of the Issuer or the Group. In certain circumstances the ultimate fallback for the purposes of calculation of interest for the Reset Period may result in the rate of interest being determined using the original fixed rate of interest, effectively resulting in the application of a continued fixed rate of interest.

Any such consequences could have a material adverse effect on the trading market for, liquidity of, value of and return on the Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Notes. Investors should consider these matters when making their investment decision with respect to the Notes.

RISKS RELATED TO THE NOTES GENERALLY

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

The Notes may not be a suitable investment for all investors seeking exposure to green assets

No assurance that the Notes will satisfy any investor requirements or expectations

As described in "*Use of Proceeds*" below, once the net proceeds of the issue of the Notes have been on-lent to the Bank, the Bank intends to apply an amount equal to such net proceeds specifically for advancing loans

to customers for financing and/or refinancing, in whole or in part, Eligible Green Assets, in line with the GSS Framework of the Group. "**Eligible Green Assets**" include assets, projects and expenditures which seek to address or mitigate a specific environmental issue and/or seek to achieve positive environmental outcomes. While the Group intends that the GSS Framework substantially adheres to the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines as published by the International Capital Markets Association ("**ICMA**") from time to time (together, the "**Principles**"), there can be no assurance that the GSS Framework does, or will continue, to be consistent with the Principles.

If the use of such proceeds is a factor in a prospective investor's decision to invest in the Notes, prospective investors should consult with their legal and other advisers before making an investment in the Notes and must determine for themselves the relevance of such information for the purpose of determining whether an investment in the Notes satisfies their requirements as regards investing in "green bonds" or similarly labelled assets, together with any other investigation such investor deems necessary. In particular, no assurance is given by the Issuer or the Joint Lead Managers that the use of an amount equal to the proceeds of the issue of the Notes in connection with Eligible Green Assets will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, green or sustainability impact of any projects or uses, the subject of or related to any Eligible Green Assets.

No formal or consensus definition of a 'sustainable' (or similar) security

There is currently no clearly defined legal, regulatory or other definition of a "green" or "sustainable" bond or market consensus as to what attributes are required for a particular asset or project to be classified as 'green', 'environmental', 'sustainable' or any similar label, nor can any assurance be given that such a clear definition or consensus will develop over time. A basis for the determination of such a definition has been established in the EU with the publication in the Official Journal of the EU on 22 June 2020 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 (the "**Sustainable Finance Taxonomy Regulation**") on the establishment of a framework to facilitate sustainable investment (the "**EU Sustainable Finance Taxonomy**"). The EU Sustainable Finance Taxonomy is subject to further development by way of the implementation by the European Commission through delegated regulations of technical screening criteria for the environmental objectives set out in the Sustainable Finance Taxonomy Regulation. Accordingly, no assurance is or can be given by the Issuer or the Joint Lead Managers that the eligibility criteria for Eligible Green Assets will satisfy any requisite criteria determined under the Sustainable Finance Taxonomy Regulation or within the EU Sustainable Finance Taxonomy at any time, or that any regime implemented in the United Kingdom (if any) for issuing 'green', 'environmental', 'sustainable' or other equivalently-labelled securities will align with the European, United Kingdom or any other framework for such securities.

No assurance that Eligible Green Assets will meet their objectives

Furthermore, there can be no assurance that any Eligible Green Assets identified by the Bank will meet the criteria intended by the Bank, nor that any project or investment involving Eligible Green Assets will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Bank when making its assessment whether or not to the Bank is to apply any proceeds of the Notes (or amounts equal thereto) to such Eligible Green Assets.

Accordingly, no assurance is or can be given by the Issuer or the Joint Lead Managers to investors in the Notes that any projects or uses the subject of, or related to, any Eligible Green Assets will meet any or all investor expectations regarding such 'green', 'environmental', 'sustainable', 'social' or other equivalently-labelled performance objectives or that any adverse environmental, green, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Green Assets.

No obligation on the Joint Lead Managers to verify Eligible Green Assets or monitor the use of proceeds of the Notes and Noteholders shall have no recourse to them

The Joint Lead Managers are not responsible for (i) any assessment of any eligibility criteria relating to the Notes, (ii) any verification of whether the Eligible Green Assets identified by the Bank will satisfy any relevant eligibility criteria, (iii) the monitoring of the use of proceeds (or amounts equal thereto) in connection with the issue of the Notes, (iv) the allocation of the proceeds by the Bank to particular Eligible Green Assets, (v) any assessment of the Eligible Green Assets criteria or (vi) the contents of the GSS Framework, the Second Party Opinion or any subsequent amendments thereto or replacement thereof, and no investor in any of the Notes will have any recourse to the Joint Lead Managers in connection therewith.

No assurance of suitability or reliability of any second party opinion

In addition, no assurance or representation is given by the Issuer or the Joint Lead Managers as to the suitability or reliability for any purpose whatsoever of the Second Party Opinion or any other opinion, certification or report of any third party (whether or not solicited by the Group) which may be made available in connection with the issue of the Notes and/or the GSS Framework established by the Group, and in particular with any Eligible Green Assets to fulfil any environmental, green, sustainability, social and/or other criteria. For the avoidance of doubt, the Second Party Opinion is not incorporated by reference in, and does not form part of, this Prospectus. Any such opinion or certification is not, and should not be deemed to be, a recommendation by the Issuer, the Joint Lead Managers or any other person to buy, sell or hold any of the Notes. Any such opinion or certification will also only be current as of the date on which that opinion is initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in the Notes. As at the date of this Prospectus, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

The Noteholders will have no recourse against the Issuer or the Joint Lead Managers or the provider of the Second Party Opinion or any other such opinion or certification for the contents of any such opinion or certification. A withdrawal of any such opinion or certification may affect the value of the Notes, may result in the delisting of the Notes from any dedicated ‘green’, ‘sustainable’ or other equivalently-labelled segment of any stock exchange or securities market and/or may have consequences for certain investors with portfolio mandates to invest in green, sustainable, social or other equivalently-labelled assets.

No request has been made for the notes to be admitted to trading on any dedicated sustainable (or similar) segment of any stock exchange or market. In the event that such admission were to be obtained will be maintained, there can be no assurance that such admission would meet investor expectations or requirements

No request has been made for the Notes to be listed or admitted to trading on any dedicated ‘green’, ‘social’, ‘sustainable’ or other equivalently-labelled segment of any stock exchange or securities market. In the event that the Notes were to be admitted to any such segment, no representation or assurance can be given that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, nor that such listing or admission to trading will be maintained during the term of the Notes. The criteria for acceptance onto any such market may change from time to time. In the event of any actual or anticipated removal of the Notes from any such market, or if access to any such market is sought and refused, that could have a material adverse effect on the market price of the Notes.

No obligation or assurance that an amount equal to the proceeds of issue of the Notes will be applied for the purposes of financing and/or refinancing, in whole or in part, Eligible Green Assets, and any failure in

application of such proceeds (or equal amounts) will not constitute a default or otherwise enable Noteholders to take any enforcement action against the Issuer

While it is the intention of the Bank to apply an amount equal to the net proceeds of the issue of the Notes for advancing loans to customers for financing and/or refinancing, in whole or in part, Eligible Green Assets, neither the Issuer nor the Bank will be under any contractual obligation to do so (including that the Conditions of the Notes and the Trust Deed do not contain any such requirement on, or covenant by, the Issuer or the Bank nor any event of default should the Bank fail to apply the proceeds or equivalent amounts for such purpose) and further there can be no assurance that any part of the proceeds of the Notes (or amounts equivalent thereto) will be capable of being applied to Eligible Green Assets in or substantially in such manner and/or in accordance with any timing schedule and that accordingly such amounts will be totally or partially disbursed for such Eligible Green Assets. Nor can there be any assurance that any project or investment relating to such Eligible Green Assets will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Bank. Any such event or failure by the Bank or its customers will not prejudice the treatment of the Notes as MREL resources for the Issuer and the Group or constitute an event of default under the Notes or otherwise trigger any other consequences under the Conditions of the Notes.

The ability of the Notes to qualify as MREL and absorb losses of the Bank and/or the Group will not be affected by their characterisation as "green", and the characterisation of the Notes as "green" does not affect the status of the Notes in terms of ranking or subordination

The proceeds of issue of the Notes will be available to absorb losses of the Bank and/or the Group to the same degree and in the same manner as any other MREL-eligible securities issued by the Issuer which rank *pari passu* with the Notes and which do not carry any "green" or similar label. The Notes will be subject to bail-in and resolution measures available under the Banking Act without any differentiation from any such other similar securities. Further, the resolution and MREL requirements will apply to the Notes and the Notes do not have any features which undermine their ability to absorb losses in compliance with the prevailing resolution rules, and neither the Notes nor the proceeds of issue thereof will be afforded any special treatment or enhanced protections as a result of them being labelled as "green".

The proceeds of the issue of the Notes will be available to cover all losses of the Issuer and/or the Group, regardless of the fact that the Notes are "green" and regardless of whether the losses stem from the financing and/or refinancing, in whole or in part, of Eligible Green Assets by the Bank out of the proceeds of issue of the Notes (or amounts equivalent thereto).

Noteholders have no recourse to the Issuer, and the Issuer shall not have any obligations, in the event that the proceeds of issue of Notes or amounts equal thereto are not applied on the basis described herein

Any event or failure by the Bank to apply an amount equal to the net proceeds of the issue of the Notes to advance loans to customers to finance and/or refinance any Eligible Green Assets, and/or any failure to apply those funds to Eligible Green Assets as aforesaid, and/or withdrawal of any opinion or certification in connection with the Notes, or any opinion or certification attesting that the Group is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any of the Notes no longer being listed or admitted to trading on any stock exchange or securities market or any particular segment thereof as aforesaid and/or any failure by the Group to provide or publish any reporting or any impact assessment on the use of proceeds (or amounts equal thereto) from the issue of the Notes will not:

(i) give rise to any claim of a Noteholder against the Issuer, the Bank, the Holding Company or any other member of the Group or the Joint Lead Managers;

(ii) constitute an event of default under the Notes or a breach or violation of any term thereof, or constitute a default by the Issuer for any other purpose, or permit the Trustee or any Noteholder to accelerate the Notes or take any other enforcement action against the Issuer;

(iii) lead to a right or obligation of the Issuer to redeem the Notes or be a relevant factor for the Issuer in determining whether or not to exercise any optional redemption rights in respect of the Notes or give any Noteholder the right to require redemption of its Notes;

(iv) affect the qualification of the Notes within the MREL resources of the Issuer and/or the Group;

(v) otherwise affect or impede the ability of the Issuer and/or the Bank to apply the proceeds of the Notes (or the Intra-Group Notes) to cover losses in the Issuer, the Bank and/or any other part of the Group; or

(vi) result in any step-up or increased payments of interest, principal or any other amounts in respect of the Notes, or otherwise affect the Conditions of the Notes.

However, such event of failure may adversely affect the reputation of the Issuer and the Group and could have a material adverse effect on the value of the Notes and also potentially the value of any other notes, including (without limitation) notes which are intended to finance the Bank's lending in connection with Eligible Green Assets and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

Furthermore, any failure by the Issuer or the Group to meet any green, environmental, social or other sustainability targets it may be required to meet or may set itself from time to time shall not constitute an event of default under the Notes or otherwise result in the Notes being redeemed prior to their maturity date.

No link between the Notes and any Eligible Green Assets funded out of the proceeds of issue thereof

Amounts of interest, principal or other amounts payable in respect of the Notes will not be impacted by the performance of the Eligible Green Assets funded out of the proceeds of issue (or amounts equal thereto) of the Notes or by any other Eligible Green Assets or other green, social or sustainable assets of the Issuer, the Bank or the Group.

Further, the tenor of the amounts advanced for the purposes of financing and/or refinancing, in whole or in part, Eligible Green Assets may not match the maturity date of the Notes. The subsequent redemption of relevant loans advanced by the Bank, or the project(s) or use(s) the subject of, or related to, any Eligible Green Assets before the maturity date of the Notes shall not lead to the early redemption of the Notes or any other notes nor create any obligation or incentive of the Issuer to redeem the Notes at any time or be a factor in the Issuer's determination as to whether or not to exercise any early redemption rights it may have from time to time.

Material adverse impact on trading and/or market price

If any of the risks outlined in this risk factor materialise, this may have a material adverse effect on the value of the Notes and also potentially the value of any other notes which are intended to finance the Bank's lending for Eligible Green Assets and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose (including, without limitation, if such investors are required to dispose of their Notes as a result of such Notes not meeting any investment criteria or objectives set by or for such investor, which could lead to increased volatility and/or material decreases in the market price of the Notes). Prospective investors must determine for themselves the potential for any

of the risks identified in this risk factor to materialise and the impact such risks may have on the value or market price of, or any market in, the Notes.

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Notes will be represented initially upon issue by a Global Certificate that will be deposited with, and registered in the name of a nominee for, 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 and exercise their other rights (such as voting rights) only through, and in accordance with the procedures of, Euroclear or Clearstream, Luxembourg, as the case may be.

While the Notes will be represented by the Global Certificate, the Issuer will discharge its payment obligations under the Notes by making payments to (or to the order of) the nominee as the sole registered holder of all the Notes. A holder of an ownership interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants (and any other intermediary through which it may hold its interests in the Notes) to receive its share of the payments made by the Issuer 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.

If an investor in the Notes is not a direct participant in Euroclear or Clearstream, Luxembourg, it will hold its interests in the Notes through one or more further brokers, nominees, custodians or other intermediaries, and such investors will therefore be dependent upon its intermediary (or chain of intermediaries) for effecting transactions, or exercising their rights, in respect of the Notes and receiving payments or interest and principal under the Notes. Such intermediaries may also charge certain commissions, costs and expenses to such investor, which may reduce any income (if any) which such investor would otherwise receive under the Notes.

Investors who hold less than the minimum specified denomination may be unable to sell their Notes and may be adversely affected if definitive Notes are subsequently required to be issued

The Notes will be issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof. Accordingly, it is possible that they may be traded in amounts that are not integral multiples of £100,000. In such a case, a holder who, as a result of trading such amounts, holds an amount which is less than £100,000 in their account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of £100,000 such that its holding amounts to at least equal to £100,000. Further, a holder who, as a result of trading such amounts, holds an amount which is less than £100,000 in their account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should such Notes be printed) and would need to purchase a principal amount of Notes at or in excess of £100,000 such that its holding amounts to at least equal to £100,000.

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 represent a new security for which no secondary trading market exists, and there can be no assurance that one will develop. If a market does develop, it may not be liquid and may be sensitive to changes in financial markets. 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. These risks may be exacerbated further if a limited number of initial Notes purchase the Notes. Illiquidity may have a severely adverse effect on the market price of Notes and result in increased volatility in any such market price.

If a market for the Notes does develop, the trading price of the Notes may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor and the other risk factors described above, as well as stock market fluctuations and general economic conditions and adverse market shocks such as that caused by the Covid-19 pandemic, that may adversely affect the market price of the Notes and/or increase the volatility of such market price. Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market. If any market in the Notes does develop, it may become severely restricted, or may disappear, if the financial condition of the Issuer or the Group deteriorates such that there is an actual or perceived increased likelihood of the Issuer being unable to pay interest on the Notes, or of the Notes being subject to loss absorption under the recovery and resolution regime under the Banking Act. Some of the factors which could affect the market price of the Notes, many of which are beyond the Issuer's control, include:

- actual or expected variations in the Group's operating performance;
- any shortfall in revenue or net profit or any increase in losses from levels expected by market commentators;
- increases in capital expenditure compared with expectations;
- any perception that the Group's strategy is or may be less effective than previously assumed or that the Group is not effectively implementing any significant projects;
- changes in financial estimates by securities analysts;
- changes in market valuations of similar entities;
- announcements by the Group of significant acquisitions, disposals, strategic alliances, joint ventures, new initiatives, new services or new service ranges;
- regulatory matters, including changes in regulatory regulations or central bank requirements;
- additions or departures of key personnel; and
- future issues or sales of Notes or other securities.

Any or all of these events could result in material fluctuations in the price of Notes which could lead to investors losing some or all of their investment.

The issue price of the Notes might not be indicative of prices that will prevail in the trading market, and there can be no assurance that an investor would be able to sell its Notes at or near the price which it paid for them, or at a price that would provide it with a yield comparable to more conventional investments that have a developed secondary market.

Moreover, although the Group may (subject to regulatory approval and compliance with prevailing prudential requirements) purchase Notes at any time, it has no obligation to do so. Purchases made by any member of the Group could affect the liquidity of the secondary market of the Notes and thus the price and the conditions under which investors can negotiate these Notes on the secondary market.

In addition, Noteholders should be aware of global credit market conditions, whereby there may be a general lack of liquidity in the secondary market which, if it were to worsen, could result in investors suffering losses on the Notes in secondary resales even if there were no decline in the performance of the Notes or the assets of the Group. The Issuer cannot predict whether these circumstances will change and, if and when they do change, how liquid the market for the Notes and instruments similar to the Notes at that time would be.

Although application has been made for the Notes to be listed and admitted to trading on the Market, there is no assurance that such application will be accepted or that an active trading market will develop.

Change of law

The Conditions will be governed by the laws of England. No assurance can be given as to the impact of any possible judicial decision or change to the laws of England or applicable administrative practice after the date of this Prospectus. Such changes in law may include, but are not limited to, amendments to the statutory resolution and loss absorption tools and regulatory and resolution capital requirements applicable to the Issuer, the Bank, the Group and/or the Notes, which may affect the rights of Noteholders.

Legality of purchase

Neither the Issuer nor any of its affiliates has or assumes responsibility for the lawfulness of the acquisition of the Notes by a prospective investor in the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it.

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 (i) the Notes are investments in which it may legally invest, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge by it of any 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.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in pounds sterling. 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 pounds sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of pounds sterling 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 pounds sterling 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.

Credit ratings may not reflect all risks

The Notes are expected to be rated "B1" by Moody's. The rating may not reflect the potential impact of all risks related to structure, market, the additional factors discussed above, and other factors that may affect the value of the Notes. Further, one or more credit rating agencies may from time to time release unsolicited credit ratings reports in relation to the Notes without the consent or knowledge of the Issuer. Notwithstanding that the Issuer does not have any control over such reports or analyses, and such reports or analyses could be based on incomplete information, any adverse credit rating of the Notes, whether or not solicited by the Issuer, could adversely affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In addition, EEA and UK regulated investors are generally restricted under Regulation (EC) No. 1060/2009 (the "**CRA Regulation**") and the UK CRA Regulation, as applicable, from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU or in the UK and registered under the CRA Regulation or the UK CRA Regulation, as the case may be. Such general restriction will also apply in the case of credit ratings issued by non-EU and non-UK credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered or UK-registered credit rating agency or the relevant non-EU and non-UK rating agency is certified in accordance with the CRA Regulation or UK CRA Regulation (as applicable). If the status of any rating agency rating the Notes changes, EU and UK regulated investors may no longer be able to use the rating for regulatory purposes and the Notes may have a different regulatory treatment. This may result in such investors selling the Notes, which may adversely impact the market price of the Notes and any secondary market.

The Issuer is exposed to changing methodology by rating agencies

The Issuer is exposed to changes in the rating methodologies applied by rating agencies. Any adverse changes of such methodologies may result in a change in the ratings given to the Issuer or the Notes which in turn may materially and adversely affect the Issuer's operations or financial condition and capital market standing.

TERMS AND CONDITIONS OF THE NOTES

The following, subject to alteration and completion (and save for paragraphs in italics, which are for information purposes only and do not form part of the terms and conditions of the Notes), are the terms and conditions of the Notes which will be endorsed on each Certificate in definitive form (if issued).

The £250,000,000 Fixed Rate Reset Callable Notes due 2027 (the "**Notes**", which expression shall in these terms and conditions (these "**Conditions**"), unless the context otherwise requires, include any Further Notes issued pursuant to Condition 14) 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 6 April 2022 (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.

The Issuer has also entered into an agency agreement dated the Issue Date relating to the Notes (such agency agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") together with 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).

Copies of the Trust Deed and the Agency Agreement (i) are available for inspection by Noteholders (by prior appointment) during usual business hours at the registered office for the time being of the Trustee, being at the date of issue of the Notes at Eighth Floor, 100 Bishopsgate, London EC2N 4AG, United Kingdom or (ii) may be provided by email to a Noteholder upon request from the Principal Paying Agent, subject in each case to the Noteholder providing evidence of a holding of Notes satisfactory to the Trustee or the Principal Paying Agent (and subject to the Trustee or the Principal Paying Agent being supplied by the Issuer with an electronic copy of each such document).

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 all of those provisions of 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, 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, unguaranteed 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 at least *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.

As used 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, the 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 No Set-Off

Subject to applicable law, no Noteholder may exercise or claim or plead any right of set-off, compensation, counterclaim or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with, the Notes or the Trust Deed and each Noteholder will, by virtue of their holding of any Note (or any beneficial interest therein), be deemed, to the fullest extent permitted under applicable law, to have waived all such rights of set-off, compensation, counterclaim and retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Noteholder by the Issuer in respect of, or arising under or in connection with, the Notes is discharged by set-off, such Noteholder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its Winding-Up, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

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 from time to time in accordance with the provisions of this Condition 4. Interest shall be payable in equal instalments semi-annually in arrear on 6 April and 6 October in each year from (and including) 6 October 2022 up to (and including) the Maturity Date (each an "**Interest Payment Date**").

The first interest payment, payable on 6 October 2022, shall be in respect of the period from (and including) the Issue Date to (but excluding) 6 October 2022, and thereafter interest shall be payable in respect of each successive period from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date (each an "**Interest Period**").

The amount of interest payable on each Interest Payment Date up to (and including) the Reset Date will be £30.00 per Calculation Amount.

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

Where it is necessary to compute an amount of interest in respect of any Note for a period which is less than a complete Interest Period, such interest shall be calculated on the basis of (i) the actual number of days in the period from (and including) the date from which such interest begins to accrue (the "**Accrual Date**") to (but excluding) the date on which it falls due divided by (ii) two times 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 (where required) be calculated per £1,000 in principal amount of the Notes (the "**Calculation Amount**"). 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 6.000 per cent. per annum (the "**Initial Interest Rate**") from (and including) the Issue Date to (but excluding) 6 April 2026 (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 "**Reset Interest Rate**" will be determined by the Calculation Agent on the Reset Determination Date as the sum of the Reset Reference Rate and the Reset Margin, with such sum converted from an annual to a semi-annual basis by the Calculation Agent and expressed as a percentage rate per annum (rounded, if necessary, to the nearest 0.001 per cent. (with 0.0005 per cent. being rounded upwards)).

As used in these Conditions:

"**Actual/365 (Fixed)**" means, with respect to any period, the actual number of days in such period divided by 365;

"**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;

"**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);

"**Mid-Swap Quotations**" means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on an Actual/365 (Fixed) day count basis) of a fixed for floating interest rate swap transaction in pounds sterling which (1) has a term commencing on the Reset Date which is equal to one year; (2) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (3) has a floating leg based on the overnight SONIA rate compounded for 12 months (calculated on an Actual/365 (Fixed) day count basis);

"**pounds sterling**" and "**£**" refer to the lawful currency of the United Kingdom from time to time;

"**Reset Determination Date**" means the day falling two Business Days prior to the Reset Date;

"**Reset Margin**" means 4.114 per cent. per annum;

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

"**Reset Reference Bank Rate**" means the percentage rate determined on the basis of the Mid-Swap Quotations provided by the Reset Reference Banks to the Calculation Agent at or around 11.00 a.m. (London time) on the Reset Determination Date and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards). If at least four quotations are provided, the Reset Reference Bank Rate 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 Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the rounded quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be deemed to be equal to:

(A) the applicable annual mid-swap rate for swap transactions in pounds sterling (with a maturity equal to one year) where the floating leg pays compounded daily SONIA annually, which is calculated and published by ICE Benchmark Administration Limited or any successor thereto (GBP ICE SONIA Swap Rate or any successor rate) as displayed on the Screen Page as at 11.00 a.m. (London time) on the latest date on which such rate was so displayed; or

(B) (if for any reason the relevant Reset Reference Bank Rate cannot be determined in accordance with paragraph (A) above), 1.976 per cent. per annum;

"**Reset Reference Banks**" means six leading swap dealers in the London interbank market selected by the Issuer in its discretion after consultation with the Calculation Agent;

"**Reset Reference Rate**" means, in respect of the Reset Period (and subject to Condition 4.7):

(i) the applicable annual mid-swap rate for swap transactions in pounds sterling (with a maturity equal to one year) where the floating leg pays compounded daily SONIA annually, which is calculated and published by ICE Benchmark Administration Limited or any successor thereto (GBP ICE SONIA Swap Rate or any successor rate) as displayed on the Screen Page at 11.00 a.m. (London time) on the Reset Determination Date; or

(ii) if such rate is not displayed on the Screen Page at such time and date, the Reset Reference Bank Rate on the Reset Determination Date;

"**Screen Page**" means Bloomberg screen "BPISDS05 Index", or such other screen page as may replace it on Bloomberg or, as the case may be, on such other page provided by such other information service that may replace Bloomberg, in each case, as may be nominated by ICE Benchmark Administration Limited, or any alternative or successor provider for the publication of such rate as is in customary market usage in the international debt capital markets; and

"**SONIA**", in respect of any Business Day, is a reference rate equal to the daily Sterling Overnight Index Average rate for such Business Day as provided by the Bank of England or any successor administrator of the Sterling Overnight Index Average rate.

4.5 Determination and Notification of the Reset Interest Rate

The Calculation Agent will, as soon as practicable after 11.00 a.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 binding

All notifications, determinations and calculations made or obtained by the Calculation 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, the Paying Agents and the Noteholders and (in the absence of bad faith) no liability to the Issuer, the Trustee or the Noteholders will attach to the Calculation Agent in connection with the exercise of any of its duties and discretions with respect to the Notes.

4.7 Benchmark Discontinuation

If the Issuer determines that a Benchmark Event occurs in relation to an Original Reference Rate (or any component part thereof, including SONIA) when the Reset Interest Rate (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the following provisions shall apply (with effect from 30 days prior to the first date when such determination is necessary).

4.7.1 Independent Adviser

The Issuer shall use its reasonable endeavours to appoint an Independent Adviser to determine, in consultation with the Issuer, a Successor Rate, failing which an Alternative Rate (in accordance with Condition 4.7.2) and, in either case, an Adjustment Spread (in accordance with Condition 4.7.3) and any Benchmark Amendments (in accordance with Condition 4.7.4).

If, having used reasonable endeavours to appoint an Independent Adviser, the Issuer is unable so to do, or if an Independent Adviser is so appointed but fails to make all of the determinations to be made by it pursuant to this Condition 4.7, the Issuer shall nevertheless

be entitled (but not obliged) to make the relevant determinations and calculations which would otherwise fall to be made by the Independent Adviser pursuant to and on the terms set out in this Condition 4.7 (and in such case references in this Condition 4.7 and related provisions of these Conditions to such determinations and calculations being made by an Independent Adviser shall be deemed to be references to such determinations and calculations being made by the Issuer).

In making such determinations and calculations pursuant to this Condition 4.7, the Independent Adviser and the Issuer (as applicable) shall act in good faith and in a commercially reasonable manner. In the absence of bad faith or fraud, neither the Issuer nor the Independent Adviser shall have any liability whatsoever to the Issuer, the Trustee, the Registrar, the Paying Agents, the Calculation Agent or the Noteholders for any determination made by the Independent Adviser and/or the Issuer pursuant to this Condition 4.7.

If the Independent Adviser and the Issuer fail to determine a Successor Rate or, failing which, an Alternative Rate and, in either case, the Adjustment Spread in accordance with this Condition 4.7, or if the Issuer is otherwise unable to apply such determinations in respect of the Notes as provided in this Condition 4.7, in either case by the second Business Day prior to the Reset Determination Date, the provisions of Condition 4.7.6 shall apply.

4.7.2 *Successor Rate or Alternative Rate*

The Independent Adviser, in consultation with the Issuer, shall use its reasonable endeavours to determine a Successor Rate or Alternative Rate that is (together with the Adjustment Spread) substantially comparable to the Original Reference Rate.

For these purposes, a Successor Rate or Alternative Rate will be considered "**substantially comparable**" to the Original Reference Rate if it is a mid-swap rate that includes (i) a one-year fixed leg and (ii) a floating leg determined on the basis of (x) SONIA or, (y) if the discontinuation of the Reset Reference Rate results from a Benchmark Event in relation to SONIA, a successor rate to SONIA that is formally recommended or mandated by (in the following order of priority) (1) the Bank of England, (2) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of the Bank of England, or (3) the Financial Stability Board or any part thereof or any committee or body appointed or sponsored by it for such purpose.

If the Independent Adviser, in consultation with the Issuer, determines that:

(A) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall be used in place of the Original Reference Rate to determine the Reset Interest Rate (or the relevant component part thereof) for the Notes (subject to the further operation of this Condition 4.7); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall be used in place of the Original Reference Rate to determine the Reset Interest Rate (or the relevant component part thereof) for the Notes (subject to the further operation of this Condition 4.7).

4.7.3 *Adjustment Spread*

If the Independent Adviser determines a Successor Rate or an Alternative Rate, it shall also use its reasonable endeavours to determine, in consultation with the Issuer, the Adjustment Spread to be applied to the Successor Rate or the Alternative Rate (as the case may be).

4.7.4 *Benchmark Amendments*

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 4.7 and the Independent Adviser, following consultation with the Issuer, determines (i) that amendments to these Conditions, the Agency Agreement and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject as otherwise provided in this Condition 4.7 and to giving notice thereof in accordance with Condition 4.7.5 but without any requirement for the consent or approval of Noteholders, vary these Conditions, the Agency Agreement and/or of the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee, the Principal Paying Agent and the Calculation Agent of a certificate signed by two Authorised Signatories pursuant to Condition 4.7.5, the Trustee, the Principal Paying Agent and the Calculation Agent shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, whether or not such Benchmark Amendments are prejudicial to the interests of the Noteholders, be obliged to concur with the Issuer in using its reasonable endeavours to effect any Benchmark Amendments (including, *inter alia*, by the execution of a supplemental trust deed to or amending the Trust Deed), provided that the Trustee, the Principal Paying Agent or the Calculation Agent, as applicable, shall not be obliged so to concur if in the opinion of the Trustee, the Principal Paying Agent or the Calculation Agent, as applicable, doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the rights and/or protective provisions afforded to it in any document to which it is party (including, for the avoidance of doubt, any supplemental trust deed) in any way.

Any such variation or modification of these Conditions, the Trust Deed and/or the Agency Agreement in accordance with this Condition 4.7 is subject to compliance with the Applicable Banking Regulations (as defined at Condition 6.4), as further provided in Condition 13.4.

In connection with any such variation or modification in accordance with this Condition 4.7, the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

Notwithstanding any other provision of this Condition 4.7, no Successor Rate or Alternative Rate will be adopted, nor will the applicable Adjustment Spread be applied, nor will any Benchmark Amendments be made, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected:

(i) to prejudice the qualification of the Notes as eligible liabilities instruments (as defined in Condition 6.4) or loss absorbing capacity instruments capable of counting towards any minimum requirement for own funds and eligible liabilities of the Issuer and/or any Applicable Prudential Group (as applicable) under the Applicable Banking Regulations; or

(ii) result in the Relevant Supervisory Authority treating the Reset Date (rather than the Maturity Date) as the effective maturity date of the Notes.

4.7.5 *Notices, etc.*

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 4.7 will be notified promptly following their determination and no later than the second Business Day prior to the Reset Determination Date by the Issuer to the Trustee, the Calculation Agent, the Principal Paying Agent and, in accordance with Condition 12, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Noteholders of the same, the Issuer shall deliver to the Trustee, the Principal Paying Agent and the Calculation Agent a certificate signed by two Authorised Signatories:

(A) confirming (a) that a Benchmark Event has occurred, (b) the Successor Rate or, as the case may be, the Alternative Rate, (c) the applicable Adjustment Spread and (d) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 4.7;

(B) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread; and

(C) confirming that either (a) the relevant determinations under this Condition 4.7 were made by an Independent Adviser or (b) that the Issuer was unable to appoint an Independent Adviser following reasonable endeavours to do so, and accordingly the determinations under this Condition 4.7 were made by the Issuer.

The Trustee, the Principal Paying Agent and the Calculation Agent shall be entitled to rely on such certificate (without liability or enquiry to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate, the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination thereof, and without prejudice to the Trustee's, the Principal Paying Agent's and the Calculation Agent's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Principal Paying Agent, the Calculation Agent and the Noteholders.

4.7.6 *Survival of Original Reference Rate*

If the Independent Adviser and the Issuer fail to determine a Successor Rate or, failing which, an Alternative Rate and, in either case, the Adjustment Spread in accordance with this Condition 4.7, or if the Issuer is otherwise unable to apply such determinations in respect of the Notes as provided in this Condition 4.7, in either case by the second Business Day prior to the Reset Determination Date, the Original Reference Rate, including the fallback provisions applicable thereto, shall continue to apply in respect of the Reset Period.

4.7.7 *Definitions*

As used in these Conditions:

"**Adjustment Spread**" means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be), being the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended or made available as an option in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(ii) (if no such recommendation or option has been made available under (i) above, or in the case of an Alternative Rate) the Independent Adviser, following consultation with the Issuer, determines is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or

(iii) (if the Adjustment Spread cannot be determined under paragraphs (i) or (ii) above) the Independent Adviser, following consultation with the Issuer, determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); or

(iv) (if the Adjustment Spread cannot be determined under paragraphs (i), (ii) or (iii) above) the Independent Adviser, in its discretion following consultation with the Issuer, determines to be appropriate having regard to the objective, so far as is reasonably practicable in the circumstances and solely for the purposes of this paragraph (iv), of reducing or eliminating any economic prejudice or benefit (as the case may be) to the Noteholders;

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser, following consultation with the Issuer, determines in accordance with Condition 4.7.2 is customarily applied in international debt capital markets transactions for the purposes of determining rates equivalent to the Reset Interest Rate (or the relevant component part thereof) in pounds sterling;

"**Authorised Signatory**" means (i) each director of the Issuer and (ii) any other person duly authorised by the Issuer as such and as confirmed in writing by the Issuer to the Trustee;

"**Benchmark Event**" means:

(i) the Original Reference Rate ceasing to exist or to be published on a permanent or indefinite basis; or

(ii) the making of a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(iii) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or

(iv) the making of a public statement by the supervisor of the administrator of the Original Reference Rate (A) that the Original Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market or (B) as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes; or

(v) it has or will become unlawful for the Issuer or the Calculation Agent to calculate any payment due to be made to any Noteholder using the Original Reference Rate (including, without limitation, under Regulation (EU) 2016/1011 as retained as domestic law in the United Kingdom under the European Union (Withdrawal) Act 2018, as amended),

provided that the Benchmark Event shall be deemed to occur:

(a) in the case of sub-paragraphs (ii) and (iii) above, on the date of the cessation of publication of the Original Reference Rate, or the discontinuation of the Original Reference Rate, as the case may be; and

(b) in the case of sub-paragraph (iv) above, on the date with effect from which the Original Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market or, as the case may be, on the date of the prohibition of use of the Original Reference Rate,

and not (in any such case) the date of the relevant public statement (unless the date of the relevant public statement coincides with the relevant date in (a) or (b) above, as applicable);

"**Independent Adviser**" means an independent financial institution of international repute or an independent adviser with appropriate expertise appointed by the Issuer under this Condition 4.7;

"**Original Reference Rate**" means the Reset Reference Rate (or any component part thereof), or any successor or alternative rate (or component part thereof) determined pursuant to this Condition 4.7;

"**Relevant Nominating Body**" means:

(i) the central bank for pounds sterling, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(ii) (a) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of the central bank for pounds sterling, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof; and

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

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, 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).

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 interest

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 6 April 2027 (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 15 nor more than 30 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.

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

6.3 Redemption for Tax Reasons

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 15 nor more than 60 days' notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable and shall specify the date set for redemption), if the Issuer satisfies the Trustee immediately before the giving of the aforementioned notice that, 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 (including, without limitation, any decision, interpretation or pronouncement by any court, tribunal or relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to instruments similar to the Notes and which are capable of constituting eligible liabilities instruments), which change or amendment becomes effective on or after the Reference Date:

(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; or

(b) interest payments under or with respect to the Notes are no longer fully deductible for corporation tax purposes in the Tax Jurisdiction or those deductions are deferred,

and (in either case) such tax consequence 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:

(i) (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

(ii) (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.

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

As used in these Conditions:

"**Reference Date**" means the later of (i) the Issue Date and (ii) the latest date (if any) on which any Further Notes have been issued pursuant to Condition 14; and

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

6.4 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 15 nor more than 60 days' notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable and shall specify the date set for redemption), if the Issuer determines that a Loss Absorption Disqualification Event has occurred.

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

As used in these Conditions:

"**Applicable Banking Regulations**" means, at any time, the laws, regulations, requirements, guidelines, rules, standards and policies of the Relevant Supervisory Authority (whether or not having the force of law) or of the United Kingdom (or such other jurisdiction in which the Issuer, or the holding company of any Applicable Prudential Group of which the Issuer forms part, may be organised or domiciled) then in effect in the United Kingdom (or such other jurisdiction as aforesaid) relating to capital adequacy (whether on a risk-weighted, leverage or other basis), prudential supervision (including the requisite features of own funds instruments), resolution of credit institutions, investment firms and other relevant entities and/or a minimum requirement for own funds and eligible liabilities and/or loss absorbing capacity (including the requisite features of eligible liabilities instruments) and applicable to the Issuer and/or, as applicable, any Applicable Prudential Group;

"**Applicable Prudential Group**" means, at any time, each prudential consolidation group (whether regulated on a consolidated or sub-consolidated basis) and/or resolution group of which the Issuer then forms part (whether or not such prudential consolidation and/or sub-consolidation is at the level of the Issuer or, as the case may be, whether or not the resolution entity for such resolution group is the Issuer);

As at the Issue Date, (i) the Issuer is part of the prudential group consolidated at the level of The Co-operative Bank Holdings Limited and is not prudentially regulated on an individual basis or as part of a sub-consolidated group; and (ii) the Issuer is the resolution entity for the resolution group consisting of the Issuer and its subsidiaries (including the Bank);

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

"**eligible liabilities instruments**" has the meaning given to it in the Applicable Banking Regulations;

"**Holding Company**" means, at any time, the ultimate holding company of the prudential consolidation group and/or resolution group of which the Issuer forms part at such time;

As at the Issue Date, the Holding Company of the prudential consolidation group of which the Issuer forms part is The Co-operative Bank Holdings Limited, and the Holding Company of the resolution group of which the Issuer forms part is the Issuer itself;

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 Reference Date, the Notes are or (in the opinion of the Issuer or the Relevant Supervisory Authority) are likely to be fully or partially excluded from the Issuer's and/or any Applicable Prudential Group'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 and/or such Applicable Prudential Group (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 and/or such Applicable Prudential Group (whether on an individual or a consolidated basis) on the Reference Date;

"**own funds**" and "**own funds instruments**" have the respective meanings given in the Applicable Banking Regulations; and

"**Relevant Supervisory Authority**" means, at any time, the United Kingdom Prudential Regulation Authority, the Bank of England and/or any other authority having primary supervisory authority with respect to prudential and/or resolution matters concerning the Issuer or any Applicable Prudential Group (as applicable) at such time.

6.5 Purchases

Subject to Condition 6.7, 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 (and, in the case of purchases, its subsidiaries) 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 Relevant Supervisory Authority and has (if and as then required by the Applicable Banking Regulations or the Relevant Supervisory Authority) obtained the Relevant Supervisory Authority's prior permission (or, as appropriate, waiver) in relation to the redemption or purchase (as the case may be) of the Notes;

(b) the Issuer has complied with any other pre-conditions to, or requirements applicable to, such redemption or purchase as may be required by the Relevant Supervisory Authority or the Applicable Banking Regulations at such time, including, to the extent then so required, that the Issuer shall have demonstrated to the satisfaction of the Relevant Supervisory Authority that:

(A) the Issuer has or will have (before, or at the same time as, the relevant redemption or purchase) 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 own funds and eligible liabilities of the Issuer and/or any Applicable Prudential Group of which it forms part would, following such redemption or purchase, exceed its minimum requirements for own funds and eligible liabilities under the prevailing Applicable Banking Regulations by a margin that the Relevant Supervisory Authority considers necessary at such time; or

(C) the partial or full replacement of the Notes with own funds instruments is necessary to ensure compliance with the own funds requirements laid down in the prevailing Applicable Banking Regulations for continuing authorisation of the Issuer or any other relevant entity within any Applicable Prudential Group.

Notwithstanding the above conditions, if, at the time of any redemption or purchase, the prevailing Applicable Banking Regulations permit the repayment or purchase of Notes 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, in the alternative or in addition to the foregoing (as required by the Applicable Banking Regulations), comply with such other and/or, as appropriate, additional pre-condition(s).

Any refusal by the Relevant Supervisory Authority to give its permission for any redemption or purchase of the Notes shall not constitute a default for any purpose.

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:

(i) a certificate signed by two Authorised Signatories 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 that the relevant tax circumstance exists (or that, upon a change in or amendment to the laws or regulations or in the interpretation or administration thereof of the Tax Jurisdiction which at the date of such opinion is proposed to be made and in the opinion of such independent legal or tax advisers is reasonably expected to become effective, will exist); *provided that*, for the avoidance of doubt, such opinion need not comment on whether or not the relevant tax consequence could be avoided by the Issuer taking reasonable measures available to it.

The Trustee shall be entitled, without any liability or further investigation, to accept and rely upon such certificate and, where applicable, such opinion 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, in respect of payments of interest (but not principal or any other amount), 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, 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 it having some connection with the Tax Jurisdiction other than the mere holding of such Note;

(b) presented or surrendered for payment (where presentation or surrender 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 or surrendering the same for payment on such thirtieth day; or

(c) held by or on behalf of a holder who could lawfully have avoided (but has not so avoided) such deduction or withholding by complying, or procuring that any third party complies, with any statutory requirements or by making, or procuring that any third party makes, a declaration of non-residence or other similar claim for exemption to any relevant tax authority.

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 these Conditions or 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 *Non-payment when due*: 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 or, in the case of interest, for a period of 15 days, the Trustee at its discretion 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 of the holders of the Notes shall, (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), without further notice, institute proceedings for the winding-up of the Issuer in England (but not elsewhere) and may prove in respect of the Notes in such winding-up, but may take no other action in respect of such default.

9.2 *Winding-Up of the Issuer*: In the event of a Winding-Up of the Issuer (whether or not instituted by the Trustee pursuant to Condition 9.1), the Trustee at its discretion 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 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 and unpaid 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 *Enforcement*: Without prejudice to Condition 9.1 or Condition 9.2, 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 *Rights of the Trustee*: The Trustee shall not be bound to take any steps, actions and/or proceedings 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 *Rights of the Noteholders*: 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 or to take any other enforcement action against the Issuer in respect of the Notes or the Trust Deed unless the Trustee, having become bound so to proceed in accordance with Condition 9.4, fails or is unable to do so within a reasonable time and such failure or inability is continuing, in which case the Noteholder shall, with respect to the Notes held by it, have only such rights against the Issuer as those which the Trustee is entitled to exercise in respect of such Notes as set out in this Condition 9.

9.6 *Extent of Remedy*: No remedy against the Issuer, other than as referred to in this Condition 9, shall be available to the Trustee or the Noteholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or under the Trust Deed.

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, Paying Agents and Calculation Agent

The names of the initial Registrar, Principal Paying Agent and Calculation 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 the Calculation 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 and/or Calculation 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);

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

(c) there will be an appointed Calculation Agent at all relevant times at which a Calculation Agent is required to perform a function expressed in these Conditions to be performed by it.

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, the Paying Agents and the Calculation Agent 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, the Paying Agents and the Calculation Agent.

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 (including in a physical place or by any electronic platform (such as conference call or videoconference) or a combination of such methods) 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.

For the avoidance of doubt, the agreement or approval of the Noteholders shall not be required in the case of any variation of these Conditions and/or the Trust Deed and/or Agency Agreement made pursuant to Condition 4.7 or Condition 13.2.

The Trust Deed provides that (i) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding or (ii) a resolution passed by way of electronic consents given by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding shall, in each case, for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. A resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

An Extraordinary Resolution passed at any meeting of Noteholders or in writing or by way of electronic consents will be binding on all Noteholders, whether or not they are present at the meeting or voting in favour or, as the case may be, whether or not signing the written resolution or providing electronic consents.

13.2 Modification and Waiver

The Trust Deed provides that the Trustee may agree, without the consent of the Noteholders, to:

(i) 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 the Agency Agreement, 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

(ii) to any modification of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement which is, in the opinion of the Trustee, of a formal, minor or technical nature or which is made to correct a manifest error.

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, determination, 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 from the Issuer, nor shall any Noteholder be entitled to claim from the Issuer, the Trustee 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, the Trust Deed and/or the Agency Agreement, including that (if and to the extent so required by the Applicable Banking Regulations or the Relevant Supervisory Authority at such time) the Issuer shall have given any requisite notice to the Relevant Supervisory Authority and obtained the Relevant Supervisory Authority's prior permission (or, as appropriate, waiver) in relation thereto.

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 Relevant Supervisory 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 ("**Further Notes**"). Any Further Notes shall be constituted by a deed supplemental to the Trust Deed.

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 or a Successor in Business (as defined in the Trust Deed) of the Issuer or a subsidiary of the Issuer or of the Holding Company, 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 including that (if and to the extent so required by the Applicable Banking Regulations or the Relevant Supervisory Authority at such time) the Issuer shall have given any requisite notice to the Relevant Supervisory Authority and obtained the Relevant Supervisory Authority's prior permission (or, as appropriate, waiver) in relation thereto.

16 Rights 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 written notice to the contrary.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer, the Holding Company and/or any of the Issuer's or the Holding Company's subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the Holding Company and/or any of their respective subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

Nothing in these Conditions, including Condition 3 and Condition 9, shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

The Trustee shall not be liable for any consequences of any application of the UK Bail-in Power or any other recovery or resolution powers (in accordance with Condition 19 or otherwise) in respect of the Issuer or any of its affiliates or any Notes and shall not be required to take any action in connection therewith that would, in the Trustee's opinion, expose the Trustee to any liability or expense unless it shall have been indemnified and/or secured and/or prefunded to its satisfaction; *provided that* nothing in this paragraph shall prevent any application of the UK Bail-in Power or any other recovery or resolution powers in respect of the Issuer or any of its affiliates or any Notes from taking effect, and each Noteholder by its acquisition of any Notes (or any interest therein), authorises and instructs the Trustee to take such steps as may be necessary or expedient in order to give effect to any such application of the UK Bail-in Power or any other recovery or resolution powers.

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.

19 Recognition of UK Bail-in Power

Notwithstanding, and to the exclusion of, any other term of the Notes or any other agreements, arrangements, or understandings between the Issuer and any Noteholder or beneficial owner of any Notes, by its acquisition of any Note (or any interest therein), each Noteholder (and each beneficial owner of Notes) acknowledges and accepts that the Amounts Due or any other liability arising under the Notes may be subject to the exercise of the UK Bail-in Power by the Resolution Authority, and acknowledges, accepts, consents to, and agrees to be bound by:

(i) the effect of the exercise of the UK Bail-in Power by the Resolution Authority, that may (without limitation) include and result in any of the following, or some combination thereof:

(A) the reduction of all, or a portion, of the Amounts Due;

(B) the conversion of all, or a portion, of the Amounts Due on the Notes into shares, other securities or other obligations of the Issuer or another person (and the issue to or conferral on the Noteholder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Notes;

(C) the cancellation of the Notes; and/or

(D) the amendment or alteration of the Maturity Date or amendment of the amount of interest payable on the Notes, or the date on which interest becomes payable, including by suspending payment for a temporary period; and/or

(ii) the variation of the terms of the Notes, if deemed necessary by the Resolution Authority, to give effect to the exercise of the UK Bail-in Power by the Resolution Authority.

No repayment or payment of Amounts Due on the Notes will become due and payable or be paid after the exercise of any UK Bail-in Power by the Resolution Authority if and to the extent such amounts have been reduced, converted, cancelled, suspended (for so long as such suspension or moratorium is outstanding), amended or altered as a result of such exercise.

Neither a reduction or cancellation, in part or in full, of the Amounts Due or the conversion thereof into another security or obligation of the Issuer or another person, as a result of the exercise of the UK Bail-in Power by the Resolution Authority with respect to the Issuer, nor the exercise of the UK Bail-in Power by the Resolution Authority with respect to the Notes will constitute a default for any purpose (whether under the Notes or otherwise).

Upon the exercise of the UK Bail-in Power by the Resolution Authority with respect to any Notes, the Issuer shall promptly give notice to the Noteholders, in accordance with Condition 12. Any delay or failure by the Issuer in delivering any notice referred to in this Condition shall not affect the validity and enforceability of the UK Bail-in Power or constitute a default for any purpose (whether under the Notes or otherwise).

As used in these Conditions:

"**Amounts Due**" means the principal amount of, and any accrued but unpaid interest on, and any other amounts accrued or payable in respect of, the Notes. References to such amounts will include (but will not be limited to) amounts that have become due and payable, but which have not been paid, prior to the exercise of the UK Bail-in Power by the Resolution Authority;

"**Resolution Authority**" means the Bank of England and/or any other resolution authority or authorities with the ability to exercise the UK Bail-in Power or any other recovery or resolution powers in the United Kingdom in relation to the Issuer, any Applicable Prudential Group and/or the Notes; and

"**UK Bail-in Power**" means any write down, conversion, transfer, modification, moratorium and/or suspension power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of financial holding companies, mixed financial holding companies, banks, banking group companies, credit institutions and/or investment firms incorporated in the United Kingdom in effect and applicable in the United Kingdom to the Issuer or other members of any Applicable Prudential Group, including (but not limited to) any such laws, regulations, rules or requirements that are implemented, adopted or enacted within the context of a resolution regime in the United Kingdom under the Banking Act 2009, as the same may be amended or superseded from time to time.

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 U.S. 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 (as defined below) 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 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 nominee for the common depositary of 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 (if any) and interest on such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the registered holder of the Global Certificate in accordance with and subject to its terms and the terms of the Trust Deed.

6. 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.

7. 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 AND ESTIMATED NET AMOUNT OF PROCEEDS

The proceeds of the issue of the Notes will be on-lent to the Bank by way of the Issuer subscribing for the Intra-Group Notes to be issued by the Bank.

The Notes are intended to count towards the Group's MREL resources, and the Intra-Group Notes are intended to count towards the MREL resources of the Bank and its group. This will further strengthen the Group's and the Bank's loss absorbing capacity base.

The Issuer and the Bank intend that the Bank will use an amount equal to the net proceeds of issue of the Notes (expected to amount to approximately £249,000,000) for the purposes of advancing loans to customers for financing and/or refinancing, in whole or in part, Eligible Green Assets as set out in the Group's "*Green, Social and Sustainability Financing Framework*" dated February 2022, as such framework may be amended from time to time (the "**GSS Framework**"). The Bank will be able to use an amount equal to the net proceeds against Eligible Green Assets that fall within the eligible categories and meet the eligibility criteria (as set out in the GSS Framework) which have occurred within the 24-month period preceding the issue date of the Notes and/or against future Eligible Green Assets within the 12-month period following the issue date of the Notes.

The Notes, for the purposes of the Group's GSS Framework, have been classified as a "green debt instrument" issuance and thus the Issuer and the Bank intend that the Bank will invest an amount equal to the net proceeds of the Notes in Eligible Green Assets (being green buildings and energy efficiency) taking into account investments in these categories over a 36-month period, from within 24-months preceding the Issue Date and 12-months following the Issue Date.

The GSS Framework may be viewed on the Group's website at: *https://www.co-operativebank.co.uk/pdfs/bank/investorrelations/GSS-Framework.pdf*.

An independent opinion (the "**Second Party Opinion**") has been obtained from ISS ESG and may be viewed on the Group's website at: https:*//www.co-operativebank.co.uk/assets/pdf/bank/investorrelations/GSS-Framework-second-party-opinion.pdf*.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of the GSS Framework or the Second Party Opinion and in particular as to whether any Eligible Green Assets will fulfil any green, environmental, sustainability, social or other criteria applied by any investor or other party. The Second Party Opinion is not a recommendation to buy, sell or hold the Notes. Prospective investors in the Notes are recommended to read the risk factor entitled "*The Notes may not be a suitable investment for all investors seeking exposure to green assets*" herein.

Neither the GSS Framework nor the Second Party Opinion is incorporated in, and they do not form part of, this Prospectus.

OVERVIEW OF THE ISSUER AND THE GROUP

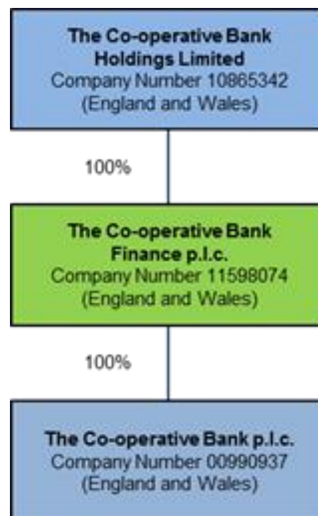
Incorporation, etc.

On 1 October 2018, The Co-operative Bank Finance Limited (previously known as Balloon Street Issuer Co 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 of this Prospectus, 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 purposes of the Issuer are to facilitate the issuance by the Group of own funds instruments and other MREL-eligible instruments (such as the Notes), to operate as the 'resolution entity' subject to resolution powers for the Group and to act as a holding company of the Bank.

The Issuer has its registered office at PO Box 101, 1 Balloon Street, Manchester M60 4EP, United Kingdom. The Group's website address is *https://www.co-operativebank.co.uk/*. Any information contained on the Group's website does not form part of this Prospectus unless explicitly incorporated by reference into this Prospectus.

The primary Group structure as at the date of this Prospectus is set out below:



No assets other than holding of Bank shares and certain intra-group financing arrangements

As at 31 December 2021, the Issuer had no assets other than the sum of £781.7 million representing its investment in the Bank's ordinary shares and its investment in certain Tier 2 and other MREL-eligible securities issued to the Issuer by the Bank, funded, respectively, by the issue by the Issuer of Tier 2 securities in 2019 and other MREL-eligible securities in 2020. The Issuer also intends to use the proceeds of issue of the Notes to invest in MREL-eligible securities to be issued by the Bank to the Issuer on substantially similar terms to the Notes.

As at the date of this Prospectus, the Issuer has no liabilities or equity other than the Tier 2 securities it issued in 2019, the other MREL-eligible securities issued in 2020 and its fully paid-up share capital and retained earnings. The Issuer will also incur liabilities in respect of the Notes upon issue.

Directors of the Issuer and the Bank

The articles of association of the Issuer as in force as at the date of this 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 entitle its sole member to designate any two directors as B Directors (as defined therein) and for the membership of the Board at all times to comprise up to two B Directors, a majority of independent directors (including the Chair of the Board) 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 Directors of the Issuer and the Bank are comprised of the same directors. The directors of the Issuer and the Bank as at the date hereof, and their designations on the Boards, are as follows:

Director	Designation
Robert “Bob” Graham Dench	Chair
Nicholas “Nick” Stuart Slape	Chief Executive Officer
Derek James Weir	Senior Independent Director
Glyn Michael Smith	Non-Executive Director (independent)
Sir William “Bill” Gennydd Thomas	Non-Executive Director (independent)
Susan “Sue” Harris	Non-Executive Director (independent)
Sally-Ann Hibberd	Non-Executive Director (independent)
Edward Sebastian Grigg	B Director (non-executive)
Richard James Slimmon	B Director (non-executive)
Louise Britnell	Chief Financial Officer

The business address of each of the above directors is 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 Issuer or the Bank of the directors listed above and their private interests or other duties.

For further information on the Directors, see the section of this Prospectus headed “*Directors, Senior Management and Corporate Governance of the Bank*” below.

Accounting and reporting cycle

The Issuer prepares audited annual accounts for each financial year ended 31 December and unaudited interim accounts for each six-month period ended 30 June. 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 Co-operative Bank's history began in 1872, as the Loans and Deposits department of the Co-operative Wholesale Society Limited ("**CWS**"), and it has operated ever since to provide consumers with a real alternative to larger retail banks. 150 years later, the Bank continues its commitment to the co-operative values and ethics on which it was founded, making it a natural leader in environmental, social and governance ("**ESG**") issues within the UK financial services industry, with the Bank being recognised in June 2021 as the UK's best ESG rated high street bank by leading ESG ratings agency, Sustainalytics.

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. The Co-operative Bank is the only UK high street bank to introduce a customer-led ethical policy, launched 30 years ago (the "**Ethical Policy**"). The Ethical Policy sets out the way the Bank does business, who it will and will not provide banking services to and what issues it will support. The Bank has now received 370,000 customer responses since 1992, putting customer values at the heart of the Bank's own values and ethics proposition.

As at 31 December 2021, the Group had total assets of £29,323.3 million (£25,599.5 million as at 31 December 2020) and approximately 3.2 million customers which are serviced through a network of 50 branches, two customer contact centres and digital banking channels (online and mobile banking). The Bank's head office is based in Manchester. The Bank employed 2,598 people as at 31 December 2021 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 designed to be simple, clear, fair and transparent.

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

Retail –

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

- Business current accounts, deposits and lending tailored to SMEs

Credit ratings

The Bank is currently rated "B+" (long-term senior unsecured, stable outlook) and "B" (short-term) by Fitch; and "Ba3" (long-term senior unsecured rating, positive outlook) and "NP" (short-term) by Moody's. The Issuer is rated "B1" (long-term and positive outlook) and "NP" (short-term) by Moody's. The Notes are expected to be rated "B1" by Moody's.

HISTORY AND DEVELOPMENT

1872: The Bank was formed as the banking department of 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 in which it would invest.

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 shortfall in its common equity tier 1 ("**CET1**") capital resources, Co-operative Group and the Bank completed a recapitalisation plan (the "**2013 Recapitalisation Plan**"), announced on 17 June 2013, which included: a 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 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.

2015-6: 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 capital (before costs), including £250 million of new CET1 capital (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.

2019: The Bank focused on the implementation of a multi-year transformation. Through delivering the Bank's strategy and plans, the Bank aimed to improve profitability, and meet regulatory and loss absorbing capacity requirements. 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 then prevailing 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. Following the appointment of a new CEO and CFO, the Issuer (being the Bank's parent company) completed the issue of £200 million MREL-eligible bonds in December 2020. The Bank received a 15 per cent. reduction in its individual capital requirement as at December 2020 compared to December 2019 (equivalent to a £102 million reduction in the Bank's total capital requirement as at December 2020). Following market-wide regulatory support, the Bank had an individual capital requirement as at December 2020 which was calculated as 5.5 per cent. of December 2019 RWAs to reduce capital pressure in response to Covid-19. The Bank drew down £1.75 billion under the TFSME. The Bank supported customers through Covid-19, with growth in SME customers and strong residential mortgage lending, including:

- net core residential lending of £841 million, including new mortgage completions of £3.4 billion;
- net SME lending of £264 million; including £253 million Bounce Back Loans and £33 million CBILS lending drawn down; now supporting over 90,000 small businesses; and
- granting over 20,500 payment deferrals to support customers with mortgage, loan and credit card payments.

2021: The Bank returned to profitability, posting an underlying profit of £41.0 million (and a statutory profit before taxation of £31.1 million) for the full year to 31 December 2021. In June 2021, the Bank was recognised as the UK's best ESG rated high street bank by leading ESG ratings agency, Sustainalytics. The Bank updated its strategy, focusing on simplifying and removing final legacy growth inhibitors, and bringing the Bank's financial performance closer in line with larger competitors. The Bank drew down a further £3.5 billion under the TFSME scheme.

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 strategy and Plan were originally agreed by the Board in December 2018 and, following annual updates, were most recently updated in September 2021 to cover the period from 2022 to 2026.

The Bank has been successful in delivering the first phase, and has materially completed the second phase (each as described below), of its multi-year transformation Plan, which focuses on investment in developing digital customer propositions, enhancing competitive products, and nurturing existing branch and telephony distribution channels to build sustainable competitive advantage. The Plan consists of three phases;

> *Phase 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.

Phase 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.

Phase 3 – "Establish sustainable advantage"- From 2022, the Bank aims to gain a sustainable, long-term competitive advantage from delivery of its strategy and Plan. The Bank is now in a position to activate the growth phase in its strategy.

As the Bank has made progress in delivering Phase 1 and Phase 2, and following its return to profitability in 2021, it has taken the decision to refresh the strategy to establish a sustainable advantage. This strategy refresh was communicated to the market in the fourth quarter of 2021. The refreshed Plan focuses on simplifying and removing final legacy growth inhibitors, and bringing the Bank's financial performance closer in line with larger competitors. As part of the renewed strategy, the Bank has also decided to refresh its financial guidance metrics. The newly refreshed *"Establish sustainable advantage"* consists of two phases:

1. *"Growth and efficiency"*- From 2022 – 2023, the Bank will look to activate the growth phase of its strategy by simplifying and transforming whilst also removing any legacy restrictions. During this stage, the Bank has announced that it will look to develop the difference it makes with its values and ethics.

2. *"Embed and expand"*- From 2024-2026, the Bank aims to become a real competitor in the UK banking market and confirm its position as the number one voice for ethical banking in the UK. It will look to establish its sustainable advantage through strong and stable franchise growth.

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.

The Co-operative Bank's commitment to co-operative values and ethics

The Bank's distinctive ethical brand has its heritage in the value and ethics of the co-operative movement. As 'the original ethical bank', the Bank's customer-led Ethical Policy has been central to the way it has done business for over 30 years and represents a clear point of difference that sets the Bank apart from its competitors. The Bank remains the only UK high street bank with a customer-led Ethical Policy. The policy has evolved with the benefit of over 370,000 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.

Values and ethics are embedded through the Bank's 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 £2.0 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 £48,809 to 50 community projects in 2021. Since the scheme started in 2003, almost £986,045 has been shared by 1,112 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 Covid-19 and lockdown, and investigate the impact that digital banking and online transactions might have on patterns of economic abuse. In 2021, the Bank actively campaigned to help customers spot the signs of economic abuse happening to themselves or someone they know and provided support and advice on how to get help.

Standing up for human rights has been a key commitment within the Bank's customer-led Ethical Policy, since its launch in 1992. Since 2019, the Bank has worked closely with its long-standing partner, Amnesty International UK, to develop human rights defenders of the future by sponsoring Amnesty International UK's ("**Amnesty**") young activist training programme, "Rise Up". The Bank also annually promotes Amnesty's Write for Rights campaign to customers and colleagues, resulting in 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. Since 2016 the Bank has provided £1.7 million of funding to The Hive. This unique business support programme created by Co-operatives UK in partnership with The Co-operative Bank, gives co-operative businesses from all sectors of the economy access to the expert advice and guidance they need to thrive.

The Bank's environmental, social and governance commitments

At a time when environmental, social and ethical concerns are of increasing importance for consumers, the Bank's unwavering commitment to the co-operative values and ethics on which it was founded 150 years ago has made it a natural leader in ESG within the UK banking industry. In June 2021, the Bank was recognised as the UK's best ESG rated high street bank by leading ESG ratings agency, Sustainalytics.

The Bank's commitment to protecting the environment was formalised 30 years ago when it launched its 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, which it achieved by the end of 2020, and aims to maintain in the future.

In addition the Bank has been operationally '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.

At the start of 2021, the Bank set out its key environmental, social and governance commitments for the year. These were inspired by the Bank's Ethical Policy, which guides how it can make a difference to the environment and the communities in which the Bank operates.

The Bank's key environmental targets were to maintain its 'beyond carbon neutral' position, continue its zero waste to landfill position and continue to source all of its electricity from renewable sources. In 2021, the Bank maintained its carbon neutral position with an additional offset of 10 per cent. to address historic emissions, did not send any operational waste to landfill, recycled 70 per cent. of operational waste and continued to develop its circular economy strategy. It reduced its energy consumption by 18 per cent. year on year and sourced all directly procured electricity from renewable sources. In 2022 and beyond, the Bank will look to assess the impact of its indirect emissions within its business with a view to understanding its net zero target date at the end of 2022, recycle at least 60 per cent. of operational waste and keep its operational greenhouse gas emissions ratio below 1.8 (as compared to its 2019 baseline of 2.4).

Key social targets in 2021 were to increase the Bank's co-operative business customer base by 14 per cent., make a positive social change by working with Refuge and to increase its staff's total volunteering hours by

10 per cent. In 2021, the Bank achieved a five per cent. increase to its co-operative business customer base, providing banking services to 12 per cent. of all registered co-operatives as at the end of 2021. The Bank also delivered the key infrastructure for its SME business to enable sustainable growth in the future, worked with Refuge to launch a cross-sector commission into the impact of online banking on those experiencing economic abuse (the "**Online Banking Commission on Economic Abuse**") and colleagues took part in 1980 hours of volunteering. Looking forward to 2022 and beyond, the Bank will continue to support the co-operative sector and work towards a targeted 14 per cent. increase in its co-operative business customer base, continue to work with key charity partners acting on the findings of the Online Banking Commission on Economic Abuse with Refuge and continue to support local communities with a particular focus on north west England.

The Bank's key governance targets in 2021 were to link executive pay to achieving ESG targets from 2022, to maintain commitments to diversity, inclusion and balance by, for example, having 40 per cent. of the Bank's senior positions filled by women and to continue to decline business services to any business that conflicts with the Bank's Ethical Policy. In 2021, the Bank's Board approved linking executive pay to ESG performance measures, continued to have at least 40 per cent. of senior positions filled by women and declined 10 business banking applications from businesses that conflicted with the Bank's Ethical Policy. Looking forward, executive pay will be linked to the Bank's delivery of its ESG commitments, the Bank has also revised its target to have 45 per cent. of senior positions filled by women by the end of 2023 and will launch an updated Ethical Policy shaped by the views of its customers, ESG labelled bonds, green mortgages and bank accounts for the homeless.

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. The Bank intends that key customer processes 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, through the branch network and telephony channel. In 2021, the Bank was awarded 'Branch Network of the Year' by Moneyfacts for the fourth year running, recognising 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.

The Bank also offers a multi award-winning range of products designed to meet its customers' needs. In 2021, the Bank was awarded Current Account Provider of the Year by Moneyfacts for the second year in a row. The Bank's Current Account, Cashminder and Everyday Extra products are all 5-star rated by Fairer Finance, and its Everyday Rewards proposition has the highest Which? customer satisfaction score in the industry.

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

Strong colleague culture and effective leadership

The Bank achieved consistently strong results in the financial Services Culture Board cultural assessment in 2021. Customer focus was the Bank's highest ranked characteristic within the survey, with the question

relating to going the 'extra mile for its customers' remaining one of the Bank's strongest scores. From a diversity and inclusion perspective, colleagues at the Bank feel more included, accepted, and less likely to be judged based on stereotypes than other banks who took part. For its values and ethics, the Bank continues to score well above average when it comes to the purpose and values being meaningful to colleagues.

Bob Dench joined the Bank Board in February 2018 and was appointed Chair of the Bank in March 2018. Subsequently, Andrew Bester was appointed as Chief Executive Officer in July 2018, and Nick Slape was appointed to the Board in December 2019, having joined the Bank in October 2018 as Chief Financial Officer. Nick assumed the role of Chief Executive officer from 31 October 2020 following Andrew's departure from the Bank. Louise Britnell joined the Bank in November 2018 as Chief Accounting Officer and was promoted to Chief Financial Officer from 31 October 2020. Louise Britnell joined the Board on 1 March 2021. 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 further Optimum Portfolio (as defined below) de-leveraging transactions in 2017 to improve capital resilience further 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 has enabled the Bank to meet its total capital requirement (TCR) from 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 Portfolio de-leveraging transaction and in January 2020 concluded full IT separation from the Co-operative Group's systems. In the fourth quarter of 2020, the Bank completed a fifth Optimum Portfolio de-leverage transaction to complete the de-risking of this higher risk mortgage exposure.

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

Strategic Plan

The Bank originally adopted its Plan in December 2018 following its approval by the Board. The Plan, originally conceived as a five year strategic business plan covering the period from 2019 to 2023, was updated in December 2019 to cover the period from 2020 to 2024 with the aim of giving 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 Plan, which was approved by the Board in July 2020. This updated Plan set out an updated outlook over the 2020-24 planning period founded on a set of base economic assumptions. The 2020 iteration of the Plan included significant management action to reduce costs and investments in order to offset greater income and impairment risks that had arisen due to deterioration in actual and expected economic conditions as a result of the Covid-19 pandemic outbreak from the first quarter of 2020.

In September 2021, the Board approved further updates to the Plan, covering the 2022-26 planning period and designed to enable the Bank to fulfil its strategic target of establishing a sustainable advantage. The

updated Plan seeks to drive digitally led growth at a low cost by leveraging the Bank's values and ethics led proposition.

The key financial pillars of the Plan, as most recently adopted, include: (i) improving revenues and NIM; (ii) reducing operational costs to decrease total statutory costs; (iii) investing resources to unlock future growth and de-risk the future of the Bank; (iv) maintaining CET1 requirements, leverage ratio regulatory expectations, capital requirements, and achieving end-state MREL requirements by 1 January 2023; (v) increasing the return on tangible equity as a measure of shareholder value accretion; and (vi) meeting the Bank's PRA buffer guidance within the planning period. As the Bank currently meets its overall capital requirements, 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 TFSME incentives funding. SME growth is driven by improvement in the Bank's product offering and servicing as a result of investment in the Bank's proposition specifically aimed at small SMEs in 2020 and 2021. From 2023, a return to growth in retail liability balances is targeted as the Bank seeks to prepare for TFSME refinancing starting in 2024;

- growing NIM driven by anticipated Bank of England base rate rises, and continued growth of low cost SME liabilities. NIM growth 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 emergence of Covid-19 and the ensuing regulatory stimulus in response, including the TFSME scheme, and a switch in the mix of liability funding, where more expensive term deposits decrease;

- reducing the Bank's operating cost base and franchise investment, thereby reducing the Bank's total statutory costs. Statutory costs are expected to remain broadly flat in 2022 when compared to 2021, before reducing further in 2023 upon completion of consolidation of the Bank's mortgage and savings systems;

- maintaining a low risk and strong credit quality asset portfolio whilst diversifying revenue sources. The Plan does not assume growth in Unsecured Loans, except for steady growth in Credit Cards and conventional SME assets (standard SME lending products excluding BBLS and CLBILS) as the Bank seeks to diversify its offerings and help support income growth. Total SME asset balances are expected to decline marginally, as conventional SME asset growth replaces government backed SME lending, 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. Modestly sized diversification into areas such as higher risk, specialist mortgages and larger sized SME lending from 2022 are not expected to drive a material increase in the Bank's cost of risk. 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 further described below). Key deliverables remaining include transforming and consolidating the Bank's mortgage and savings systems, concluding the delivery of enhanced SME capability, supported by Capability and Innovation ("**C&I**") funding, along with other revenue generative initiatives, together with completion of a number of regulatory and mandatory projects;

- completing further MREL-qualifying debt issuances within the planning period. The issuance of this debt is critical in delivering and maintaining MREL compliance requirements, including end-state MREL requirements from 1 January 2023; and

- an expected increase in risk weights from 2022 in relation to secured IRB model development impacts, in particular with regard to the impact of PS 11/20.

A summary of the key targets for the years ending 2022 and 2024 are outlined in the table below:[1]

Plan Targets	2021 Actual	End of year 2022 Targets(5)	End of year 2024 Targets(5)
NIM(1)	1.25%	c.140bps	>140bps
Total Statutory Costs	£346.1m	<£350m	<£300m
Adjusted ROTE(2)	4.7%	c.8%	>10%
Asset Quality Ratio(3)	1bp	<5bps	c.5bps
CET1 Ratio(4)	20.7%	c.17%	c.19%
Core Customer Assets	£20.9bn	c.£ 22bn	>£22bn
Capital buffers	Compliant	Maintained	
MREL (Interim and Final)(5)	N/A	Compliant	
PRA Buffer guidance	Not met	Targeted within the Plan period	

Notes:

(1) NIM is calculated as annual net interest income over average interest earning assets.

(2) Adjusted ROTE is calculated as underlying profit minus current tax and any AT1 coupon divided by CET1 resources

(3) Asset Quality Ratio is calculated as impairments divided by gross loans and advances.

(4) CET1 Ratio includes an intangibles benefit of 0.6 per cent. which was reversed on 1 January 2022.

[1] These targets are not statements of historical fact nor are they forecasts or guarantees of future performance. Rather, they are targets 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.

(5) If the Notes are not issued, the Bank may be double-counting CET1 toward its MREL and CRD IV Buffer requirements later in 2022. 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 2022 is the issue of the Notes.

(6) 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 (including but 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 1.0 per cent. by 2025;
- UK GDP grows by 5.9 per cent. in 2022 as economy returns to pre-pandemic levels;
- UK CPI increases to 4 per cent. by end of 2021, but this is expected to be transitory, returning to the 2 per cent. target from 2023;
- UK Unemployment falls to 4.3 per cent. by the end of 2022, and further 4.0 per cent. by 2026; and
- UK house price growth continues to increase in 2022, where prices rise 0.5 per cent. and further 2.6 per cent. by 2024.

The Bank's CET1 ratio guidance indicates a reduction of approximately 0.3 per cent. in the 2022 financial year compared to the 2021 financial year, primarily due to the impact of PS 11/20, subject to regulatory approval.

The Bank's MREL requirement increased to £400 million over total capital requirements from January 2021, and is due to increase further to two times its total capital requirements on 1 January 2023. Any delay to the timing of issuing the Notes (as MREL-qualifying debt) could cause the Bank in the future to double-count CET1 toward this end state requirement and the buffer requirements which would be contrary to PRA expectations.

While the Bank continues to focus on delivering the next phase of transformation under its Plan, its ultimate shareholders are likely to consider any strategic exit opportunities that may emerge, especially in light of the Bank's achievements in the year ended 31 December 2021 and the challenging sector-wide operating environment created by the emergence of the Covid-19 pandemic. Notwithstanding any shareholder exit activity, the Bank remains committed to delivering the strategy and the Plan, including the issuance of MREL qualifying debt.

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 designed to be simple, clear, fair and transparent.

Retail Deposits

Current Accounts

As at 31 December 2021, the Bank had 'franchise' current account balances of £6.0 billion (£5.3 billion as at 31 December 2020), with approximately 600,000 primary current accounts (being accounts that turnover £800 or more per month on average) (31 December 2020: 608,000).

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 in 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 31 December 2021 the Bank had £11.6 billion of retail savings balances (£12.0 billion as at 31 December 2020).

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 focuses 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 (from two currently) in 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 procedures for customers.

Retail Lending

Mortgage Lending and Insurance

As at 31 December 2021, the Bank had a total outstanding mortgage portfolio of £2.9 billion issued under the Co-operative Bank brand and the Britannia brand (£3.4 billion as at 31 December 2020) and a total outstanding mortgage portfolio of £16.7 billion issued under the Platform brand (£13.7 billion as at 31 December 2020). As at 31 December 2021, the Bank's total issued residential mortgage lending secured on residential property (excluding buy-to-let) was £18.1 billion and the total buy-to-let mortgage portfolio was £1.4 billion.

During 2021, the Bank's total new mortgage completions amounted to £5.1 billion and total mortgage balances increased from £17.1 billion to £19.5 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. The strategic aim for mortgages is gradually to reduce dependency on competitive pricing, whilst still recognising its importance given the Bank's limited scale. This is expected to be achieved through offering a broader product range with products for specific market segments - for example, supporting first time buyers, customers with minor credit issues, and young professionals - together with an improved service proposition. Customer mortgages are largely originated through authorised brokers or intermediaries through the Platform brand, however the Bank launched a direct mortgage pilot scheme in May 2021, signalling the Bank's return to direct mortgage sales for the first time since January 2018. The Bank's aim is to create a more digitised end-to-end self-serve proposition for direct mortgage customers by 2023.

Platform operates a dedicated brand within the UK intermediary market and is currently 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.

To support mortgage growth, systems transformation activity is expected to deliver a single platform (from three currently) in 2022, at which point all new mortgage business is expected to be offered under The Co-operative Bank brand for the first time, with more efficient, digital customer service capability anticipated. In the market as a whole, intermediated lending accounted for an estimated 79 per cent. of all regulated mortgage lending in 2020. 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.

The Bank, Western Mortgage Services Limited ("**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).

In the fourth quarter of 2021, the Bank announced that it had given formal notice to Capita that it would be moving all mortgage servicing back to the Bank in December 2022. As such, the Bank has now begun a transition phase in which it will continue to work closely with Capita as it plans the re-integration of its mortgage servicing operation, whilst ensuring that a consistent service for its mortgage customers is maintained.

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 31 December 2021, the Bank had approximately 310,000 retail credit card accounts of which approximately 222,000 were active (in that the relevant account recording a debit or a credit during that month constituted activity for these purposes). As at 31 December 2021, 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 31 December 2021, the Bank had arranged and unarranged overdraft chargeable balances (excluding undrawn commitments and accounting adjustments) of approximately £12.3 million (reduced from £13.1 million as at 31 December 2020).

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 95,000 SME customers as at 31 December 2021, the majority of which are smaller UK businesses, Co-operatives, Credit Unions and community organisations. The Bank offers an award-winning set of business current accounts which is supported by a simple savings proposition. The Bank was awarded *Best Charity Banking Provider* by Business Moneyfacts in 2021 and the Bank's Business Directplus, Community Directplus, Cash Tariff and FSB Business Banking accounts were awarded 5 stars by Business Moneyfacts in 2021. As at 31 December 2021, the Bank had £3.5 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.

Throughout 2020 and 2021, the Bank provided loans and overdrafts under the CBILS and BBLS schemes to its SME customers in order to support customers through the Covid-19 pandemic. As at 31 December 2021, the Bank had £0.4 billion loans outstanding to SME customers, including CBILS, and BBLS assets.

The Bank's primary service channel for its SME customers is its online banking platform, which approximately 60 per cent. of its customers use regularly. The Bank also provides a mobile app for SME customers which was launched in 2021 as part of the enhanced digitisation of services for SME customers; 22 per cent. of the Bank's approximately 95,000 SME customers are registered for this mobile app service. The digital service channel supported by a telephony service team and 50 branches are available to satisfy customers' transactional needs. Like the Bank's personal customers, its 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 investment in modernising and digitising the Bank's proposition following the successful application for a grant of £15 million from the C&I fund in May 2019. The C&I fund aims to 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 alternative remedies package agreed between HM Government and the European Commission to replace the original state aid commitment on The Royal Bank of Scotland ("**RBS**") to divest its Williams & Glyn business. The Bank committed to match this funding with £18 million of its own investment, and has invested an aggregate of £23 million in its SME proposition from 2019 to 2021. This investment is focused on enhancing 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 has delivered significant improvements through this investment, with a new customer relationship management platform, a new sales on-boarding process, a new mobile app and additional products delivered through 2020 and 2021. The Bank is planning to continue to develop products and services and leverage the infrastructure delivered by this investment as it continues to seek growth in its SME franchise.

Treasury

The Treasury department is responsible for management of the Bank's liquidity portfolios (including High Quality Liquid Assets ("**HQLA**"), the Legacy Assets (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.

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 now-dormant 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 £20 million as at 31 December 2021 following a series of de-leveraging transactions in 2015, 2017, 2019 and 2020. 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 £704 million of corporate assets and £18 million unsecured assets (the "**Legacy Assets**") as at 31 December 2021 which are inconsistent with the Bank's current business strategy and risk appetite.

The Bank's unsecured assets are a portfolio of personal 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 for new lending to these asset classes.

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 upgrading legacy systems.

Digital

The Bank provides a digital offering to both Retail and SME customers, providing access to online banking, mobile banking and the public website. This is supplemented with a customer services team that supports and responds to customers' queries through a secured message capability.

Digital is now established as the Bank's primary channel of choice for Retail customers. In 2021, 90.2 per cent. of customers interacted with the Bank via a digital channel and 61 per cent. of core product needs were met through a digital channel. With the Bank's plans for further digitalisation, it expects to meet more customers' needs through digital channels in the future.

Throughout 2021, co-operativebank.co.uk, smile.co.uk and platform.co.uk were migrated to a new content management system and cloud managed service. This significantly improved the ability to deliver website changes quickly and safely. The new system and processes also enable the enhancement of web capability in 2022 with introduction of new tools and calculators to support new and existing customers and drive commercial performance. The ability to include rich content and multimedia will also support the celebration of 150-year anniversary, relaunch of the ethical poll and delivery of product propositions.

In addition, the Bank will be launching new Online Banking and Mobile App propositions for Retail customers throughout 2022. The continued enhancement of the Bank's digital services remains a key enabler, ensuring that it can react to evolving customer needs and adapt its product and service offerings.

Branches

As at the date of this Prospectus, the Bank operates a network of 50 branches across England, Wales & Scotland. The Bank's branch network facilitated approximately 1,144,000 customer transactions in 2021. 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 Bank's 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 and 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, 2020 and 2021.

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. 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 2,326 Co-operative Bank customers to CAM with over 7,547 problems ranging from debt advice, housing and benefit issues to access to food. In 2021, 566 customers were referred, receiving advice on a range of issues including access to benefits, managing debts and dealing with housing issues.

RISK MANAGEMENT OF THE BANK

The Board of Directors (the "**Board**") of the Bank 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 Group'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.

The Bank's Risk Culture

A critical supporting factor of the RMF is the risk culture in the Bank, which 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 that oversee the effective management and oversight of the RMF are detailed in the table below:

Boards	The Boards of the Holding Company, the Issuer and the Bank have collective responsibility for the long term success of the Group. Their role is to provide leadership of the firm within a framework of prudent and effective controls, which enable risk to be assessed and managed. They set the values and standards and ensure that the obligations to their shareholders, customers and other stakeholders are understood and met. The Boards set the strategy and approve plans presented by management for the achievement of the strategic objectives they have set. They determine the nature and extent of the significant risks they are willing to take in achieving their strategic objectives and are responsible for ensuring maintenance of sound risk management and internal control systems.

Committee:	**Reports to:**	**Risk focus:**
Risk Committee ("**RC**")	Board	The purpose of the Risk Committee is to review and report its conclusions to the Board of the Bank on the Bank's risk appetite and to propose for approval by the Bank Board and oversee the implementation of the RMF, taking a forward-looking perspective, and anticipating changes in business conditions.
Executive Committee ("**ExCo**")	CEO	The purpose of ExCo is to assist the CEO in the performance of their duties providing leadership of the Bank and within the bounds of their authority, subject to the Bank's Articles of Association and the matters reserved to the Board, as set out in the Bank's authority framework.

Committee:	Reports to:	Risk focus:
Asset and Liability Committee ("**ALCo**")	ExCo	ALCo's primary objectives include all actions that impact future capital, liquidity, profitability, and regulatory considerations of the Bank.
Executive Risk Oversight Committee ("**EROC**")	RC	EROC supports the Chief Risk Officer (CRO) in overseeing the risk profile of the Bank (within the agreed Board risk appetite), the Committee reviews and challenges the risks associated with Bank's business strategy, plans, and overall management of risks.
Model Risk Oversight Committee ("**MROC**")	EROC	MROC ensures, on an ongoing basis, 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. MROC also provides oversight of the Bank's IRB permissions, including the exemptions where the Bank applies the Standardised Approach to calculate Pillar 1 requirements.
Credit Risk Oversight Committee ("**CROC**")	EROC	The purpose of the CROC is to monitor significant credit risk and issues within the entire credit risk cycle, the controls and management actions being taken to mitigate them, and to hold to account the executives responsible for actions
Operational, Compliance & Financial Crime Risk Oversight Committee ("**OCROC**")	EROC	The purpose of the OCROC is to monitor significant operational, compliance and financial crime risks and issues, the controls and management actions being taken to mitigate them, and to hold to account the executives responsible for such actions.
Pension Risk Oversight Committee ("**PROC**")	EROC	PROC oversees all aspects of pension arrangements in which the Group or Bank either sponsor or participate, 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.	

Principal risk	Definition	Further constituent parts / Risk Taxonomy
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 or asset values.	
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 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 the Bank's reputation or to the way the Co-operative Bank brand or image is perceived by its internal or external stakeholders as a result of its conduct, performance, the impact of operational failures or other external issues.	

Climate change has been classified as a 'thematic risk' within the RMF, which means it is not a principal risk in its own right, however it has its own definition and appetite statement. Climate Change Risk (as defined below) appetite is measured via key risk appetite measures held within other principal risks. The Bank has defined "**Climate Change Risk**" to be:

- *Transition risk* – risk associated with the transition to a lower-carbon economy including policy, regulatory and legal changes, as evolving technology and markets adapt to a changing climate and associated impacts;

- *Reputational risk* - changing public sentiment may lead to scrutiny of business activity, leading to reputational damage, or climate change groups may decide to take legal action against entities perceived to be contributing to climate change; and

- *Physical risk* – risks resulting from events due to increased severity of extreme weather events (e.g. flooding) or longer-term shifts in climate patterns such as higher temperatures that may cause rises in sea levels leading to coastal erosion.

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 (and now Kyndryl – which was spun out from IBM in 2021 as a separate company).

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.

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 Kyndryl. 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.

- *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 the fourth quarter of 2019 and has maintained a secure and supported desktop environment through a programme of continual updates and maintenance. This investment has enabled the Bank to deliver agile ways of working in response to Covid-19, ensuring colleagues could work from home where appropriate throughout the pandemic.

- *Technology Strategy* - the Bank has developed a technology strategy detailing how the Bank will improve its IT estate to reduce risk and deliver incremental benefit to the Bank and its customers.

- *Technical Debt* – the Bank has documented all risks related to aging technologies in use across the estate and agreed an investment plan through to 2026.

- *SME Transformation* - following the successful awarding of a C&I funding in 2019 of £15 million, matched by a co-investment of £18 million by the Bank, the Bank has achieved a significant level of transformation within the SME business. This has included a number of key capabilities being delivered to customers, including an upgrade of the online banking platform (which also helps address Technical Debt), launch of a mobile banking app to support the smaller SME customers, improved on-boarding process to support same day account opening and full integration into risk and financial crime management tooling. Process improvements have also been introduced to enhance customer authentication through the replacement of physical tokens with soft token to validate and authentication customers using the online channels. New products have also been delivered to support improvement in liabilities and assets, including a new fixed fee business current account.

The Bank has a control framework to govern transformation programme delivery. All of the projects in the investment portfolio are delivered by change teams aligned to the different business units. The portfolio is

tracked and reported via a central Investment and Project Oversight Committee through 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 2022 onwards will focus on five key areas:

- Ongoing regulatory compliance and resilience upgrades to critical IT, cyber and data services;
- Continuing to build the Bank's SME products and services capability to meet the demands of customers, including its ability to integrate accountancy software into the online banking platform and smart invoicing through the mobile banking app;
- continuing development of the Bank's mortgages and savings capability, by consolidating systems, and in-sourcing mortgage servicing;
- Migrating towards a managed service for the Bank's Treasury, payment and contact centre systems; and
- Digital investment in web and mobile to improve customer processes 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 and operates within the banks technology risk appetite as set within the RMF.

The Bank relies on approximately 400 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 a mixture of externally hosted, managed services and internally hosted applications distributed across a modern IBM private cloud environment, two strategic Kyndryl data centres and two legacy Bank data centres managed on behalf of the Bank by Kyndryl.

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 and Kyndryl - 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 is due to be completed by 2023 and represents a rationalisation and simplification opportunity for the Bank in its systems transformation plans.

The Bank utilises third-party IT-outsourced services for some commodity services (including human resources, payroll, finance and procurement).

The Bank aims to simplify its estate through systems rationalisation and wider adoption of externally managed services. By doing this, the estate size will reduce, legacy data centres will be exited and the need for ongoing change investment is expected to reduce over time.

The next phase of the Bank's IT infrastructure plans focus on simplifying its technology, application and data estate and removing legacy technology. The Bank intends to achieve this through: (i) wider adoption of managed services, systems consolidation (in particular regarding mortgages and savings systems), and then retiring the legacy systems; (ii) simplifying its payments estate and moving to 'payments as a service' processing where possible; (iii) continuing its digitisation programme and developing new SME systems and capability; and (iv) migrating more workload to the banks strategic cloud infrastructure and continuing to invest in modernising and renewing its cyber data capabilities.

Cyber Security

In 2021, the Bank completed a five year cyber security strategy delivering a defence-in-depth control framework, aligned to the National Institute of Standards and Technology Cybersecurity Framework, and annual independent assessment, including technical controls. Industry standard tools and technologies are in use, from firewalls and intrusion prevention systems, to identity and access management, anti-malware, secure remote access and endpoint detection and response. A hybrid security monitoring solution aligns Bank expertise with both industry expertise from IBM and F-Secure to ensure security events are monitored and responded to at all times. In addition, the Bank is a member of the Cyber Defence Alliance (a non-profit public private partnership that works collectively and collaboratively across the financial sector and law enforcement to pro-actively share information to fight cybercrimes and threats), ensuring timely sharing of industry cyber intelligence, and provides free cyber security e-learning for its SME customers.

The Bank operates 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 including cross site strategies and home working capability. These recovery strategies 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 2021. In response to the Covid-19 pandemic the Bank has enabled home working capability for all operational contact centre teams to strengthen its business continuity strategies and maintain critical operations throughout the pandemic. Further investment in this area will continue in 2022 to deliver a more flexible operating model for operational teams.

LITIGATION

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 £599.7 million have been taken as at 31 December 2021 (£602.3 million as at 31 December 2020). As at 31 December 2021, the Bank had an unutilised provision of £1.0 million (31 December 2020: £8.6 million) primarily in respect of offers made to customers that have not yet been accepted and/or settled.

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, and 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. Historically, 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, new mortgage related issues have been identified and remediated at a total cost of £6.3 million.

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.

In October 2018, Mortgage Agency Services Number Five Limited ("**MAS 5**"), a subsidiary of the Group, received a complaint from a mortgage customer which included a complaint regarding changes made to MAS 5's standard variable rate between 2009 and 2012. The complaint was referred to the Financial Ombudsman Service ("**FOS**") and on 26 August 2021, the FOS found that it had jurisdiction to consider the complaint. MAS 5 has commenced legal action to request permission for a judicial review of FOS's finding on the grounds that the Group considers this part of the complaint to be outside of FOS's jurisdiction by reason of being time-barred under DISP 2.8.2 of the dispute resolution chapter of the FCA Handbook. Permission has been granted by the High Court for MAS 5 to bring the judicial review claim.

As this is a case concerning a decision on whether or not the events are within the FOS's jurisdiction and not on the merits of the underlying complaint, it is currently not possible to predict the scope and ultimate outcome on the Group should the judicial review find in favour of the FOS. An adverse outcome at judicial review would be the first in a series of increasingly contingent events that would need to occur in order for the Group to be exposed to any significant liability, and given the early stages of this process, it is not practicable to provide an estimate of any potential financial impact. The Group is satisfied that these historic variations were applied fairly and in accordance with the terms and conditions of the mortgage contract.

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 Prospectus 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 and Kyndryl Outsourcing Agreements

On 23 January 2015, the Bank entered into a contract with IBM (the "**Enterprise Services 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 Enterprise Services 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 Enterprise Services 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 Enterprise Services 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 Enterprise Services 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 significant.

On 27 August 2021, the Bank entered into a novation agreement with IBM and Kyndryl UK Limited ("**Kyndryl**"), under which IBM's rights and obligations in respect of the provision of infrastructure services were novated from IBM to Kyndryl (the "**Transfer**"). From completion of the Transfer:

(a) the Enterprise Services Contract with IBM was amended and restated to reflect only the services provided by IBM from that date. The Bank's obligation to meet the minimum commitment for consulting and project charges remains under the Enterprise Services Contract as amended and restated; and

(b) a new contract, substantially based on the terms of the Enterprise Services Contract, was entered into between the Bank and Kyndryl. The Bank's obligation to meet minimum commitment for infrastructure charges now sits under this agreement.

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 31 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.

On 2 December 2021, the Bank served notice to terminate the Capita (WMS) Agreement, with termination expected to take effect in December 2022.

CFS Management Services Limited 2006 Services Agreement

On 16 February 2006, the Bank and CFS Management Services Limited ("**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 (such "**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) or any part thereof; 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 data protection provisions of the agreement. 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.

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.

On 2 December 2020, the Bank entered into a deed of amendment and restatement to the Enduring Agreement whereby Markerstudy Insurance Services Limited and Affinity Insurance Solutions Limited acceded as parties following the sale of CIS General Insurance Limited to the Markerstudy Group of companies. The amended and restated agreement sets out the framework for which the acceding entities would have access to the databases holding shared information.

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 Pace (as defined below), 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.

In April 2019, the date of the last concluded funding valuation, the surplus for Pace DB was £72.0 million. Acknowledging this surplus, it was agreed that no further contributions would be paid directly into Pace DB, but that the remaining contributions from 1 January 2020 would be paid into an escrow arrangement and the Pace Trustee would have a right to this money in the event of the insolvency of the Bank or a failure by the Bank to make contributions under the terms of the Payment Agreement. The Payment Agreement enables the Pace Trustee to request a contribution if required to repair a deficit against the low risk target basis (a secondary funding measure for Pace) or to enable Pace to meet the premium payable against the scheme assets in order to fully insure the Bank Section liabilities with a third party insurance company. Other than on Bank insolvency, the Pace Trustee is not entitled to request cash contributions under this arrangement until March 2023 at the earliest, following which time the Pace Trustee is entitled to request a maximum of £45.0 million, rising to £75.0 million by 2027. As at 31 December 2021, £25.0 million in cash was pledged in this escrow arrangement. A further payment of £12.5 million was made into the escrow arrangement in January 2022.

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 ("**Switching 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 Switching 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 Switching 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 Switching 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 Switching 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 Switching 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 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 of the Bank

Name	Position
Robert "Bob" Graham Dench	Chair
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
Edward Sebastian Grigg	Non-Independent Non-Executive Director
Richard James Slimmon	Non-Independent Non-Executive Director
Susan "Sue" Harris	Independent Non-Executive Director
Sally-Ann Hibberd	Independent Non-Executive Director
Louise Britnell	Chief Financial Officer
Catherine Elizabeth Green	Company Secretary

Bob Dench – Chair

Appointed: February 2018 (Bank Board) March 2018 (Chair)

Skills and experience: Extensive banking experience with strong strategic, regulatory and stakeholder management skills.

Career history: Bob was Chair of Paragon 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.

External appointments: None

Nick Slape – Chief Executive Officer

Appointed: December 2019 (Bank Board) October 2020 (CEO)

Skills and experience: Extensive operational and financial experience in strategic and financial planning and control. Fellow of the Chartered Institute of Management Accountants.

Career history: Nick has worked in the financial services sector in the UK and overseas for more than 30 years and throughout his career he has worked at a number of investment banks including Lehman Brothers, Dresdner Bank, Deutsche Bank and Merrill Lynch. Most recently he spent five years as Chief Financial Officer of the Commercial Division at Lloyds Banking Group.

External appointments: None

Derek Weir – Non-Executive Director and Senior Independent Director

Appointed: July 2014 (Bank Board) January 2016 (Chair of Risk Committee) April 2018 (Senior Independent Director)

Skills and experience: Extensive banking experience. Strong strategic, risk management regulatory and stakeholder management experience.

Career history: Derek has over 30 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 The Royal Bank of Scotland plc, including being the Managing Director responsible for Commercial Banking in the UK for The Royal Bank of Scotland plc.

External appointments: Non-Executive Director of Motherwell Football Club Community Trust. Director of Kerrach Limited and Halo Urban Regeneration Company Limited.

Glyn Smith – Non-Executive Director

Appointed: October 2016 (Bank Board and Chair of Audit Committee)

Skills and experience: Extensive financial, regulatory, governance and audit experience. Chartered Accountant.

Career history: Glyn has over 40 years of 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.

External appointments: Senior Independent Director and Chair of the Audit and Risk Committee of Reclaim Fund Ltd and Chair of West Bromwich Building Society Pension Trustees.

Sir Bill Thomas – Non-Executive Director

Appointed: October 2013 (Bank Board) January 2018 (Chair of Remuneration)

Skills and experience: IT expertise. Strong leadership skills with extensive commercial and operational experience working domestically and internationally in both public and private sector organisations. Significant experience in transformation programmes.

Career history: Sir Bill 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 served as a member of the Council and President of the Alumni Association at Cranfield University and chaired the School of Management advisory board. Former Chair of the Royal Navy and Royal Marines Charity.

External appointments: Chair of Spirent Communications plc. Chair of Clarkson plc. Advisor to FireEye Inc. Non-Executive Director and Chair of Node 4 Limited (private equity owned IT services) Partner in Hopton Estates.

Sue Harris –Independent Non-Executive Director

Appointed: May 2019 (Bank Board)

Skills and experience: Significant financial, accounting, corporate development and audit experience. Extensive experience in both financial and retail businesses.

Career history: Sue has held senior executive positions in the financial services and retail sectors, most recently at Lloyds Banking Group ("**LBG**") as Group Audit Director and the Group's Financial Control Director/Financial Controller. Prior to that, 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. Sue was chair of the Audit and Assurance Council and a member of the Codes and Standards Committee at the Financial Reporting Council.

External appointments: Non- Executive Director, Chair of Audit and Risk Committees at Clarkson plc, FNZ (UK) Ltd and Wates Group Limited where she chair the Audit Committee. Non-Executive Director of Schroders & Co. Limited and Chair of the Audit and Risk Committees of Schroder's Wealth Management Division. Non-Executive Director of Barclays Pension Funds Trustees Limited.

Sally-Ann Hibberd –Independent Non-Executive Director

Appointed: August 2019 (Bank Board)

Skills and experience: Broad background in financial services and technology.

Career history: Sally-Ann 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. She previously served as a Non-Executive Director of NFU Mutual and Shawbrook Group Plc and as a Non-Executive Director and Chair of the Risk Committee at Equiniti Group plc

External appointments: Non-Executive director and Chair of the Environmental, Social and Governance Committee at IG Group plc. Non-executive member of the governing body of Loughborough University.

Richard Slimmon – Non Independent Non-Executive Director

Appointed: January 2021 (Bank Board)

Skills and experience: Significant Board level strategic and financial experience including mergers and acquisitions, equity and debt capital structuring. Extensive investment banking experience.

Career history: Richard has worked in investment banking for nearly three decades focussing on providing strategic advice to companies in the financial services sector. He has held a number of senior roles at Deutsche Bank and Merrill Lynch in their respective Financial Institutions Groups.

External appointments: Chairman, Financial Institutions Group at Gleacher Shacklock LLP.

Sebastian Grigg – Non Independent Non-Executive Director

Appointed: January 2021 (Bank Board)

Skills and experience: Investment banking experience.

Career history: Sebastian was a banker with Goldman Sachs and Credit Suisse where he was Head of UK Investment Banking. He led the Credit Suisse team that advised HM Treasury on the rescue recapitalisations of The Royal Bank of Scotland and Lloyds Banking Group in 2008.

External appointments: Elected hereditary member of the House of Lords

Louise Britnell – Chief Financial Officer

Appointed: March 2021 (Bank Board) October 2020 (CFO)

Skills and experience: Over 20 years of experience working across a wide range of financial disciplines, including finance transformation, financial planning, taxation, reporting and control. Fellow of the Institute of Chartered Accountants in England and Wales.

Career history: Louise joined the Bank in 2018 initially as Chief Accounting Officer having been Deputy CFO at one of the UK's largest pension funds - Universities Superannuation scheme, and its investment management subsidiary. Louise spent 13 years at Deloitte LLP as an external auditor.

External appointments: None

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.

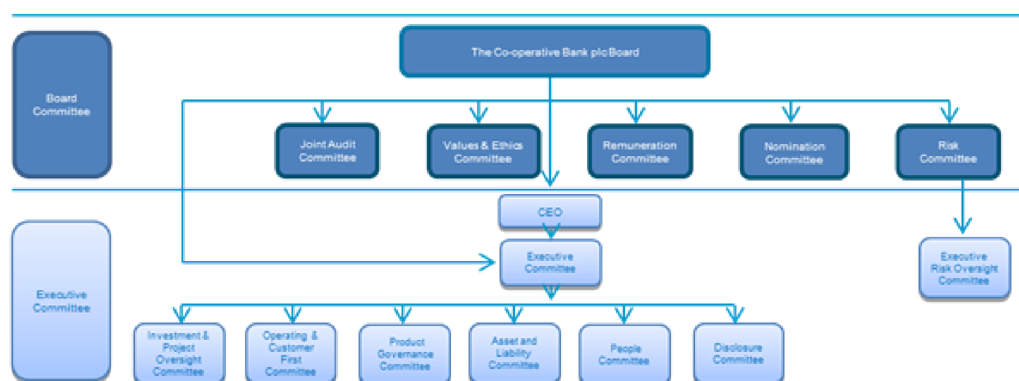
The Joint Audit Committee has Terms of Reference describing the authority delegated to the Committee by the boards. The Committee has a role in ensuring effective oversight by the Boards of the Holding Company, the Issuer, the Bank and its subsidiaries.

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 seven members of ExCo and three standing invitees, 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 no listed securities at present, although it has the capacity to issue listed debt securities listed on the London Stock Exchange. Its equity is not listed.

As at the date of this Prospectus, 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.

As at the date of this Prospectus, the B Shareholders of the Holding Company owned 85.58 per cent. of A shares. As at the date of this Prospectus, 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.	16.86
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
JCF BC Manchester Acquisition Ltd	12.05

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's Articles of Association). 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.

Decisions regarding 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 of Association) 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 the date of this Prospectus, two B Directors, Edward Sebastian Grigg and Richard James Slimmon, are 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's Articles of Association. 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 Holding 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 Issuer's understanding of 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 taxation 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 purchaser. 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.

Other considerations

The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements in 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 or transfer of the Notes.

FATCA withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "**FATCA**", a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are published generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional Notes (as described under "Terms and Conditions—Further Issues") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Goldman Sachs International and NatWest Markets Plc (the "**Joint Lead Managers**") have, pursuant to a Subscription Agreement dated 4 April 2022, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Notes at 100.000 per cent. of their principal amount, less certain commissions. In addition, the Issuer has agreed to reimburse each Joint Lead Manager for certain of its expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Joint Lead Managers 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. The Joint Lead Managers may from time to time also enter into swap and other derivative transactions with the Issuer and its affiliates. In addition, the Joint Lead Managers 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.

United States

The Notes have not been and will not be registered under the U.S. Securities Act and each Joint Lead Manager 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 U.S. Securities Act. Each Joint Lead Manager 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 U.S. Securities Act. Each Joint Lead Manager 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 Issue Date (the "**distribution compliance period**"), only in accordance with Rule 903 of Regulation S under the U.S. Securities Act. Each Joint Lead Manager 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 "**U.S. 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 Issue Date, except in either case in accordance with Regulation S under the U.S. Securities Act. Terms used above have the meaning given to them by Regulation S.*"

Each Joint Lead Manager 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.

United Kingdom

Each Joint Lead Manager 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 does not apply to the Issuer.

Prohibition of Sales to UK Retail Investors

In addition, each Joint Lead Manager 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 United Kingdom. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(a) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the EUWA; or

(b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager 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. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

(a) a retail client, as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of 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.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 (Cth) of Australia (the "**Corporations Act**")) in relation to the Notes has been or will be lodged with the Australian Securities and Investments Commission ("**ASIC**"). Each Joint Lead Manager has represented and agreed that it:

(a) has not (directly or indirectly) offered, and will not offer for issue or sale and has not invited, and will not invite, applications for issue, or offers to purchase, the Notes in, to or from Australia (including an offer or invitation which is received by a person in Australia); and

(b) has not distributed or published, and will not distribute or publish, any information memorandum, advertisement or other offering material relating to the Notes in Australia,

unless (1) the aggregate consideration payable by each offeree or invitee is at least AUD500,000 (or its equivalent in other currencies, disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Part 7.9 of the Corporations Act, (2) the offer or invitation is not made to a person who is a "retail client" within the meaning of section 761G of the Corporations Act, (3) such action complies with all applicable laws, regulations and directives and (4) such action does not require any document to be lodged with ASIC.

Canada

The Notes have not been, and will not be, qualified for sale under the securities laws of Canada or any province or territory thereof. Each Joint Lead Manager has represented and agreed that the Notes may be sold only to, and it has not offered, sold or placed and will not offer, sell or place the Notes in Canada except to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal adviser.

Hong Kong

Each Joint Lead Manager 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.

Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to any Notes be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute any copies of this Prospectus or any other document relating to the Notes in Italy except:

(a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 2 of Regulation (EU) 2017/1129 (the "**Prospectus Regulation**") and any applicable provision of Legislative Decree no. 58 of 24 February 1998 (as amended, the "**Financial Services Act**") and Italian CONSOB regulations; or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 1 of the Prospectus Regulation, Article 34-*ter* of CONSOB regulation No. 11971 of 14 May 1999, as amended from time to time, and the applicable Italian laws.

In any event, any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in Italy under paragraphs (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**") and CONSOB Regulation No. 20307 of 15 February 2018, all as amended from time to time;

(ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and

(iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "Financial Instruments and Exchange Act"). Accordingly, each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Singapore

Each Joint Lead Manager has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager 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 2001 (2020 Revised Edition) 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)(c)(ii) 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 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).*

Switzerland

Subject to specific provisions regarding exempt offers pursuant to Article 36 of the Swiss Financial Services Act ("**FinSA**") (as set out further described below), the Notes may not be publicly distributed (such term including any advertising type of activity whose object is the purchase of Notes by an investor) or offered (such term including any invitation to acquire Notes that contains sufficient information on the terms of the offer and the Notes) in, into or from Switzerland, except if such offer is strictly limited to investors that qualify as professional clients ("**Professional Clients**") according to Article 4 para. 3 of the FinSA and its implementing ordinance, i.e., the Swiss Federal Financial Services Ordinance ("**FinSO**"), or unless other exemptions, as described below, apply. Accordingly, the Notes may only be distributed or offered, and the relevant issue terms or any other marketing material relating to the Notes may only be made available to Professional Clients in Switzerland.

Professional Clients in terms of the FinSA specifically include:

(a) Swiss regulated financial intermediaries such as banks, securities houses, fund management companies, asset managers of collective investments, or regular asset managers;

(b) Swiss regulated insurance companies;

(c) foreign clients which are subject to a prudential supervision under the laws of their incorporation of jurisdiction equivalent to that applicable to persons listed under (a) and (b) above;

(d) central banks;

(e) public entities with professional treasury operations;

(f) occupational pension schemes and other institutions whose purpose is to serve occupational pensions with professional treasury operations;

(g) companies with professional treasury operations;

(h) large companies; and

(i) private investment structures with professional treasury operations created for high-net-worth private (retail) clients.

In addition, high-net-worth private (retail) clients and private investment structures created for them may declare that they wish to be treated as Professional Clients in accordance with Article 5 of the FinSA (opting out).

Furthermore, the Notes may be distributed or offered in, into or from Switzerland, if such exempt offers:

(i) are addressed to less than 500 investors;

(ii) are only addressed to investors that purchase financial instruments in an amount of at least CHF 100,000;

(iii) have a minimum denomination of CHF 100,000 (or equivalent in other currencies); or

(iv) do not exceed the value of CHF 8 million (or equivalent in other currencies) calculated over a period of 12 months.

Each of the Joint Lead Managers has represented and agreed that it will only distribute and offer the Notes to Professional Clients in, into or from Switzerland.

The Notes will not be admitted to trading on any trading venue (exchange or multilateral trading facility) in Switzerland.

This Prospectus does not constitute a prospectus pursuant to the FinSA, and no such prospectus has been or will be prepared for or in connection with the offering of the Notes. Subject to these selling restrictions, the offering of the Notes in, into or from Switzerland is exempt from the requirement to prepare and publish a prospectus under the FinSA because such offering is exclusively made to Professional Clients.

General

No action has been or will be taken by the Issuer or the Joint Lead Managers 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 Lead Managers 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.

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 246440387. The International Securities Identification Number for the Notes is XS2464403877.

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 around 8 April 2022, subject only to the issue of the Notes. 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 pounds sterling 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 £6,000.

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 23 February 2022.

5. Significant/Material Adverse Change

There has been no material adverse change in the prospects of the Issuer since 31 December 2021.

There has been no significant change in the financial position or financial performance of the Group since 31 December 2021.

6. Litigation

Save as disclosed in the section of this Prospectus headed "*Litigation*", there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) 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 or the 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 Issuer for the financial years ended 31 December 2021 and 31 December 2020 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. EY is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

EY has no material interest in the Issuer, the Holding Company or the Bank.

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.

ISSUER

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United Kingdom

TRUSTEE

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London EC2N 4AG
United Kingdom

PRINCIPAL PAYING AGENT

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One Canada Square
London E14 5AL
United Kingdom

REGISTRAR AND TRANSFER AGENT

The Bank of New York Mellon S.A./N.V., Luxembourg Branch
Vertigo Building — Polaris
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To the Joint Lead Managers and the Trustee as to English law

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