FOR RELEASE ON 16 DECEMBER 2014

Analyst and institutional investor meeting

There will be a conference call for analysts and institutional investors at 11:00am (UKT) today. The call will be hosted by Niall Booker, CEO, and John Baines, CFO. A copy of the presentation materials will be available on the Bank's website http://www.co-operativebank.co.uk/investorrelations. Analysts and institutional investors should dial UK toll number +44 20 3059 8125 and register for the call on http://www.emincote.com/coop004/default.asp .

The Co-operative Bank plc

Update following the Bank of England stress test

- The Bank of England has today published the results of UK stress testing for major banks and building societies. As a result, under a revised plan, which has been accepted by the Prudential Regulation Authority (PRA), the Co-operative Bank (the Bank) intends to accelerate the reduction in its risk weighted assets (RWAs), particularly those historic residential mortgage assets susceptible to severe stress, by approximately £5.5bn by the end of 2018*.

- The Bank is not required to raise additional equity capital as a result of the severe stress test at the present time.

- The PRA notes the Bank's recovery plan has 'achieved the targets set over the last 18 months in terms of building its capital base.'

- The results of the stress test, conducted against the Bank's balance sheet as at December 2013, do not reflect the £400m capital raising in May 2014 and the disposal of assets by the Bank over the 6 months to June 2014 which resulted in a significantly improved Core Equity Tier 1 ratio (CET1 ratio) of 11.5% as at June 2014, up from 7.2% as at December 2013.

- Significant additional Non-core deleveraging has been delivered or contractually agreed since June 2014 with a further reduction of over £1bn of RWAs.

- Under the plan, the Bank does not expect to be profitable in 2014, 2015 and 2016, and expects the Non-core division of the Bank to be significantly reduced in size by 2017.

As noted by the Prudential Regulation Authority (PRA) in today's announcement, the Co-operative Bank is currently delivering a recovery plan which has achieved the targets set over the last 18 months in terms of building its capital base and improving resilience. The progress made in executing the plan saw the Bank report a significantly improved CET1 ratio of 11.5% as at June 2014, up from 7.2% as at December 2013, and a leverage ratio of 3.7% which the PRA states is 'materially above baseline projections' set earlier in the year. The improvement in CET1 ratio at June 2014 reflected the £400m of capital raising in May 2014 and was also driven by the write back of credit impairment provisions on Non-core, the speed and timing of the deleverage of Non-core assets, reduced provisions for bad loans and reduced losses on disposals. Additional Non-core deleveraging has been delivered or contractually agreed (subject to completion) since June 2014 with a further reduction of over £1bn of risk weighted assets.

As a result of the stress test, the PRA Board has required the Co-operative Bank to submit a revised capital plan which has been accepted by the PRA Board. This plan is predicated on a rephased and significant reduction in risk weighted assets, thus reducing capital requirements. The Bank has not been required at the present time to raise new equity capital as a result of the severe stress test**.**

Niall Booker, Chief Executive of The Co-operative Bank, commented: “The Bank is much stronger than a year ago. As the regulator notes today, we have achieved the target of building our capital base and the actions we have taken during the first year of our business plan have made the Bank more secure for the benefit of all stakeholders. Our key ratios around capital, liquidity and leverage at the present time are significantly strengthened, we’re ahead of schedule in the disposal of Non-core assets and the stability of our core franchise is improving. However, given we are in the early stage of our plan, the original capital deficit and the nature of our assets, it is no surprise that we have not met the severe stress test hurdle today.

We fully support the Bank of England’s objective that all firms should maintain capital buffers that provide insulation against severe stress scenarios and this is an important goal for the Bank. Our revised plan, accepted by the regulator, will see us accelerate our strategy to significantly reduce risk weighted assets. As we have indicated before this will be driven primarily through a reduction in Non-core assets and the exit of certain portfolios which are vulnerable to this type of stress. This will build greater capital resilience earlier than previously anticipated. Our plan is not reliant on raising additional equity capital.

The economic conditions in the UK are better than originally expected and since the application of the severe stress test to our balance sheet as at last December, we have significantly strengthened our capital position. In addition, the recent sale of the Illius portfolio and the announced sale of the clean energy assets are deals that have been in gestation for some time and clearly indicate our readiness and ability to execute these plans under current market conditions.

The key now is to continue the progress we are making. Under the management team brought in to strengthen and simplify the business, we are reshaping the Co-operative Bank around our individual and small business customers. We have begun reinvesting in our brand and re-engaging with customers on the values and ethics that we share and that make us different. There is, of course, more to do but, given a continuation of recent positive market developments, I’m confident the steps we are taking are building a stronger and better business for our customers, colleagues and shareholders alike.”

The Co-operative Bank’s Turnaround Plan has been updated as follows:

The Bank’s overall strategy remains broadly the same. As previously stated, the Bank's strategy was always designed to build resilience by disposing of or running down Non-core assets. The PRA has required the Bank to revise its plan to create a capital buffer to withstand the severe stress scenario by the end of 2018. Given positive developments in market pricing, and assuming that market conditions remain favourable, the Bank will accelerate the reduction of its Non-core assets at levels which can now be accommodated in its capital position.

The Bank will focus on the reduction of its Non-core residential mortgage portfolio (“Optimum”). Optimum is vulnerable to the Bank of England hypothetical severe stress and by advancing the timing of its reduction over the period to 2018, the Bank will significantly improve its resilience to a severe economic downturn. Bank of America Merrill Lynch has been mandated to assist the Bank in structuring the reduction of Optimum over time.

The longer term targets of the Turnaround Plan, previously given at the time of the 2014 interim results, remain unchanged other than first; the timing of the deleverage of the

Optimum portfolio is advanced as outlined above and total RWAs* are now targeted to fall below £7.5bn by end 2018; and secondly the impact of this more rapid deleverage means that under the revised plan we have a greater degree of certainty that the Bank will not be profitable in 2016.

The Principal Risks and Uncertainties to the Turnaround Plan were set out in pages 14-16 of the Bank's Interim Financial Report 2014 and continue to apply to the revised plan. In addition, execution of the revised plan requires market conditions for the reduction of Optimum to remain favourable.

*Calculation of RWAs may change over time as a result of changes to regulatory policy or its interpretation.

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This announcement and any related materials may contain or incorporate by reference certain "forward-looking statements" regarding the belief or current expectations of the Bank about the Bank's financial condition, results of operations and business described in this announcement. Generally, but not always, words such as "aim", "target", "will", "would", "expect", "propose", "intend", "plan", "estimate", "endeavour", "indicate" or their negative variations or similar expressions identify forward-looking statements. Examples of forward-looking statements include, among others, statements regarding the Bank's future financial position, income growth, assets impairment charges and provisions, business strategy, capital, leverage and other regulatory ratios, estimates of profitability, projected levels of growth in the banking and financial markets, projected costs, original and revised commitments and targets in connection with the turn-around plan, deleveraging actions, estimates of capital expenditures and plans and objectives for future operations and other statements that are not historical fact. Such forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance, achievements or developments of the Bank or the industry in which it operates to differ materially from any future results, performance, achievements or developments expressed or implied from the forward-looking statements.

The principal risks and uncertainties to the ability of the Bank to implement the Plan and to achieve the results set out in the plan were set out in the Bank's Interim Financial Report 2014 and continue to apply to the revised plan. The Bank faces particular challenges including (but not limited to): market conditions persisting; ability to achieve the targeted cost savings; completing the remediation programme; support from third parties in remediating its IT platform; the PRA not exercising its wide-ranging powers in respect of the Bank or the plan; ability to retain customers and deposits; the timing and quantum of impacts to capital from its asset reduction exercise; meeting its planned improvements in net interest margin; a possible further deterioration in the quality of the Bank's asset portfolio; unplanned costs from (for example) conduct risk matters; ability to maintain the Bank's access at an appropriate cost to liquidity and funding and the ability of the Bank to raise further capital assumed in its forecasts.

Many of the risks and uncertainties also relate to factors that are beyond the Bank's ability to control or estimate precisely which include (without limitation) factors such as: UK domestic and global economic and business conditions; the Bank's ability to implement successfully its four to five year business plan to improve its financial, operational performance and capital position; market related risks, including but not limited to, changes in interest rates and exchange rates; changes to law, regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements and the Bank's ability to meet those requirements; the ability to access sufficient funding to meet the Bank's liquidity needs including through retail deposits; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or sovereign financial issues; changes to the Bank's credit rating; the effect of competition and the actions of competitors; the impact of potential disruption to the Bank's IT and communications systems; the ability to attract and retain skilled personnel; uncertainties regarding the extent of the Bank's exposure to pensions related liabilities; exposure to increased and ongoing regulatory scrutiny, legal proceedings, regulatory investigations or complaints, including with respect to conduct issues and other factors.

A number of material factors could cause actual results to differ materially from those contemplated by the forward-looking statements. The forward-looking statements contained in this announcement speak only as of the date of this announcement. Except as required by law, neither the Bank nor any of its respective affiliates or representatives undertakes any obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise. Recipients of this announcement should not place any reliance on the forward-looking statements and are advised to make their own independent analysis and determination with respect to the forecast periods.

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