

NS Acquisition

JOINT STATEMENT REGARDING CASH ACQUISITION

COVENTRY BUILDING SOCIETY

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THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION.

FOR IMMEDIATE RELEASE

24 May 2024

JOINT STATEMENT REGARDING THE CASH ACQUISITION

of

THE CO-OPERATIVE BANK HOLDINGS P.L.C.

by

COVENTRY BUILDING SOCIETY

1 Introduction

The Boards of Coventry Building Society ("CBS" or the "Society") and The Co-operative Bank Holdings p.l.c. (the ultimate holding company of The Co-operative Bank p.l.c. (the "Bank")) ("Bank Holdings") are pleased to announce that the Society and major owners of Bank Holdings (the "Sellers"), collectively holding approximately 88% of the A shares and 100% of the B shares in Bank Holdings, have signed a share purchase agreement ("SPA") under which the Society will acquire the entire issued share capital of Bank Holdings (the "Acquisition"). Bank Holdings' shareholders will, in accordance with Bank Holdings' Articles of Association and the terms of the SPA, be entitled to receive a total cash consideration of £780 million (subject to customary post-completion price adjustments and the terms of the SPA). Of the total cash consideration, up to £125 million will be deferred for a period of 3 years from completion subject to the future performance of the Bank and the terms of the SPA.

Subject to satisfaction of the conditions set out in paragraph 9 below, the Acquisition is expected to complete in the first quarter of 2025.

2 Strategic rationale

A combination between the Society and the Bank is expected to both deepen the enlarged group's existing presence in mortgages and savings and extend the Society's propositions. The CBS Board believes that the Acquisition is in the best interests of current and future members of the Society. It will:

- Create a combined group with a pro forma balance sheet of £89 billion as at 31 December 2023;
- Allow the Society to leverage its financial scale and a diversified funding base to:
 - Continue to offer strong member value; and
 - Enhance investment to continue to deliver outstanding service across branches, online, telephone and mobile services;
- Provide CBS with an established position in the personal current account market, extending the Society's product proposition to meet more of members' daily needs;
- Broaden the Society's channels and distribution capabilities including an enlarged, national branch footprint; and
- Introduce a business banking proposition into the Society's offering.

CBS is wholly committed to being an independent, member-owned building society with the purpose of making people better off through life by offering the best value products and services it can to its members. CBS will remain a building society following completion of the Acquisition and is committed to continuing to play an important role in maintaining a strong mutual sector.

3 Integration

The Society will seek to integrate the Bank gradually over several years, prioritising good customer outcomes following the completion of detailed planning and engagement with relevant stakeholders. During this period, the Society and the Bank will continue to operate under their current names and branding while the work required to provide more integrated services in the future is carried out.

Each of CBS and the Bank will retain their respective banking licences during this initial phase, and so members and customers of each organisation will continue to have the same Financial Services Compensation Scheme protection.

4 Governance and people

The combined group will be led by David Thorburn as Chairman and Steve Hughes as Chief Executive Officer.

The Bank will become a subsidiary of the Society on completion of the Acquisition and will continue to operate with a separate independent board post completion.

The Society and the Bank share a common heritage and values which are represented by highly engaged and talented colleagues in both organisations. The Society believes that the overall colleague base is well-positioned in terms of skills and capabilities to meet the current demands of members and customers and deliver the enhanced growth prospects of the combined group.

Appropriate priority will be given to colleague communication and engagement while combining the two organisations. There will inevitably be change over time but this will be underpinned by the strong organisational values in place. The combination of these two organisations and continued investment will provide opportunities for personal and career development and the Society sees its colleagues in the enlarged group as the foundation of a strong and successful business.

5 Customers and future membership position

The combined group's customers will benefit from the enlarged range of products and propositions on offer. It is the Society's current intention that eligible Bank customers will become Society members over a period of time post Completion.

6 Member vote

The CBS Board has considered carefully whether a member vote is required. Having had regard to the requirements of the Building Societies Act 1986, and, following thorough and detailed assessments and professional advice, the Board has conclusively determined that a member vote is not required. In coming to this decision, the CBS Board has been informed by member surveys and focus groups which clearly signalled their priorities as maintaining our value proposition and service quality.

7 Current trading

Further to the Society's Annual Results announcement made on 29 February 2024, the Society continues to trade well and in line with expectations.

As disclosed in its First Quarter Trading Statement on 2 May 2024, the Bank's financial performance for the period ended 31 March 2024 was in line with expectations with no change to full year guidance.

8 Other matters

The Acquisition represents an implied multiple of 0.6x the Bank's tangible book value as at 31 December 2023. The cash consideration necessary to satisfy the Acquisition in full will be funded from the Society's existing cash resources at completion.

In line with its existing policy, the Bank expects to pay a dividend in FY24 subject to meeting capital requirements and having sufficient distributable reserves, subject to Board approval.

Leverage would become the combined group's binding capital constraint and CBS expects the combined group to have a strong pro-forma capital position with a leverage ratio of approximately 4.4% and a common equity tier 1 ratio of approximately 21%, comfortably above the applicable regulatory minimums.

CBS also expects the combined group's liquidity ratios to be well in excess of regulatory requirements.

These estimated pro-forma positions are illustrative only and have been calculated using unaudited estimates of the position as at 31 December 2024 prepared by CBS. More information in relation to these estimates is set out in Appendix 1 to this announcement.

The combined group will be subject to the consolidated supervision of the PRA.

9 Conditionality, termination and break fees

The Acquisition is subject to regulatory approval from both the PRA and FCA. The Acquisition is not subject to any condition relating to the passing of a resolution by the Society's members.

The SPA contains customary termination provisions, including for certain material adverse change events and, in limited circumstances, non-satisfaction of conditions in accordance with the terms of the SPA. In certain limited circumstances, upon the termination of the SPA, a break fee may become payable by CBS.

Chairman of Coventry Building Society, David Thorburn commented:

"I believe this is a transformational moment for members and customers of the Society and The Co-operative Bank. We're building on our shared heritage and creating a stronger mutual business that will deliver in the best interests of our current and future members."

Chief Executive Officer of Coventry Building Society, Steve Hughes commented:

"By bringing together Coventry Building Society and The Co-operative Bank we will be able to deliver more value to more people in the coming years. I am excited about the opportunities that lie ahead, most importantly, our ability to sustain the great value and outstanding service that matters most to our members."

Chairman of The Co-operative Bank Holdings p.l.c., Bob Dench commented:

"This transaction sees The Co-operative Bank returning to mutuality. I am very proud of all those who have worked so hard over so many years to rebuild the Bank. I am sure the Coventry Building Society will prove to be a very good home for us."

Chief Executive Officer of The Co-operative Bank Holdings p.l.c., Nick Slape commented:

"I am proud of what has been achieved in recent years. We have successfully transformed and simplified the Bank into one that is now sustainably profitable with a strong capital and liquidity position. This transaction is a natural next step and presents an exciting opportunity."

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Addleshaw Goddard LLP is acting as legal adviser to the Society in connection with the Acquisition.

Freshfields Bruckhaus Deringer LLP is acting as legal adviser to Bank Holdings in connection with the Acquisition and Paul Hastings (Europe) LLP is acting as legal adviser to the Sellers in connection with the Acquisition.

Information on Coventry Building Society

Coventry Building Society is an award-winning savings and mortgage provider, currently the 8th largest UK lender with mortgage balances at £50.3bn at the end of 2023. As a mutual, it is owned by and run for the benefit of its members (customers with an eligible savings account or mortgage). It has around 2 million members across the country.

The Society employs more than 3,000 colleagues and has been consistently recognised for being a great workplace. In 2024 it was named as 11th on the list of best super-large companies to work for in the UK by Great Places to Work. It has also been recognised as a Great Place to Work for women, for wellbeing, and as one of the best workplaces in financial services and insurance.

In 2023, the Society became the UK's first BCorp certified building society. B Corp is a globally recognised certification for companies that meet high standards of social and environmental performance, accountability, and transparency, and are run for the benefit of all people, communities, and the planet.

Following the acquisition, CBS will remain a building society.

Information on The Co-operative Bank Holdings p.l.c.

The Co-operative Bank p.l.c. provides a range of banking products and services to about 2.5m retail customers and c.94k small and medium sized enterprises ('SME'). The Bank is committed to values and ethics in line with the principles of the co-operative movement. The Co-operative Bank is the only high street bank with a customer-led Ethical Policy, which gives customers a say in how their money is used. Launched in 1992, the policy has been updated on six occasions, with new commitments added in June 2022 to cover what we do for our planet, people and the community.

The Co-operative Bank p.l.c. is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Co-operative Bank p.l.c. eligible customers are protected by the Financial Services Compensation Scheme in the UK, in accordance with its terms.

Inside information

This announcement contains inside information as stipulated under Article 7 of the Market Abuse Regulations (EU) No.596/2014 and forms part of the law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018. Upon the publication of this announcement via a regulatory information service, this inside information is now considered to be in the public domain.

Cautionary note regarding forward-looking statements

This announcement (including information incorporated by reference into this announcement), statements made regarding the Acquisition, and other information published by CBS and/or Bank Holdings, contain statements which are, or may be deemed to be, "forward-looking statements". Forward-looking statements are prospective in nature and not based on historical facts, but rather on current expectations and projections of the management of CBS and/or Bank Holdings about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements.

The forward-looking statements contained in this Announcement include statements with respect to the financial condition, results of operations and business of Bank Holdings and certain plans and objectives of CBS with respect thereto and other statements other than historical facts. Often, but not always, forward-looking statements can be identified by the fact that they do not relate only to historical or current facts and may use words such as "anticipate", "target", "expect", "estimate", "forecast", "intend", "plan", "budget", "scheduled", "goal", "believe", "hope", "aims", "continue", "will", "may", "should", "would", "could", or other words of similar meaning. These statements are based on assumptions and assessments made by the relevant parties in light of their experience and their perception of historical trends, current conditions, future developments and other factors they believe appropriate. By their nature, forward-looking statements involve known and unknown risk and uncertainty and other factors which may cause actual results, performance or developments to differ materially from those expressed in or implied by such, because they relate to events and depend on circumstances that will occur in the future. Although CBS and Bank Holdings believe that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct and you are therefore cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this Announcement.

Neither CBS nor Bank Holdings assumes any obligation to update or correct the information contained in this Announcement (whether as a result of new information, future events or otherwise), except as required by applicable law.

There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied in the forward-looking statements including, but not limited to: the enactment of legislation or regulation in the countries in which the parties operate that may impose costs or restrict activities; the renegotiation of contracts or licences; the ability to obtain requisite regulatory approvals and the satisfaction of other conditions on the proposed terms; changes in government policy and taxation; industrial disputes; war and terrorism. Other unknown or unpredictable factors could cause actual results to differ materially from those expected, estimated or projected in the forward-looking statements. If any one or more of these risks or uncertainties materialises or if any one or more of the assumptions proves incorrect, actual results and developments may differ materially from those expected, estimated or projected. Such forward-looking statements should therefore be construed in the light of such factors.

Neither CBS nor Bank Holdings, nor any members of their respective groups, nor any of their respective associates or directors, officers or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will

actually occur. Given the risks and uncertainties, you are cautioned not to place any reliance on these forward-looking statements. Other than in accordance with their legal or regulatory obligations, neither CBS nor Bank Holdings is under any obligation, and each of CBS and Bank Holdings expressly disclaim any intention or obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Disclaimers

KPMG LLP ("KPMG"), which is authorised and regulated in the UK by the FCA, is acting exclusively as financial adviser to the Society and no one else in connection with the matters set out in this Announcement and will not regard any other person as its client in relation to the matters in this Announcement and will not be responsible to anyone other than the Society for providing the protections afforded to clients of KPMG, nor for providing advice in relation to any matter referred to herein. Neither KPMG nor any of its affiliates, respective directors, officers, employees and agents owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of KPMG in connection with the matters referred to in this Announcement, or otherwise.

J.P. Morgan Securities plc, which conducts its UK investment banking business as J.P. Morgan Cazenove ("J.P. Morgan Cazenove"), is authorised in the United Kingdom by the PRA and regulated in the United Kingdom by the PRA and the FCA. J.P. Morgan Cazenove is acting as joint financial adviser exclusively for CBS and no one else in connection with the matters set out in this announcement and will not regard any other person as its client in relation to the matters in this announcement and will not be responsible to anyone other than CBS for providing the protections afforded to clients of J.P. Morgan Cazenove or its affiliates, nor for providing advice in relation to any matter referred to herein.

Fenchurch Advisory Partners LLP ("Fenchurch"), which is authorised and regulated by the Financial Conduct Authority (the "FCA") in the United Kingdom, is acting as financial adviser to the Bank and for no one else in connection with the transaction and will not be responsible to anyone other than the Bank for providing the protections afforded to clients of Fenchurch Advisory Partners LLP nor for providing advice in relation to the transaction or any other matter referred to in this document.

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Appendix 1

BASES AND SOURCES

- 1) In paragraph 8 of this announcement, the implied multiple of 0.6x the Bank's tangible book value as at 31 December 2023 is based on:
 - A total consideration of £780 million; and
 - Tangible book value of the Bank of £1,295 million calculated as total equity less intangible as set out in its 2023 Annual Report & Accounts.
- 2) The information regarding the estimated pro-forma consolidated capital, leverage and liquidity position of the combined group, as set out in paragraph 8 of this announcement, represents unaudited estimates prepared by the Society using relevant information relating to the Society and the Bank as at 31 December 2023, adjusted to reflect relevant estimated Acquisition-related costs and other adjustments and CBS management's unaudited estimates of the position as at 31 December 2024, including expected fair value adjustments and incremental capital issuance. These estimates have been prepared for illustrative purposes only and, by their nature, they do not necessarily represent the actual positions which will exist following Completion. The inclusion of negative goodwill in the actual consolidated capital ratios will be subject to prior verification in accordance with the Prudential sourcebook.
- 3) Certain figures included in this announcement have been subject to rounding adjustments.

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