

**THE CO-OPERATIVE BANK P.L.C.
VALUES AND ETHICS COMMITTEE**

Terms of Reference

1. CONSTITUTION

The Values and Ethics Committee ('V&E Committee') Terms of Reference were approved on 25 January 2017 by The Co-operative Bank p.l.c. ('Bank') board ('Board').

The purpose of the V&E Committee is to recommend to the Board for its approval and adoption the co-operative values and ethical policies of the Bank and to advise the Board of the Bank's conformity with such values and ethics in its operations and activities.

2. MEMBERSHIP

The members and Chairman of the V&E Committee shall be appointed in accordance with the Articles of Association of the Bank. The Chairman of the V&E Committee shall be an Independent Non-Executive Director.

3. SECRETARY

The Company Secretary of the Bank ('Secretary'), or such person as the Secretary may recommend to the Board, shall be the Secretary of the Committee.

4. QUORUM

For so long as Co-operative Group Limited holds directly or indirectly 20% or more of the issued equity share capital of the Bank the quorum for meetings of the V&E Committee shall be three members present throughout the meeting of whom one shall be the appointee of Co-operative Group Limited (to the extent one exists) and a majority shall be independent Directors of the Bank.

5. NOTICE

5.1 Meetings of the V&E Committee may be convened at any time by the Chairman of the V&E Committee or on the reasonable request of any V&E Committee member who considers it necessary. There shall be at least two meetings of the V&E Committee in any one financial year of the Bank.

5.2 Unless otherwise agreed, notice of each meeting of the V&E Committee confirming the venue, date and time, together with an agenda of items to be discussed and supporting papers where appropriate, shall be forwarded to each member of the V&E Committee and to each other person invited to attend, in a timely manner to enable full and proper consideration of issues, usually no later than three working days prior to the date of the meeting.

6. ATTENDANCE AT MEETINGS

Only the Chairman of the V&E Committee and its members shall have the right to attend meetings of the Committee. Non-members may attend at the invitation of the Chairman.

7. VOTING

In the event of an equality of votes, the Chairman of the Committee shall have a casting vote.

8. MINUTES OF MEETING

8.1 The Secretary shall minute the proceedings and resolutions of all V&E Committee meetings, including the names of those present and in attendance.

8.2 Draft minutes of V&E Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes shall be circulated to all members of the Board and shall constitute an item for discussion/noting on the agenda of the next following Board meeting.

9. ANNUAL GENERAL MEETING

The Committee Chairman shall attend the annual general meeting to answer any shareholder questions on the V&E Committee's activities and on the report of the V&E Committee in the Annual Report and Accounts of the Bank. All members of the Committee shall also attend the annual general meeting.

10. RESPONSIBILITIES

10.1 The V&E Committee shall recommend to the Board for approval and adoption the co-operative values and ethical policies of the Bank and shall represent, monitor and advise the Board on matters concerning the interests of customers, suppliers, employees and other stakeholders in their dealings with the Bank in line with the objects of the Bank as described in the Articles of Association having regard to:

- (i) the legal and regulatory requirements applicable to the Bank and its directors;
- (ii) the need for the Bank's operations to be commercially sustainable and profitable; and
- (iii) the desirability of maintaining and enhancing the public reputation and image of the Bank.

10.2 The V&E Committee shall monitor and report on the following:

- (i) customer satisfaction levels (with a focus on service levels and on the product offering in the light of the Bank's ethical policies, in each case assessed by reference to relevant customer metrics);
- (ii) alignment of treatment of the Bank's customers with its values and ethical policies;
- (iii) alignment of employee training and culture with its values and ethical policies;
- (iv) corporate social responsibility, community investment, environmental and other projects and activities of the Bank;
- (v) the establishment of a clear 'ethical' policy and 'ethical' strategy informed by customer consultation that aligns with the commercial strategy and is reviewed annually;

- (vi) the extent to which executive remuneration policies are consistent with the Bank's values and ethical policies;
- (vii) provision of products and services to sectors/organisations with clear social justice or community benefit purpose;
- (viii) the development of products and services with 'ethical' features;
- (ix) the Company's approach to improving the social and environmental impacts of the Bank's own operations;
- (x) the choice of suppliers, partners and third party relationships which should be informed by the Bank's 'ethical' policy; and
- (xi) the ethical campaigning activities and adherence to commitments made under Pillar 5 of the Values and Ethics Report.

10.3 The V&E Committee shall:

- (i) monitor the Bank's compliance with its statement to Co-operatives UK; and
- (ii) report at least annually to the Board on the Bank's compliance with its statement to Co-operatives UK.

11. OTHER MATTERS

11.1 Subject to paragraph 11.2, the V&E Committee:

- (i) shall have access to sufficient resources and support in order to carry out its duties, including access to the Bank Secretariat for assistance as required; and
- (ii) is authorised to engage at the Bank's expense such legal and other professional advisers to provide independent advice as considered appropriate by the V&E Committee.

11.2 The V&E Committee may not incur "out of pocket" expenses or other costs in performing its duties greater than £50,000 in aggregate during any calendar year without the approval of the Board (such figure to be adjusted annually on the anniversary of the date of approval of these terms of reference for inflation in line with the UK Consumer Price Index (overall index, 2005=100) published by the Office for National Statistics (or any successor to that index)), and for the avoidance of doubt, the costs of printing and publishing the annual report of the V&E Committee in the annual report and accounts of the Bank shall be excluded from such figure.