

RELATIONSHIP AGREEMENT

DATED 04 NOVEMBER 2013

CO-OPERATIVE GROUP LIMITED

CO-OPERATIVE BANKING GROUP LIMITED

and

THE CO-OPERATIVE BANK P.L.C.

ALLEN & OVERY

ALLEN & OVERY LLP

CONTENTS

Clause	Page
1. Interpretation.....	3
2. Commencement and Duration	7
3. Conduct of Transactions and Relationships.....	8
4. Board.....	10
5. Nominee Directors	11
6. Further Director Appointment Arrangements.....	12
7. Procedure on Conflict, Related Party Transactions and Certain Continuing Obligations	14
8. Information	15
9. Data Protection	17
10. Non-Compete.....	19
11. Non-Solicitation.....	19
12. Alignment Principles and Share Issuance.....	19
13. Transfer.....	21
14. Announcements and Confidentiality.....	22
15. Notices	23
16. General.....	24
17. Governing Law and Jurisdiction.....	24
Schedule	
1. Alignment Principles	25
2. V&E Committee Terms of Reference.....	26
Signatories.....	29

THIS AGREEMENT is made on 04 November 2013

BETWEEN:

- (1) **CO-OPERATIVE GROUP LIMITED** (registered number IP00525R) whose registered office is at 1 Angel Square, Manchester M60 0AG (the **Shareholder**);
- (2) **CO-OPERATIVE BANKING GROUP LIMITED** (registered number 29379R) whose registered office is at 1 Angel Square, Manchester M60 0AG (**CBGL**), a subsidiary of the Shareholder; and
- (3) **THE CO-OPERATIVE BANK P.L.C.** (registered number 990937) whose registered office is at PO Box 101, 1 Balloon Street, Manchester M60 4EP (the **Company**).

WHEREAS:

- (A) The Shareholder and the Bank have agreed to make the Exchange Offer to the holders of securities in the Bank in accordance with the terms set out in the Announcement.
- (B) Subject to the Exchange Offer becoming unconditional, the Shareholder will retain, directly or indirectly through CBGL, approximately 30% of the issued ordinary shares in the Company (**Ordinary Shares**).
- (C) On the Effective Date, the Shareholder will be the legal and beneficial owner of all the issued shares in CBGL other than two shares which will be legally and beneficially owned by two wholly owned, subsidiary undertakings (within the meaning of section 1162 of the Companies Act 2006) of the Shareholder.
- (D) It is intended that as soon as practicable after the Effective Date and within 12 months of the Announcement, application will be made for the Ordinary Shares to be admitted to the premium listing segment of the official list maintained by the Financial Conduct Authority (the **FCA**) (the **Official List**) and to trading on the London Stock Exchange's main market for listed securities (**Premium Admission**).
- (E) In contemplation of the Announcement and the stated intention of the Company to pursue a strategy closely aligned with the Shareholder, the parties wish to record the current and future basis of the Shareholder's and CBGL's relationship with the Company so the Company can demonstrate that there are appropriate measures in place to regulate their relationship and the rights and obligations of each party under this Agreement are granted in consideration of the rights and obligations granted by the other.

NOW, THEREFORE, in consideration of the mutual undertakings and provisions set forth in this Agreement, it is agreed as follows:

1. INTERPRETATION

1.1 In this Agreement:

2014 Commitment Agreement means the agreement between the Shareholder, CBGL and the Company entered into on or about the date of this Agreement and entitled "2014 Commitment Agreement";

Admission means a Standard Admission or a Premium Admission;

Announcement means the announcement via the Regulatory News Service by the Shareholder and the Company of the terms of the Exchange Offer, involving the offer to issue Ordinary Shares and other securities in the Company in exchange for existing securities with the objective of re-capitalising the Company;

Appointment Resolution means a shareholders' resolution in general meeting (including an annual general meeting) to re-elect a Director (but not, for the avoidance of doubt, the election or appointment of a new Director), other than a Nominee Director;

Associate has the meaning given to the term "associate" in the Listing Rules;

Board means the board of directors of the Company as constituted from time to time;

Business Day means a day (other than a Saturday or Sunday) on which banks are generally open in London for normal business;

City Code means the City Code on Takeovers and Mergers published by the Takeover Panel in the United Kingdom from time to time;

Co-op Group means the Shareholder and its subsidiary undertakings (within the meaning of section 1162 of the Companies Act 2006) and, if and to the extent the Listing Rules require (if applicable), its Associates but excluding the Company Group;

Competing Business means an undertaking whose principal business involves being engaged in or carrying on any Financial Services, including deposit taking or the provision of credit, in the United Kingdom, but shall not include any business activities of the Co-op Group as carried on at the Effective Date;

data controller, personal data and processing shall each have the meaning given to it in the DPA;

Data Processing Agreements means the two agreements governing data processing and between CFS Management Services Limited and Co-operative Group Limited dated 14 February 2013 and associated information sharing agreements pursuant to the Data Processing Agreements, as updated from time to time;

Data Protection Laws means the DPA, the Privacy and Electronic Communications, EC Directive) Regulations 2003, Part 1 of the Regulation of Investigatory Powers Act 2000 and any applicable regulations, directions, guidelines and codes of practice made by competent governmental authorities pursuant to the foregoing;

Debt Prospectus means the prospectus to be published on or around the date of the Announcement in respect of the subordinated notes due 2023 to be issued by the Company in connection with the Exchange Offer;

Directors means the directors of the Company from time to time and **Director** means any one of them;

Director Regulatory Approvals means, in respect of any person, such regulatory approvals required for the appointment of such person as a Director, including receipt of approval from the Prudential Regulation Authority of the Bank of England for such person to perform controlled functions at the Company under the approved persons regime;

Disclosure and Transparency Rules means the disclosure rules and transparency rules made by the FCA pursuant to Part VI of the FSMA;

DPA means the Data Protection Act 1998;

Effective Date means the date on which the Exchange Offer becomes unconditional;

Exchange Offer means the exchange offer taking place as described in the Announcement;

Financial Services means services as a clearing bank as well as any other services currently, or at any time in the previous 12 months prior to the date of this Agreement, provided by the Company Group;

FSMA means the Financial Services and Markets Act 2000, as amended;

Group means the Co-op Group and the Company Group;

Group Company means any of the Company and its subsidiary undertakings and **Company Group** means the Company and its subsidiary undertakings from time to time (and subsidiary undertakings is to be construed within the meaning of section 1162 of the Companies Act 2006);

Independent Director means a non-executive Director of the Company who is determined by the Board to be independent for the purposes of the UK Corporate Governance Code;

Listing Rules means the FCA's listing rules issued pursuant to Part VI of the FSMA;

London Stock Exchange means London Stock Exchange plc;

New Articles means the articles of association of the Company in force as at the Effective Date;

Notes means the following lower tier 2 bonds issued by the Bank: Floating Rate Callable Step-up Dated Subordinated Notes due 2016 (ISIN: XS0254625998); 5.875% Subordinated Callable Notes due 2019 (ISIN: XS0189539942); 9.25% Subordinated Notes due 28 April 2021 (ISIN: XS0620315902); Fixed/Floating Rate Subordinated Notes due November 2021 (ISIN: XS0274155984); 7.875% Subordinated Notes due 19 December 2022 (ISIN: XS0864253868); 5.75% Dated Callable Step-up Subordinated Notes due 2024 (ISIN: XS0188218183); and 5.875% Subordinated Notes due 2033 (ISIN: XS0145065602);

Ordinary Shares means the ordinary shares in the capital of the Company;

Pounds Sterling or **£** is the lawful currency of the United Kingdom;

Principles mean the eight data protection principles described in Part 1 of Schedule 1 to the DPA;

Purchasers means the persons who have agreed to subscribe for additional Ordinary Shares pursuant to a purchase agreement with the Company dated on or about the date of this Agreement;

Regulator means each person having regulatory or supervisory authority over all processing of Shared Data by the parties including the UK Information Commissioner's Office;

Scheme the Bank's proposed scheme of arrangement in respect of the Notes under Part 26 of the Companies Act 2006 and as referred to in the Announcement;

Scheme Meeting the meeting to be convened for holders of the Notes for the purpose of considering and if thought fit, approving the Scheme;

Scheme Nominees means the number of persons nominated to be Directors by a resolution or resolutions passed by the holders of the Notes at or around the time of the Scheme Meeting (**Scheme**

Nominee Resolution), after having been identified for the purposes of such resolution or resolutions by the Purchasers pursuant to clause 6.1;

Significant Shareholder means any person (or persons acting jointly by agreement whether formal or otherwise) who is entitled to exercise, or to control, directly or indirectly, the exercise of, 20% or more of the rights to vote at general meetings of the Company (provided that a person shall continue to be regarded as entitled to exercise, or to control the exercise of rights to vote at general meetings of the Company where it or a person it controls, directly or indirectly, has waived such rights (including pursuant to any breach of the 2014 Commitment Agreement));

Shared Data means personal data relating to an individual that was or is a customer of both the Shareholder or another member of the Co-op Group and the Company or another Group Company;

Specified Number means the number equal to two minus the number of Scheme Nominees;

Standard Admission has the meaning given to it in clause 7.6(a);

UK Corporate Governance Code has the meaning given to it in the Listing Rules; and

V&E Committee means the Values and Ethics Committee as described in the New Articles.

1.2 In this Agreement any reference, express or implied, to an enactment includes:

- (a) that enactment as amended, extended, applied or replaced by or under any other enactment (before, on or after execution of this Agreement);
- (b) any enactment which that enactment re-enacts (with or without modification); and
- (c) any subordinate legislation made (before, on or after execution of this Agreement) under that enactment, including (where applicable) that enactment as amended, extended or applied as described in paragraph (a) above, or under any enactment which it re-enacts as described in paragraph (b) above,

and **enactment** includes any rule, regulation or requirement of the UK Listing Authority, London Stock Exchange, FCA and any other body or authority acting under the authority of any enactment and any legislation in any jurisdiction.

1.3 In this Agreement:

- (a) any reference to the termination of this Agreement shall be construed as the termination of this Agreement in accordance with clause 2;
- (b) references to the singular include the plural and vice versa;
- (c) the words “**include**”, “**includes**” and “**including**” shall be construed, in each case, as if they were followed by the words “without limitation”;
- (d) references to a party include references to that party’s successors; and
- (e) references to persons include natural persons, joint ventures, governmental authorities, bodies corporate, unincorporated associations, partnerships and other entities (whether or not having separate legal personality).

1.4 Subclauses 1.1 to 1.3 apply unless the contrary intention appears.

1.5 The headings in this Agreement do not affect its interpretation.

2. COMMENCEMENT AND DURATION

2.1 The provisions of this clause 2 and clauses 1, 6.1, 6.2, 6.3, 14, 15, 16 and 17 shall take effect and become operative immediately.

2.2 All the provisions of this Agreement, except for those which take effect and become operative immediately in accordance with clause 2.1, (the "**Suspensive Provisions**") shall take effect and become operative upon the Effective Date.

2.3 Subject to clause 2.5, this Agreement shall terminate with immediate effect:

- (a) if, at any time after the Effective Date, neither the Shareholder (nor any member of the Co-op Group) continues to be a Significant Shareholder of the Company and the provisions of clause 2.4 do not apply; or
- (b) if the Shareholder or CBGL terminates this Agreement by written notice to the Company at any time after the Company passing a resolution for its winding up or a court of competent jurisdiction making an order for the Company's winding up or dissolution, provided that, following Admission, if and to the extent the Listing Rules require that this Agreement remains in effect for so long as the Company's Ordinary Shares are listed on the Official List, such termination shall not take effect until such time as the Company would not be in breach of such requirement.

2.4 If the Shareholder (or any member of the Co-op Group) ceases to be a Significant Shareholder by reason of a transfer of Ordinary Shares pursuant to clause 8.2 of the 2014 Commitment Agreement:

- (a) the rights of the Shareholder and CBGL under this Agreement shall be waived and the obligations of the Shareholder and CBGL under this Agreement shall survive to the extent capable of being performed; and
- (b) this Agreement shall continue on the basis described in (a) above until the fifth anniversary of the Effective Date, at which point it shall terminate subject to clause 2.5.

2.5 If this Agreement terminates in accordance with clause 2.3 or clause 2.4(b) all the provisions of this Agreement shall terminate and cease to have effect save for any party's accrued rights and obligations and the provisions of clauses 1, 2.6, 3.5, 3.6, 5.2, 10, 11, 14, 15, 16 and 17 which shall survive termination of this Agreement pursuant to this clause 2.

2.6 Upon termination of this Agreement in accordance with clause 2.3 or clause 2.4(b):

- (a) the Shareholder shall procure the immediate resignation or removal of any Nominee Director (as defined below) appointed pursuant to clause 5; and
- (b) failing such resignation or removal by any Nominee Director pursuant to clause 2.6(a), and without prejudice to its rights in respect of such failure, the Company may at any time remove such Nominee Director,

and the Shareholder shall indemnify the Company in full against any and all losses, liabilities, costs, expenses, claims and demands arising out of or in connection with the removal or resignation of such Nominee Director.

3. CONDUCT OF TRANSACTIONS AND RELATIONSHIPS

3.1 Subject to the provisions of clause 12 and Schedule 1, the Shareholder and CBGL shall (and, in relation to each member of the Co-op Group, the Shareholder shall exercise all powers vested in it to procure, so far as it is properly able, that each member of the Co-op Group shall):

- (a) conduct all transactions and relationships with any Group Company on arm's length terms and on a normal commercial basis;
- (b) not knowingly (having made all due and careful enquiries) take (or omit to take) any action which would be in, or could reasonably be expected to give rise to a breach of the terms of this Agreement;
- (c) not hold or acquire (either directly or indirectly, but ignoring any indirect shareholding caused by the Shareholder or CBGL holding shares in the Company) a shareholding in any of the Company's subsidiaries;
- (d) not take any action which precludes or inhibits any Group Company from carrying on its business independently of the Shareholder and the Co-op Group;
- (e) not influence or seek to influence the day-to-day running of the Company or any other Group Company at operational level;
- (f) following Admission, not take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules or the Disclosure and Transparency Rules;
- (g) not engage in, cause or authorise any conduct which prejudices the Company's suitability for listing and, following Admission, its status as a listed company;
- (h) not take any action which precludes or inhibits any Group Company from operating and making decisions for the benefit of its shareholders as a whole, and independently of the Shareholder and CBGL at all times;
- (i) not exercise any of its voting or other rights and powers to procure any amendment to the articles of association of the Company which would be contrary to the maintenance of the Company's ability to carry on its business independently of the Shareholder and CBGL or otherwise inconsistent with or undermine any of the provisions of this Agreement; and
- (j) abstain from voting on any resolution to which LR 11.1.7R(4) of the Listing Rules would apply involving the Shareholder or any other member of the Co-op Group as the related party (and for the purposes of this sub-clause, LR 11.1.7R(4) of the Listing Rules shall be deemed to apply to the Company at all times prior to Admission).

3.2 Nothing in clause 3.1 is intended to:

- (a) prevent the Shareholder or any of its Associates from acquiring or disposing of any securities of the Company (save to the extent otherwise required by law or regulation); or
- (b) be construed as modifying or otherwise affecting the present or future rights or obligations of any party to any contract between the Company and the Company Group and the Co-op Group.

- 3.3 It is acknowledged by the Company that, save as otherwise required by law or regulation, following the Effective Date:
- (a) it is not intended that the Shareholder or any other member of the Co-op Group shall be responsible for ensuring the Company's compliance with applicable law or regulation; and
 - (b) any failure on the part of the Company to comply with applicable law or regulation shall not confer on the Shareholder or any other member of the Co-op Group an obligation to ensure compliance in respect of such law or regulation on behalf of the Company.
- 3.4 Each of the Shareholder and CBGL agrees that, save to the extent prohibited by law or as otherwise contemplated in this Agreement, it shall act in relation to the Company and exercise the rights attaching to its Ordinary Shares in a manner that is not inconsistent with the UK Corporate Governance Code (save as disclosed in the Announcement or in paragraph 2 of section 9 of the Debt Prospectus or as previously agreed in writing by a majority of the Independent Directors), the Listing Rules (following Admission) or the Disclosure and Transparency Rules (if and to the extent applicable).
- 3.5 The Shareholder and CBGL agree to provide the Company with reasonable assistance, and take such steps as the Company may reasonably require (at the Company's cost, save to the extent such costs relate to the fees and expenses of any professional advisors engaged by the Shareholder or CBGL) to enable or facilitate it to obtain a listing of the Ordinary Shares on the premium segment of the Official List within 12 months of the Effective Date or as soon as reasonably practicable thereafter. Such reasonable assistance and steps to be taken shall include (without limitation) voting in favour of (and procuring that any relevant member of the Co-op Group votes in favour of) any shareholders' resolution to amend the articles of association of the Company (or the articles of association of any parent undertaking or subsidiary undertaking of the Company incorporated in connection with, or in anticipation of, the listing) to the extent reasonably necessary to obtain or facilitate a listing of the Ordinary Shares (as aforesaid) (a **Listing Articles Resolution**), and the Shareholder and CBGL hereby waive (and shall procure that any relevant member of the Co-op Group waives) any rights to vote against a Listing Articles Resolution, provided that, notwithstanding any other provision in this Agreement:
- (a) the Company shall not put a resolution to shareholders which would have the effect of removing, amending or qualifying any of the provisions entrenched in the Articles of Association of the Company pursuant to the article headed "entrenchment" (the **Entrenched Provisions**) without the prior written consent of the Shareholder; and
 - (b) neither the Shareholder nor CBGL shall be required to take any action, or omit to take any action, which would in any way be contrary to the Entrenched Provisions.
- 3.6 For the duration of the period ending on the later to occur of: (i) the second anniversary of the date of termination of this Agreement; and (ii) the seventh anniversary of the Effective Date the Shareholder shall, and shall procure that the Co-op Group shall:
- (a) continue to use the Company Group as its:
 - (i) exclusive provider of Financial Services (excluding lending), in respect of Financial Services that are being provided by the Company Group to the Co-op Group on an exclusive basis as at the date of this Agreement (**Exclusive Financial Services**); and
 - (ii) principal provider of Financial Services (excluding lending and to the extent the Company Group has the capacity to be the principal provider in each case), in respect of Financial Services that are not Exclusive Financial Services and that have

been provided by the Company Group to the Co-op Group at any time during the 12 month period prior to the date of this Agreement,

save to the extent that the Company Group has generally discontinued the provision of such Financial Services;

- (b) promote the Company's banking business and facilitate and encourage its customers and members to hold bank accounts with, and otherwise use the services of, the Company Group; and
- (c) support (which, for the avoidance of doubt, shall not include any obligation on the Shareholder, or Co-op Group, to make any financial contribution to the Company Group in this regard) the enhancement and rejuvenation of the Co-op brand and franchise

4. BOARD

4.1 The Parties acknowledge and agree that, as at the Effective Date:

- (a) the Board shall be made up of up to 13 Directors at least half of whom shall be Independent Directors;
- (b) there shall be an Audit Committee which shall consist of three Independent Directors, save that the Chairman may also be one of those three if he was considered independent at the time of his appointment as Chairman;
- (c) there shall be a Risk Committee which shall consist of three members, the majority of whom shall be Independent Directors;
- (d) there shall be a Nomination Committee which shall consist of the chairman of the Board (the **Chairman**) and two Independent Directors;
- (e) there shall be a Remuneration Committee which shall consist of three Independent Directors, save that the Chairman may also be one of those three if he was considered independent at the time of his appointment as Chairman; and
- (f) there shall be a V&E Committee which shall consist of a minimum of five and a maximum of seven members of whom: (i) the majority shall be Independent Directors; and (ii) at least five shall be Directors. The chairman of the V&E Committee shall be an Independent Director.

4.2 For so long as the Ordinary Shares are not admitted to the premium listing segment of the Official List, the Company shall use its reasonable endeavours to procure, and CBGL and the Shareholder shall exercise all of their respective powers of control (if any) to procure, that at all times:

- (a) at least half of the Board (excluding the Chairman) shall comprise Independent Directors;
- (b) the Remuneration and Audit Committees shall consist only of Independent Directors, save that the Chairman may also sit on, but not chair, the Remuneration Committee if he was considered independent at the time of his appointment as Chairman;
- (c) the Nomination Committee, Risk Committee and any other committee of the Board (other than any committee which may be established by the Board in connection with a specific transaction, the constitution of which is approved by the Board) to which significant powers,

authorities or discretions are delegated shall at all times consist of a majority of Independent Directors;

- (d) the V&E Committee shall consist of a majority of Independent Directors and that the terms of reference of the V&E Committee shall be in the form set out in Schedule 2, subject to such amendments as a majority of the Independent Directors may approve from time to time; and
- (e) the Company shall:
 - (i) comply with the provisions of the UK Corporate Governance Code as if the Company were in the FTSE 350; and
 - (ii) comply with the provisions of LR 9.8.6R(5) and LR 9.8.6R(6) of the Listing Rules as if they applied to the Company and as if, for the purposes of determining compliance with the UK Corporate Governance Code, the Company were in the FTSE 350,

provided that nothing in this clause 4.2 shall restrict the rights that the Shareholder and CBGL have under clause 5 or to vote in general meeting for the removal or against the appointment of any Director.

5. NOMINEE DIRECTORS

5.1 The Shareholder shall be entitled pursuant to the New Articles, from time to time and for so long as it is a Significant Shareholder and remains a *bona fide* co-operative society, to appoint and, once appointed, remove (and to the extent such directors are removed or resign, appoint replacements for):

- (a) so long as the Shareholder directly or indirectly controls 25% or more of the voting rights exercisable at general meetings of the Company, up to two natural persons as Directors; or
- (b) so long as the Shareholder directly or indirectly controls 20% or more (but less than 25%) of the voting rights exercisable at general meetings of the Company, one natural person as a Director,

(each such person a **Nominee Director**), subject to and in accordance with the provisions of the New Articles.

5.2 The Shareholder hereby indemnifies the Company in full against any and all losses, liabilities, costs, expenses, claims and demands arising out of or in connection with the removal of any Nominee Director pursuant to the New Articles.

5.3 The Shareholder acknowledges that the Nominee Director(s) shall not be able to, and shall procure that they do not, vote at Board meetings on any matter where there is a conflict of interests or potential conflict of interests between any Group Company (on the one hand) and the Shareholder (or any other member of the Co-op Group) (on the other hand), and for the purposes of this clause, any issue as to the enforcement of this Agreement shall, without limitation, constitute a conflict of interest.

5.4 Where a Nominee Director receives information in a capacity other than as a Director of the Company which imposes on him a duty of confidentiality, such Nominee Director shall not be obliged to disclose that information to the Board or the Company.

6. FURTHER DIRECTOR APPOINTMENT ARRANGEMENTS

Scheme Nominees

- 6.1 By no later than the seventh Business Day prior to the date of the Scheme Meeting, the Purchasers may jointly, by written notice to the Company (a **Scheme Noteholder Notice**), identify up to two persons to be subject to the Scheme Nominee Resolution (each a **Potential Scheme Nominee**). The Scheme Noteholder Notice shall contain reasonable details of the identity (including name, occupation, residential address and date of birth), credentials and experience of each Potential Scheme Nominee.
- 6.2 By no later than the second Business Day after the Scheme Noteholder Notice, the Company shall deliver notices (each such notice being a **Clause 6 Scheme Notice**) to the holders of the Notes in the same manner as delivery of the notice of the Scheme Meeting was implemented. Each Clause 6 Scheme Notice shall, *inter alia*, contain all details of each Potential Scheme Nominee as stated in the relevant Scheme Noteholder Notice (except for his/her residential address and date of birth).
- 6.3 The Company shall procure the appointment of each Scheme Nominee as a Director as soon as reasonably practicable, but in any event within 5 Business Days of:
- (a) obtaining or receiving all Director Regulatory Approvals in respect of the Scheme Nominee (and the Company shall use all reasonable endeavours to ensure that the Company obtains or receives the same as soon as practicable); and
 - (b) the Scheme Nominee having executed and delivered to the Company a letter of appointment in a form satisfactory to the Company (acting reasonably having regard, amongst other things, to the terms of any letters of appointment executed by other Directors),

save that, if the relevant conditions in (a) and (b) have not been satisfied within four months of the Effective Date, then the Company shall not be required to take any further steps to appoint the relevant Scheme Nominee as a Director.

Nominee Appointments

- 6.4 By no later than the twentieth Business Day after the Effective Date, the Purchasers may jointly, by written notice to the Company (a **Noteholder Notice**), nominate up to the Specified Number of persons to be additional Directors (**Noteholder Nominees**, and each a **Noteholder Nominee**). The Noteholder Notice shall contain reasonable details of the identity (including name, occupation, residential address and date of birth), credentials and experience of each Noteholder Nominee.
- 6.5 By the later of: (i) the tenth Business Day after the Effective Date, and (ii) the tenth Business Day after receipt of the Noteholder Notice, the Company shall deliver notices (each such notice being a **Clause 6 Notice**) to the registered holders of all the Ordinary Shares as at the Effective Date, other than any member of the Co-op Group, (the **Participating Shareholders**). The address for delivery of a Clause 6 Notice to a Participating Shareholder shall be its registered address appearing in the register of members of the Company on the date of the notice (and not the date of delivery). Each Clause 6 Notice shall be posted on the same date (the **Clause 6 Post Date**) and shall, *inter alia*:
- (a) contain all details of each Noteholder Nominee as stated in the relevant Noteholder Notice (except for his/her residential address and date of birth); and
 - (b) invite each Participating Shareholder to, in respect of each Noteholder Nominee, notify the Company by the Response Deadline (defined below) whether it approves or disapproves of

the appointment of such Noteholder Nominee as a Director (any such approving notice being a **Nominee Approval**, and any such disapproving notice being a **Nominee Rejection**).

6.6 If:

- (a) by 23:59 (London time) of the tenth Business Day after the Clause 6 Post Date (the **Response Deadline**), the Company has not received Nominee Rejections in respect of a Noteholder Nominee from Participating Shareholders who together held, as at the Effective Date, at least 25% of the Ordinary Shares held by all Participating Shareholders as at the Effective Date; or
- (b) at any time prior to the Response Deadline, the Company has received Nominee Approvals in respect of a Noteholder Nominee from Participating Shareholders who together held, as at the Effective Date, more than 75% of the Ordinary Shares held by all Participating Shareholders as at the Effective Date,

the Company shall procure the appointment of such Noteholder Nominee as a Director as soon as reasonably practicable after, but in any event within 5 Business Days of:

- (i) obtaining or receiving all Director Regulatory Approvals in respect of the Noteholder Nominee (and the Company shall use all reasonable endeavours to ensure that the Company obtains or receives the same as soon as practicable); and
- (ii) the Noteholder Nominee having executed and delivered to the Company a letter of appointment in a form satisfactory to the Company (acting reasonably having regard, amongst other things, to the terms of any letters of appointment executed by other Directors),

save that, if the relevant conditions in (i) and (ii) above have not been satisfied within four months of the Response Deadline, then the Company shall not be required to take any further steps to appoint the relevant Noteholder Nominee as a Director.

6.7 If by the Response Deadline the Company has received Nominee Rejections in respect of a Noteholder Nominee (a **Failed Noteholder Nominee**) from Participating Shareholders who together held, as at the Effective Date, at least 25% of the Ordinary Shares held by all Participating Shareholders as at the Effective Date:

- (a) no further steps shall be taken by the Company to appoint the Failed Noteholder Nominee as a Director;
- (b) the Purchasers may deliver another Noteholder Notice to nominate another person to be an additional Director instead of the Failed Noteholder Nominee; and
- (c) the provisions of clauses 6.5, 6.6 and 6.7 shall apply *mutatis mutandis* to the new Noteholder Nominee and Noteholder Notice until the Specified Number of Noteholder Nominees in aggregate have been appointed as Directors.

Initial Voting Arrangements

6.8 The Shareholder and CBGL undertake to, and undertake to procure that any relevant members of the Co-op Group, abstain from voting on any Appointment Resolution or Vacating Resolution (defined below) put to the vote in a general meeting (including an annual general meeting) from the Effective Date until the end of the first annual general meeting of the Company to be convened after the Effective Date (the **First AGM**).

- 6.9 The Company undertakes to ensure that:
- (a) if a resolution to re-elect any retiring Director is not put to the vote at the First AGM, and a resolution to elect another in his place is not passed, a further resolution (a, to the extent not in respect of a Nominee Director, **Vacating Resolution**) shall be put to the vote at the First AGM proposing that the office vacated by the retiring Director shall not be filled at that meeting; and
 - (b) the First AGM is convened on a date falling no earlier than 1 April 2014, and no later than 31 May 2014.

6.10 Any Purchaser or Participating Shareholder may enforce the terms of this clause 6 subject to and in accordance with the provisions of the Contracts (Rights of Third Parties) Act 1999. This clause 6 is expressly for the benefit of the Purchasers and each Participating Shareholder, and neither the Shareholder, CBGL nor any member of the Co-op Group may enforce the terms of this clause 6.

7. PROCEDURE ON CONFLICT, RELATED PARTY TRANSACTIONS AND CERTAIN CONTINUING OBLIGATIONS

7.1 Each party shall (and shall exercise all powers vested in it to procure, so far as it is properly able, that, in the case of the Shareholder, each member of the Co-op Group and, in the case of the Company, each other Group Company, shall) ensure that all transactions and relationships between (a) any Group Company and (b) any member of the Co-op Group shall be on terms which are at arm's length on a normal commercial basis and, in particular:

- (a) there shall be no amendments to any agreements or arrangements between (i) any Group Company and (ii) any member of the Co-op Group (together the **Co-op Group Agreements and Arrangements**) without the approval of a majority of the Independent Directors;
- (b) a Group Company shall enforce all, and shall not waive any, terms of any Co-op Group Agreements and Arrangements unless otherwise approved by a majority of the Independent Directors; and
- (c) in the event of a matter giving rise to a conflict of interest between (i) any Group Company and (ii) any member of the Co-op Group, only the Independent Directors may, on behalf of the relevant Group Company, vote in relation to that matter.

7.2 In the event that a Board meeting is convened to consider a matter which could give rise to a conflict of interest between any Group Company or any of its directors and any member of the Co-op Group including:

- (a) any new agreement or arrangement (and any material amendments to existing agreements or arrangements) between any Group Company and any member of the Co-op Group; and
- (b) the enforcement by any Group Company of any agreement or arrangement with any member of the Co-op Group,

any resolution passed in relation to such matter must be approved by a majority of the Independent Directors.

7.3 Unless otherwise approved by a majority of the Independent Directors, for so long as this Agreement remains in force:

- (a) any transaction or arrangement between (i) any Group Company and (ii) any member of the Co-op Group) shall be deemed a "**Related Party Transaction**";
- (b) Related Party Transactions to which Chapter 11 of the Listing Rules would not apply in circumstances where the Company has a premium listing will be capable of being approved on behalf of the Company by the Board or in accordance with whatever other procedures the Board may approve and/or delegate in respect of such Related Party Transactions from time to time; and
- (c) Related Party Transactions to which Chapter 11 of the Listing Rules would apply in circumstances where the Company has a premium listing will require approval from the Board or in accordance with whatever other procedures the Board may approve and/or delegate in respect of such Related Party Transactions from time to time, in addition (with effect from Admission) to any approval requirements under the Listing Rules.

7.4 The approval under subclauses 7.1, 7.2 and 7.3 may be specific for a particular transaction or relationship or general for a particular type of transaction or relationship and may be granted conditionally or unconditionally (save as otherwise required by the Listing Rules following Admission).

7.5 The Shareholder shall (and, in relation to each member of the Co-op Group, shall exercise all powers vested in it to procure, so far as it is properly able, that each member of the Co-op Group shall) as soon as practicable provide to the Company any information in its (or any member of the Co-op Group's) possession or control which the Company reasonably requests in order to comply with its disclosure obligations under the Disclosure and Transparency Rules if and to the extent they are applicable.

7.6 Following:

- (a) and for the duration of, any admission of the Ordinary Shares to the standard segment of the Official List (**Standard Admission**) (notwithstanding that the intention is to apply for a Premium Admission), the Company shall adopt and follow policies requiring the Company to comply with the rules in Chapter 10 (significant transactions), Chapter 11 (related party transactions), Chapter 12 (dealing in own securities and treasury shares) and Chapter 13 (contents of circulars) of the Listing Rules (the **10-13 LRs**), on a voluntary basis, as if the Company were listed on the premium segment of the Official List; and
- (b) the Effective Date and for so long as the Ordinary Shares are not admitted to either the standard segment or premium segment of the Official List, the Company shall adopt and follow policies to comply with 10-13 LRs to the extent reasonably practicable and in accordance with the spirit of the 10-13 LRs.

8. INFORMATION

8.1 Subject to the provisions of subclauses 8.6 and 8.7 below, the Company shall, and shall procure that each other Group Company shall, to the extent permitted by all applicable laws and regulations (including, without limitation, the Listing Rules (following Admission) and the Disclosure and Transparency Rules (if and to the extent applicable)) provide the Shareholder (at the Shareholder's cost) as soon as practicable after request with reasonable access to (and in the case of (a) and (b), where reasonable, copies of):

- (a) financial, accounting, taxation and other information and records of, or confirmations relating thereto from, the Company and each Group Company;

- (b) audit documents and papers of the Company's auditors as may be reasonably required from time to time; and
- (c) relevant personnel of the Company and each other Group Company on reasonable notice and during normal business hours

to the extent that such Bank Information is necessary for the Shareholder or any other member of the Co-op Group:

- (i) to account appropriately for its investment in the Company in the Shareholder's or any other member of the Co-op Group's (as applicable) accounts, other financial records or forecasts;
- (ii) to comply with any applicable legal, tax and/or accounting requirements; and
- (iii) to comply with the requirements of any securities exchange or regulatory or governmental body to which that party is subject, including responding to any requests from regulators received by the Shareholder or any other member of the Co-op Group (as applicable) for information

(collectively, the **Bank Information**).

8.2 Subject to the provisions of subclauses 8.6 and 8.7 below, the Shareholder shall, and shall procure that each other member of the Co-op Group shall, provide the Company (at the Company's cost), as soon as practicable after request with reasonable access to (and, where reasonable, copies of) any information (the **Co-op Information**) necessary for the Company or any Group Company to comply with any applicable legal, tax, accounting or regulatory requirements or the requirements of any securities exchange or regulatory or governmental body to which that party is subject, including responding to any requests from regulators received by the Company (or any other Group Company) for information, together with reasonable access to any relevant personnel of the Shareholder or any other member of the Co-op Group (on reasonable notice and during normal business hours) in connection with any such request.

8.3 Subject to:

- (a) their statutory and fiduciary duties as a director of the relevant company and the undertakings contained in any Letter of Appointment executed by them in relation to their appointment as a Nominee Director;
- (b) any such communication being permitted by the Listing Rules, the Disclosure and Transparency Rules and applicable law;
- (c) the recipient of such communication being subject to duties of confidentiality to the Company as set out in clause 14; and
- (d) such communication not including sensitive or confidential information relating to the Company's negotiating position in relation to any contract, arrangement or transaction with or concerning the Shareholder or any other member of the Co-op Group, the disclosure of which may be prejudicial to the Company's position,

each of the Nominee Directors may communicate any Bank Information acquired by him in relation to the Company or the Company Group to the Shareholder.

- 8.4 Each party acknowledges that Co-op Information or Bank Information disclosed under subclause 8.1, 8.2 or 8.3:
- (a) may be unpublished, price-sensitive information and undertakes that it will comply with the requirements of any applicable laws, rules and regulations in relation to any dealings by it in the Ordinary Shares; and
 - (b) is subject always to the provisions relating to confidentiality of information set out in clause 14.
- 8.5 No party shall be obliged to disclose any information to another to the extent that such disclosure would be prohibited by law or by any regulatory requirements.
- 8.6 To the extent permitted by law or regulation and/or if reasonably practicable in the circumstances, a party (the **Announcing Party**) shall notify the other parties of the contents of any proposed announcement which the Announcing Party reasonably believes may require the other parties to make an announcement and the parties shall discuss in good faith the timing of making such announcements. The parties shall each appoint representatives whom the Announcing Party shall be required to notify to the other parties as soon as reasonably practicable after the Effective Date for the purposes of this clause.
- 8.7 In the event that the Shareholder and/or any other member of the Co-op Group becomes aware of:
- (a) any leak of unpublished, price-sensitive information provided from the Company or any other Group Company to the Shareholder and/or any other member of the Co-op Group; or
 - (b) any breach of the obligation of confidentiality set out in clause 14 in respect of unpublished, price-sensitive information by the Shareholder and/or any other member of the Co-op Group,
- the Shareholder shall immediately notify the Company of such leak or breach so that the Company may seek any appropriate means to prevent or minimise any potential effects of the leak or breach and the Shareholder and/or any other member of the Co-op Group (as appropriate) shall co-operate with the Company and take such steps as the Company may reasonably require for that purpose.
- 8.8 In the event that the Company and/or any Group Company becomes aware of:
- (a) any leak of unpublished, price-sensitive information provided from the Shareholder or any other member of the Co-op Group to the Company and/or any other Group Company; or
 - (b) any breach of the obligation of confidentiality set out in clause 14 in respect of unpublished, price-sensitive information by the Company and/or any other member of the Group,
- the Company shall immediately notify the Shareholder of such leak or breach so that the Shareholder may seek any appropriate means to prevent or minimise any potential effects of the leak or breach and the Company and/or any other member of the Group (as appropriate) shall co-operate with the Shareholder and take such steps as the Shareholder may reasonably require for that purpose.

9. DATA PROTECTION

Data controllers in common

- 9.1 Each of the Shareholder and the Company (each a party for the purposes of this clause 9) acknowledges that, for the purposes of the DPA, it (or another member of its Group) is a data controller in relation to the Shared Data and that it (or that other member of its Group), in common

with the other party or another member of its Group (but not jointly) determines the purposes for which and the manner in which any Shared Data is, or is to be, processed.

- 9.2 The provisions of the existing Data Processing Agreements between the Shareholder and CFS Management Services Limited (which includes the Company for the purposes of the Data Processing Agreements) will continue to govern the treatment of any Shared Data.
- 9.3 Each of the Shareholder and the Company shall ensure that each other member of its Group shall:
- (a) continue to act in accordance with the existing Data Processing Agreements;
 - (b) comply with its obligations under Data Protection Laws and including in relation to direct marketing;
 - (c) to the extent permitted by Data Protection Laws, deal promptly and in good faith with all reasonable and relevant inquiries from the other party (or any other member of the Group) relating to its processing of the Shared Data.

Communications with Regulators

- 9.4 If a party (the Receiving Party), or any other member of its Group, receives any complaint, notice or communication from a Regulator which relates directly or indirectly to the other party's (or any other member of its Group): (i) processing of the Shared Data; or (ii) actual or potential failure to comply with Data Protection Laws, the Receiving Party shall, or shall procure that the relevant other member of its Group shall, immediately forward the complaint, notice or communication to the other party and provide the other party with reasonable co-operation and assistance in relation to the same.

Communications with customers

- 9.5 If a customer makes a written request to a party or any other member of its Group for access to Shared Data that concerns processing undertaken by or on behalf of the other party or any other member of its Group, that party shall or shall ensure that the relevant other member of its Group shall, forward the request to the other party promptly and in any event within seven working days from the date on which it received the request and, upon the other party's reasonable written request, provide the other party, or the relevant other member of its Group, with reasonable co-operation and assistance in relation to that request to enable the other to respond to such request and meet applicable deadlines under the DPA.

Data breach

- 9.6 Each party shall ensure that, upon becoming aware that it or any other member of its Group has been responsible for any unauthorised or unlawful processing, accidental alteration, loss, destruction or disclosure of, or damage or access to, the Shared Data, it shall:
- (a) notify the other party as soon as reasonably practicable and provide the other party with a reasonable description of the breach (including the facts surrounding it and the type of data that was the subject of the breach) promptly upon such information becoming available;
 - (b) work together with the other party and any other affected members of its Group, acting reasonably and in good faith, to mitigate any adverse effects of any such breach on the other party's Group's business and the affected customers;
 - (c) not release or publish any filing, communication, notice, press release, or report concerning the breach without first consulting the other party with regards to the content of that notice

and giving due regard to the other party's reasonable comments, save that it may disclose a breach to the extent required by applicable law; and

- (d) bear all costs and expenses incurred as a result of any actions and steps undertaken in accordance with this clause 9.6, and shall promptly on demand reimburse the other party and the other members of its Group for any reasonable costs and expenses incurred by the other party's Group as a result of such breach following presentation to it of written documentation demonstrating the amount of the same.

10. NON-COMPETE

10.1 Subject to clause 10.2, the Shareholder undertakes that (whether alone or jointly with any other person, firm, or company and whether directly or indirectly) neither it nor any other member of the Co-op Group shall, without the prior written consent of the Company, operate, establish or acquire (or be in any way concerned in the operation, establishment or acquisition of) an undertaking which constitutes a Competing Business until;

- (a) the date falling on the third anniversary of the Effective Date; or
- (b) if later, the third anniversary of the date of termination of this Agreement.

10.2 Each of the parties acknowledges that the duration, extent and application of the restrictions in this clause 10 are no greater than is reasonable and necessary for the protection of the interests of the Company, but that if any such restriction shall be adjudged by any court or authority of competent jurisdiction to be void or unenforceable, but would be valid if part of the wording thereof were to be deleted and/or the period thereof were to be reduced and/or the area dealt with thereby were to be reduced, such restriction shall apply within the jurisdiction of that court or competent authority with such modifications as are necessary to make it valid and effective.

11. NON-SOLICITATION

11.1 Save with the prior written consent of the Company, the Shareholder undertakes to the Company that it shall not and will procure that no other member of the Co-op Group shall, solicit for employment any of the directors or their respective direct reports or senior managers of a Group Company until;

- (a) the date falling on the third anniversary of the Effective Date; or
- (b) if later, the third anniversary of the date of termination of this Agreement.

11.2 The provisions of clause 11.1 shall not prevent CBGL, the Co-op or any of their Associates from hiring any director or senior manager of a Group Company who, without solicitation by or encouragement from CBGL, the Co-op or any of their Associates, responds to a general advertisement or who responds to any other non-directed search enquiry (including any such enquiry conducted by a third party recruitment firm) or who makes an unsolicited contact for employment with CBGL, the Co-op Group or any of their Associates.

12. ALIGNMENT PRINCIPLES AND SHARE ISSUANCE

12.1 The Company shall conduct its business in accordance with the alignment principles set out in Schedule 1 and the provisions of Schedule 1 shall apply provided that the Company's obligations under this clause 12 and Schedule 1 shall terminate upon the Shareholder ceasing to be a *bona fide* co-operative society.

- 12.2 Subject to clause 12.5, for the duration of the period ending on the earlier to occur of: (i) the date falling 12 months after the Effective Date and (ii) Admission (such period being the **Initial Restricted Period**), the Company shall not issue any shares or other equity securities or any securities convertible into or exchangeable for or grant any right to subscribe for, shares or other equity securities (together **Relevant Securities**), without the prior written consent of the Shareholder.
- 12.3 Subject to clauses 12.4 and 12.5, for the duration of the period starting from Admission and ending on the earlier to occur of the date falling: (i) 36 months after the Effective Date and (ii) 24 months after Admission (such period being the **Second Restricted Period**), the Company shall not issue or grant any right to subscribe for any Relevant Securities, without the prior written consent of the Shareholder.
- 12.4 The provisions of clause 12.3 shall not be effective and shall cease to apply if at any time prior to a Premium Admission the applicability of clause 12.3 (whether of itself or in combination with other relevant factors) prevents the Company from achieving Premium Admission, in which case, the provisions of clause 12.3 shall be interpreted in such a way that it will have effect to the extent a restriction of this nature would not prevent the Company from achieving Premium Admission, whether by reducing the time period, or such other reduction of the restriction, to satisfy the requirements of the Financial Conduct Authority or other applicable listing authority for a Premium Admission.
- 12.5 The consent of the Shareholder shall not be required:
- (a) during either the Initial Restricted Period or (if applicable) the Second Restricted Period for:
 - (i) the grant of options, restricted stock units or other awards under any employee share scheme or share-based incentive plan established by the Company or approved by the Board or a remuneration committee of the Company and the issue of shares pursuant to any such options, restricted stock units or other awards;
 - (ii) an equity capital raising required, or taken in anticipation (acting reasonably) of any such requirement, by a government authority or regulator;
 - (iii) on an annual basis, allotments of shares for cash consideration representing in total up to 5% of the Company's issued share capital, subject to a limit of 7.5% of the Company's issued share capital over any three-year rolling period; or
 - (iv) the issue by the Company of Ordinary Shares under the recapitalisation plan disclosed in the Announcement; or
 - (b) during the Initial Restricted Period, for allotments of equity securities in connection with any rights issue or other pre-emptive offer, up to a value no greater than £200,000,000 (Two Hundred Million Pounds Sterling); or
 - (c) during the Second Restricted Period (if applicable), for allotments of equity securities in connection with any rights issue or other pre-emptive offer.
- 12.6 In order to give effect to the provisions of clause 12.5, the Shareholder and CBGL undertake to, and undertake to procure that any relevant members of the Co-op Group, either vote favour of or abstain from voting on any shareholder resolution put to the vote in a general meeting (including an annual general meeting) from the Effective Date until the end of the Initial Restricted Period and (to the extent applicable) the end of the Second Restricted Period to either: (i) authorise the board in accordance with section 551 of the CA 2006; or (ii) empower the board to allot equity securities (as

such terms is defined in the Companies Act 2006) for cash as if section 561 of the CA 2006 did not apply to the allotment.

- 12.7 Unless prevented by law or regulation, the Company shall, within a reasonable period prior to any issuance pursuant to clause 12.5, notify the Shareholder of such proposed issuance.

13. TRANSFER

- 13.1 If any member or former member of the Co-op Group (including CBGL) wishes or is required (pursuant to clause 13.2 or otherwise) to transfer Ordinary Shares to any member of the Co-op Group, prior to such transfer CBGL and the Shareholder shall procure that such transferee shall become a party to this Agreement by such transferee executing an Agreement of adherence (in such form as a majority of Independent Directors may require, acting reasonably) undertaking to be bound by this Agreement and to comply with the obligations of the transferor hereunder (on terms no more onerous than those imposed on the transferor hereunder).
- 13.2 If CBGL or any transferee of Ordinary Shares to which clause 13.1 applies ceases at any time to be a member of the Co-op Group, CBGL or such transferee (as applicable) shall promptly transfer any Ordinary Shares held by it to the Shareholder or another member of the Co-op Group, and the Shareholder shall procure that such transfer takes place.
- 13.3 Other than pursuant to clauses 13.1 and 13.2, neither the Shareholder, CBGL nor any other member of the Co-op Group to whom Ordinary Shares have been transferred under clause 13.1 shall effect a Disposal of its interest in all or any Ordinary Shares for a period of five years following the Effective Date unless this Agreement has been terminated prior to such sale or transfer.
- 13.4 The restrictions in clause 13.3 shall not apply to any of the following:
- (a) any Disposal notified in writing in advance to the Company and to which the Company gives its prior written consent;
 - (b) (i) an acceptance of, or the provision of an irrevocable undertaking to accept, a general offer for the ordinary share capital of the Company (subject to the offer having been declared or become unconditional as to acceptances), (ii) a sale of the entire issued share capital of the Company to an offeror or potential offeror during an offer period (within the meaning of the City Code) or (iii) any Disposal of Ordinary Shares pursuant to the acquisition by any person (other than a member of the Co-op Group) (or group of persons (other than where including any member of the Co-op Group) acting in concert as such expression is defined in the City Code) of 50 per cent. or more of the ordinary share capital of the Bank;
 - (c) any Disposal of Ordinary Shares pursuant to a scheme of reconstruction under Section 110 of the UK Insolvency Act 1986 in relation to the Company;
 - (d) any Disposal of Ordinary Shares pursuant to procedure or regime under the Banking Act 2009;
 - (e) any Disposal of Ordinary Shares pursuant to an order from a court of competent jurisdiction or as otherwise required pursuant to any applicable laws;
 - (f) any Disposal of Group Shares pursuant to an offer by the Company to purchase its own shares which is made on identical terms to all holders of Ordinary Shares; and
 - (g) the creation of any charge or other security over the Ordinary Shares held by the Shareholder (or any member of the Co-op Group),

provided that,

- (i) any Disposals pursuant to this clause 13.4 shall be notified in advance to the Company in writing two Business Days prior to the entry into of any agreement relating to the same; and
- (ii) prior to the making of any Disposal pursuant to clauses 13.4(c), (d) and/or (e), the Shareholder shall have used all reasonable endeavours to procure that the court or regulatory authority ordering the Disposal requires the transferee to execute and deliver to the Company a deed of adherence in the form specified in clause 13.1 above.

Disposal means the offer, sale, contract to sell, grant or sale of options over, purchase of any option or contract to sell, transfer, charge, pledge, grant of any right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible into or exercisable or exchangeable for Ordinary Shares or the entry into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, whether any such transaction described above is to be settled by delivery of Ordinary Shares or such other securities, in cash or otherwise or any other disposal or agreement to dispose of any Ordinary Shares or any announcement or other publication of the intention to do any of the foregoing and **dispose** shall be construed accordingly.

14. ANNOUNCEMENTS AND CONFIDENTIALITY

- 14.1 No party shall make or permit any person connected with it to make (or in the case of the Company, permit any other Group Company or in the case of the Shareholder, permit any other member of the Co-op Group to make) any announcement concerning the subject matter of this Agreement or any ancillary matter save for any summary of this Agreement contained in the Announcement or the Debt Prospectus or any prospectus relating to Admission.
- 14.2 Each party undertakes to the others that it shall use all reasonable endeavours to ensure that any information of a secret or confidential nature received by it from another party pursuant to this Agreement (the **Confidential Information**) shall be treated as confidential by it and its officers, employees and professional advisers and shall not be disclosed to any third party (except as otherwise provided for in this Agreement), save that Confidential Information received by the Shareholder or CBGL may be shared between themselves on a confidential basis.
- 14.3 Nothing in this clause prevents any announcement being made or any Confidential Information being disclosed:
 - (a) with the written approval of the other party to which the Confidential Information relates or belongs; or
 - (b) to the extent required by law or regulation or by the FCA, UK Listing Authority, London Stock Exchange or any other competent regulatory body, or where required in connection with any legal proceedings, but a party required to disclose any Confidential Information shall promptly notify the party to which the Confidential Information relates or belongs where practicable and lawful to do so, before disclosure occurs and co-operate with that other party regarding the timing and content of such disclosure or other action which that other party may reasonably elect to take to challenge the validity of such requirement.
- 14.4 Nothing in this clause prevents disclosure of Confidential Information by any party:
 - (a) to the Purchasers and Participating Shareholders to the extent that the information relates to and is required to give effect to the provisions in clause 6, including any matter, circumstance or event that may constitute (or give rise to) a breach thereof;

- (b) to the extent that the information is in or comes into the public domain other than as a result of a breach of subclause 14.2; or
- (c) to that party's professional advisers, auditors or bankers, but before any disclosure to any such person, the relevant party shall procure that he is made aware of the terms of this clause and shall use its best endeavours to procure that such person adheres to those terms as if he were bound by the provisions of this clause.

14.5 Nothing in this clause shall prevent any disclosure relating to this Agreement if and to the extent required by the Listing Rules, including any information to be included in the Company's annual report and accounts.

15. NOTICES

15.1 Any notice or other communication to be given under this Agreement must be in writing and must be delivered or sent by fax, post or airmail (with a copy to be sent by email) to the party to whom it is to be given as follows:

- (a) to the Company at:
PO Box 101, 1 Balloon Street, Manchester, M60 4EP

Fax: to be notified

Marked for the attention of: the Company Secretary

- (b) to the Shareholder at:
1 Angel Square, Manchester, M60 0AG

Marked for the attention of: the Company Secretary

- (c) to CBGL at:
1 Angel Square, Manchester, M60 0AG

Marked for the attention of: the Company Secretary

- (d) or at any such other address or fax number of which it shall have given notice for this purpose to the other parties under this clause 15. Any notice or other document sent by post or airmail shall be sent by prepaid first class recorded delivery post (if within the United Kingdom) or by prepaid airmail (if elsewhere) and a scanned copy of such notice or other document shall be sent on the same date that it is sent by post or airmail to the email address notified.

15.2 Any notice or other communication shall be deemed to have been given:

- (a) if delivered, on the date of delivery;
- (b) if posted, at 10.00 am on the second Business Day after it was put into the post, if sent within the United Kingdom, or at 10.00 am (local time at the place of destination) on the fifth Business Day after it was put into the post, if sent by airmail; or
- (c) if sent by fax, on the date of transmission.

15.3 In proving the serving of a notice or document, it shall be sufficient to prove that delivery was made or that the envelope containing the notice or document was properly addressed and posted (either by

prepaid first class recorded delivery post or by prepaid airmail, as the case may be) or that the email was properly addressed and sent, as the case may be.

- 15.4 This clause 15 shall not apply in relation to the service of any claim form, notice, order, judgment or other document relating to or in connection with any proceedings, suit or action arising out of or in connection with this Agreement.

16. GENERAL

- 16.1 No party shall be entitled to assign its rights or transfer its obligations under this Agreement without the prior written consent of the other parties.
- 16.2 This Agreement and the documents referred to in it contain the whole agreement between the parties relating to the arrangements contemplated by it and supersede all previous agreements between the parties relating to these arrangements.
- 16.3 Each party shall pay the costs and expenses incurred by it in connection with the entering into of this Agreement and of all other documents referred to in it.
- 16.4 This Agreement may be executed in any number of counterparts all of which, taken together, shall constitute one and the same Agreement and any party (including any duly authorised representative of a party) may enter into this Agreement by executing a counterpart. Facsimile signatures shall be valid and binding to the same extent as the original signatures.
- 16.5 Except as expressly stated in clause 6 of this Agreement, a person who is not a party to this Agreement may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999. Other than with respect to clause 6, the rights of the parties to this Agreement to terminate, rescind or agree any variation, waiver or settlement under this agreement are not subject to the consent of any other person.
- 16.6 Time is of the essence for all times, dates and periods specified in this Agreement.
- 16.7 If any provision or part-provision of this Agreement is or becomes invalid, illegal or unenforceable, it shall be deemed modified to the minimum extent necessary to make it valid, legal and enforceable. If such modification is not possible, the relevant provision or part-provision shall be deemed deleted. Any modification to or deletion of a provision or part-provision under this clause shall not affect the validity and enforceability of the rest of this Agreement.
- 16.8 The provisions contained in each clause and sub-clause of this Agreement shall be enforceable independently of each of the others and their validity shall not be affected if any of the others are invalid.

17. GOVERNING LAW AND JURISDICTION

- 17.1 This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by English law.
- 17.2 The English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement (including a dispute relating to any non-contractual obligations arising out of or in connection with this Agreement) and the parties submit to the exclusive jurisdiction of the English courts.

IN WITNESS of which this Agreement has been signed and delivered as a deed on the date which appears first on page 1.

SCHEDULE 1

ALIGNMENT PRINCIPLES

1. In recognition of the mutual benefits derived by the Shareholder and the Company from ensuring an appropriate alignment of their respective business strategies the Company shall (to the extent consistent with the Companies Act 2006 and other applicable laws and regulations) promote and conduct its business to the extent practicable in a manner informed by the established values of the co-operative movement, having regard to the highest standards of ethical principles and with the aim of being recognised as a good corporate citizen and contributing to building a stronger and sustainable society. The Company shall promote and conduct its business in such manner described above in relation to:
 - (i) how it relates to, communicates with, balances the interests of, and otherwise deals with, its stakeholders; and
 - (ii) how it applies the profits of the Company, in accordance with the dividend policy set out in its Articles of Association.

For so long as the Shareholder (whether directly or indirectly) is a Significant Shareholder, the Company shall take all steps within its power to ensure that provisions to this effect are included in its Articles of Association.

SCHEDULE 2

V&E COMMITTEE TERMS OF REFERENCE

1. CONSTITUTION

The Values and Ethics Committee (**V&E Committee**) Terms of Reference were approved on 1 November, 2013 by The Co-operative Bank p.l.c. (**Bank**) board (**Board**).

2. MEMBERSHIP

The members and chairman of the V&E Committee shall be appointed in accordance with the Articles of Association of the Bank.

3. SECRETARY

The 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:

- (a) the legal and regulatory requirements applicable to the Bank and its directors;
- (b) the need for the Bank's operations to be commercially sustainable and profitable; and
- (c) 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:

- (a) 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);
- (b) alignment of treatment of the Bank's customers with its values and ethical policies;
- (c) alignment of employee training and culture with its values and ethical policies;
- (d) corporate social responsibility, community investment, environmental and other projects and activities of the Bank;
- (e) the establishment of a clear 'ethical' policy and 'ethical' strategy informed by customer consultation that aligns with the commercial strategy and is reviewed annually;
- (f) the extent to which executive remuneration policies are consistent with the Bank's values and ethical policies;
- (g) provision of products and services to sectors/organisations with clear social justice or community benefit purpose;
- (h) the development of products and services with 'ethical' features;
- (i) the Company's approach to improving the social and environmental impacts of the Bank's own operations; and
- (j) the choice of suppliers, partners and third party relationships which should be informed by the Bank's 'ethical' policy.

11. OTHER MATTERS

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

- (a) 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
- (b) 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.

SIGNATORIES

SIGNED as a DEED by
**CO-OPERATIVE GROUP
LIMITED** acting by
its attorney
in the presence of:

Witness's Signature:
Name:
Address:
.....
.....

SIGNED as a DEED by
**CO-OPERATIVE BANKING
GROUP LIMITED** acting by
its attorney
in the presence of:

Witness's Signature:
Name:
Address:
.....
.....

SIGNED as a DEED by

THE CO-OPERATIVE BANK

P.L.C. acting by

its attorney

in the presence of:

Witness's Signature:

Name:

Address:

.....

.....