

CO-OPERATIVE BANKING GROUP

EXPOSURES COMMITTEE

Terms of Reference

1. Constitution

The Exposures Committee (the "Committee") Terms of Reference were approved on 13 July 2011 by the Boards of Co-operative Banking Group, The Co-operative Bank plc, Co-operative Insurance Society Limited and CIS General Insurance Limited.

2. Membership

2.1 The Committee shall be appointed by the Co-operative Banking Group Board (the "Board") and shall consist of no less than four members.

2.2 The Committee shall comprise of Non-Executive Directors only.

2.3 At least half of the members of the Committee shall be Independent Non-Executive Directors.

2.4 At least one Director of the Committee shall have recent and relevant financial experience.

2.5 At least one member of the Committee shall be a member of the Co-operative Banking Group Risk Committee (the "Risk Committee").

2.6 The Board shall appoint the Chair of the Committee.

2.7 The Group Secretary or such person as the Secretary may recommend shall be the Secretary of the Committee and shall circulate the minutes of the meetings to the Committee and to all members of the Board.

3. Quorum

3.1 A quorum shall be two members.

3.2 A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities powers and discretions vested in or exercisable by the Committee.

3.3 Where a response is required before the next meeting of the Committee, a decision may be obtained by circulating an application to all members of the Committee and collating their individual responses. In respect of exposures to the Co-operative Group Limited, Co-operative Banking Group, The Co-operative Bank plc, Co-operative Insurance Society Limited, CIS General Insurance Limited, Unity Trust Bank plc, CFS Management Services Limited, and in acknowledgement that some members may have conflicts of interest, such exposures may be agreed by those members with no conflicts of interest. In circumstances where an urgent response is essential on an application which has been circulated, and a quorum is not available (a minimum of two, recognising situations of conflict)

then it is acceptable for those members who are available to exercise the full authority of the Committee subject to the decision being ratified by the next meeting of the Committee.

4. **Attendance at Meetings**

No one other than the Committee Chair and its members shall attend meetings of the Committee, unless at the invitation of the Chair. Such invitees may include the Chief Executive, the Chief Risk Officer, the Chief Financial Officer, the Business Leader Banking Risk and the Managing Director Corporate and Business Banking. Other Board members may, by prior agreement with the Chair, attend as observers, and participate in a meeting, but they will not be counted towards the quorum. The Committee however, shall have the right to meet without other Directors present if it so decides.

5. **Frequency of Meetings**

5.1 The Committee shall normally meet monthly.

5.2 The Chair of the Committee shall convene a meeting upon the request of any Committee member who considers it necessary.

6. **Authority**

6.1 The Committee is authorised by the Board to investigate any activity within its terms of reference and seek information that it requires from any employees of Co-operative Banking Group and its subsidiary undertakings, all of whom are directed to co-operate with any request made by the Committee.

6.2 The Committee is authorised to engage any firm of accountants, lawyers, or other professionals, as the Committee sees fit, to provide independent advice and to assist in any review or investigation on such matters as the Committee deems appropriate.

6.3 The Committee is authorised to fulfil its responsibilities delegated to it by the Board and also has delegated authority from the Boards of Co-operative Banking Group's subsidiary undertakings including, but not limited to, The Co-operative Bank plc, Co-operative Insurance Society Limited and CIS General Insurance Limited.

7. **Responsibilities**

The responsibilities of the Committee are set out below. The Committee shall carry out these duties for Co-operative Banking Group and its subsidiary undertakings including, but not limited to, The Co-operative Bank plc, Co-operative Insurance Society Limited and CIS General Insurance Limited.

7.1 Sanction Large Counterparty Transactions

7.1.1 To approve all Bank advances in excess of the delegated lending authority of the Chief Executive.

When required by the Board, to approve specific Co-operative Banking Group investments including Asset Backed Securities, and Mortgage Backed Securities

transactions. Until further notice this will apply to any structured credit products.

7.1.2 To review all decisions taken within the delegated authority of the Chief Executive or any individual Executive by way of Noting Returns.

7.2 Manage Large Exposure Positions

7.2.1 To review and approve management actions on excess positions on lending exposures, which exceed the Chief Executive's discretion.

7.2.2 To review and approve management actions on excess positions on investment exposures, which exceed the Chief Executive's discretion.

7.2.3 To review and approve management actions on individual counterparty positions on the Corporate Banking Credit Risk watch list, the Bank Markets Credit Risk watch list, and the Co-operative Asset Management Credit Risk watch list.

7.2.4 To review and approve management actions on any other positions which the Credit Committee or the Business Leader, Banking Risk determine should be brought to its attention.

7.2.5 To review and challenge sector exposures and policy documents especially with regard to credit criteria in support of the Risk Committee.

7.2.6 To review the adequacy of individual significant credit risk exposures and liaise at least half yearly with the Co-operative Banking Group Audit Committee (the "Audit Committee").

7.3 Risk Management

7.3.1 Review minutes of the Risk Committee and note any actions to be taken as relevant to the remit of this Committee.

7.3.2 Review and note the Top 50 aggregate counter party exposures across Co-operative Banking Group.

7.3.3 Consider the overall critical risk profile due to accumulations or concentrations of risks with consideration also given to the impact on these of third party default.

7.4. Other Matters

7.4.1 Annually review and updates its Terms of Reference requesting approval from the Board for all proposed changes.

7.4.2 Ensure that an induction programme is provided for new members.

7.4.3 Ensure that ongoing training is provided to members and to include an understanding of the principles of, and developments in, credit risk management.

7.4.4 Consider other disclosures, documents or topics, as determined by Co-operative Banking Group, and its subsidiary undertakings from time to time.

7.4.5 Evaluate, annually, its own performance against its terms of reference and best practice.

8. **Reporting Lines**

8.1 The Chair of the Committee shall report on Committee business to the Board with such recommendations as the Committee may deem appropriate.

8.2 The minutes of the meeting shall be provided to the Board and the Risk Committee and shall include copies of the Return of Facilities Agreed In Excess of the Chief Executive's Sanction and the Return of Facilities Agreed Within the Chief Executive's Sanction as appropriate.

8.3 Report to the Risk Committee on decisions and impacts on the Co-operative Banking Group risk profile.

9. **Management Information Requirements**

The Secretary of the Committee will normally circulate the agenda and papers for meetings at least seven clear days before the meeting.