

CO-OPERATIVE GROUP LIMITED

BOARD COMPOSITION CHARTER

(as approved by the Board of Co-operative Group Limited (the Society) on 30 March 2016)

PRINCIPLE

The following principle is enshrined in the Society's Rules (the **Rules**):

"The creation of a Board of directors elected by Members that is individually and collectively qualified to lead an organisation of the size and complexity of the Group."

This Charter sets out the approach that the Board the MND Joint Candidate Selection & Approval Committee (**MNDJC**) and the Nominations Committee will adopt to ensure that they create and maintain an effective board that satisfies the above principle.

The Society is a registered society under the Co-operative and Community Benefit Societies Act 2014. As such it is not mandatory for the Society to comply with the UK Corporate Governance Code published by the Financial Reporting Council (the **Code**); in fact, the democratic nature of the Society and its ownership by Members makes certain provisions of the Code difficult to apply. However, where possible and appropriate, the Board aims to conform to the key principles of the Code to ensure alignment with good practice. The Group also adheres to the spirit of the Corporate Governance Code for Consumer Co-operatives, published by Co-operatives UK.

BOARD SIZE AND COMPOSITION

The Board should be of sufficient size to ensure that:

the collective experience and skills of the Directors is broad enough to enable the Board to provide effective oversight of the Group and its various businesses as a whole;

it reflects a diverse range of backgrounds, views and perspectives;

it provides an effective voice for Members;

it allows all Directors to participate effectively in meetings;

changes to the composition of the Board can be managed without undue disruption; and

committees can function without placing over reliance on particular individuals.

Having regard to the above factors, the Board shall comprise not less than seven Directors consisting of Independent Non-Executive Directors, up to two Executive Directors (of whom one will be the CEO) and up to four Member Nominated Directors.

The Group Chair shall decide the appropriate number of Directors from time to time and in accordance with the Board Composition Charter and having regard to issues such as succession planning or to address the need for particular skills. The Board shall always have at least two Member Nominated Directors one Executive Director and Independent Non-Executive Directors. The Independent Non-Executive Directors shall be equal to or greater in number than the other Directors

At least half of the Board, excluding the Group Chair, shall comprise Independent Non-Executive Directors and Member Nominated Directors who are determined by the Board to be independent (unless the Group Chair temporarily otherwise decides for good reasons (for example to facilitate succession planning to address the need for particular skills or due to the temporary unavailability of suitably qualified candidates)). The test of independence for these purposes shall be construed and interpreted in accordance with this Board Composition Charter and having regard to the UK Corporate Governance Code published from time to time.

Other than on a short term basis, the rationale for any change in the size of the Board will be discussed with the Council.

DUTY TO ACT IN THE SOCIETY'S BEST INTERESTS

All Directors are under a duty to act in the best interests of the Society. Regardless of their categorisation, Directors are appointed in a personal capacity and must not represent or act under the direction or instruction of a particular section of the Membership or any third party.

GROUP CHAIR

The Chair of the Board (the **Group Chair**) shall be independent on appointment.

The Group Chair is expected to become fully engaged in the activities of the Society and consequently is not expected to maintain their independence for the duration of their term.

SENIOR INDEPENDENT DIRECTOR

One of the Independent Non-Executive Directors will be nominated by the Board as the Senior Independent Director.

The Senior Independent Director shall lead the appointment and evaluation of the Group Chair (in consultation with the rest of the Nominations Committee) and otherwise act as a sounding board for Directors, Council Members and others, when the normal channels via the Group Chair are not appropriate.

Other than as a short term emergency measure, the Senior Independent Director shall not be eligible to be appointed as Group Chair.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In accordance with paragraphs 2.2 and 2.3 the number of Independent Non-Executive Directors shall be equal to or greater in number than the other Directors.

Independent Non-Executive Directors should be demonstrably independent in both character and judgement and free of relationships or circumstances which are likely to affect, or could appear to affect, their judgement. In accordance with the Rules, the Group Chair will, in any event, always be regarded as an Independent Non-Executive Director.

The following are examples of relationships that the Board should take into account in determining whether a Director is or can be regarded as independent:

has been an employee of the Group within the last five years;

has, or has had within the last three years, a material business relationship with the Group;

has received or receives additional remuneration from the Group apart from a director's fee, participates in a performance-related pay scheme, is a member of the Group's pension scheme or is dependent on any fees payable by the Group as a material source of their income;

has, or has had, close family or personal ties with any of the Group's advisers, Directors or senior employees;

holds cross-directorships or has, or has had, significant links with any of the Group's advisers, Directors or senior employees through involvement in other organisations or trade bodies;

has served on the Board for more than six years from the date of their first election;

serves or has served on any part of the Group's elected governance framework, including the Council, within the last two years; or

serves or has served as a director or employee of a society that has or has had a significant trading relationship with the Group (through Co-operative Retail Trading Group ("CRTG")), Federal Retail and Trading Services Ltd ("FRTS") or otherwise) within the last two years.

The Board should satisfy itself of the independence of each Independent Non-Executive Director upon their appointment and, with the exception of the Group Chair, on an ongoing basis.

MEMBER NOMINATED DIRECTORS

In accordance with the Rules, the Board will include Member Nominated Directors, who will be nominated and elected by the Members in accordance with the Member Nominated Director Election Regulations (as determined by the Council).

It is not envisaged that more than four Member Nominated Directors will serve on the Board at any one time.

EXECUTIVE DIRECTORS

With the agreement of the Board and subject to due process, two members of the Executive (one of whom one shall be the Group Chief Executive) may be appointed to the Board as Executive Directors.

APPOINTMENT PROCESS

The Board, led by the Group Chair, is responsible for ensuring that the Board is functioning effectively and has the right balance of skills and experience to provide effective oversight of the business. It delegates the task – but not the ultimate decision – of selecting Directors (other than Member Nominated Directors) to the Nominations Committee, which in turn has power to delegate certain activities to a sub-committee as required.

The decision to appoint Directors (other than the Member Nominated Directors) to the Board is a matter for the Board as a whole on the recommendation of the Nominations Committee.

MEMBERSHIP CRITERIA

All Directors must satisfy the Membership Criteria set out in Rule 49 and the Membership Regulations. Amongst other things, subject to the Rules, each Director must be a Member and remain a Member at all times while on the Board.

ELIGIBILITY CRITERIA

For the purposes of Rule 48, all Directors must satisfy the Eligibility Criteria set out in this paragraph and the Appendix to this Charter.

The Board and its committees should have the appropriate balance of skills, experience and knowledge of the Group and its businesses to enable them to discharge their respective and collective duties and responsibilities effectively.

All Directors are required to demonstrate a strong personal commitment to co-operative Values and Principles.

All Directors are expected to meet and maintain the high standards of competence commensurate with the needs of a business of the scale and complexity of the Group.

The Board must be individually and collectively qualified and equipped to act at all times in the best interests of the Society.

No person shall be eligible to be appointed or elected to the Board if they have been previously removed from the Group Board, the Council, a Regional Board, an Area

Committee or any other part of the Group for a breach of a code of conduct or otherwise, unless a resolution of the Board is passed with a two thirds majority permitting them to stand.

The skills and experience requirements for Directors are as follows:

for all Directors, the skills and experience set out in Part 1 of the Appendix;

in the case of the Group Chair, the additional skills and experience set out in Part 2 of the Appendix;

in the case of the Senior Independent Director, the additional skills and experience set out in Part 3 of the Appendix; and

in the case of the chair of the Risk & Audit Committee, the additional skills and experience set out in Part 4 of the Appendix.

The Group Chair, working with the Nominations Committee, is responsible for keeping the overall composition of the Board under review, for assessing the contribution and skills of individual Directors as well as the collective skills of the Board as a whole and for recommending any changes required.

In accordance with Rule 59, the Nominations Committee will at least annually, identify and, on an ongoing basis, review the Board's skills requirements, including any gaps that need to be addressed (the **Annual Board Evaluation**). The Annual Board Evaluation will be shared with the Council and will inform the collective skills and competency matrix and the standards expected of all Directors, including Member Nominated Directors. The collective skills and competency matrix shall directly inform the Nominations Committee's search and appointment strategy and the Eligibility Criteria.

Subject to the Rules, the Board will, at least once every two years, conduct an externally facilitated Board evaluation, which will include an appraisal of the performance and capabilities of individual Directors. This will play an important role in assessing the adequacy of skills and in identifying areas to be addressed.

DIVERSITY

The Board recognises the importance of a diverse board that is representative of its Membership. This includes, but is not limited to, diversity of gender, ethnicity, sexual orientation, age, disability, religion and geography (**Relevant Characteristics**). Diversity is as much about differences of approach, skills and experience, and it is very important in ensuring high quality deliberations and decisions, as well as effective engagement with Members and other key stakeholders. The Board recognises that having Directors from different backgrounds and with different skills is key to being a challenging and effective Board and believes that by having a diverse board it will:

help the Board represent the views of the Membership;

bring a broad range of skills and knowledge to the Board;

support good governance through challenge and discussion from a diverse range of viewpoints;

uphold the co-operative Values and Principles of honesty, openness, equality and equity; and

gain a leadership position in the UK with regards to good governance and board composition.

With regard to board appointments, the Code states that:

“The search for board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board.”

In order to voluntarily comply with the above principle, the Board, the MNDJC and the Nominations Committee will seek to ensure an appropriate balance and diversity in the broadest sense including (but not limited to) diversity of Relevant Characteristics.

In line with the Code, the Board will adopt and have regard to a policy on diversity, which may include measurable objectives for achieving appropriate balance and diversity.

TERM OF OFFICE

All Directors shall be subject to the terms of office and election/re-election provisions as set out in the Rules.

REVIEW

This Charter is owned by the Board and will be reviewed annually as part of the Annual Board Evaluation and/or as required.

Consent of the Council is required for any substantive changes to the Charter.

INTERPRETATION

Capitalised terms used in this Charter but not defined shall have the meaning given to them in the Rules.

APPENDIX
SKILLS AND EXPERIENCE REQUIREMENTS

PART 1
ALL DIRECTORS

All Directors must demonstrate:

- A strong commitment to Co-operative Values and Principles;
- A strong commercial background and/or a demonstrable track record of success in a relevant discipline;
- Proven strategic skills;
- Financial and commercial acumen;
- Some awareness of the operational issues involved in managing a business the size of the Group;
- Strong intellect/intellectual capacity to fulfil the role and communication skills; and
- The personal gravitas, capability and breadth of experience to contribute to Board discussions on a wide variety of topics.

Directors may come from a variety of backgrounds that includes specific experience of:

- Retail, Consumer, Retail Financial Services;
- Strategy & change management;
- E-commerce / technology;
- Marketing / Brand;
- Supply Chain;
- Property;
- HR;
- Community development and social goals; and/or
- Relevant professional services.

PART 2

GROUP CHAIR – ADDITIONAL SKILLS AND EXPERIENCE REQUIREMENTS

In addition to the requirements in Part 1, the Group Chair must be an outstanding individual with the highest levels of integrity, authority and independence.

The Group Chair should possess:

- Broad business knowledge, with shrewd commercial and strategic judgement gained from exposure to a wide variety of business organisations and cultures;

- A good understanding of boardroom dynamics and a commitment to corporate governance best practice;

- Extensive experience, gained in an executive capacity, of consumer-facing industries;

- A commitment to best in class governance and oversight; and

- A demonstrable track record of engaging constructively with Government, regulators and the media.

In addition, the Group Chair is expected to have recent and relevant experience as a chair of a complex, commercially focused organisation of the Group's scale.

PART 3

SENIOR INDEPENDENT DIRECTOR – ADDITIONAL SKILLS AND EXPERIENCE REQUIREMENTS

In addition to the requirements in Part 1, the Senior Independent Director must have the stature and capacity to provide independent and pragmatic advice to the Board, the Group Chief Executive, the President of the Council and the ability to annually appraise the Group Chair.

The Senior Independent Director should possess:

- The ability to understand and engage with the sometimes differing perspectives of the various stakeholders;

- Excellent analytical skills, open-mindedness and an ability to assimilate information quickly;

- First class powers of persuasion and influencing skills to build consensus and, the courage and judgement to challenge received wisdom;

- A commitment to best in class governance and oversight;

- A track record of providing strategic vision to high-profile organisations and non-executive experience in commercially focused organisations of the Group's scale;

- A deep understanding and empathy for the Group and an appreciation of its recent history; and

- Strong chairing and leadership skills.

PART 4

CHAIR OF THE RISK & AUDIT COMMITTEE – ADDITIONAL SKILLS AND EXPERIENCE REQUIREMENTS

In addition to the requirements in Part 1, the Chair of the Risk and Audit Committee must be an outstanding individual with the highest levels of integrity, authority and independence and the broad business experience expected of a Board committee chair.

The Chair of the Risk and Audit Committee should possess:

- A strong profile and reputation, and the capacity to be an engaged and available board member both at board meetings and between them;

- recent and relevant financial experience required to chair the audit and risk committee of a commercially focused organisation of the Group's scale;

- Broad business knowledge, with shrewd commercial and strategic judgement gained from exposure to a wide variety of business organisations and cultures; and

- A commitment to best in class governance and oversight.

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