

TSB BANKING GROUP PLC (THE 'COMPANY')
BOARD RISK COMMITTEE
TERMS OF REFERENCE

1. PURPOSE

1.1 The Board Risk Committee (the '**Committee**') is responsible for championing that a transparent and responsible risk culture exists within the Group ensuring an appropriate balance between risk and reward which results in the delivery of transparent and fair outcomes for customers, a safe and resilient financial profile and collaborative relationships with the Group's regulators.

1.2 Specifically, the Risk Committee is authorised by the Board of the Company (the '**Board**') to review and report its conclusions to the Board on:

- a) the risk appetite (the extent and categories of risk which the Board regards as acceptable for the Group (as defined below) to bear) of the Group, including without limitation TSB Bank plc (the '**Bank**'); and
- b) the Group's risk management framework (embracing principles, policies, methodologies, systems, processes, procedures, management information, people and culture);
- c) the Group's compliance with regulatory requirements.

1.3 The Committee is a committee of the Board of the Company and as such is authorised by the Board to:

- a) delegate some of its responsibilities to a sub-Committee including one established solely for that purpose;
- b) seek any information that it requires or request attendance at a meeting from any employee or director of the Company or any other member of the Group, and all employees and directors are directed to co-operate with any requests made by the Committee; and
- c) obtain outside legal or other independent professional advice in relation to matters falling within its responsibilities as set out below and to approve the fees and other terms of any such retainer.

1.4 The Committee will have specific remit across the following risk categories (which from time to time may change):

- a) Capital Risk
- b) Credit Risk
- c) Conduct Risk
- d) Financial Crime Risk
- e) Liquidity and Funding Risk
- f) Market Risk
- g) Interest Rate Risk
- h) Model Risk
- i) Operational Risk
- j) Insurance Risk

In addition the committee will work closely with the Audit Committee in respect of Fraud Risk and Financial Reporting Risk and with the Remuneration Committee in respect of People Risk.

1.5 The Committee will consider emerging and horizon risks, as well as current risks, and will ensure that appropriate stress and sensitivity analyses are regularly carried out, anticipating changes in and impacts to business conditions.

2. RESPONSIBILITIES

2.1 The Committee should carry out the duties below for the Group (including the Company and the Bank) as appropriate.

2.2 The Committee shall:

2.2.1 Oversee the development, implementation and maintenance of the Group's overall risk management framework and its risk appetite, strategy, principles and policies, to ensure they are in line with emerging regulatory, corporate governance and industry best practice. In discharging this duty the Committee shall take into account the current and prospective macroeconomic and financial environment and shall draw on financial stability assessments such as those published by relevant authorities including the Bank of England, the Prudential Regulatory Authority, the Financial Conduct Authority and other authoritative sources that may be relevant for the Group's risk policies.

2.2.2 Oversee the Group's risk exposures, risk/return and proposed improvements to the Bank's risk management framework and its risk appetite, strategy, principles, policies and standards. In addition, ensure that this is achieved through the identification of potential risks and responses to them thereby reducing surprises and the associated costs or losses.

2.2.3 Facilitate the effective contribution and involvement of non-executives and aid their understanding of risk issues and the Group's risk management framework.

2.2.4 Review recommendations received from the Executive Risk Committee of the Bank.

2.2.5 Provide input to the Remuneration Committee of the Company on the alignment of remuneration to risk performance and delivery of the risk culture of delivering good outcomes for customers matched with an appropriate reward for risk.

2.2.6 Review new risk principles and policy and material amendments to risk principles and policy recommended by the Chief Executive Officer and Chief Risk Officer, for approval by the Board.

2.2.7 Oversee adherence to Group's risk principles, policies and standards and any action taken resulting from material policy breaches across the Group, based upon reports from the Chief Executive Officer and the Chief Risk Officer.

2.2.8 Review the appointment, resignation or dismissal of the Chief Risk Officer and make a recommendation to the Board in relation to the same.

2.2.9 Review and discuss with the Chief Risk Officer the scope of work of the Bank's Risk Division, its plans, resources, skills and capabilities, and the issues identified as a

result of its work, how management is addressing these issues and effectiveness of systems of risk management.

- 2.2.10** Review the adequacy of the Bank's Risk Division's resources, and its authority and standing within the Group.
- 2.2.11** Review co-ordination between the Bank's Risk Division and external auditors.
- 2.2.12** At least annually, or at the request of the Board at any time, review and approve the Terms of Reference of the Committee, to ensure that they remain appropriate and fit for purpose, and to recommend to the Board any changes considered necessary or desirable.
- 2.2.13** At least annually, review the effectiveness of the Committee including specific review of the formal training undertaken or required by the Committee members to discharge their duties effectively, and report to the Board thereon.

3. MEMBERSHIP AND OPERATION OF THE COMMITTEE

- 3.1** The Committee shall comprise at least three directors, all of whom shall be independent non-executive directors. The activities of the Committee should involve participation by the chairman of the Audit Committee of the Board. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee of the Board, and in consultation with the chairman of the Committee.
- 3.2** Appointments to the Committee are made by the Board and shall be for a period of up to three years, which may extend for further periods of up to three years, provided the director still meets the criteria for membership of the Committee.
- 3.3** The Board shall appoint the Committee chairman who should be an independent non-executive director. In the absence of the Committee chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting from those who would qualify under these terms of reference to be appointed to that position by the Board.
- 3.4** The Company Secretary or his or her nominee shall act as the secretary to the Committee.
- 3.5** The quorum necessary for the transaction of business shall be two, both of whom must be independent non-executive directors.
- 3.6** Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee chairman or at the request of the Chief Risk Officer.
- 3.7** Unless otherwise agreed, notice of the meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than three clear working days before the date of the meeting. Supporting papers shall be sent to committee members and to other attendees as appropriate, at the same time.
- 3.8** The Committee chairman should attend the annual general meeting to answer any shareholder questions on the Committee's activities.

3.9 The Chief Risk Officer shall have full and unfettered access to the Committee.

4. INPUTS

4.1 The Committee will receive regular reports on the performance of the business against the risk categories within its scope and the Group's risk appetite. In addition the Committee will review relevant ad hoc papers on business and regulatory risks and on emerging risks to the Group including but not limited to macroeconomic or regulatory developments.

4.2 The Committee will be supported by the HR, Risk, Legal and Finance functions of the Bank and will have access to whatever additional advice or support it requires in the discharge of its duties. This will include but is not limited to:

- a) access to the advice and services of the HR Director and HR team;
- b) access to the advice and services of the Chief Risk Officer and the Risk team;
- c) access to the advice and services of the General Counsel and the Legal/Company Secretarial team;
- d) access to the advice and services of the Chief Financial Officer and the Finance team; and
- e) outside independent professional, technical and/or legal advice or other resources, at the Company's expense, as and when it considers this necessary.

4.3 The Committee shall have regard to established and evolving best practice corporate governance standards including, where relevant, standards set by voting agencies and voluntary codes. Where departure from the requirements of these standards or codes, including the UK Corporate Governance Code is required or believed to be appropriate, the Committee shall recommend to the Board the appropriate explanation or justification or use as required, in the Company's external disclosures.

5. OUTPUTS

5.1 The Committee shall provide a formal sign-off for the Board Risk Report within the Company's Annual Report & Accounts.

5.2 The Committee shall provide formal sign-off for the risk sections of the ICAAP, ILAA and Pillar 3 Disclosure to the Audit Committee.

5.3 The secretary of the Committee shall minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance.

5.4 Draft minutes of Committee meetings shall be distributed to all members within 5 working days of the meeting. Once approved, minutes should be circulated to all other members of the Board, together with other meeting attendees, unless in the opinion of the Committee chairman it would be inappropriate to do so.

5.5 Final signed copies of the minutes of the meetings of the Committee should be maintained for the Company's records, in hard and soft copy where possible.

5.6 The Committee shall report to the Board on the effective compliance of the Group with prudential and conduct risk regulations and the maintenance of open and transparent relationships with the Group and Bank's regulators.

5.7 The Committee chairman shall report formally to the Board on the Committee's proceedings.

5.8 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

6. NON MEMBERS/OTHER ATTENDEES

6.1 Only members of the Committee have the right to attend Committee meetings. However, all other independent non-executive directors have an open invitation to attend meetings.

6.2 The Chief Executive Officer and, the Chief Risk Officer shall be expected to attend all meetings. Additionally, the Chief Financial Officer, the HR Director, General Counsel and Audit Director and external advisors may be invited to attend all or part of the meeting as appropriate, together with other attendees at the discretion of the Committee chairman.

7. FREQUENCY OF MEETINGS

7.1 Meetings shall be held as circumstances require, but at least four times a year to enable responsibilities to be discharged.

7.2 Outside the formal meeting programme, The Committee chairman will maintain a dialogue with key individuals involved in the company's governance, including the Board Chairman, the Chief Executive Officer, the Chief Risk Officer, the External Audit Partner and the Director of Audit.

7.3 To assist the Committee in understanding the implications of risk in the discharge of its responsibilities, the Committee shall meet with the Chief Risk Officer as required without management being present to discuss matters of relevance to the Committee.

8. MISCELLANEOUS

8.1 References in these Terms of Reference to executive positions (including, without limitation, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, HR Director and General Counsel) are to the individual holding that position for the Group, whether formally appointed by the Company, the Bank or otherwise.

8.2 In these Terms of Reference, '**Group**' means the Company together with its subsidiaries and subsidiary undertakings from time to time (as defined in the Companies Acts 2006).