

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

In these Terms of Reference:

'**TSB**' means the Company together with its subsidiaries and subsidiary undertakings from time to time (as defined in the Companies Acts 2006).

'**Sabadell Group**' means Banco de Sabadell S.A. (the '**Parent**') together with its subsidiaries and subsidiary undertakings from time to time (as defined in the Companies Acts 2006).

1. PURPOSE

1.1 The Board Risk Committee (the '**Committee**') is responsible for championing that a transparent and responsible risk culture exists within TSB 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 Sabadell Group's and TSB's regulators.

1.2 Specifically, the 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 TSB to bear) of TSB, including without limitation TSB Bank plc (the '**Bank**') and with reference to the group risk appetite established by the Parent, as modified, where necessary, to reflect applicable legal and regulatory requirements applying to TSB;
- b) TSB's risk management framework (embracing principles, policies, methodologies, systems, processes, procedures, management information, people and culture);
- c) TSB's compliance with regulatory requirements; and
- d) TSB's IT Transformation Programme.

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 whilst maintaining accountability;
- 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 TSB, 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 (including but not limited to Fraud, Anti-Money Laundering and Anti-Bribery)
- 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 Company's Audit Committee in respect of assessing the adequacy of TSB's internal control arrangements, Three Lines of Defence, Financial Reporting Risk and Whistle-blowing arrangements and in reviewing the material risk exposures defined in the Material Risk Register, and with the Company's 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 TSB (including the Company and the Bank) as appropriate.

2.2 The Committee shall:

2.2.1 Oversee the development, implementation and maintenance of TSB's overall risk management framework and its risk appetite, strategy, principles and policies (with reference to the group risk appetite and policies established by the Parent, as modified, where necessary, to reflect applicable legal and regulatory requirements applying to TSB), 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 TSB's risk policies.

2.2.2 Recommend to the Board, at least on an annual basis, TSB's Risk Appetite, Internal Capacity Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), Reverse Stress Test, Recovery Plan and Resolution Plan.

2.2.3 Escalate risk matters to the Board for discussion and/or approval, including but not limited to those matters that are reserved for the Parent.

2.2.4 Oversee TSB'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, including mitigating actions, thereby reducing surprises and the associated costs or losses.

2.2.5 Provide oversight of the risks to business-as-usual activity of the IT Transformation Programme, as they affect TSB's Risk Appetite.

“IT Transformation Programme” means the ongoing due diligence and investigations into a possible transfer by the Company from the existing IT and operational services provided by Lloyds Banking Group to IT and other services potentially provided by companies within the Sabadell Group and other third party suppliers.

- 2.2.6** Facilitate the effective contribution and involvement of Non-executive Directors and aid their understanding of risk issues and TSB’s risk management framework.
- 2.2.7** Advise the Board on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on risk aspects and implications for the risk appetite and tolerance of TSB and taking independent external advice where appropriate and available.
- 2.2.8** Review recommendations received from the Executive Risk Committee of the Bank.
- 2.2.9** Provide input to the Company’s Remuneration Committee on the alignment of remuneration to risk performance and delivery of the risk culture of providing good outcomes for customers matched with an appropriate reward for risk.
- 2.2.10** Review new risk principles and policy and material amendments to risk principles and policy recommended by the Chief Executive Officer and Chief Risk Officer, and make recommendations to the Board in relation to the same.
- 2.2.11** Oversee adherence to TSB’s risk principles, policies and standards and any action taken resulting from material policy breaches across TSB, based upon reports from the Chief Executive Officer and the Chief Risk Officer.
- 2.2.12** Review the appointment, resignation or dismissal of the Chief Risk Officer and make a recommendation to the Board in relation to the same.
- 2.2.13** Review and discuss with the Chief Risk Officer the scope of work of the Bank’s Risk Function, its plans, resources, skills and capabilities and its authority and standing within TSB, and the issues identified as a result of its work, how management is addressing these issues and effectiveness of systems of risk management.
- 2.2.14** Review co-ordination between the Bank’s Risk Function and external auditors.
- 2.2.15** 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.
- 2.2.16** 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 Non-executive Directors. The activities of the Committee should involve participation by the chairman of the Company’s Audit Committee. Members of the Committee shall be appointed by the Board, on the recommendation of the Company’s Nomination Committee, and in consultation with the chairman of the Committee.

- 3.2** 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.
- 3.3** 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.
- 3.4** 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 any two members of the Committee.
- 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** Members may attend meetings via teleconference or videoconference if required. Decisions of the Committee may also be taken by way of a unanimous written resolution of Committee members. Such written resolution is adopted when all members of the Committee have signed one or more copies of it or otherwise indicated their agreement to it in writing (which may include by electronic mail).
- 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 TSB's risk appetite. In addition the Committee will review relevant ad hoc papers on business and regulatory risks and on emerging risks to TSB including but not limited to macroeconomic or regulatory developments.
- 4.2** The Committee will be supported by the HR, Risk, Legal, Internal Audit 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 Audit Officer and the Internal Audit team;
 - e) access to the advice and services of the Chief Financial Officer and the Finance team; and

- f) 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 voluntary codes. Where departure from the requirements of these standards or codes 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, if required, and other such risk disclosures included within the Company's Annual Report & Accounts and Pillar 3 Disclosure.

5.2 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.

5.3 Draft minutes of Committee meetings shall be distributed promptly to all members of the Committee. 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.

5.4 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.

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

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

5.7 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 Non-executive Directors have an open invitation to attend meetings.

6.2 The Chief Executive Officer, Chief Financial Officer and the Chief Risk Officer shall be expected to attend all meetings. Additionally, the General Counsel and Chief Audit Officer 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 governance of TSB, including the Board Chairman, the Chief Executive Officer, the Chief Risk Officer, the External Audit Partner and the Chief Audit Officer.

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, Chief Audit Officer, HR Director and General Counsel) are to the individual holding that position for TSB, whether formally appointed by the Company, the Bank or otherwise.