

**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 of Directors of the Company (the '**Board**') has established a Board Risk Committee (the '**Committee**') to assist the Board in overseeing risk management at TSB (including the Company and TSB Bank plc (the '**Bank**')), ensuring that management has in place policies, processes and procedures and has the appropriate organisational structure, budget and resources to manage the principal risks to which TSB is exposed, including compliance with applicable laws and regulations. The Committee is responsible for championing a transparent and responsible risk culture within TSB, ensuring an appropriate balance between risk and reward which acts to deliver good outcomes for customers, a safe and resilient financial profile and collaborative relationships with the Sabadell Group's and TSB's regulators.

**1.2** The Committee is responsible for the oversight of the management of the Company's overall risk profile, which includes the following risk categories aligned to TSB's risk categorisation model:

- a) Financial Risk
- b) Credit Risk
- c) Conduct Risk
- d) Operational Risk
- e) Financial Crime Risk
- f) Model Risk
- g) Strategic Risk

**1.3** The Committee is a committee of the Board 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. Any such instances of delegation shall be reported to the Board;
- 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.

## **2 RESPONSIBILITIES**

The Committee shall carry out the duties below for TSB as appropriate:

- 2.1** Oversee the maintenance, effectiveness and development of TSB's overall risk management framework, its compliance position in meeting legal, regulatory and mandatory obligations, and its risk appetite 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 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 any financial stability assessments such as those published by relevant authorities including the Bank of England, the Prudential Regulation Authority, the Financial Conduct Authority and other authoritative sources that may be relevant for TSB's risk policies.
- 2.2** Recommend to the Board, at least on an annual basis, TSB's Risk Appetite, Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), Reverse Stress Test and Recovery Plan.
- 2.3** Ongoing monitoring of TSB's compliance with the Resolvability Assessment Framework regulations.
- 2.4** Review and discuss the Money Laundering Reporting Officer's Report on an annual basis.
- 2.5** Escalate risk matters to the Board for discussion and/or approval as required, including but not limited to those matters that are reserved for the Parent.
- 2.6** Oversee and advise the Board in support of the Board's assessment of TSB's principal, evolving and emerging risks and risk exposures, including:
  - (a) the nature and extent of principal, evolving and emerging risks and challenges that could impact TSB achieving its long-term strategic objectives, and will ensure that appropriate stress and sensitivity analyses are regularly carried out, anticipating changes in and impacts to business conditions;
  - (b) the range of plausible stress scenarios that TSB is exposed to and the ability of risk management and internal control framework and procedures to identify and assess the impact of risks materialising, and to manage and mitigate these risks to reduce the consequences of their incidence; and
  - (c) the risk consequences of proposed changes to strategy and strategic transactions and initiatives including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on implications for the risk appetite, tolerance and strategy of TSB and taking independent external advice where appropriate.
- 2.7** Facilitate the effective contribution and involvement of Non-executive Directors and aid their understanding of risk strategy and appetite, and TSB's risk management framework.
- 2.8** Review recommendations and reporting received from the Bank's Executive Risk Committee and Level 1 Risk committees.
- 2.9** Review the Chief Risk Officer's report to the Company's Remuneration & People Committee on the alignment of remuneration to: (a) risk management and risk performance; and (b) the risk culture of acting to deliver good outcomes for customers. The Committee Chair will also have an opportunity to report (as required) to the Remuneration & People Committee on the output of the Committee's discussion on this report.

- 2.10** Without prejudice to the tasks of the Remuneration & People Committee, the Committee should review escalations, as appropriate, from the Chief Risk Officer and the Risk function in the identification process of staff whose professional activities have a material impact on TSB's risk profile (Material Risk Takers).
- 2.11** Review new risk policies and framework, and material amendments to risk policies and framework recommended by the Chief Executive Officer and Chief Risk Officer, and make recommendations, as deemed necessary, to the Board in relation to the same.
- 2.12** In addition to 2.11 above, review and approve TSB's Risk Management Framework, Information and Cyber Security, Proposition Design and Governance, and Compliance Framework Policies, and review and recommend for Board approval TSB's Supplier Policy and Outsourcing Strategy.
- 2.13** Oversee adherence to TSB's risk 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.
- 2.14** Review the appointment, resignation or dismissal of the Chief Risk Officer, and make a recommendation to the Board in relation to the same. In addition, the Committee shall be provided with the opportunity to comment, via the Committee Chair, on the performance of the Chief Risk Officer as part of the performance review process reported to the Remuneration & People Committee.
- 2.15** 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, standing and level of independence within TSB, and the issues identified as a result of its work, how management is addressing these issues and effectiveness of risk management systems. Periodically review the performance of the Bank's Risk Function, taking into account relevant information which may include (but is not limited to) the assessment within Internal Audit's annual report on internal controls and/or any other independent review as appropriate.
- 2.16** The Committee will work and liaise as necessary with all other Board committees, including but not limited to: (a) the Audit Committee, in respect of assessing the adequacy and effectiveness of TSB's risk management and internal control framework and three lines of defence; and (b) the Remuneration & People Committee, to ensure that TSB's remuneration policy is consistent with and promotes sound and effectiveness risk management.
- 2.17** At least annually, or at the request of the Board at any time, review the Terms of Reference of the Committee, to ensure that they remain appropriate and fit for purpose, and recommend to the Board any changes considered necessary or desirable.
- 2.18** At least annually, review the effectiveness of the Committee 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 Committee shall include at least one member of the Company's Audit and Remuneration & People Committees. Members of the Committee shall be appointed by the Board, on the recommendation of the Company's Nomination Committee, and in consultation with the Committee chair.

- 3.2** The Board shall appoint the Committee chair who must be an independent Non-executive Director. In the absence of the Committee chair 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 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 their 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 chair or 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 four 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 all eligible Committee members. Such written resolution is adopted when all eligible 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 and TSB's risk appetite. This includes at least an annual report on TSB's compliance position, providing visibility of any material compliance gaps and associated business actions. 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 Risk, Legal, Internal Audit, Finance and HR 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 Chief Risk Officer and the Risk team;
  - b) access to the advice and services of the General Counsel and the Legal/Company Secretarial team;
  - c) access to the advice and services of the Chief Audit Officer and the Internal Audit team;
  - d) access to the advice and services of the Chief Financial Officer and the Finance team;
  - e) access to the advice and services of the Chief People Officer and HR 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.
- 4.4** The Committee shall have regard to the views and procedures of the Parent on matters within the Committee's remit which i) relate to a matter reserved to the Parent, or ii) otherwise, where considered relevant by the Committee to ensure appropriate coordination with the Parent.

## **5 OUTPUTS**

- 5.1** The Committee shall provide a formal sign-off for risk disclosures within the Company's Annual Report & Accounts and, if required, any other material disclosures relating to risk.
- 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, unless in the opinion of the Committee chair, 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. These may be signed electronically and held in soft and/or hard copy.
- 5.5** The Committee shall report to the Board on the compliance of TSB with prudential and conduct risk regulations. The Committee shall contribute to and, where appropriate, challenge the assessment of the quality of TSB's relationships with its regulators.
- 5.6** The Committee chair 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. Additionally, the Group Chief Risk Officer has a standing invitation to attend meetings.
- 6.2** The Chief Risk Officer shall be expected to attend all meetings. The Chief Executive Officer and Chief Financial Officer have a standing invitation to attend meetings for agenda items requiring their input or under their areas of accountability. Additionally, the General Counsel, Chief Audit Officer, appropriate representatives from business functions and external advisors may be invited to attend all or part of meetings as appropriate, together with other attendees at the discretion of the Committee chair. Deputies for TSB executives may attend at the discretion of the Committee chair.

## **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 chair will maintain a dialogue with key individuals involved in the governance of TSB, including the Board Chair, 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 without management being present to ensure open and transparent discussions on 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, Chief People Officer and General Counsel) are to the individual holding that position for TSB, whether formally appointed by TSB or otherwise.