

THE CO-OPERATIVE BANK PLC RISK COMMITTEE

Terms of Reference

The Co-operative Bank plc (the 'Bank') Terms of Reference for the Risk Committee (the 'Committee') were approved by the Board on 25 January 2017.

The purpose of the Committee is to review and report its conclusions to the Board on the Bank's risk appetite and Risk Management Framework, taking a forward looking perspective and anticipating changes in business conditions.

1. Membership and Attendance

- 1.1 The Committee shall comprise at least three members. Membership shall include at least one member of the Audit Committee and one member of the Remuneration Committee. At least one Institutional Director (as defined in the Shareholder Rights Agreement dated 9 May 2014) shall be a member of the Committee. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Risk Committee.
- 1.2 All members of the Committee shall be Non-Executive Directors, the majority of who shall be independent non-executive directors.
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, in order to fulfil its role, the Committee would normally expect to invite the Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer, the Director of Internal Audit, the General Counsel and a representative of the External Auditor, to be in attendance for all or part of each meeting.
- 1.4 Other Directors and members of senior management may be invited by the Committee Chairman, at his instigation or at their request, to attend meetings of the Committee, but are not members of the Committee and do not perform the role of members of the Committee.
- 1.5 The Board shall appoint the Committee Chairman on the recommendation of the Nomination Committee. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting.
- 1.6 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three year periods, so long as members continue to be independent.

2. Secretary

The Company Secretary, or his or her nominee, shall act as the Secretary of the Committee.

3. Quorum

The quorum necessary for the transaction of business shall be two members present in person, by telephone or other electronic communications.

4. Frequency of Meetings

4.1 The Committee shall meet at least four times a year.

4.2 Outside of the formal meeting programme the Committee Chairman will maintain a dialogue with key individuals involved in the Bank's governance, including the Chairman of the Board, the Chief Executive Officer, and the Chief Risk Officer.

4.3 The Chief Risk Officer and the Director of Regulatory Risk shall have unrestricted access to the Chairman of the Risk Committee to raise any matter directly.

4.4 The Committee Chairman should attend the Annual General Meeting to answer shareholder questions on the Committee's activities.

5. Notice of Meetings

5.1 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of any of its members or at the request of the Chief Risk Officer.

5.2 Unless otherwise agreed, notice of each 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 five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate in a timely manner to enable full and proper consideration of issues.

6. Minutes of Meetings

6.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.

6.2 Once approved, minutes shall be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the Committee Chairman.

7. Duties

The Committee should carry out the duties below for the Bank and subsidiary undertakings as appropriate.

7.1 Risk Management Framework

7.1.1 Review and challenge the design, implementation and effectiveness of the Risk Management Framework and recommend to the Board for approval at least annually.

7.1.2 Annually review and approve all new policies and those which have changed materially (more than 25% as defined in the Risk Management Framework Policy appendices) supporting the Risk Management

Framework Policy. The Chief Risk Officer reserves the right to deem any change material and request that it is escalated to the Committee for approval.

7.1.3 Ensure the remit of the risk management function has:

- (i) adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; and
- (ii) adequate independence, being free from management or other restrictions.

7.1.4 Review the capability of the Bank to identify, assess, and manage new risk types.

7.1.5 Support the Chairman of the Committee in safeguarding the independence of and overseeing the performance of the Risk Function.

7.2 Risk Culture

7.2.1 Review, promote and challenge the Bank's risk culture, and in so doing, liaise with other Board Committees and seek assurance to satisfy itself that an appropriate risk culture prevails in the organisation which supports fair customer outcomes and the values and the ethics of the Bank.

7.2.2 Provide qualitative and quantitative advice to the Remuneration Committee on risk weightings to be applied to performance objectives incorporated in executive remuneration.

7.3 Risk Appetite, limits, tolerances and model oversight

7.3.1 Review, challenge and recommend to the Board for approval all new Risk Appetite Statements, and at least annually and more frequently as required, the Bank's Risk Appetite.

7.3.2 Review, challenge and approve any material changes (more than 25% as defined in the Risk Management Framework Policy appendices) to the Bank's Risk Appetite measures, tolerances, limits, mandates and authorities in respect of risks facing the business. The Chief Risk Officer reserves the right to deem any change material and request that it is escalated to the Committee for approval.

7.3.3 Ensure the business strategy aligns to the Bank's Risk Appetite.

7.3.4 Review, challenge and approve the Delegated Lending Discretion Framework at least annually. Review and challenge large credit decisions made by the Chief Risk Officer.

7.3.5 Review, challenge and exercise oversight of capital and liquidity management and advise the Board on strategy for capital and liquidity management and allocation to enterprise wide risks.

7.3.6 Annually review, challenge and recommend to the Board for approval the ICAAP.

7.3.7 Annually review, challenge and recommend to the Board for approval the ILAAP.

7.3.8 Review, challenge and recommend to the Board for approval submissions to competent authorities to be submitted in the Board's name.

7.3.9 Review, challenge and exercise oversight of models that are approved by the Model & Rating System Oversight Committee (MRSOC) and note to the Board the approval thereof of models by MRSOC.

7.4 Business Strategy

7.4.1 Provide detailed review and challenge of proposed business strategy giving consideration to the impact on the Bank's risk profile and make recommendations to the Board.

7.4.2 Ensure an appropriate due diligence is carried out focusing on risk aspects and implications for risk profile and appetite when advising the Board on strategic acquisitions or disposals.

7.5 Risk Monitoring

7.5.1 Consider, oversee and advise the Board on, and provide challenge on the Bank's exposure to, all principal risks to the business, and dedicate clear and explicit focus to current and forward-looking aspects of risk exposure, especially where those risks require large exposure provisioning or could undermine strategy, reputation or long term viability.

7.5.2 Review and challenge management's risk mitigation and control remediation actions.

7.5.3 In cooperation with the Audit Committee, monitor identified control failings and weaknesses that raise systemic risk issues and management actions taken to resolve them.

7.5.4 Review reports on any material breaches of risk limits and the adequacy of proposed action.

7.5.5 Consider risks posed to the Bank by the current and prospective macroeconomic and financial environment, drawing on financial stability assessments such as those published by the Bank of England, the Prudential Regulation Authority, the Financial Conduct Authority and other authoritative sources that may be relevant for the Bank's risk policies when preparing advice for the Board.

7.6 Regulatory risks and Compliance

7.6.1 Review and approve the annual Regulatory Risk and Compliance monitoring plans and the reasons for any significant changes to the plans, taking into account the regulatory risks identified from time to time.

7.6.2 Review, consider and challenge regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Bank's compliance function.

7.6.3 Receive prompt notification of any material adverse reports or sanctions by any competent authority.

7.6.4 Support the Chairman of the Committee in safeguarding the independence of and overseeing the performance of the Compliance Function.

7.6.5 The Chairman shall meet with the Director of Regulatory Risk at least four times a year without the presence of management.

7.7 Bribery Prevention, Anti-Money Laundering/Terrorist Financing and Code of Conduct

The Committee shall:

7.7.1 Review and challenge the adequacy and effectiveness of the Bank's systems and procedures for the prevention of bribery and annually review and approve the Bank's Anti-Bribery & Corruption Control Standard.

7.7.2 Review and challenge regular reports from the Money Laundering Reporting Officer, including the Annual MLRO report, and adequacy and effectiveness of the Bank's anti-money laundering and counter terrorist financing systems and controls.

7.7.3 Review and recommend to the Board for approval the Code of Conduct and the Personal Investment Dealing Policy.

7.8 Risk Reporting

7.8.1 Receive reports, findings and recommendations from the Enterprise Risk Oversight Committee noting significant issues.

7.8.2 In co-operation with the Audit Committee, review and approve the statements to be included in the annual report concerning internal controls and risk management.

7.9 Chief Risk Officer

7.9.1 Recommend to the Board the appointment and/or removal of the Chief Risk Officer.

7.9.2 Review the resignation of the Chief Risk Officer and make a recommendation to the Board about its acceptance.

7.9.3 The Chairman shall meet with the Chief Risk Officer at least four times a year without the presence of management.

8. Reporting responsibilities

8.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

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

8.3 The Committee shall compile a report on its activities and the Bank's risk management strategy and assessments of principal risk facing the Company, to be included in the Bank's annual report. The annual report should describe those risks and explain how they are being managed or mitigated.

9. Other matters

The Committee shall:

- 9.1 review and recommend to the Board for annual approval, and any material changes between the annual review, the Senior Manager Regime Responsibilities Map;
- 9.2 assist the Senior Management Function (SMF) role holders in fulfilling their prescribed responsibilities;
- 9.3 where matters are being discussed in relation to a prescribed responsibility, ensure the relevant SMF role holder attends and participates in the discussion, or if unable to attend, ensure that they are suitably represented;
- 9.4 have access to sufficient resources in order to carry out its duties, including access to Company Secretariat for assistance as required;
- 9.5 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 9.6 work and liaise as necessary with all other Board committees; and
- 9.7 arrange for periodic reviews of its own performance and, at least annually, review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.

10. Authority

The Committee is authorised to:

- 10.1 seek any information it requires from any employee of the Bank in order to perform its duties;
- 10.2 commission and oversee any review or investigation of activities which are within its terms of reference;
- 10.3 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 of such matters within its terms of reference as the Committee deems appropriate, at the Bank's expense; and
- 10.4 delegate responsibilities to other Committees to facilitate the effective carrying out of its responsibilities.