

# THE CO-OPERATIVE BANK PLC

## RISK COMMITTEE

### Terms of Reference

#### 1. CONSTITUTION

- 1.1 The terms of reference of the risk committee (the "**Committee**") of The Co-operative Bank plc (the "**Bank**") were approved by The Co-operative Bank Holdings Limited (the "**Parent**"), the sole shareholder of the Bank on 26 September 2017.
- 1.2 The purpose of the Committee is to review and report its conclusions to the board of directors of the Bank (the "**Board**") on the Bank's risk appetite and propose for approval by the Board and oversee the implementation of a Risk Management Framework (as defined below), taking a forward looking perspective and anticipating changes in business conditions.

#### 2. MEMBERSHIP AND ATTENDANCE

- 2.1 The members and chairman of the Committee (the "**Chairman**") shall be appointed in accordance with the articles of association of the Bank (the "**Articles**"). The Chairman shall be an Independent Non-Executive Director and membership of the Committee shall comprise a minimum of three and maximum of five members.
- 2.2 All members of the Committee shall be non-executive directors, the majority of who shall be independent non-executive directors, and to the extent there is a non-executive B Director on the Board, at least one member shall be a non-executive B Director. Each member shall be appointed by the Board, taking into account the recommendations of the Nomination Committee and in consultation with the Chairman. Membership shall include at least one member of the Audit Committee and one member of the Remuneration Committee.
- 2.3 Only members of the Committee have the right to attend and vote at Committee meetings. However, in order to fulfil its role, the Chairman would normally expect to invite other executives of the Bank including, the Bank's Chief Executive Officer, the Bank's Chief Risk Officer, the Bank's Chief Financial Officer, the Director of Internal Audit of the Bank, the Bank's General Counsel and, where appropriate external advisers of the Bank and its parent undertaking, The Co-operative Bank Holdings Limited (the "**Parent**") to be in attendance for all or part of each meeting, as and when appropriate and necessary. Such attendees are not members of the Committee and do not perform the role of members of the Committee.
- 2.4 Pursuant to Article 93(e) of the Articles and subject to the Inside Information Framework (as defined in the Articles), the B Director(s) who are not members of the Committee shall be invited and be entitled to attend each meeting of the Committee, unless the Chairman reasonably determines that it is inappropriate.
- 2.5 The Board shall appoint the Chairman having considered the recommendation of the Nomination Committee.
- 2.6 In the absence of the Chairman and/or an appointed deputy, the remaining Committee members present shall elect one of their number to chair the meeting.

2.7 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 non-executive directors of the Bank.

### 3. **SECRETARY**

3.1 The company secretary of the Bank, or an alternate selected by the Chair, shall act as the secretary of the Committee (the "**Secretary**").

3.2 The Secretary should ensure that the Committee receives information and papers in a timely manner to support full consideration of the issues.

### 4. **QUORUM**

4.1 Subject to paragraph 4.3, the quorum necessary for the transaction of business shall be two Committee members both of whom are present throughout the meeting, of whom one shall be a non-executive B Director (to the extent a non-executive B Director is a member of the Committee) and the other shall be an Independent Director (or two Independent Directors to the extent no non-executive B Director is a member of the Committee).

4.2 A member may be present for the purpose of paragraph 4.1 in person, by telephone or other electronic communications. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

4.3 Subject to notice of a meeting of the Committee having been given in accordance with paragraph 7.2, in the event that it is confirmed to the Secretary prior to the scheduled start of such meeting that a non-executive B Director will not be able to attend such meeting, the quorum for this meeting only shall be any two members provided that the non-executive B Director in question has given his views on the business of the meeting to the Chairman in advance.

### 5. **VOTING**

In the event of an equality of votes, the Chairman shall have a casting vote.

### 6. **FREQUENCY OF MEETINGS**

6.1 The Committee shall meet at least four times per financial year.

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

6.3 The Bank's Chief Risk Officer and the director of Compliance and Financial Crime shall have unrestricted access to the Chairman to raise any matter directly.

6.4 The Chairman should attend the annual general meeting of the Bank (the "**AGM**") to answer shareholder questions on the Committee's activities. All members of the Committee shall, if so requested by the Chairman, also attend the AGM.

## 7. NOTICE OF MEETINGS

7.1 Meetings of the Committee shall be convened by the Secretary at the request of any of its members or at the request of the Bank's Chief Risk Officer.

7.2 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 and any other person required to attend, each B Director 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.

## 8. MINUTES OF MEETINGS

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

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

## 9. DUTIES

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

### 9.1 Risk Management Framework

9.1.1 Review and challenge the design, implementation and effectiveness of the risk management framework (the "**Risk Management Framework**") and recommend to the Board for approval at least annually.

9.1.2 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 Bank's Chief Risk Officer reserves the right to deem any change material and request that it is escalated to the Committee for approval.

9.1.3 Ensure the remit of the Bank's risk management function has:

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

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

9.1.5 Support the Chairman of the Board in safeguarding the independence of and overseeing the performance of the Bank's Risk Function (including the Risk Assurance activity) in accordance with SYSC 7.1.21R, 7.1.22R and 6.1.

### 9.2 Risk Culture

- 9.2.1 Review, promote and challenge the Bank's risk culture, and in so doing, liaise with the Board and 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.
- 9.2.2 Provide qualitative and quantitative advice to the Bank's Remuneration Committee on risk weightings to be applied to performance objectives incorporated in executive remuneration.

### **9.3 Risk Appetite, Limits, Tolerances and Model Oversight**

- 9.3.1 Review, challenge and recommend to the Board for approval all new Bank Risk Appetite Statements, and at least annually and more frequently as required, the Bank's Risk Appetite.
- 9.3.2 Review, challenge and approve any material changes (more than 25% as defined in the Bank's 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 Bank's Chief Risk Officer reserves the right to deem any change material and request that it is escalated to the Committee for approval.
- 9.3.3 Ensure the business strategy aligns to the Bank's Risk Appetite.
- 9.3.4 Review, challenge and approve the Delegated Lending Discretion Framework at least annually. Review and challenge large credit decisions made by the Bank's Chief Risk Officer.
- 9.3.5 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.
- 9.3.6 Annually review, challenge and recommend to the Board for approval the ICAAP. Annually review, challenge and recommend to the Board for approval the ILAAP.
- 9.3.7 Review, challenge and recommend to the Board for approval submissions to competent authorities to be submitted in the Bank's name.
- 9.3.8 Review, challenge and exercise oversight of the governance of the Bank's models.

### **9.4 Business Strategy**

- 9.4.1 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.
- 9.4.2 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.

### **9.5 Risk Monitoring**

- 9.5.1 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.
  - 9.5.2 Review and challenge management's risk mitigation and control remediation actions.
  - 9.5.3 In cooperation with the Bank's Audit Committee, monitor identified control failings and weaknesses that raise systemic risk issues and management actions taken to resolve them.
  - 9.5.4 Review reports on any material breaches of risk limits and the adequacy of proposed action.
  - 9.5.5 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.
  - 9.5.6 Review and approve the annual Risk Assurance plan and the reasons for any significant changes to the plan, taking into account the risks identified from time to time.
  - 9.5.7 Receive prompt notification of any material adverse reports or sanctions by any competent authority.
- 9.6 **Bribery Prevention, Anti-Money Laundering/Terrorist Financing and Code of Conduct**

The Committee shall:

- 9.6.1 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.
  - 9.6.2 Review and challenge regular reports from the Bank's 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.
  - 9.6.3 Review and recommend to the Board for approval the Code of Conduct and the Personal Investment Dealing Policy.
- 9.7 **Risk Reporting**
- 9.7.1 Receive reports, findings and recommendations from the Bank's Enterprise Risk Oversight Committee noting significant issues.
  - 9.7.2 In co-operation with the Bank's Audit Committee, review and approve the statements to be included in the annual report concerning internal controls and risk management.

## 9.8 Chief Risk Officer

- 9.8.1 Recommend to the Board the appointment and/or removal of the Bank's Chief Risk Officer.
- 9.8.2 Review the resignation of the Bank's Chief Risk Officer and make a recommendation to the Board about its acceptance.
- 9.8.3 The Chairman shall meet with the Bank's Chief Risk Officer at least four times a year without the presence of other management.

## 10. REPORTING RESPONSIBILITIES

- 10.1 The Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3 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.

## 11. OTHER MATTERS

The Committee shall:

- 11.1 review and recommend to the Board for annual approval, and any material changes between the annual review, the Bank's Senior Manager Regime Responsibilities Map;
- 11.2 assist the Bank's Senior Management Function (SMF) role holders in fulfilling their prescribed responsibilities;
- 11.3 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;
- 11.4 have access to sufficient resources in order to carry out its duties, including access to Company Secretariat for assistance as required;
- 11.5 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;
- 11.6 work and liaise as necessary with all other Board committees; and
- 11.7 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.

## 12. AUTHORITY

The Committee is authorised to:

- 12.1 seek any information it requires from any employee of the Bank in order to perform its duties;

- 12.2 commission and oversee any review or investigation of activities which are within its terms of reference;
- 12.3 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
- 12.4 delegate responsibilities to other Committees to facilitate the effective carrying out of its responsibilities.