

CO-OPERATIVE BANKING GROUP

RISK COMMITTEE

Terms of Reference

1. **Constitution**

The Risk Committee (Committee) Terms of Reference were approved on 13 July 2011 by the Boards of Co-operative Banking Group, The Co-operative Bank plc, Co-operative Insurance Society Limited and CIS General Insurance Limited.

2. **Membership**

2.1 The Committee shall be appointed by the Co-operative Banking Group Board (the "Board") and shall consist of no less than four members.

2.2 The membership shall comprise of Non-Executive Directors only.

2.3 The majority of members of the Committee shall be Independent Non-Executive Directors.

2.4 At least one member of the Committee shall have recent and relevant financial experience.

2.5 At least one member of the Committee shall be a member of the Co-operative Banking Group Audit Committee (the "Audit Committee").

2.6 At least one member of the Committee shall be a member of the Exposures Committee.

2.7 The Board shall appoint the Chair of the Committee.

2.8 The Secretary or such person as the Secretary may recommend shall be the Secretary of the Committee and shall circulate the minutes of the meetings to the Committee and to all members of the Board.

3. **Quorum**

3.1 A quorum shall be two members.

3.2 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. **Attendance at Meetings**

4.1 No one other than the members of the Committee shall attend meetings of the Committee, unless at the invitation of the Chair. Other Board members may, by prior agreement with the Chair, attend as observers, and participate in a meeting, but they will not be counted towards the quorum.

4.2 At each meeting the Committee shall have the opportunity to meet with the Chief Risk Officer, the Chief Financial Officer, Business Leader, Banking Risk, the Business Leader, Actuarial

Risk, the Business Leader Regulatory Compliance & Operational Risk and the Business Leader Internal Audit without the presence of executive management to discuss any matters that any of these parties believe should be discussed privately.

- 4.3 The Chair shall communicate on a continuing basis with key individuals responsible for risk management within Co-operative Banking Group and its subsidiary undertakings.

5. **Frequency of Meetings**

- 5.1 Meetings shall be held no fewer than four times a year or more frequently as circumstances require.
- 5.2 The Chair of the Committee shall convene a meeting upon the request of any Committee member who considers it necessary.

6. **Authority**

- 6.1 The Committee is authorised by the Board to investigate any activity within its terms of reference and seek information that it requires from any employees of Co-operative Banking Group and its subsidiary undertakings, all of whom are directed to co-operate with any request made by the Committee.
- 6.2 The Committee is authorised to 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 on such matters as the Committee deems appropriate.
- 6.3 The Committee is authorised to fulfil its responsibilities delegated to it by the Board and also has delegated authority from the Boards of Co-operative Banking Group's subsidiary undertakings including, but not limited to The Co-operative Bank plc, Co-operative Insurance Society Limited and CIS General Insurance Limited.
- 6.4 The Committee is authorised to delegate responsibilities to other Committees to facilitate the effective management of risks.

7. **Responsibilities**

The responsibilities of the Committee are set out below. The Committee shall carry out these duties for Co-operative Banking Group and its subsidiary undertakings including, but not limited to, The Co-operative Bank plc, Co-operative Insurance Society Limited and CIS General Insurance Limited. These responsibilities include consideration of the management and control of all risks in the risk universe, including technical, operational, business model and external risks.

- 7.1 **Business Strategy**

The Committee will support the Board where appropriate in reviewing and challenging the impact assessment of the strategic plan on the risk and capital profile of Co-operative Banking Group and its constituent elements, taking account of Co-operative Banking Group's current risk exposures and future risk strategy.

In preparing advice to the Board the Committee should ensure that account has been taken of the current and prospective macroeconomic and financial environment, drawing on key financial stability assessments as necessary.

- 7.2 External Input
The Committee should give consideration to seeking external input to its work as a means of taking full account of relevant experience elsewhere and in challenging its analysis and assessment.
- 7.3 Risk Appetite, Risk Policies, Risk Mandates
 - 7.3.1 Review and challenge the risk appetite process with a focus on the overall organisational view of risk appetite.
 - 7.3.1 Monitor compliance with the Board approved risk appetite. Including:
 - setting limits for individual types of risks; and
 - approving (at least annually) and monitoring compliance with all risk policies covering the entire Risk Universe.
 - 7.3.2 Approve investment mandates and investment portfolio limits in line with risk appetite, and monitor and review any breaches thereof.
- 7.4 Capital Management and Liquidity
 - 7.4.1 Review and challenge the adequacy of the risk analysis and stress / scenario tests utilised in the Internal Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Adequacy Assessment (ILAA), Individual Capital Assessment Statement (ICAS), Solvency Capital Requirement (SCR) and Own Risk & Solvency Assessment (ORSA) processes.
 - 7.4.2 Assess the robustness of ICAAP / ILAA / ICAS / SRC / ORSA processes.
 - 7.4.3 Review and challenge and provide opinion to the Board on the Executive's recommendations on level of capital held in relation to how adequately it reflects the Co-operative Banking Group risk profile.
- 7.5 Risk Management
 - 7.5.1 Review and challenge and provide an opinion to the Board on the adequacy of risk management activities across Co-operative Banking Group managed by the Executive, including risk mitigation.
 - 7.5.2 Effectively embed and maintain a supportive culture in relation to the management of risk alongside established prescriptive processes and procedures.
 - 7.5.3 Review and challenge the adequacy of the risk management process and systems in operation including:
 - operation of risk mandates and limits;
 - risk reporting (including significant risk reporting); integrity of relevant data;
 - risks adequately identified and measured; and
 - adequacy of risk mitigation process.

- 7.5.4 Set standards for risk management processes and techniques, and benchmark against industry best practice on a regular basis.
- 7.6 Risk Rating Systems and Models
 - 7.6.1 Review and challenge:
 - management strategies and policies regarding model direction, internal rating systems including material aspects of rating assignment and risk parameter estimation processes;
 - the organisation structure of control functions;
 - acceptable risk parameters and credit profile across the business;
 - agree major changes in advance of the changes being made; and
 - review and challenge alignment of the model design and operations with the undertakings risk profile and operations.
 - 7.6.2 Approve credit risk estimation, rating processes, and models to ensure they meet regulatory requirements.
 - 7.6.3 Receive and approve the Solvency Capital Requirement (SCR) and Own Risk & Solvency Assessment (ORSA).
 - 7.6.4 Monitor ongoing compliance with internal model approval requirements and take appropriate action if in breach.
 - 7.6.5 Ensure adequate independent review procedures are in place around model design, operation and performance validation, including the approval (at least annually) of associated policies.
 - 7.6.6 Review and challenge integrity of estimation and rating processes including data quality impacts.
- 7.7 Due Diligence For Acquisitions and Disposals
 - 7.7.1 Support the Board as appropriate to ensure due diligence appraisals focus on risk aspects and implications for the risk appetite and tolerance of Co-operative Banking Group from a business model perspective.
 - 7.7.2 Support the Board as appropriate to ensure due diligence appraisals draw on independent external advice where appropriate and available before the Board takes a decision to proceed.
- 7.8 Recovery & Resolution Planning

Ensure there is a robust and actionable recovery and resolution plan in place.
- 7.9 Co-operative Banking Group Audit Committee (the “Audit Committee”)

Receive the minutes of the Audit Committee and note any actions to be taken as relevant to the remit of the Committee.
- 7.10 Co-operative Banking Group Exposures Committee (the “Exposures Committee”)
 - 7.10.1 Review minutes of the Exposures Committee and note any actions to be taken as relevant to the remit of the Committee.

- 7.10.2 Oversee limits set by the Exposures Committee and provide challenge where appropriate.
- 7.11 ALCO Committees
 - As relevant to the remit of the Committee:
 - 7.11.1 Monitor and challenge the risk management activities of the ALCO Committees.
 - 7.11.2 Review minutes from the ALCO Committees and ensure appropriate action has been taken.
 - 7.11.3 Review ALCO recommendations for investment policy and mandates.
- 7.12 Portfolio Credit Committee
 - As relevant to the remit of the Committee:
 - 7.12.1 Review and approve any report required to be scheduled as part of Board policies.
 - 7.12.2 Monitor the credit risk performance of new and existing portfolios, against limits, and ensure any appropriate risk mitigation action or review of risk policies or limits is taken.
 - 7.12.3 Review the adequacy of credit risk provisions in light of anticipated future trends in portfolio credit risk profile.
 - 7.12.4 Ensure credit risk assessment is a consideration in the product & pricing process.
- 7.13 Operational Risk Committee
 - As relevant to the remit of the Committee:
 - 7.13.1 Monitor and challenge the risk management activities of the Operational Risk Committee.
 - 7.13.2 Review minutes from the Operational Risk Committee and ensure appropriate action has been taken.
- 7.14 Risk Management Group
 - As relevant to the remit of the Committee:
 - 7.14.1 Monitor and challenge the risk management activities of the Risk Management Group.
 - 7.14.2 Review minutes from the Risk Management Group and ensure appropriate action has been taken.
- 7.15 Other Matters
 - 7.15.1 Annually review and update its Terms of Reference requesting approval from the Board for all proposed changes.
 - 7.15.2 Annually review the Terms of Reference for its delegated sub-committees
 - 7.15.3 Ensure that an induction programme is provided for new members.
 - 7.15.4 Ensure that the appropriate ongoing training is provided to members of the Committee or the Board.
 - 7.15.5 Consider other disclosures, documents or topics, as determined by Co-operative Banking Group and its subsidiary undertakings from time to time.
 - 7.15.6 Evaluate, annually, its own performance against its terms of reference and best practice.

8. **Reporting Lines**

- 8.1 The Chair of the Committee shall report on Committee business to
- the Board with such recommendations as the Committee may deem appropriate;
 - the Co-operative Group Audit and Risk Committee with such recommendations as the Committee may deem appropriate.
- 8.2 The minutes of Committee meetings shall be provided to the Board and the Audit Committee.

9. **Management Information Requirements**

- 9.1 To support the stated objectives and standing agenda items, the following are examples of MI that will be provided to the Committee:
- 9.1.1 Technical risk performance against appetite;
 - 9.1.2 Operational risk performance against appetite;
 - 9.1.3 Model performance assessments;
 - 9.1.4 Portfolio exposure;
 - 9.1.5 Stress Testing;
 - 9.1.6 ICAAP, ILAA, ICA, SCR, ORSA
- 9.2 The Secretary of the Committee will normally circulate the agenda and papers for meetings at least seven clear days before the meeting.