

ONESAVINGS BANK PLC

(the "Company")

RISK COMMITTEE

TERMS OF REFERENCE

1 OBJECTIVES

The Risk Committee (the Committee) is a Committee of the Board. The Board has delegated responsibility to the Committee for oversight of the OneSavings Bank plc and its subsidiaries (the Group) risk appetite, risk monitoring and capital and liquidity management. The primary objectives of the Committee are to provide oversight and advice to the Board on current risk exposures and future risk strategy, and to assist the Board to foster a culture within the Group that emphasises and demonstrates the benefits of a risk-based approach to internal control and management of the Group. It performs this role by ensuring that:

- 1.1 The Group establishes appropriate methods for measuring risk appetite and positions.
- 1.2 The Group's key risks are identified and monitored and steps are taken by management to mitigate them.
- 1.3 Due consideration is given to all significant matters relating to governance, control, regulation and compliance.
- 1.4 The Group's risk framework is fit for purpose and continuously refined to meet the evolving needs of the Group and the regulatory environment within which it operates.
- 1.5 Adequate capital is maintained for the Group's key risk exposures, both to ensure regulatory compliance and the achievement of its strategic objectives.
- 1.6 Adequate systems, processes and personnel are in place to manage liquidity risk within the Board's risk appetite and within regulatory limits.
- 1.7 The Group's current and proposed activities are reviewed against its risk appetite and capital budgets.
- 1.8 Appropriate sub-committees and associated governance structures are established and monitored, and monitoring of the Assets and Liabilities Committee (ALCO), the Credit Committee, and the Regulatory, Operational and Conduct Risk Committee (ROCC).
- 1.9 An appropriate oversight and review is maintained over ALCO, Credit Committee, and ROCC.
- 1.10 Each year the Committee will review Asset liability risk, Credit risk and Operational risk reports.

2 MEMBERSHIP

- 2.1 The Committee shall comprise at least three members. The Chairman and a majority of members of the Committee shall be non-executive Directors. Membership shall include the Chairman of the Audit Committee, and/or the Chairman shall be a member of the Audit Committee. The Finance Director shall also be a member of the Committee. Members shall be appointed by the Board on the recommendation of the Nomination and Governance Committee in consultation with the Chair of the Risk Committee.

- 2.2 At least one of the non-executive Directors on the Committee shall have significant, recent and relevant experience of financial services risk issues.
- 2.3 Only members of the Committee shall have the right to attend the Committee, however the Chief Executive Officer (CEO), Chief Risk Officer (CRO) and Chief Credit Officer (CCO) shall have a standing invitation to the Committee, unless the Chair of the Committee informs the CEO, CRO or CCO that they should not attend a particular meeting.
- 2.4 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods.
- 2.5 In addition to the members of the Committee and the Chief Risk Officer, other attendees may be invited to the proceedings, and any member of the Committee may ask the Chairman to invite specific individuals to attend a meeting.
- 2.6 The Board shall appoint the Chair of the Committee, who shall be a non-executive Director. In the absence of the Chair of the Committee, the remaining members present shall elect an independent non-executive Director amongst themselves to chair the meeting.

3 VOTING ARRANGEMENTS

- 3.1 Each Committee member shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a Committee meeting (whether in person or by audio or video conference).
- 3.2 If a matter that is considered by the Committee is one where a Committee member, either directly or indirectly has a personal interest, that member shall not be permitted to vote on that matter.
- 3.3 Except where he has a personal interest, the Committee chairman shall have a casting vote.

4 SECRETARY

The Company Secretary or his or her nominee will act as Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

5 QUORUM

- 5.1 The quorum necessary for the transaction of business shall be two, at least one of whom should be an independent non-executive Director. 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.
- 5.2 Meetings of the Committee may be held telephonically or by any other means whereby the participants are able to communicate effectively with each other.

6 FREQUENCY OF MEETINGS

Meetings shall be held not less than six times a year, although it is anticipated that Risk Committee meetings will be held in advance of each scheduled Board meeting. Additional meetings may be called as and when required.

7 NOTICE OF MEETINGS

- 7.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or the CRO if they consider it necessary.
- 7.2 Unless otherwise agreed and except where a situation of urgency otherwise requires, wherever practicable, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be communicated 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, wherever practicable, be provided to Committee members and to other attendees as appropriate, at the same time.

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 Draft minutes of the meeting will be circulated promptly to the Chair of the Committee. 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 Chair of the Committee.

9 ANNUAL GENERAL MEETING

The Committee Chairman should attend the annual general meeting to answer shareholders questions on the Committee's activities.

10 DUTIES

The Committee shall carry out the duties below for the Group as a whole, as appropriate:

- 10.1 Advise the Board on the Group's overall risk appetite, tolerance and strategy, taking account of 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 Group's risk policies.
- 10.2 In relation to risk assessment:
 - 10.2.1 Keep under review the Group's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used.
 - 10.2.2 Review regularly and approve the parameters used in these measures and the methodologies adopted.
 - 10.2.3 Set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.
- 10.3 Review the Group's capability to identify and manage new risk types.
- 10.4 Review the Group's credit risk, interest rate risk, liquidity risk, legal and regulatory risk and operational risk exposures by reference to the Group's risk appetite and capital and liquidity adequacy. To include but not limited to:
 - 10.4.1 Reviewing the Internal Capital Adequacy Assessment Process (ICAAP) by which the Group's existing and forecast risk positions and the resulting capital absorption are calculated and monitored.

- 10.4.2 Monitoring on an ongoing basis the Group's actual and forecast risk and regulatory capital positions.
- 10.4.3 Recommending for full Board consideration changes to capital utilisation, including utilisation of any spare capital available to the Group, or raising of additional capital as required.
- 10.4.4 Reviewing the Internal Liquidity Adequacy Assessment Process (ILAAP) by which the Group's existing and forecast liquidity risk position and liquid assets are calculated and monitored.
- 10.4.5 Monitoring on an on-going basis the Group's actual and forecast liquidity position.
- 10.4.6 Recommending for full Board consideration macroeconomic scenarios for use in annual ICAAP and ILAAP stress testing.
- 10.5 Before a decision to proceed is taken by the Board, 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 the Group, and taking independent external advice where appropriate and available.
- 10.6 Review reports on any material breaches of risk limits and the adequacy of proposed action.
- 10.7 Consider and approve the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate independence and is free from management and other restrictions.
- 10.8 Recommend to the Board the appointment and removal of the CRO.
- 10.9 Review promptly all reports on the Group from the CRO.
- 10.10 Review and monitor management's responsiveness to the findings and recommendations of the CRO.
- 10.11 Advise the Board and/or Remuneration Committee on alignment of remuneration with risk appetite.
- 10.12 In all cases the Committee's primary duty is to report and make recommendations on the matters outlined above for the Board's consideration, and to raise any additional issues as it sees appropriate. Its role remains one of monitoring and review, rather than one of day-to-day management.

11 OTHER

- 11.1 The CRO shall be given the right of direct access to the Chairman of the Board and to the Committee.
- 11.2 The Committee may form sub-committees from its membership to address specific aspects of its duties. Although the Committee has not formed the Credit Committee, ALCO, or ROCC as its sub-committees, those committees report to it.
- 11.3 The Committee shall consider any other matters requested by the Board from time to time.
- 11.4 The Committee may delegate such of its powers as it thinks necessary to designated individuals to assist them in carrying out work required by the

Committee.

12 REPORTING RESPONSIBILITIES

- 12.1 The Chair of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities.
- 12.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 12.3 The Committee shall compile a report on its activities to be included in the Company's annual report.
- 12.4 In compiling the reports referred to in 12.3, the Committee should exercise judgement in deciding which of the issues it considers in relation to risks that are significant. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

13 OTHER MATTERS

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required;
- (b) 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;
- (c) oversee any investigation of activities which are within its terms of reference;
- (d) work and liaise as necessary with all other Committees of the Board; and
- (e) arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.

14 AUTHORITY

The Committee is authorised to:

- 14.1 Seek any information it requires from any director or employee of the Group and the Board directs that all Directors and all employees co-operate with any requests made by the Committee.
- 14.2 Obtain (at the Group's expense) appropriate external professional advice and (if necessary) invite external advisers with relevant experience to attend meetings of the Committee.
- 14.3 Call any employee to be questioned at a meeting of the committee as and when required.
- 14.4 Approve lending up to 20% of Tier 1 capital at the connection level.