

Risk committee – Terms of Reference

The Terms of Reference set out below are common to each of UK Asset Resolution Ltd ("UKAR"), Bradford & Bingley plc ("B&B") and Northern Rock (Asset Management) plc ("NRAM") (each, a "Company" and together, the "Group Companies" or the "Group"). Each of the Group Companies has separately resolved to adopt these Terms of Reference at a Board meeting held on 26 January 2011. Wherever any item is not applicable to any one of the Group Companies this is highlighted in the Terms of Reference.

1. Constitution

The Board of Directors (the "Board") of the Company has established a committee of the Board, known as the Risk Committee (the "Committee"), with Terms of Reference as set out below.

2. Purpose

The Committee shall be accountable to the Board. It shall have responsibility for oversight and advice to the Board on the current risk exposures of the Company (and in the case of UKAR, the Group) and future risk strategy for capital and liquidity management and for the embedding and maintenance throughout the Company (and, in the case of UKAR, the Group) of a supportive culture in relation to the management of risk alongside the established prescriptive rules and procedures.

The Risk Committee of UKAR acknowledges its oversight role in relation to the risk policies, exposures and strategies of B&B and NRAM, but recognises that each of those Companies have their own Risk Committees and monitor their own risk policies, exposures and strategies in accordance with these Terms of Reference.

3. Membership

The Board shall appoint the Committee Chairman who shall be a Non-Executive Director. 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. A majority of members of the Committee will be independent Non-Executive Directors. The Committee shall comprise at least three Non-Executive Directors, one of whom shall be the Chairman of the Audit Committee. A quorum shall comprise two members of the Committee. In the absence of the Chairman, the remaining members present shall elect one of themselves to chair the meeting. The Company Secretary or such other nominated individual as may be appointed by the Board from time to time to serve as Secretary to the Committee and references in these Terms of

Reference to the “Secretary” shall be construed as including any and all of the aforementioned persons.

Appointments to the Committee shall be for a period of up to three years, which may be extended for further periods of up to three years provided the Director still meets the criteria for membership of the Committee

Only members of the Committee have the right to attend Committee Meetings. However, the Committee may invite any Director, Executive or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the fulfilment of its duties. The following persons, whilst not members of the Committee, would normally be expected to attend each meeting of the Committee:

- Chairman of the Board
- Chief Executive
- Finance Director
- Investment Director
- Operations Director
- Risk Director
- Head of Compliance
- Head of Internal Audit
- External Auditor

4. Meetings

The Committee shall meet as and when appropriate but not less than four times a year, with the notice of meeting, agenda and relevant papers being sent out to each member of the Committee, any other person required to attend and all other Non-Executive Directors at least seven calendar days in advance. The Chairman of the Committee may call additional meetings to consider such matters related to its responsibilities as the Committee may consider desirable. Any member of the Committee and the Risk Director, if not a member of the Committee, may request a meeting if they consider it necessary.

Meetings of the Committee may be held by telephone conference or similar arrangement.

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. Authority

The Board authorises the Committee to:

- (a) investigate any matter within its Terms of Reference and make any recommendations which it deems appropriate on any area within its remit where action or improvement is needed;
- (b) seek any information it requires from any Director or employee of the Company and the Board directs that all Directors and all employees co-operate with any requests made by the Committee; and
- (c) obtain at the Company's expense appropriate external professional advice, through the Company Secretary, and if necessary invite external advisers with relevant experience to attend meetings of the Committee.

6. Duties

The Committee, in carrying out its duties under these Terms of Reference, shall

- (a) have regard to statutory and regulatory obligations applicable to the Company, and where practicable, in accordance with the relationship framework document detailing the relationship between UKAR and UK Financial Investments Limited (acting on behalf of HM Treasury), the UK Corporate Governance Code and any other relevant corporate governance codes and/or best practice guidelines applying to companies admitted to the Official List;
- (b) provide advice to the Board on future risk strategy, including the oversight of current risk exposures within the Company (and, in the case of UKAR, the Group) with particular, but not exclusive, emphasis on prudential risks;
- (c) develop proposals for consideration by the Board in respect of overall risk appetite within the Company (and, in the case of UKAR, the Group) and monitor the Company's or Group's (as applicable) risk management performance, 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 Financial Services Authority and other authoritative sources that may be relevant;
- (d) oversee and challenge the design and execution of stress and scenario testing within the Company (and in the case of UKAR, the Group);
- (e) oversee and challenge the risk management and oversight arrangements of the Company's (and in the case of UKAR, the Group's) Executive;

- (f) oversee and challenge due diligence on risk issues relating to material transactions within the Company (and in the case of UKAR, the Group) and oversee strategic proposals that are subject to approval by the Board;
- (g) provide qualitative and quantitative advice to the Remuneration Committee on risk weightings to be applied to performance objectives incorporated in the incentive structure for the executive;
- (h) provide advice, oversight and challenge necessary to embed and maintain a supportive risk culture throughout the Company (and, in the case of UKAR, the Group);
- (i) review all of the Company's (and, in the case of UKAR, the Group's) risks including, inter alia, credit risk, interest rate risk, liquidity risk and operational risk exposures within the Company or Group (as applicable) in relation to the Company's or Group's (as applicable) risk appetite and the Company or Group's (as applicable) overall capital adequacy;
- (j) determine the information that is presented with financial statements relating to risk management policies and key risk exposures is in accordance with the statutory requirements and financial reporting standards; and
- (k) in conjunction with the Audit Committee, keep under review the effectiveness of the Company's (and, in the case of UKAR, the Group's) systems of internal control and risk management systems and approve the statements to be included in the Annual Report concerning internal controls and risk management.
- (l) in relation to risk assessment, to
 - keep under review the Company's (and, in the case of UKAR, the Group's) overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used;
 - review regularly and approve the parameters used in these measures and the methodology adopted; and
 - set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance; and
- (m) review the Company's (and, in the case of UKAR, the Group's) capability to identify and manage new risk types.

6.1 Risk Function and Risk Management

- (a) keep under review the effectiveness of the Company's (and, in the case of UKAR, the Group's) risk management infrastructure, to include a review of the Company's or Group's (as applicable) risk function's risk framework and the Company's or Group's (as applicable) strategic and operational plan and procedures (for the identification, measurement and control of key risk exposures within the Company or Group (as applicable)) in accordance with changes in the Company's or Group's (as applicable) operating environment;
- (b) recommend to the Board the appointment or dismissal of the approved persons for Risk within the Company.;
- (c) ensure that the Company's (and, in the case of UKAR, the Group's) Risk Function is adequately resourced and has appropriate access to information to enable it to perform its function effectively and in accordance with relevant professional standards. The Committee shall also ensure that the function has adequate independence and is free from management or other restrictions;
- (d) perform an assessment of the risks of the Company's (and, in the case of UKAR, the Group's) strategic initiatives including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is taken, focussing in particular on risk aspects and implications for the risk appetite and tolerance of the Company (and, in the case of UKAR, the Group), and taking independent external advice where appropriate and available;
- (e) receive and promptly consider reports of the Risk Director, Risk Functions and the Executive Risk Committee including details of material breaches of risk limits and the adequacy of proposed action.
- (f) review the Company's (and, in the case of UKAR, the Group's) procedures to combat money laundering activities, and for detecting fraud. Receive regular reports from the Money Laundering Reporting Officer concerning the adequacy and effectiveness of the Company's and Group's (as applicable) anti-money laundering systems and controls;
- (g) review the Company's (and, in the case of UKAR, the Group's) systems and controls for the prevention of bribery and receive reports on non-compliance; and
- (h) review and monitor management's responsiveness to the findings and recommendations of the Risk Director.

6.2 Compliance

- (a) review and approve annually the terms of reference for the Company's (and, in the case of UKAR the Group's) Compliance function together with the Group Compliance function's strategic and operational plans;
- (b) review, with the Company's (and in the case of UKAR, the Group's) Head of Compliance, the programme of activity to determine the adequacy and effectiveness of the Company's and Group's (as applicable) compliance function;
- (c) receive regular reports from the Company's (and, in the case of UKAR, the Group's) Head of Compliance highlighting the key compliance matters within the Company and Group (as applicable) and ensure management's response to compliance issues within the Company and Group (as applicable) are timely and appropriate;
- (d) ensure that the Company's (and, in the case of UKAR, the Group's) compliance function is adequately resourced and has appropriate standing across the Company and Group (as applicable);
- (e) consider the Company's (and, in the case of UKAR, the Group's) compliance function and its controls and review the Company's and Group's (as applicable) policies for ensuring compliance with relevant regulations, industry codes and legal requirements in each of the markets where the Company and Group (as applicable) is represented, and the effectiveness of those policies and procedures; and
- (f) request that the Company's (and, in the case of UKAR, the Group's) compliance function undertakes specific further work where appropriate.

The UKAR Risk Committee shall:

- in conjunction with the Risk Committees of B&B and NRAM, consider any "critical" and "significant" findings of the Financial Services Authority relating to the Group and the internal/external audit function's risk management reviews, including the monitoring of the implementation by the Group of any action plans arising from such findings;
- receive and promptly consider reports of the Risk Director, Risk Functions and the Executive Risk Committee of B&B and NRAM including details of material breaches of risk limits and the adequacy of proposed action; and

- carry out such of the duties set out above as appropriate taking into account that B&B and NRAM have their own Risk Committees operating in accordance with these Terms of Reference.

7. Other

The Committee may form sub-committees from its membership to address specific aspects of its duties, and may delegate such of its powers as it thinks necessary to designated individuals to assist them in carrying out work required by the Committee.

The Committee shall consider any other matters requested by the Board from time to time and oversee any investigation of activities which are within its terms of reference.

The Risk Director shall be given the right of direct access to the Chairman of the Board and to the Committee.

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

8. Review

The Committee will conduct an annual review of its performance, and ensure that it is provided with sufficient resources to undertake its duties, including access to the Company Secretariat for assistance as required. The Committee will ensure that appropriate and timely training is provided to members on appointment and on an ongoing basis, and recommend any changes it considers necessary to the Board for approval. These Terms of Reference will be reviewed annually by the Committee and any changes it considers necessary will be recommended to the Board for approval.

9. Reporting procedures

The Chairman of the Committee shall be responsible for reporting to the Board. The Secretary shall minute the proceedings and decisions of all meetings of the Committee including the names of those present and in attendance. The minutes of all meetings and resolutions of the Committee shall be circulated promptly to the members of the Committee and to the Board. The Secretary will retain copies of the minutes and papers.

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

The Committee shall produce a report on its activities to be included in the Company's Annual Report.