

BOARD RISK COMMITTEE
TERMS OF REFERENCE AND REPORTING LINE



MEMBERS: At least three independent Non-executive Directors, one of whom is the Chairman of the Group Audit Committee.

QUORUM: Two members, one of whom is the Chairman of the Board Risk Committee or Chairman of the Group Audit Committee.

IN ATTENDANCE: Group Chief Executive
Head of Restructuring and Risk (Mandatory)
Group Finance Director (Mandatory)
Group Secretary
Deputy Chief Risk Officer (Mandatory)
Head of Group Internal Audit
Group Chief Credit Officer
Global Head of Market and Insurance Risk
Group Head of Regulatory Affairs and Compliance
Chief Operating Officer, RBS Risk Management

The Chief Risk Officer and Chief Executive (or equivalents) for business divisions will attend as required and will attend at least one meeting per annum.

Specialists may be requested to attend for specific items or to make presentations to the Board Risk Committee.

MEETINGS: A minimum of six meetings per annum, with four of these meetings being held immediately prior to submission of the quarterly financial statements to the Group Board. Meetings should be held, where possible, before Group Audit Committee meetings, to ensure that the work of the two committees is co-ordinated and consistent. Ad hoc meetings can be called, as required.

CHAIRMAN: An independent Non-executive Director

SECRETARY: Group Secretariat

Main Responsibilities:

The Board Risk Committee will be responsible for:-

1. Providing oversight and advice to The Royal Bank of Scotland plc Board and the National Westminster Bank Plc Board (collectively "the Bank Boards") and the Group Board in relation to current and potential future risk exposures of the Group and future risk strategy, including determination of risk appetite and tolerance.
2. Assisting on such other matters as may be referred to it by the Group Board or the Bank Boards.
3. Acting as the Risk Committee of the Group Board and the Bank Boards.
4. Promoting a risk awareness culture within the Group.
5. Reporting to the Group Board, identifying any matters within its remit in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

The Board Risk Committee will operate under delegated authority from the Group Board and the Bank Boards.

The Board Risk Committee may engage independent counsel and other expert advisers, as it determines necessary, to carry out its duties. The Board Risk Committee may also obtain appropriate funding, as it so determines, for payment of compensation to such advisers and for ordinary administrative expenses of the Board Risk Committee that are necessary or appropriate for carrying out its duties.

Detailed Responsibilities:

The detailed responsibilities of the Board Risk Committee will cover, in particular, the following:-

1. Risk Strategy and Policy
 - (a) To review the design and implementation of risk management and measurement strategies across the Group and the procedures for monitoring the adequacy and effectiveness of those processes;
 - (b) To review the design and implementation of risk management policy across the Group, in particular operation of the Group Policy Framework;
 - (c) To consider the Group's risk profile relative to current and future Group strategy and Group risk appetite and identify any risk trends, concentrations or exposures and any requirement for policy change.

2. Risk Profile

- (a) To review the performance of the Group relative to risk appetite and to receive and review reports from RBS Risk Management and Group Finance (in relation to financial, treasury and liquidity risk) relating to any significant issues that require, or are subject to, remedial action or recommendation arising in the period under review (including those relating to adherence to internal risk policy, Group standards and agreed risk limits);
- (b) To review, monitor and understand the risk profile of the Group. This is undertaken through the ongoing process of the identification, evaluation and management of all material risks, in particular longer term macro and strategic threats to the Group;
- (c) To report to the Board on its consideration of the above matters, identifying those areas where improvement is needed and making recommendations as appropriate.

3. Risk Appetite, Framework and Limits

- (a) To consider and recommend for approval by the Group and Bank Boards, the Group's risk appetite framework and tolerance for current and future strategy, taking into account the Group's capital adequacy and the external risk environment;
- (b) To recommend to the Group Board on an annual basis, the financial, credit, country, concentration, regulatory, operational and market risk appetite and related authorities, limits and mandates;
- (c) To ensure rigorous stress and scenario testing of the Group's business and to receive reports that explain the impact of crystallisation of identified risks and threats to the Group. To ensure a sufficient level of risk mitigation is in place;
- (d) To review the due diligence of any proposed strategic transaction (involving a merger, acquisition or disposal) prior to the Group Board approval of the transaction.

4. RBS Risk Management Operating Model

- (a) To review the Terms of Reference for RBS Risk Management;
- (b) To approve the RBS Risk Management annual operational plan with reference to the appropriateness of the scope and timing of proposed coverage in relation to risk;
- (c) To consider the adequacy and effectiveness of resource within RBS Risk Management;

(d) To review the scope and nature of the work undertaken by RBS Risk Management (noting any significant issues in the period under review and work planned for the next period) in connection with:

- (i) Credit risk;
- (ii) Market risk;
- (iii) Operational risk;
- (iv) Regulatory risk and Compliance;
- (v) Insurance risk;
- (vi) Country Risk and
- (vii) Reputational risk
- (viii) Balance Sheet Risk (capital, liquidity, funding, interest rate)

5. Risk Architecture

- (a) To consider the adequacy and effectiveness of the technology infrastructure supporting the risk management framework;
- (b) To ensure the suitability of data captured. To facilitate appropriate modelling, data analysis and to enable timely and effective management information to be produced for risk monitoring and decision making purposes.

6. Remuneration

- (a) To provide qualitative and quantitative advice to the Remuneration Committee on risk weightings to be applied to performance objectives which are incorporated within the incentive structure for the Group Chief Executive, Executive Directors and Senior Executives.
- (b) To provide advice as required to the Remuneration Committee on the Group Remuneration Policy and the implications of the Group Remuneration Policy for risk and risk management in accordance with the FSA Code of Practice on Remuneration.

7. Executive Risk Forum and Executive Credit Group

- (a) To exercise oversight of the Executive Risk Forum, reviewing all matters that are referred to the Board Risk Committee for consideration, including minutes and regular reports that assess the nature and extent of risks facing the Group, including the likelihood of the risks concerned materialising.
- (b) To review regular reports from the Executive Credit Group (“ECG”) that summarise the connections reviewed by the ECG.

8. Chief Risk Officer

The Head of Restructuring and Risk will act as the Chief Risk Officer (“CRO”) and will report directly to the Group Chief Executive. The Head of Restructuring and Risk will also have a dotted reporting line to the Board Risk Committee, with a right of access to the Chairman. The Head of Restructuring and Risk will be supported by the Deputy Chief Risk Officer who will report to the Head of Restructuring and Risk and to the Group Chief Executive in respect of the Non Core Division, Asset Protection Scheme and Global Restructuring Group.

The Committee will make recommendations to the Group Board on the:

- (a) appointment of the CRO; and
- (b) acceptance, agreement and the specific terms of the CRO’s resignation or termination of contract.

The Committee will make recommendations regarding the remuneration arrangements of the CRO to the Chairman or the Chairman of the Remuneration Committee.

9. Governance and Communication

- (a) To make available its terms of reference, including the Board Risk Committee’s role and the authority delegated to it by the Group Board;
- (b) To describe in the Group’s annual report the work of the Board Risk Committee including;
 - (i) a summary of the role of the Board Risk Committee in relation to the Group’s strategy including the key exposures inherent in the strategy and the associated risk tolerance of the entity;
 - (ii) qualitative disclosures including the type of risk to which the Group is exposed and how they arise, the Group’s objectives, policies and processes for managing risks, methods used to measure the risks, and changes from the previous reporting period;
 - (iii) the scope and outcome of the stress-testing programme;
 - (iv) the names and qualifications of all members of the Board Risk Committee during the period;
 - (v) the number of Board Risk Committee meetings;
 - (vi) a report on the way the Board Risk Committee has discharged its responsibilities; and
 - (vii) whether external advice was taken.
- (c) To review the Board Risk Committee Chairman's Annual Report, for submission to the Group Board.

10. Divisional Risk and Audit Committees

- (a) To review the Terms of Reference for Divisional Risk and Audit Committees;
- (b) To review quarterly reports prepared by the Chairmen of the Divisional Risk and Audit Committees, such reports to include:
 - (i) a summary of the role and work of the Divisional Risk and Audit Committee, confirming that it has met all responsibilities as laid down in its Terms of Reference over the period in question; and
 - (ii) significant matters which ought to be brought to the attention of the Board Risk Committee.
- (c) To review annually the attendance record of all members of the Divisional Risk and Audit Committees.
- (d) To liaise with Divisional Risk and Audit Committees to promote consistent practices across such Committees, where this is considered desirable.
- (e) To review and approve significant changes to the composition and responsibilities of Divisional Risk and Audit Committees.