



# Board Risk Committee

## Terms of Reference

<b>Owner</b>	<b>Chief Risk Officer</b>
<b>Approved By</b>	<b>Board</b>
<b>Current Version</b>	<b>4.1</b>
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Company Confidential

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**1. Constitution**

- 1.1. The Board has established a Committee of the Board known as the Board Risk Committee.
- 1.2. There is an All Risks Committee (ARC) and Asset & Liability Committee (ALCO), which report and make recommendations for approval to the Board Risk Committee in line with their Terms of Reference.
- 1.3. The Board Risk Committee makes recommendations for final approval to the Board in line with its responsibilities outlined below.
- 1.4. The Board Risk Committee's Terms of Reference are approved by the Board.

**2. Membership and Quorum**

- 2.1. The Committee shall comprise at least three Non-Executive Directors and shall be appointed by the Board. Membership shall include the Chair of the Audit Committee.
- 2.2. Executive Directors may not be members of the Committee.
- 2.3. Appointments to the Committee shall be for a period of one year. Following the election of directors at the AGM, committee membership will be reviewed and members will be appointed/reappointed to the committee.
- 2.4. The Chair of the Committee shall be one of the NED members and shall be appointed by the Board.
- 2.5. The Chair of the Society may be a member, but not the Chair of the Committee.
- 2.6. In the absence of the Committee Chair, the remaining members shall elect one of their Non-Executive members to Chair the meeting, but not the Society's Chair.
- 2.7. The Board shall have determined that each member of the Committee has appropriate levels of risk management knowledge and experience.
- 2.8. Following appointment, members of the Committee shall receive initial induction training on the role and duties of membership of the Committee. It is the responsibility of the Committee Chair to ensure that all Committee members are in receipt of regular technical updates and ongoing training in respect of relevant new Regulation and Legislation and the wider risk and regulatory environment including the financial and macroeconomic environment.
- 2.9. The quorum necessary for the transaction of business shall be two members.

**3. Attendance at Meetings**

- 3.1. The Chief Executive, Chief Risk Officer, and a representative from Internal &/or External Audit shall normally attend meetings at the invitation of the Committee. Other Executive Directors and senior managers shall be requested to attend as required.
- 3.2. The Chief Risk officer shall act as Secretary to the Committee.
- 3.3. The Committee is authorised to request the attendance of any employee at a meeting of the Committee as and when required.

**4. Frequency of Meetings**

- 4.1. Meetings shall be held at least five times a year, to coincide with key dates in the Society's risk reporting cycle.
- 4.2. Additional meetings may be called at the request of any of the members, the Chief Executive Officer or the Chief Risk Officer.

## 5. Notice of Meetings

- 5.1. The five meetings of the Committee noted in Section 4 shall be scheduled annually in advance.
- 5.2. A workplan and standing agenda shall be used to which items may be added by notifying the committee Chair.
- 5.3. 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, any other person required to attend and all other Non-Executive Directors, no later than three working days before the date of the meeting. At the same time supporting papers shall be sent to Committee members, other attendees and other Non-Executive Directors as appropriate.

## 6. Minutes of Meetings

- 6.1 The secretary shall minute the proceedings of all Committee meetings, recording the names of those in attendance, the substance of the discussions, agreed action points, action owners and dates for completion of those actions.
- 6.2 Draft minutes shall be forwarded to the Chair within 10 working days of the meeting taking place. When approved by the Chair of the meeting the minutes shall be forwarded to all members and attendees of the meeting, for approval, and circulated to the board for noting at the next board meeting. If there is a need to record private minutes, due to the sensitive content, the Board would be notified by the Chair of the Committee however the content of these minutes would not be shared with the Board for noting.

## 7 Authority

The Committee is authorised by the Board to:

- 7.1 Investigate any activity within its Terms of Reference;
- 7.2 Seek any information that it requires from any employee of the Society and all employees are directed to co-operate with any request made by the Committee;
- 7.3 Obtain outside legal or independent professional advice and such advisors may be requested to attend meetings as necessary;
- 7.4 Deal with any other matters referred to it specifically by the Board.
- 7.5 Items requiring approval shall be resolved by a majority of votes and, in the case of an equality of votes, the Chair of the meeting shall have a second or casting vote. Only members of a committee shall have voting and decision-making rights.
- 7.6 Where a committee member has a fundamental disagreement with other committee members, the minutes of the meeting should detail full discussions held to ensure they are a true reflection of the meeting.

- 7.7 Where a decision is required outside of the meeting by email circulation, a unanimous vote will be required.

## 8 Responsibilities

The Committee is a sub-committee of the Board and is authorised by the Board to:

- 8.1 Oversee and advise the Board on the current risk exposures of the Society and future risk Strategy.
- 8.2 Oversee all the Principal Risks as defined in the Risk Management Framework except Pension Risk which remains with the Board.
- 8.3 Keep under review the Society's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used.
- 8.4 Review regularly and approve the parameters used in these measures and the methodology adopted.
- 8.5 Set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.
- 8.6 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 Society and taking independent external advice where appropriate and available.
- 8.7 Review reports on any material breaches of risk limits and the adequacy of proposed action.
- 8.8 Review the effectiveness of the Society's internal controls and risk management systems.
- 8.9 Review the Society's procedures for detecting fraud.
- 8.10 Review the Society's procedures for the prevention of bribery.
- 8.11 Review promptly all reports on the Society from the Chief Risk Officer (CRO).
- 8.12 Review and monitor management's responsiveness to the findings and recommendations of the CRO.
- 8.13 Ensure the CRO is given the right of unfettered direct access to the Chair of the Board and to the Committee.
- 8.14 Give due consideration to laws and regulations, as well as any other applicable rules, as appropriate.

## 9 Risk Culture and Independence

- 9.1 Provide assurance to the Board on the independence and quality of the Risk and Compliance function.
- 9.2 Ensure that there is a risk culture of open discussion, which is forward looking and which fosters the prompt identification of emerging risks and their effective management.

- 9.3 Ensure that the risk functions are capable of both challenging, and facilitating, the achievement of the agreed Corporate Plan, whilst maintaining high standards of best practice in risk management.
- 9.4 At least once a year, seek formal feedback from executive management on the performance of the Chief Risk Officer.
- 9.5 Hold at least one meeting a year, or part thereof, where the CRO attends without Executive management present.
- 9.6 Ensure that the Chief Risk Officer shall meet separately with the Chairman of the Risk Committee at least twice per year.
- 9.7 The Chief Risk Officer may not be appointed or removed from office without the approval of the Board Risk Committee.
- 9.8 Provide assurance to the Board that the Society has appropriate controls in place to identify, prepare for and implement legislative and regulatory changes, which will affect its operations.
- 9.9 In carrying out its risk governance responsibilities, the BRC should have regard to any relevant advice from the Audit Committee or Internal Audit function concerning the effectiveness of its current control framework.

## **10. Risk Management Framework**

- 10.1 Review, challenge and approve the Risk Management Framework document on at least an annual basis. To ensure that the Risk Management Framework document provides a clear and complete description of the framework for managing risk and compliance in the Society.
- 10.2 Recommend the Risk Management Framework to the Board for final approval.
- 10.3 Review, challenge and approve the top key risks of the Society based on the risk register.
- 10.4 Approve all Risk Policies and other core documents as specified in the Policy Schedule maintained by Risk & Compliance.

## **11 Risks arising from Strategy and New Initiatives**

- 11.1 Provide specialist advice to the Board and other Committees in assessing the Prudential and Conduct risks arising from the Corporate Planning process and major new business initiatives.
- 11.2 Ensure that adequate business cases have been completed, including stress testing of the future potential impact on forecast profit, capital and Internal Capital Adequacy Assessment Process (ICAAP). Identifying impacts and changes required to policy, risk appetite, Recovery and Resolution Process (RRP), Individual Liquidity Adequacy Standards, (ILAAP), Contingency Funding Plan (CFP) as a result of the initiative or change. To ensure that any impact on and relationships with other risks have been identified.

## 12 Stress Testing

- 12.1 Ensure that the Society has in place an adequate stress testing framework to identify, measure and limit extreme risk (unexpected risk).
- 12.2 Review, challenge and approve the stress testing framework.
- 12.3 Ensure that stress tests are used for the determination of ICAAP, ILAAP, Recovery Plans, contingency plans, risk appetite, risk tolerance/capacity, risk limits (across liquidity, market, credit and operational risks), for corporate planning and business initiatives.
- 12.4 Ensure that stress tests include both historical known stresses and forward looking scenarios focused on analysing particular areas of vulnerability in the Society's business, that the context is adequately developed, management actions are included, contingency plans are developed and early warning signals are set.
- 12.5 Ensure that the Society is operating an integrated approach to stress testing and scenario analysis, where there is consistency between stress testing used for decision making and stress testing for assessments of capital adequacy, liquidity adequacy, Recovery Plans, contingency plans, risk appetite, tolerance/capacity and risk limits as outlined above.
- 12.6 Ensure that stress testing is facilitated with quality data.

## 13 Risk Appetite Statement

- 13.1 Review, challenge and approve the risk appetite statement.
- 13.2 To recommend the risk appetite statement to the Board for final approval.
- 13.3 Ensure that the risk appetite is based on stress tests as outlined in section 12 above and explicitly linked to the actual and forecast profit and capital capacity (as per the Corporate Plan and periodic forecast updates) and to ensure that the risk appetite will be reviewed whenever there is a change in the expected profit and/or capital position from periodic ICAAP's or other events.
- 13.4 Continuously develop and challenge the methodology used to calculate the risk appetite (to develop definitions of risk tolerances, risk capacities etc.,) and to maintain development in line with evolving best practice.

N.B. For practical reasons, the review, challenge and recommendation of risk appetites may be undertaken at the Board only with the appropriate challenge from BRC members.

## 14 Risk Policies and Reports of Positions against limits

- 14.1 Provide assurance to the Board that the Society maintains sound risk management and internal control systems. This responsibility is primarily discharged by recommending risk appetites, policies (including risk limits) and ensuring that reports are adequate to evidence that operational practice is in line with policy, and that risk positions are kept within limits and risk appetite.
- 14.2 Ensure that policies are completed for all the areas of risk as defined within the Risk Management Framework.
- 14.3 Ensure that the policies have integrity, meaning that practice is in line with policy.

This is evidenced by narratives in reports from the Chief Risk Officer, from adherence to limits and from considering and challenging whether the qualitative statements in the policy are carried out in practice, during the annual review of policy.

- 14.4 Approve and/or recommend operational limits where required across the risk categories.
- 14.5 Ensure that the policy risk limits and controls are adequately reflected in the reports to the Committee.
- 14.6 Ensure that it is provided with relevant, complete, accurate and timely reports to provide assurance that risk positions are within limits, that practice is following policy, that the Committee are up to date with external events and to allow it to take action to address positions outside limits. This includes reporting on such positions to Board and/or making recommendations to Board as a result of such breaches.

## 15 Risk and Compliance Plans and Risk Systems

- 15.1 Provide assurance to the Board that the Society is up to date with regulatory risk requirements and is adhering to best practice in risk measurement methodologies and risk management practice. This shall be evidenced in the resourcing, training and development sections of the risk and compliance plans. The Committee is responsible for ensuring that the plans include, as well as business as usual matters, new developments planned for the year, an adequate process for the capture of legislative and regulatory developments during the year, plans for the development of risk measurement methodologies and risk management practice, annual reviews of the continued adequacy or otherwise of risk systems and periodic thematic reviews.
- 15.2 Review, challenge and approve the detailed annual risk plan and compliance plan.
- 15.3 Maintain an awareness of the risk systems used by the society and periodically seek assurance from the Chief Risk Officer that systems remain fit for purpose.

## 16 Internal Capital Adequacy Assessment Process, Reverse Stress Test and Recovery and Resolution Plan

- 16.1 Review, challenge and approve the annual ICAAP document to include the reverse stress testing. To recommend the ICAAP document to the Board for final approval.
- 16.2 As part of the ICAAP review, identify the need to carry out further stress testing work. As a result of this work the Committee may recommend to the Board proposed changes or reviews of, strategy, the recovery and resolution plan, the liquidity systems assessment, the risk appetite or limits, policy, pricing or margin management.
- 16.3 Review, challenge and approve the RRP and recommend to the Board for final approval.  
N.B. For practical reasons, the review, challenge and recommendation of these documents may be undertaken at the Board only with the appropriate challenge from BRC members.

## 17. Terms of Reference of All Risks Committee and ALCO

To review and approve the terms of reference of the All Risks Committee and ALCO.

## 18. Financial Crime

- 18.1 Review the Society's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 18.2 Review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Society's anti-money laundering systems and controls; and
- 18.3 Review regular reports from the CRO and keep under review the adequacy and effectiveness of the Society's compliance function.
- 18.4 Receive a report summarising any fraudulent activity identified against the Society and on accounts of customers of the Society.
- 18.5 Ensure that fraud investigations are performed effectively and that any management actions identified as a result of such investigations are acted upon.

## 19. Other responsibilities

- 19.1 Obtain access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.
- 19.2 Work and liaise as necessary with all other Board Committees as appropriate
- 19.3 Review the Committee's Terms of Reference on an annual basis and make amendments as appropriate, subject to Board approval.
- 19.4 Make the Committee's Terms of Reference available on the Society's website in line with our Corporate Governance responsibilities.
- 19.5 Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 19.6 Determine the nature, amount, format and frequency of the information on risk which it receives. The appropriateness of the risk information will be assessed annually.
- 19.7 Examine, without prejudice to the tasks of the Remuneration Committee, whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

## 20 Reporting

- 20.1 The Committee Chair shall report verbally to the Board on its proceedings immediately after each meeting, with the meeting minutes being submitted to the following month's Board for noting.
- 20.2 The independence and quality of the Risk and Compliance functions will be formally reported to the Board annually.
- 20.3 The Chair of the Committee shall attend the Society's AGM and be available to answer questions through the Chair of the Board.

## 21 Committee Evaluation

- 21.1 The Committee members shall conduct an annual review of the effectiveness of the Committee by 31st December each year and shall consider the results, agreeing actions as appropriate.
- 21.2 The results of the Evaluation will be documented and reported to the Board.