



RISK COMMITTEE TERMS OF REFERENCE

Responsible: Risk Committee Chairman **Reports To:** Board

Committee:

Chairman: Non-Executive Director appointed by the Board

Members: Up to an additional three Non-Executive Directors appointed by the Board.

Other attendees: Chief Executive
Finance Director
Risk Director (inc. as DPO and MLRO)

Others may attend at the invitation of the Committee Chairman. There is a standing invitation to the Head of Lending.

Membership

The Committee will comprise up to four members, all of which must be Non-Executive Board Members.

Members of the Committee shall be appointed annually by the Board, following a recommendation from the People & Culture Committee, who will also appoint the Chairman of the Committee.

Only members of the Committee have the right to attend Committee meetings. However other individuals may be invited to attend all or part of any meeting as and when appropriate or necessary.

In the absence of the Committee Chairman one of the attending Non-Executive members shall chair the meeting.

Quorum

The quorum necessary for the transaction of business shall be three members.

Frequency of meetings

The Committee will normally meet four times a year, to a Schedule agreed by the Board, and otherwise as circumstances dictate.

Notice of meetings

Meetings of the Committee shall be called by the Chairman in accordance with the Board agreed schedule. Additional meetings may be called by any member of the Committee if he or she considers it necessary.

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 days before the date of the meeting. Supporting papers shall be made available to Committee members and other attendees as appropriate, at the same time.

Minutes of meetings

Minutes of the proceedings, including decisions and conclusions will be prepared. These will include the names of those present and in attendance.

Draft minutes of the meetings will be circulated promptly to all members of the Committee. Once approved minutes will be circulated to all other members of the Board and will be formally approved at the next meeting by the Chairman signing the minutes.

Authority

The Committee is authorised:

- To obtain, at the Society's expense, outside legal or professional advice on any matter within its terms of reference.
- To seek any information it requires from any employee of the Society in order to perform its duties.
- To call any employee to be questioned at the meeting of the Committee as and when required.

Duties

The Committee shall:

- Advise the Board on the overall risk appetite, tolerance and strategy, taking account of the current prospective macroeconomic and financial environment drawing on financial stability assessments such as those published by the Bank of England, Regulators and other authoritative sources that may be relevant for the Society's Risk Policies.
- Review the Society's capability to identify and manage new risk types.
- Before a decision is taken by the Board, the Committee shall advise them on proposed strategic transactions, including focussing in particular on risk aspects and implications for risk appetite and tolerance. This includes taking independent external advice where appropriate and available.
- Review regularly and approve the parameters used in these measures and the methodology adopted (Risk Register).
- Set a standard for the accurate and timely monitoring of certain risk types of critical importance (Risk Dashboard).
- Oversee and advise the Board on current risk exposures and the future risk strategy.
- Oversee the Society's approach to Conduct Risk and in particular in relation to 'Treating Customer's Fairly'.
- Oversee the Society's approach to the management of liquidity, funding, interest rate and basis risk including the operation of the Executive ALCO.
- Oversee the Society's approach to the management of retail credit risk.
- Receive and consider all matters reported to them from the Chairmen of the other Board sub-committees, the Executive Retail Credit Committee and the Executive ALCO as they relate to risk.
- Review reports of any material breaches of risk limits and the adequacy of proposed actions.
 - Ensure that the appropriate resources are provided for the management of risk and that those responsible have access to the necessary information to enable them to perform their function effectively.
 - Consider the adequacy of the Society's performance in relation to the management of retail credit and operational risk. This may be achieved by, for example, by receiving appropriate evidence of:

- The generation and management review of key management information reports, including account level watch lists, and review of control over new lending / the existing mortgage book.
 - Regular review of the arrears position, including action being taken in each case.
 - Monitoring new concessions cases, and to monitor adherence to the new terms.
 - Regular Executive Team assessment of lending levels for both new and existing balances (commercial and residential) against the lending criteria to ensure that the limits and risk appetites are still being complied with. This should include commitments.
- To consider on a regular basis, the wider mortgage market, and risks emerging from observed / reported activity and pass these observations onto the Executive Team for inclusion in the ICAAP.
 - Oversee the Society's arrangements for the management of the risks associated with outsourcing, with particular focus where that outsourcing arrangement relates to critical or important functions.

The Committee has oversight responsibility for the following processes:

- ICAAP.
- ILAAP
- Recovery Planning.
- Maintenance of the Resolution Pack
- Regulatory Issues.
- Assessment of the overall effectiveness and appropriateness of management information.
- Stress testing.
- Assets and Liabilities management.
- Treasury operations

The Committee has specific responsibility to review and pre-approve recommendations from the Executive in relation to:

- All mortgage and further advance applications where the total aggregated lending will be in excess of £300,000 and provide approval where such application meets the Society's lending criteria and onward referral to the Board where mandated. The Committee has agreed that its Chairman can provide this Authorisation on its behalf, via an email.
- All development finance applications prior to recommending to the Board. *However, at present no further lending in this category is to be permitted.*
- All loans on non-standard build types not stipulated in the Lending Policy.
- All requests to transfer a RDF loan into a Buy to Let mortgage. Similarly for requests to transfer a FSRP loan to a FSOL loan.
- Mortgage and further advance applications in respect of FSOL applications and, where appropriate, make a recommendation to the Society's Board for approval of the loan. *However, at present no further lending in this category is to be permitted.*
- To set, and review, FSOL covenants when such lending is contemplated.

The Committee has specific responsibility for the following documents:

- Risk Management Framework, including Statement of Risk Appetite.
- Risk Register & Risk Dashboard.
- Business Continuity and Disaster Recovery Plan.
- Lending Policy
- Arrears Management Policy
- Loss Provisioning Policy
- Liquidity Policy (including Contingency Funding Plan)
- Funding Policy
- Financial Risk Management Policy

Reporting responsibilities

The Committee Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. This will specifically include reference to any matters on which the Non-Executive members were not in agreement with a majority of Executive Directors.

Specifically the Committee Chairman shall advise the Board as to whether the Committee considers that the Society's current and likely future retail credit and operational (including conduct) risk management performance and profile consistent with its risk appetite and that associated policies are being consistently applied. The Chair shall also report as to the Committee's conclusions whether the Pillar 2 capital allocations for retail credit and operational (including conduct) risk evaluated in the ICAAP remain appropriate.

The Committee has a responsibility to summarise all known breaches of retail credit or operational (including conduct) risk policy, limits or mandates to the Board.

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

The Committee shall produce a report of its activities and the Society's risk management and strategy; to be included in the Society's annual accounts. This will include:

- Confirmation that the Committee has discharged all of the functions required of it by virtue of the Risk Control section of the PRA Rulebook and SYSC 7 of the FCA Handbook.
- Confirmation that the Committee has carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity. Those risks should be described with an explanation as to how they are being managed or mitigated.
- Confirmation that appropriate risk management appetite statements, policies and controls are in place.
- Commentary on the appropriateness of the Society's risk management culture

Other matters

The Committee will:

- be provided with appropriate and timely training, both in terms of induction for new members and on an ongoing basis.
- give due consideration to relevant laws and regulations.
- oversee any investigation of activities which are within its terms of reference.

- arrange for annual reviews of its own performance, review its constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.

Approval and Review

The above Terms of Reference which were approved by the Risk Committee on 16 June 2020 and ratified by the Board on 5 August 2020. These Terms of Reference will be reviewed at least on an annual basis.