

Board Risk Committee Terms of Reference

The purpose of the Board Risk Committee ('the Committee') is to monitor the Group's compliance with the Board's approved risk appetite, risk management framework and risk culture. The Committee is a committee of the Board and has delegated authority from the Board in respect of the powers and responsibilities set out in these Terms of Reference.

1. Membership

- 1.1 The Committee shall comprise at least three members, all of whom shall be independent non-executive directors. The Committee shall include at least one member of the Audit Committee. The Committee as a whole shall have competence relevant to the sector in which the Society operates.
- 1.2 Members of the Committee shall be appointed by the Board on the recommendation of the Nominations Committee and in consultation with the Chair of the Risk Committee. Appointments shall be for a period of up to three years which may be extended for up to two additional three-year periods, provided the director still meets the criteria for membership of the committee.
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, the Chief Risk Officer, other Executive Directors and the Chief Compliance Officer shall be expected to attend meetings of the Committee on a regular basis and other individuals may be invited to attend all or part of any meeting as and when appropriate. The Chair of the Committee may request that any attendee withdraw from all or part of a meeting.
- 1.4 The Board shall appoint the Committee Chair. In the absence of the Committee Chair and/or an appointed deputy at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.
- 1.5 The current Committee members are:
 - M Jones – Chair
 - J Greenwood
 - C Brereton
 - S Jagpal (NED)

2. Secretary

The Deputy Company Secretary, or their nominee, shall act as the 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 issues.

3. Quorum

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

4. Frequency of Meetings

The Committee shall meet at least four times a year at appropriate times and otherwise as required.

5. Notice of Meetings

5.1 Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee Chair or any of its members, or at the request of the Chief Risk Officer if they consider it necessary.

5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date of the meeting, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

6. Minutes of meetings

6.1 The secretary shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance. The secretary shall record any conflicts of interest reported at the meeting.

6.2 Draft minutes of committee meetings shall be circulated to all members of the committee. Once approved, minutes should be circulated to all members of the Board unless, exceptionally, it would be inappropriate to do so.

7. Engagement with Stakeholders

7.1 The Committee Chair should attend the annual general meeting to answer any member questions on the Committee's activities. In addition the Committee Chair should seek engagement with stakeholders on significant matters related to the Committee's areas of responsibility.

8. Role and Responsibilities

8.1 Risk appetite, tolerance and strategy

The Committee shall:

8.1.1 Advise the Board on the Society's overall risk appetite, tolerance and strategy, and the risks the Society is willing to take in order to achieve its long-term strategic objectives.

8.1.2 Monitor emerging prudential risks, conduct risks and areas of potential concern, in particular those matters identified or highlighted by the regulatory authorities, and satisfy itself that appropriate reviews are undertaken to identify and manage any impact to the Society and its members in a timely manner. Be satisfied that the risk of poor conduct and/or poor outcomes for Members and customers is managed and mitigated. Receive regular updates on the Society's approach to consumer duty.

8.1.3 Advise the Board on the likelihood and the impact of risks materialising, and the management and mitigation of risks to reduce the likelihood of their incidence or their

impact.

- 8.1.4 Advise the Board on the risk aspects of proposed changes to strategy and strategic transactions including acquisitions or disposals, change projects or new initiatives, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on implications for the risk appetite, tolerance and strategy of the Society, and taking independent external advice where appropriate and available. New strategic proposals should be accompanied by a second line opinion.
- 8.1.5 Review and recommend to the Board the Risk Appetite Measures to be used to monitor the Group's risk management performance.
- 8.1.6 Advise the Board on risk management strategy, including the oversight of current risk exposures of the Society.
- 8.1.7 Review the appropriateness of the Society's values and culture and reward systems for managing risk and internal controls, aligned to supporting good outcomes for customers, and provide oversight that these systems are embedded at all levels of the Society.

8.2 Risk Oversight

- 8.2.1 Monitor and evaluate the Group's current risk exposures, including performance and compliance against high level risk appetite limits and tolerances. including risk to the Society's business model and threshold conditions
- 8.2.2 Monitor the Society's material risks and risk events, ensuring appropriate management actions are in place to mitigate risks and support a culture of continuous improvement within the Society.
- 8.2.3 Monitor identified risk control failings and weaknesses, and breaches of reporting risk limits, together with the management actions to resolve them.

8.3 Enterprise Risk Management Framework (ERMF)

The Committee shall review the adequacy of the Society's Enterprise Risk Management Framework (ERMF) to manage or mitigate risk and to identify emerging risks, and provide oversight of the ERMF including:

- 8.3.1 Ensuring all aspects of the Risk Management Framework are embedded within the Society's key risk policy statements.
- 8.3.2 The design and execution of stress and scenario testing.
- 8.3.3 The adequacy and effectiveness of the Society's processes and procedures to manage risk and the internal control framework, including the design, implementation and effectiveness of those systems, having regard to any advice from the Audit Committee or Internal Audit concerning the effectiveness of the current control framework
- 8.3.4 The ability of the Society's risk management and internal control systems to identify the risks facing the Society and enable a robust assessment of principal risks.

- 8.3.5 The Society's capability to identify and manage new and emerging risks.
- 8.3.6 The effectiveness and relative costs and benefit of particular controls.
- 8.3.7 The effectiveness of the executive and managements processes for monitoring and reviewing the effectiveness of risk management and internal control systems and ensuring corrective action is taken when necessary.
- 8.3.8 Ensure an effective three lines of defence model is in place and that the Group's Risk Management Structure is adequately resourced.

8.4 Establishment and Oversight of Second Line

- 8.4.1 Review reports from the Chief Risk Officer
- 8.4.2 Ensure the second line has appropriate access to information and is free from constraint by management or other restrictions so as to be able to perform its function effectively.
- 8.4.3 The Chief Risk Officer, Chief Compliance Officer, the Data Protection Officer and Money Laundering Reporting Officer have a right of direct access to the Chair of the Board and to the Committee.
- 8.4.4 The Chief Risk Officer's formal reporting line is to the Chief Executive. However, he also has a reporting line to the Committee through the Chair of the Committee in respect of matters set out in these Terms of Reference. The removal of the Chief Risk Officer requires the approval of the Board.

8.5 Management Risk Committees

The Committee has delegated certain responsibilities to management risk committees, and monitors and reviews their performance, including their approval and oversight of policies and reviews delegated by the Board. These committees comprise the Operational Risk and Compliance Committee (ORCC), Mortgage Lending Risk Committee (MLRC) and Assets and Liability Committee (ALCO). Each of the management risk committees have clearly delegated responsibilities set out within separate terms of reference.

The Society's risk management committees shall report on a quarterly basis to the Committee:

- 8.5.1 Operational Risk and Compliance (ORCC) from the Chief Risk Officer.
- 8.5.2 Mortgage Lending Risk Committee (MLRC) from the Chief Operating Officer.
- 8.5.3 Assets and Liability Committee (ALCO) from the Chief Finance Officer.

9. Reporting responsibilities

- 9.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2 The Committee shall compile a report of its activities to be included in the Society's annual report, describing the work of the Committee.

- 9.3** Review and approve the statements to be included in the annual report concerning (internal controls) and risk management
- 9.4** The Committee shall provide advice to the Remuneration Committee on:
- 9.4.1** Any risk weightings to be applied to performance objectives incorporated in the incentive structure for executive remuneration.
 - 9.4.2** How incentive and remuneration arrangements appear to have affected observed behaviours and influences on risk culture and any consequent impact on the Society's principle risks.
 - 9.4.3** Recommendations on clawback provisions.
 - 9.4.4** Whether remuneration incentives take into consideration capital, liquidity and the likelihood and timing of earnings, in conjunction with the Audit Committee.
- 9.5** The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed and adequate time should be available for Board discussion when necessary.
- 9.6** Work and liaise as necessary with all other Board committees ensuring interaction between committees and with the Board is reviewed regularly, taking particular account of the impact of risk management and internal controls on the work of other committees.
- 9.7** "The Board Champion will receive, review and report upon consumer duty annually to the Board".

10. Other matters

The Committee shall:

- 10.1** Oversee any investigation of activities which are within its terms of reference.
- 10.2** Ensure that a periodic evaluation of the Committee's performance is carried out.
- 10.3** 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 for approval.
- 10.4** Give due consideration to all relevant laws and regulations, the provisions of the Code and published guidance, and any other applicable rules, as appropriate.

11. Authority

The Committee is authorised to:

- 11.1** Request the attendance of any employee at a meeting of the Committee and/or seek any information it requires from any employee of the Society in order to perform its duties.

- 11.2 Delegate any matter or matters to another Committee or person(s) as it deems appropriate.
- 11.3 Obtain, at the Society's expense, independent legal or other professional advice on any matter within its terms of reference if it believes it necessary to do so.
- 11.4 Request that any of the Management Risk Committees conduct further investigations and report on any specific matters falling within the Committee's Terms of Reference.
- 11.5 The Committee Chair and the Society Secretary are authorised by the Board to review and approve any non-material change required to be made to the Committee's Terms of Reference. Any such change should be reported to the Board.
- 11.6 Have access to sufficient resources in order to carry out its duties, including access to the Governance Team for advice and assistance as required.
- 11.7 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.