

DISTRIBUTION FINANCE CAPITAL HOLDINGS PLC

(THE "COMPANY")

BOARD RISK COMMITTEE (the "Committee")

TERMS OF REFERENCE

1. The Risk Committee is a sub-committee of the Board.

MEMBERS

2. The members of the Committee for the time being shall be:

Senior Independent Director(s)	Chair (Mark Stephens)
Independent Non-Executive Directors	Deputy Chair
Company Chair	

3. The following are requirements for membership of the Committee:

- 3.1 a minimum of 3 members (of which the majority shall be Senior Managers under the FCA/PRA regime);
- 3.2 membership is confined to independent non-executive directors;
- 3.3 appointed by the Board of the Company (the "**Board**"), on the recommendation of the Nominations Committee and in consultation with the Chair of the Committee;
- 3.4 appointed for a period of up to one year, which may be extended by no more than six further one-year periods, provided the members (other than the Chair of the Board, if they are a member of the Committee) continue to be independent.

4. The following persons are invited to the Committee by standing invite:

Chief Executive Officer
Chief Risk Officer
Head of Enterprise and Prudential Risk
General Counsel

5. Any other persons are invited to the Committee by prior arrangement with the Chair of the Committee with input from the CEO (based on the subject of discussion and where performance is discussed).

Chair

6. The Chair of the Committee (who shall be an independent non-executive director) shall be appointed by the Board, which shall determine the period for which they shall hold office.
7. In the absence of the Chair or the Deputy Chair, the remaining members present shall elect one of themselves to chair the meeting. The Chair of the Board shall not be eligible to be appointed as Chair of the Committee but may serve on the Committee as an additional member if they were considered independent on appointment as Chair.
8. The Chair shall be responsible for:
 - 8.1 reporting all decisions of the Committee formally to the Board;
 - 8.2 setting the agenda for meetings, chairing those meetings and ensuring the effective operation of the Committee;
 - 8.3 ensuring that the Committee addresses all of the tasks delegated to it;
 - 8.4 maintaining a dialogue with key individuals involved in the Company's governance, including the Chair of the Board Audit Committee (reporting and sharing relevant matters between formal meetings), Board Chair, Chief Executive Officer and Chief Risk Officer; and
 - 8.5 attending the Company's Annual General Meeting ("AGM") as necessary to respond to any shareholder questions on the Committee and its activities and responsibilities.
9. The Committee will allow sufficient time and resources for the Chair of the Committee to deal with matters relating to the discharge of any individual responsibilities allocated to them under the Senior Managers Regime.

Secretary

10. The Company Secretary or their nominee shall act as Secretary of the Committee.
11. The Secretary of the Committee will be responsible for:
 - 11.1 working with the Chair of the Committee in setting the agenda for meetings;
 - 11.2 providing the Committee with informational support;
 - 11.3 circulating at least 5 working days' notice of any meeting of the Committee (although such notice period may be waived or shortened with the consent in writing of the Chair of the Committee for the time being) to each member of the Committee and any other person required to attend;
 - 11.4 in the notice of meeting, confirming the venue, time and date of the meeting;
 - 11.5 circulating supporting papers to Committee members;
 - 11.6 taking minutes of Committee meetings and all resolutions made, including the names of those present and in attendance; and
 - 11.7 circulating minutes to all members of the Committee and, once agreed, to all members of the Board unless, in the opinion of the Chair of the Committee, it would be inappropriate to do so.

Quorum

12. The quorum for decisions of the Committee shall be any 3 members.

OBJECTIVES

13. The objectives of the Committee are to:

Objective 1	<p>Review, report and make recommendations to the Board on:</p> <ol style="list-style-type: none"> 1. the risk management framework deployed by the Company; 2. the risk appetite framework deployed by the Company; 3. compliance with legislation, regulation and internal policy; 4. management of assets and liabilities, including liquidity and funding and capital management; 5. the lending portfolio and associated credit policy (including the credit risk policy); 6. matters arising out of Company operations; 7. the Company’s ethical and business standards; and 8. the appointment, resignation or dismissal of the Chief Risk Officer.
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ROLES/RESPONSIBILITIES

14. The Committee shall, on behalf of the Board and the shareholders of the Company:

Role/Responsibility	How this will be achieved
Oversee the development, implementation and maintenance of the Company’s overall risk management framework including its risk appetites, principles and policies	<ol style="list-style-type: none"> 1. Ensure these are in line with current and emerging regulation, corporate governance and industry best practice albeit proportionate to the Company’s size 2. Review the credit risk policy, including effectiveness and implementation 3. Review of RMF including RAS 4. Perform rolling deep dive sector reviews 5. Review cyber security and operational resilience
Oversee adherence to the Company’s risk principles, policies and standards and any action taken resulting from material policy breaches	<ol style="list-style-type: none"> 1. Based upon reports from the Executive 2. Review any new risk principles and policies (including a review of operational risks) 3. Review and challenge, where necessary, the action(s)/judgement(s) of management in relation to the risk function
Review the capital and liquidity stress testing implementation (including the design of scenarios) and challenge, approve and act based on the results of the stress tests covering ICAAP, ILAAP and RRP	Recommend these to the Board
Oversee the Company’s key risk exposures and risk versus return strategy	Based upon reports from the Executive, noting significant matters to the Board

Review and discuss with the Chief Risk Officer the key risk issues, including how management are addressing them and the effectiveness of systems and controls for risk management	
Review adequacy of risk and compliance resource and its authority and standing within the Company	Ensure effective compliance with all rules imposed on the Company by monitoring the business' adherence to those rules through a risk-based and proportionate approach
Facilitate the effective contribution and involvement of non-executives	Through escalation of principal issues to the Board, aid their understanding of risk issues and the Company's risk framework
Ensure that all legal and regulatory requirements regarding disclosure of information, and those set out in the QCA Code, are fulfilled	By producing any reports necessary for inclusion in the Company's annual report.
Maintain oversight of the Executive Asset and Liability Committee (AICo)	<ol style="list-style-type: none"> 1. Review of the Company's asset and liability management strategies 2. review and challenge – ensuring AICo are operating within the policies and appetites approved by the Board and delegated to ERC to monitor 3. review and challenge, where necessary, the actions and judgement of management in relation to treasury operations in ensuring that the Company continuously manages its market and interest rate risk
Monitor and ensure the Company's adherence to the AIM Rules for Companies	
Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed	
Work and liaise as necessary with all other Board committees	Reviewing any matter referred to it by the Chair/ Board
Facilitate the effective contribution and involvement of non-executive directors	Aid their understanding of the Company's risk framework
Review the standard data & management information received by the committee, annually, to ensure it is adequate	Develop and utilise a standard Management Information dashboard to present such information

15. The above roles/responsibilities of the Committee can be evidenced as monitored through the use of the RAF Summary and CRO report, which is created on a monthly basis, the latest being presented to BRC as a standing agenda item.

PROCEDURE AND FREQUENCY OF MEETINGS

16. Notwithstanding the quorum requirements for the Committee, all members of the Committee should endeavour to attend all meetings of the Committee at which matters of the contents of the Committee's annual report to shareholders are discussed.

- 17.** Meetings of the Committee:
- 17.1** shall be held at least twice a year (usually on a quarterly basis) and at such other times as the Chair of the Committee requires (normally immediately before or after regular meetings of the Board);
- 17.2** may be held by conference telephone; and
- 17.3** may be called by the Secretary of the Committee at the request of any member of the Committee.
- 18.** The Committee shall:
- 18.1** have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
- 18.2** 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;
- 18.3** investigate any activity within its terms of reference and seek directly any information it requires from any employee or contractor of the Company (all such persons being directed to co-operate with any such request by the Committee); and
- 18.4** obtain outside legal or other independent professional advice at the cost of the Company in accordance with the Company's agreed procedure under which Directors may obtain independent advice, and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary (but such persons shall not be members of the Committee).
- 19.** The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure that it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

Last updated: June 2020

** Reference in these terms of reference to the "Group" mean the Company and its subsidiaries*