

**DF CAPITAL GROUP**

**BOARD RISK COMMITTEE/BRC (the “Committee”)**

**TERMS OF REFERENCE**

as adopted on 22 February 2021

1. The Risk Committee is a sub-committee of the Group Boards (collectively the “Board”).

**MEMBERS**

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

<b>Senior Independent Director(s)</b>	<b>Chair (Mark Stephens)</b>
<b>Independent Non-Executive Directors</b>	<b>Deputy Chair</b>
<b>Company Chair</b>	

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 with relevant risk expertise;
- 3.3 appointed by 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 and remain competent in the sector in which the Company operates.

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

<b>Chief Executive Officer</b>
<b>Chief Risk Officer</b>
<b>Chief Financial Officer</b>
<b>Head of Enterprise and Prudential Risk</b>
<b>Company Secretary</b>

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 formally to the Board (on the nature and content of discussion, on recommendations, and on actions to be taken) and adequate time should be made available for discussion when necessary;
  - 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 and assisting in planning the Committee's work;
  - 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 in a timely manner to enable full and proper consideration to be given to the issues;
- 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:

<b>Objective 1</b>	<p>Review, report and make recommendations to the Board on:</p> <ol style="list-style-type: none"> <li>1. the risk management framework deployed by the Company;</li> <li>2. the risk appetite framework deployed by the Company;</li> <li>3. overall risk appetite, tolerance and strategy, and the principal and emerging risks the company is willing to take in order to achieve its long-term strategic objectives;</li> <li>4. the likelihood and the impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact;</li> <li>5. the risk aspects of proposed changes to strategy and strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken;</li> <li>6. compliance with legislation, regulation and internal policy;</li> <li>7. management of assets and liabilities, including liquidity and funding and capital management;</li> <li>8. the lending portfolio and associated credit policy (including the credit risk policy);</li> <li>9. matters arising out of Company operations;</li> <li>10. the Company’s ethical and business standards.</li> </ol>
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**ROLES/RESPONSIBILITIES**

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

<b>Role/Responsibility</b>	<b>How this will be achieved</b>
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"> <li>1. Ensure these are in line with current and emerging risk and regulation, corporate governance and industry best practice albeit proportionate to the Company’s size</li> <li>2. Review the credit risk policy, including effectiveness and implementation</li> <li>3. Review of RMF including RAS</li> <li>4. Perform rolling deep dive sector reviews</li> <li>5. Review cyber security and operational resilience</li> </ol>
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"> <li>1. Based upon reports from the Executive</li> <li>2. Review any new risk principles and policies (including a review of operational risks)</li> <li>3. Review and challenge, where necessary, the action(s)/judgement(s) of management in relation to the risk function and ensuring corrective action is taken where necessary</li> <li>4. Review and challenge, where necessary, the appropriateness of the Company’s values and culture and reward systems for managing risk and internal controls, and the extent to which the culture and values are embedded at all levels of the company</li> </ol>
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 Recovery Plan, Solvent Wind-down Plan and Resolution Plan	Recommend these to the Board
Oversee the Company’s key risk exposures and risk versus return strategy (including risk to the Company’s business model and solvency/liquidity risks)	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 and monitoring the effectiveness and relative costs and benefit of particular controls
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 and reviewing/approving any statements to be included in the Company's annual report concerning internal controls and risk management
Maintain oversight of the Executive Risk Committee (ERC)	Oversee the actions and judgement of ERC in relation to risk management in line with the Board's risk appetite and the company's risk management framework
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	<p>Reviewing any matter referred to it by the Chair/ Board</p> <p>Ensure 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</p> <p>Provide advice to the remuneration committee on any risk weightings to be applied to performance objectives incorporated in the incentive structure for executive remuneration and make recommendations to the remuneration committee on clawback provisions</p>
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 eight times a year (usually on a bi-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** give due consideration to all relevant laws and regulations, as appropriate.
- 18.4** 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
- 18.5** 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.