



**DF Capital Group**

*DF Capital Group (includes Distribution Finance Capital Holdings PLC and its operating subsidiary DF Capital Bank Limited)*

# **Board Risk Committee Terms of Reference**

## Version Control

Version	Change History	Revised by	Date
1.0	Annual review: addition of objective 2 (specific clarification relating to risk statements in the Annual Report), addition of monitoring of bribery and anti-money laundering in the responsibilities section, other minor clarifying and formatting amends, addition of control sheet.	T Maw	29/11/2022
	Further clarification on overlap/cross reference to BAC ToRs as discussed at BRC meeting.	TODS/DH	31/01/2023
1.0	BRC approval		31/01/2023
1.0	Board approval		01/02/2023

<b>Policy Owner:</b>	Company Secretary
<b>Accountable SMF Manager:</b>	Chair of BRC
<b>Review Frequency:</b>	Annual
<b>Internal Stakeholders / Policy Reviewers:</b>	CRO, BRC
<b>External Review (if applicable):</b>	n/a
<b>Approval Committee:</b>	Board (via BRC)

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

### **TERMS OF REFERENCE**

as adopted on 1 February 2023

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</b>	<b>Chair (of the Committee)</b>
<b>Independent Non-Executive Directors</b>	<b>Deputy Chair (to be chosen from iNED committee members)</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. The committee as a whole shall have competence relevant to the sector in which the Company operates;
- 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 three years, which may be extended by no more than two further three-year periods, provided the members (other than the Chair of the Board, if they are a member of the Committee) continue to meet the criteria for membership of the committee.

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>Company Secretary</b>
<b>Money Laundering Reporting Officer (MLRO)</b>

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

-INTERNAL-

## **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. 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.
7. In the absence of the Chair or the Deputy Chair, the remaining members present shall elect one of themselves to chair the meeting.
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, ensuring that the Committee addresses all of the tasks delegated to it;
  - 8.2 setting the agenda for meetings, chairing those meetings and ensuring adequate time is available for discussion, and ensuring the overall effectiveness of the operation of the Committee;
  - 8.3 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
  - 8.4 attending the Company's Annual General Meeting ("AGM") to answer any shareholder questions on the committee's activities. In addition the committee chair should seek engagement with shareholders on significant matters related to the committee's areas of responsibility.
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 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 5 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.
  - 11.3 taking minutes of Committee meetings and all resolutions made, including the names of those present and in attendance; and



- 11.4** 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 2 members, formed by the Chair plus one other independent non-executive director.

## 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 (RMF), Risk Appetite Framework (RAF) and Code of Ethics deployed by the Company;</li><li>2. the overall risk appetite, tolerance and strategy, and the principal and emerging risks the company is willing to accept in order to achieve its long-term strategic objectives;</li><li>3. the likelihood and the impact of principal and cross-cutting thematic risks materialising, as defined in the RMF, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact as defined in the RAF;</li><li>4. 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 focussing in particular on implications for the risk appetite, tolerance and strategy of the company, and taking independent external advice where appropriate and available;</li><li>5. management of assets and liabilities, including liquidity and funding and capital management;</li><li>6. management of Credit Risk and the lending portfolio, including the Credit Risk Framework, and Lending Policy;</li><li>7. approve new products under NAPA;</li><li>8. compliance with legislation, regulation and internal policy;</li><li>9. all matters arising out of Company operations;</li><li>10. the Company's ethical and business standards.</li></ol>
<b>Objective 2</b>	<p>Review and approve the statements to be included in the annual report concerning internal controls and risk management.</p>

## ROLES/RESPONSIBILITIES

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

Role/Responsibility	How this will be achieved
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Oversee the implementation and maintenance of the Company's overall Risk Management Framework, Risk Appetite Framework and Code of Ethics, and all supporting frameworks, policies and procedures	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 and complexity.
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.	Based upon reports from the Executive and other Board Committees, noting significant matters to the Board
Oversee adherence to the Company's risk principles, policies and standards and any action taken resulting from material policy breaches	Based upon reports from the Executive covering all risk types:  <ol style="list-style-type: none"><li>1. Review any new risk principles and policies (including a review of operational risks)</li><li>2. 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></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 Pack	Review and recommend ICAAP, ILAAP, Recovery Plan, Solvent Wind-down Plan and Resolution Pack to the Board, as well as any ad-hoc stress testing exercises
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	Based upon reports from the Executive, noting significant matters to the Board
Review credit risk exposures across the Company's lending and investment activities	Via the monitoring and review of the Risk Appetite Metrics as set out in the Risk Appetite Frameworks, which state the Board Triggers and Limits required to grow lending in a measured and controlled way in parallel with the growth of financial and operational capabilities whilst earning an appropriate return to the risk taken
Review adequacy of risk and compliance resource and its authority and standing within the Company	Receive and oversee the firm's 3LOD Continuous Development Plan



Ensure effective compliance with all rules imposed on the Company	Oversee and receive quarterly updates on the Compliance Monitoring plan. Oversee and receive quarterly updates on the regulatory monitoring report.
Ensure that all legal and regulatory requirements regarding disclosure of risk management information 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 (eg Pillar 3)
Review the Company's procedures and controls for the detection and prevention of financial crime, which includes anti-money laundering, bribery and corruption, tax evasion, market abuse and internal and external fraud. .	Receive an annual report from the MLRO to assess the effectiveness of systems and controls, and monitor recommended corrective action plans.
Monitor and ensure the Company's adherence to the AIM Rules for Companies, and, where applicable, those set out in the QCA Code	
Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.	As appropriate based on action/ improvement needed.
Delegate the appropriate level of mandates and authorities to ERC	Reviewing key risk frameworks and policies including associated mandates which are summarised in the DoA matrix
Maintain oversight of the Executive Risk Committee ( <b>ERC</b> ).	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.
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.	Through escalation of principal issues to the Board, aid their understanding of risk issues and the Company's risk framework.



Review the standard data & management information received by the committee, annually, to ensure it is adequate.	Develop and utilise standard Management Information dashboards to present such information.
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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 six times a year (usually on a bimonthly basis) and at such other times as the Chair of the Committee requires (normally immediately before every other regular meeting of the Board);

- 17.2 may be held by telephone or video conference; 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.