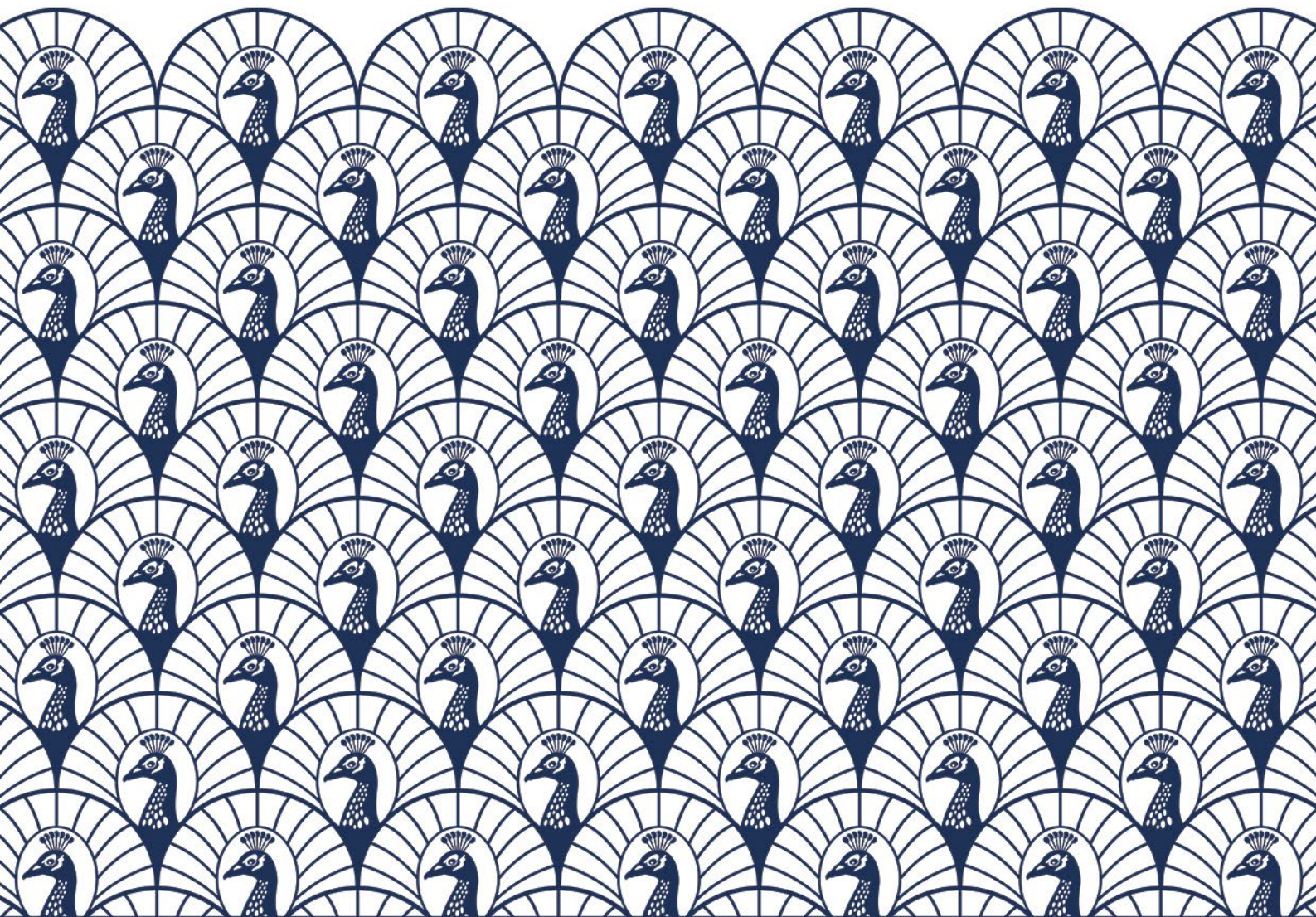




ARBUTHNOT LATHAM

Bankers since 1833



## AL Risk Committee Terms of Reference

Approved by the AL Board

22 November 2023

# Risk Committee Terms of Reference

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| <b>Chair</b>      | Chair of Risk Committee (SMF10)   |
| <b>Secretary</b>  | Company Secretary   |
| <b>Members</b>    | Chief Executive (SMF1)<br>Finance Director and Deputy Chief Executive (SMF2)<br>Non-Executive Directors   |
| <b>Attendees</b>  | Chief Risk Officer<br>Chief Operating Officer<br>Managing Director, Specialist Finance<br>Chief Credit Officer<br>Head of Compliance<br>MLRO & Enterprise Risk<br>Managing Director, Banking<br>Managing Director, Wealth Management<br>Head of Legal<br>Director, Enterprise IT & CISO<br>Head of Treasury   |
| <b>Invitees</b>   | Chair of the AL Board<br>Head of Internal Audit<br>Enterprise Risk & Reporting Manager<br>Otherwise as requested by the Chair from time to time.  |
| <b>Membership</b> | <p>The Board shall appoint the Chair of the Committee (the “<b>Chair</b>”), who shall be an independent Non-Executive Director. In the absence of the Chair, the remaining members present shall elect one member to chair the meeting, who need not be an independent Non-Executive Director.</p> <p>Committee members shall be appointed by the Board on the recommendation of the Nomination Committee in consultation with the Risk Committee Chairman. The Committee shall comprise at least three members.</p> <p>Members of the Committee must have the appropriate knowledge, skills and expertise to understand and monitor the risk strategy and risk appetite of the business.</p> |
| <b>Attendance</b> | <p>The quorum necessary for the transaction of business shall be three members of the Committee, one of whom must be the Chair or his chosen alternate and, in the absence of the Chair, one of whom must be a Non-Executive Director.</p> <p>A duly convened and quorate meeting of the Committee shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee provided that all decisions must be approved by at least one Non-Executive Director.</p>  |



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| <p><b>Meetings</b></p>            | <p>The Committee shall meet at least five times in each financial year at appropriate intervals in the financial and regulatory reporting cycle and at such other times as required for the Committee to effectively discharge its responsibilities.</p> <p>Meetings of the Committee shall be called by the Chair or by the Secretary at the request of the Chair and at the request of any of the members of the Committee or at the request of any of the following people if they consider a meeting to be necessary:</p> <ul style="list-style-type: none"> <li>(a) President and Director;</li> <li>(b) Chair of the Board;</li> <li>(c) Chair of the Audit Committee; and</li> <li>(d) Chief Risk Officer.</li> </ul> <p>Additionally, the following people may request the Chair, at his/her sole discretion, to call a meeting if they consider a meeting to be necessary:</p> <ul style="list-style-type: none"> <li>(a) Head of Compliance;</li> <li>(b) MLRO &amp; Enterprise Risk;</li> <li>(c) Head of Internal Audit; and</li> <li>(d) Chief Credit Officer.</li> </ul> <p>Unless otherwise agreed by the Chair, notice of each meeting confirming the venue, date and time, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, and to other attendees as appropriate within a reasonable time before the date of the meeting.</p> |
| <p><b>Delegated Authority</b></p> | <p>The Committee is authorised by the Board to undertake or investigate any activity within its terms of reference. The Committee is entitled to sufficient resources from the Company and/or any subsidiary of the Company (together with AL, the “AL Group”) to undertake its duties and may at any time ask the Chief Risk Officer and the Head of Internal Audit to arrange or carry out (as applicable) such independent reviews as it deems necessary, and report back to the Committee.</p> <p>In particular, the Committee is authorised to:</p> <ul style="list-style-type: none"> <li>- obtain any information it requires from any employee of the AL Group in order to perform its duties;</li> <li>- seek any information it requires from persons outside the AL Group to perform its duties;</li> <li>- conduct or authorise any investigation into matters within its scope of responsibility;</li> <li>- obtain, at the AL Group’s expense and at reasonable cost, independent legal, accounting or other professional advice on any matter on which it believes it necessary or desirable so to do;</li> <li>- call any employee or contractor of the AL Group to be questioned at a meeting of the Committee as and when required;</li> </ul>   |

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|  | <ul style="list-style-type: none"> <li>- ensure the oversight of the Consumer Duty by the Conduct Risk Committee is adequate and appropriate and escalated to the Risk Committee as required;</li> <li>- liaise regularly with other committees and in particular the Audit Committee, Credit Committee and the Assets and Liabilities Committee, and where there is perceived to be an overlap of responsibilities between the Committee and any other committee, the respective committee Chairs shall have discretion to agree the most appropriate committee to discharge any responsibility. A responsibility falling under the terms of reference of the Committee and any other committee will be deemed to have been fulfilled provided that is dealt with by either the Committee or the other committee.</li> </ul> |
| <p><b>Proceedings of the Committee</b></p> | <p>Only Committee members have the right to attend Committee meetings. However, there is a standing invitation to all other Board members to attend should they so wish. Additionally, the Committee requires the attendance of the 'Attendees'. In addition to the 'Invitees', other individuals who may be asked to attend from time to time include the Group HR Director.</p> <p>The Committee may meet separately with any Director of the AL Group.</p> <p>Although normally decisions are reached on a consensus, in the event of a disagreement, decisions on any matter are made by the majority, with the Chair having a second, casting vote in the event of a tie. A Committee member who remains opposed to a proposal after a vote can ask for his/her dissent to be noted in the minutes.</p>                  |
| <p><b>Meeting Administration</b></p>       | <p>The Secretary shall minute the proceedings and decisions of all Committee meetings and record the name of those present and in attendance.</p> <p>Draft minutes of Committee meetings shall, following review by the Chairman, be circulated to all members of the Committee as soon as practicable after each meeting. Once approved, minutes shall be circulated to all other members of the Committee and to the Board at the next following Board meeting.</p> <p>Final signed copies of the minutes of the meetings of the Committee shall be maintained as part of the records of the Company.</p>   |
| <p><b>Scope</b></p>                        | <p>The Chief Risk Officer shall report to the Board at each Board meeting on all matters within the Committee's duties and responsibilities and shall also update the Board on how the Committee has discharged its responsibilities and report on any other issues on which the Board has requested the Committee's opinion. In the event of a material item which should be drawn to the Board of Arbutnot Banking Group PLC, the Chief Risk Officer shall update that Board of the matter in question or, in the event that the meeting is not a Joint Board meeting, provide a written summary thereof to the Chief Executive for his onward notification.</p>  |

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|                                     | <p>The Committee shall either, as appropriate from time to time, approve decisions or make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed. Any recommendation of the Committee to the Board shall take effect only if approved by the Board.</p>  |
| <p><b>Main Responsibilities</b></p> | <p>The Committee exercises its internal control and risk management role through the reports it receives in relation to the AL Group from Conduct Risk Committee, AML Committee, Fraud Committee, Operations Committee, Operational Risk Committee, ALIM Investment Committee, Retail Mortgages Committee and Information Security Group together with its engagement with internal and external auditors and consultants. Annually the Committee reviews the ToR of each of these Sub-Committees.</p> <p>The Committee in relation to the AL Group:</p> <p><u>General</u></p> <ul style="list-style-type: none"> <li>- exercises oversight in relation to the current risk exposures of the AL Group;</li> <li>- considers the AL Group’s risk appetite relative to current and future strategy including potential acquisitions;</li> <li>- provides advice to the Board on risk appetite, tolerance and strategy;</li> <li>- safeguards and promotes the 3 Lines of Defence (3LOD) organisational model;</li> <li>- Safeguards the independence of the Chief Risk Officer and the Compliance, Credit Risk, Operational Risk, and Financial Crime Prevention (FCP) teams (collectively known as the ‘Risk Oversight Function’);</li> <li>- oversees and challenges the day-to-day risk management and oversight arrangements of the business and ensures that good outcomes for retail customers is a central focus of business activities.</li> </ul> <p><u>Risk Management Framework</u></p> <ul style="list-style-type: none"> <li>- reviews and recommends the Risk Management Policy;</li> <li>- reviews and recommends the Risk Appetite Framework reviews and approves the Risk Oversight Charter;</li> <li>- reviews and approves the Risk Appetite Framework Measures reviews and approves the AL Risk Hierarchy;</li> <li>- in conjunction with ALCO, reviews and recommends the ILAAP and ICAAP</li> <li>- oversees Operational Resilience, Supplier Management Framework, Consumer Duty Report, Managing Financial Risks of Climate Change Frameworks, Recovery Plan, Resolution Plan and Rep 18.</li> </ul> <p><u>Risk Governance Oversight</u></p> <ul style="list-style-type: none"> <li>- reviews the scope and remit of the Risk Oversight Function and keeps under review its overall adequacy and effectiveness within the AL Group;</li> </ul> |

- reviews the scope and nature of work of the Compliance team and keeps under review the adequacy and effectiveness of the Company's Compliance team;
- ensures that the Risk Oversight Functions have adequate resources and appropriate access to information to enable them to perform their respective functions effectively;
- monitors the training and development requirements of the AL Group to ensure the requisite skills are in place to control risk and promote an effective risk culture.

#### Risk Reporting

- reviews the performance relative to risk appetite across all principal risks;
- receives and reviews reports relating to any significant issues that require, or are subject to, remedial action or recommendation;
- receives and reviews the Subsidiaries' Board Risk Dashboards.

#### Strategic and Reputational Risk

- exercises oversight in relation to the AL Group's strategic and reputational risk from internal and external factors, including emerging risks and opportunities;
- reviews significant strategic decisions (business acquisitions, start-ups and exits);
- considers an update in relation to Legal and a Financial update on AL profit and balance sheet.

#### Prudential Risk

- exercises oversight of capital and liquidity risks.

#### Credit Risk

- exercises oversight of credit risk including MI from Credit Committee.

#### Conduct Risk

- exercises oversight and challenge in the business management of conduct risk and its obligations to ensure the delivery of good outcomes for retail customers.

#### Regulatory and Compliance

- monitors and reviews the effectiveness of the AL Group's compliance, and in particular:
  - monitors relations with regulators and arrangements for ensuring that the Company is in compliance with statutory and regulatory obligations and responsibilities;
  - receives from Compliance and Legal briefings on material and relevant changes to legal and regulatory requirements (horizon scanning);
  - receives and reviews regular reports on significant litigation and compliance issues involving the AL Group.
  - receives and reviews an annual whistleblowing report.

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|                      | <ul style="list-style-type: none"> <li>- approves the planned risk-based Compliance monitoring plan, and receives and considers updates on progress.</li> </ul> <p><u>Financial Crime</u></p> <ul style="list-style-type: none"> <li>- exercises oversight in relation to financial crime risk across the AL Group.</li> </ul> <p><u>Cyber Risk</u></p> <ul style="list-style-type: none"> <li>- reviews and recommends the AL Group’s cyber strategy;</li> <li>- exercises oversight in relation to the AL Group’s cyber resilience.</li> </ul> <p><u>Operational Resilience</u></p> <ul style="list-style-type: none"> <li>- exercises oversight in relation to the AL Group’s overall operational resilience, including business continuity, disaster recovery plans and supplier management arrangements.</li> </ul> <p><u>Operational Risk</u></p> <ul style="list-style-type: none"> <li>- exercises oversight of operational risks;</li> <li>- exercises oversight in relation to the effectiveness of the Risk &amp; Controls Self-Assessment (RCSA) including monitoring effectiveness of the control framework;</li> <li>- approves the planned risk-based Operational Risk monitoring plan and receives and considers updates on progress.</li> </ul> <p><u>Environmental, Social and Governance (ESG)</u></p> <ul style="list-style-type: none"> <li>- exercises oversight in relation to environmental, social and governance matters (with diversity and inclusion considered as a ‘social’ element for these purposes).</li> </ul> <p>Other Sub-Committees</p> <ul style="list-style-type: none"> <li>- receives and reviews an update in relation to matters arising from the ALIM Investment Committee;</li> <li>- receives any issues from Retail Mortgages Committee which are escalated via the relevant principal risk dashboards.</li> </ul> <p><u>Risk Architecture</u></p> <ul style="list-style-type: none"> <li>- considers the adequacy and effectiveness of the technology infrastructure supporting the Risk Management framework;</li> <li>- ensures the suitability of data captured, facilitates appropriate modelling and data analysis, and enables timely and effective management information to be produced for risk-monitoring and decision-making purposes.</li> </ul> <p><u>Financial Lines Insurance</u></p> <ul style="list-style-type: none"> <li>- reviews financial lines insurance annual renewal.</li> </ul> |
| <b>Other Matters</b> | <p>The Committee shall:</p> <ul style="list-style-type: none"> <li>• 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;</li> </ul>   |

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|  | <ul style="list-style-type: none"><li>• oversee any investigation of activities which are within its terms of reference;</li><li>• refer to Remuneration Committee any matters which it considers relevant to that Committee;</li><li>• consider such other matters as may be determined by the Board; and</li><li>• arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating effectively, and report on this and any recommendations for change to the Board for the Board's consideration and approval.</li></ul> <p>The Chair of the Risk Committee shall meet regularly with the Chief Risk Officer, the Chief Credit Officer, the Head of Compliance and the MLRO &amp; Enterprise Risk to discuss relevant matters.</p> |
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