



Risk & Compliance Committee

Terms of reference

July 2020

Darlington Building Society (the 'Society')
Board Risk & Compliance Committee (the 'Committee')
Terms of Reference

1. Purpose

- 1.1. The Board of Darlington Building Society (the 'Society') has delegated responsibility to its Board Risk & Compliance Committee (the 'Committee') to advise it on all high level risk matters and to provide proper consideration and assessment of future risks, compliance with regulations and assessment of financial stresses to enable management to develop appropriate strategies to protect the Society.

2. Authority

- 2.1. The Committee is a Committee of the Board of Directors (the 'Board') from which it derives its authority and to which it regularly reports.
- 2.2. The Committee has no executive powers
- 2.3. The Committee may sub-delegate appropriate powers and authority as it sees fit, including, the establishment of sub-committees to analyse particular issues or themes and to report back to the Committee.
- 2.4. The Committee has authority from the Board to investigate any matter relating to the Society within its Terms of Reference on any area of the Society and subsidiaries;
- 2.5. To obtain such information as it may require from any Director, Officer or employee of the Society.
- 2.6. The Committee has authority to receive, review and challenge risk event reports relevant to the Terms of Reference.

3. Constitution

3.1. Chairman of Committee

- 3.1.1. The Chairman of the Committee will be a non-executive Director appointed by the Board on the recommendation of the Board Nominations & Governance Committee.
- 3.1.2. The Chairman is appointed annually by the Board at the next Board following the Annual General Meeting, subject to regulatory approval. The Chairman should have relevant risk experience from a retail banking or financial services background
- 3.1.3. The Committee (including the Chairman) comprises non-executive Directors.
- 3.1.4. In the absence of the Chairman of the Committee the remaining members present shall elect one of themselves to chair the meeting.

3.2. Membership

- 3.2.1. The Committee (including the Chairman) will comprise a minimum of three non-executive directors.
- 3.2.2. One of the Committee members shall be a member of the Board Audit Committee and one a member of the Board Remuneration Committee to ensure holistic oversight.

- 3.2.3. Members of the Committee shall be appointed by the Board, upon the recommendation of the Board Nominations & Governance Committee and in consultation with the Chairman of the Committee.

3.3. Duration of Appointments

- 3.3.1. Committee membership shall be reviewed on an annual basis and any extension of the term shall not be given without consultation with the Board Nominations Committee.

3.4. Secretary

- 3.4.1. The Secretary of the Committee shall be agreed with the Chair of the Committee.
- 3.4.2. The Secretary of the Committee shall record the proceedings and decisions of the Committee meetings, maintain an appropriate register of minutes to account for each meeting taking place.
- 3.4.3. Draft minutes are to be circulated promptly to the Chair of the Committee. Once approved the minutes will be circulated to all other members of the Committee and members of the Board.

4. Responsibility of the Chairman

- 4.1. The Chairman's role and responsibilities require:

- 4.1.1. Fostering an open, inclusive and, where appropriate challenging discussion;
- 4.1.2. Ensuring the Committee has the information necessary to perform its tasks and devote sufficient time and attention to the matters within the Committee's remit;
- 4.1.3. Facilitating the running of the Committee; and
- 4.1.4. Reporting to the Board formally on the Committee's activities at the next board meeting following the committee meeting. The minutes of the Committee meeting will be considered as part of that report.
- 4.1.5. Shall advise the Chair of the Audit Committee regarding any issues and risks identified which the Committee consider may be of relevance and impact on the Audit Committee

5. Role of the Committee

- 5.1. The Committee's role and responsibilities shall include:

- 5.1.1. Reviewing, on behalf of the Board, management's recommendations on risk, and overseeing risk matters. In particular:
- 5.1.2. Considering and recommending to the Board the risk appetite;
- 5.1.3. Reviewing, on behalf of the Board, the risk profile;
- 5.1.4. Commissioning, receiving and considering reports on key risk issues;
- 5.1.5. Providing clear focus on current and forward-looking risks and enabling the Committee to assess the Group's vulnerability to hitherto unidentified risks;
- 5.1.6. Providing oversight for the continued embedding and maturing of the conduct framework and outcomes, to ensure the Society delivers fair outcomes for customers;
- 5.1.7. Enabling the Committee to provide additional assurance as the Board may require regarding the reliability of risk information;

- 5.2. Determining whether management accountability and actions are appropriate and challenge where necessary; and
- 5.3. Approve a report on its activities to be included within the annual Report which will include an explanation of how the Committee has addressed the risk management process and other information requirements set out in the Governance Code.
- 5.4. In areas where the Committee reviews and evaluates reports from management, but does not formally approve such items, the Committee may either:
- 5.5. Receive the report, being satisfied that either no management action is required or that existing actions being taken by management are appropriate; or
- 5.6. Receive the report and, after discussion with management, satisfy itself that actions to be taken by management following the discussion are appropriate; or
- 5.7. Receive the report and, following discussion with management, escalate situations to the Board, where it is not satisfied that the appropriate actions are being taken by management.
- 5.8. The Committee may also consider any other matters of relevance to its purpose.

6. Proceedings of Meetings

6.1. Frequency of Meetings

- 6.1.1. The Committee shall meet at least four times a year and at any other times deemed necessary by the Committee.
- 6.1.2. The Chairman of the Committee and the Chairman of the Board or the Chief Risk Officer may each convene meetings of the Committee at any time to consider any matters falling within these Terms of Reference.
- 6.1.3. The External or Internal Auditor may request a meeting of the Committee.
- 6.1.4. A joint meeting of the Board Risk & Compliance and Audit Committees may be held during the year, if appropriate, the Chairmanship of that meeting being agreed by the joint committee when it meets.

6.2. Notice and Quorum

- 6.2.1. The Chairman shall ensure that the Committee meets with sufficient notice and frequency.
- 6.2.2. The quorum necessary for the transaction of business shall be three non-executive Directors, including the Chairman or a designated deputy
- 6.2.3. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 6.2.4. Notice of each meeting confirming the venue, time and dates together with an agenda and supporting papers shall be forwarded to each member of the Committee no later than five days in advance of the date of the meeting. This may be sent in electronic form or paper form in line with the Society's protocols and procedures.

6.3. Attendees

- 6.3.1. Only the members of the Committee, the Chairman of the Board, and other non-executive Directors have the right to attend Committee meetings.
- 6.3.2. The Chief Executive, the Chief Risk Officer, and Finance Director will be expected to attend Committee meetings on a regular basis.

- 6.3.3. Any Director, Officer or employee of the Society may attend at the invitation of the Chairman of the Committee and they may collectively or individually be requested to withdraw from meetings of the Committee if required to do so by the Chairman of the Committee.

7. Responsibilities

The Committee will undertake the following functions:

7.1. Risk Appetite, Framework, Stress Testing and Profile

- 7.1.1. Oversee risk matters and advise the Board on the Society's overall risk profile, risk appetite and strategy for the management of risk, taking into account the current and prospective macroeconomic, macro-prudential and financial environment. This should draw upon financial stability assessments such as those published by the Bank of England, the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and other authoritative sources that may be relevant.
- 7.1.2. Consider, review and make recommendations on internal and external reports on the identification, assessment, control and/or reporting of risks across the business.
- 7.1.3. Satisfy itself that risk appetite informs the Society's business strategy and business plans on an ongoing basis, prior to the Risk Appetite Statement (RAS) being submitted to the Board for review and approval.
- 7.1.4. Review reports on any breaches of Risk Appetite and assess the adequacy of proposed action.
- 7.1.5. Review and recommend to the Board for approval on at least an annual basis, the Risk Appetite Statement ('RAS'), the Society's Individual Liquidity Adequacy Assessment Process ('ILAAP'), Individual Capital Adequacy Assessment Process ('ICAAP') and Recovery Plan ('RP').
- 7.1.6. Review the Society's adherence to its RAS through receipt of appropriate and timely Management Information and through business updates provided by Senior Managers' material risk reports.
- 7.1.7. Review and recommend to the Board on an annual basis the Group's Risk Management Framework.
- 7.1.8. Oversee the implementation of the Group's Risk Management Framework with appropriate reporting mechanisms.
- 7.1.9. Oversee the Group's risk profile, challenging the assessment and measurement of key risks while monitoring the actions to manage and mitigate them
- 7.1.10. Monitor key risk exposures ensuring that management is exercising appropriate control to reduce the likelihood of risk crystallisation.
- 7.1.11. Oversee, review and challenge management's response as well as adherence to the Society's risk frameworks and policies.
- 7.1.12. Seek to support the Board in embedding and maintaining throughout the Society a supportive culture in relation to the management of risk.
- 7.1.13. Consider and advise the Board on risks relating to cyber security and serious, large scale, organised crime relating to information security.
- 7.1.14. Review and satisfy itself that the Society's stress testing framework governance and related internal controls are robust.
- 7.1.15. Review, challenge and approve the stress testing assumptions and management actions at least on an annual basis highlighting any specific issues to the Board.
- 7.1.16. Approve the reverse stress testing assessments carried out and approve the level of risk mitigation reporting appropriately to the Board.

7.2. Regulatory

- 7.2.1. Receive reports and review the Society's capability to be compliant with current and future regulatory requirements and relevant regulator rules and guidance applicable to the Society and any third parties or agencies operating on behalf of the Society.
- 7.2.2. Review all regulatory interactions with the FCA and PRA as well other regulators.
- 7.2.3. Maintain and oversee all dialogue and escalate material matters to the Board.
- 7.2.4. Consider and where necessary update and approve, on behalf of the Board, any financial or operational risk policy statements required by law or regulation.
- 7.2.5. Oversee all regulatory matters are reported by the Chief Risk Officer and are appropriately escalated to the appropriate regulator.
- 7.2.6. To review arrangements established by management for compliance with regulatory reporting (including financial crime), financial reporting and other requirements ensuring they support a risk culture throughout the Society.
- 7.2.7. Review reports on the management of risk by the Society's ALCO and Risk Management Committee, challenging management on their effectiveness in managing the risks identified in each business area including areas of regulatory and conduct risk.
- 7.2.8. Assess the effectiveness of the Group's Risk and Compliance function ensuring that it remains independent of business operations.
- 7.2.9. On an annual basis review the Compliance Manual and Compliance Monitoring Plan

7.3. Policies and Governance Documentation

- 7.3.1. On an annual basis review and recommend for approval to the Board the Society's ICAAP, ILAAP and Recovery Plan,
- 7.3.2. Provide formal sign-off for the Board Risk Management Report and other risk related sections within the Annual Report & Accounts and Pillar 3 disclosures,
- 7.3.3. As identified, review the Group's Policies, and recommend them to the Board for approval. In particular the Financial Risk Management Policy and Responsible Lending and Credit Risk Policy

7.4. Other

- 7.4.1. Provide input to the Remuneration Committee on the alignment of remuneration to risk performance.
- 7.4.2. On an annual basis receive reports on the suitability of business resilience, contingency arrangements and information security across the Group, ensuring these align with the BCP/DR and RRP.

7.5. Strategic Risk

- 7.5.1. Before a decision is taken to proceed by the Board, the Committee shall oversee, challenge and advise the Board on strategic or material transactions, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the Society, and taking independent external advice where appropriate

7.5.2. The Committee shall oversee and recommend for approval by the Board the Group risk strategy as articulated within the Risk Management Framework (RMF) to align with regulatory, corporate governance expectations and industry best practice.

7.6. Chief Risk Officer

7.6.1. The Chief Risk Officer's formal internal reporting line is to the Chief Executive. However, the Chief Risk Officer also has a dual reporting line to the Chairman of the Risk & Compliance Committee in respect of matters set out in these Terms of Reference.

7.6.2. The Chief Risk Officer will meet regularly with the Chairman of the Committee and will have the right and responsibility to escalate issues to the Chairman of the Committee where he/she considers it necessary in the furtherance of their responsibilities.

7.6.3. The Committee will monitor the effectiveness and independence of the Chief Risk Officer in fulfilment of the Committee Chairman's Prescribed Responsibility and ensure the risk function is of sufficient stature, is independent of the business and is adequately resourced (qualifications, experience and training of staff).

7.6.4. The Committee will make recommendations to the Board on the appointment and removal of the Chief Risk Officer.

8. Reporting

8.1. The Chairman of the Committee shall report to the Board on the Committee's proceedings after each meeting on all matters within its duties and responsibilities.

8.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

8.3. The Committee will receive relevant reports that are provided to the Board and any Board Committee, including the PRA's and FCA's letters to the Board on their risk assessment of the Society and the associated management response.

9. Committee Governance and Resources

The Committee shall:

9.1. Conduct an annual self-assessment and report any conclusions and recommendations to the Board and, as part of this assessment, shall consider whether or not it receives adequate and appropriate support in fulfilment of its role and whether or not its current workload is manageable;

9.2. Have access to sufficient resources in order to carry out its duties, including access to external advisers and Secretariat for assistance as required;

9.3. 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;

9.4. Give due consideration to laws and regulations impacting the Society's business.

10. Terms of Reference Review

10.1. These Terms of Reference shall be reviewed by the Committee at least once a year and any proposed amendments will be recommended to the Board for approval. Changes to the Terms of Reference must be approved by the Society's Board.

10.2. In the event of any perceived overlap between the Committee and the Board Audit Committee, the committee chairs shall between them agree and document the most appropriate committee

to consider the matter. Any matter covered in the terms of reference of either committee shall be deemed to have been duly addressed if it is satisfied by either this Committee or the Board Audit Committee.

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