



## Terms of Reference

### **Risk Committee**

FCE Bank plc

Reports to	Board of Directors
Acronym (if applicable)	RiskCo
Version Number	2
Version Save Date	11/12/2018
Last Review Date	Nov 2018
Next Review Date	Nov 2019

#### **Overview**

The Risk Committee (the "Committee") is the delegated committee of the Board of Directors (the "Board") of FCE Bank plc (the "Company") responsible for oversight and advice to the Board on risk exposures to the Company, including financial, credit and operational, and future risk strategy, including determination of risk appetite.

#### **Members**

Members shall be appointed by the Board in consultation with the Risk Committee Chairman ("Committee Chairman"). The Committee or any nominated Committee thereof, shall be made up of at least three members.

Members of the Committee shall be the independent non-executive directors and shall include Chairman of the Audit Committee and a shareholder representative non-executive director.

Appointments to the Committee shall be reviewed annually by the Board as part of the review of the Constitution and Terms of Reference of all Board Committees.

The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

#### **Attendees**

Only members of the Committee have the right to attend Committee meetings. In addition to the Committee members, the following shall normally be invited to attend meetings but shall not contribute towards constituting a quorum:

- ◆ CEO
- ◆ Executive Director, Chief Risk Officer
- ◆ Executive Director, Finance
- ◆ Director, Legal and Compliance
- ◆ Company Secretary
- ◆ Members of the Company's Risk function as may be necessary
- ◆ Representative of Internal Audit Function

Any nominee shall be approved in advance at the discretion of the Committee Chairman. However, other individuals may be invited by the Committee Chairman to attend all or part of any meeting as and when appropriate.

The Company Secretary or their nominee shall act as the secretary of the Committee.

#### **Quorum Requirements**

The quorum necessary for the transaction of business shall be 3 members. 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.

#### **Frequency of Meetings**

The Committee shall meet at least four times a year. One meeting shall occur on or around the annual Strategic Review and one shall occur on or around the determination of Risk Statements.

An executive, normally through the Chairman of the Board, should inform the Committee Chairman (so that a special Committee meeting may be called, if deemed necessary), should there be an event, or sequence of events which may have 'material' consequences on the reported capital adequacy or net asset value of the Company.



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### Risk Committee

FCE Bank plc

Reports to

Acronym (if applicable)

Version Number

Version Save Date

Last Review Date

Next Review Date

Board of Directors

RiskCo

2

11/12/2018

Nov 2018

Nov 2019

#### Notice of Meetings

All meetings of the Committee shall be called by the Secretary of the Committee or a nominee or at the request of any of its members, or at the request of external or internal auditors if they consider additional meetings are necessary.

Unless otherwise agreed with the Committee Chairman, notice of each meeting confirming the venue, time, and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors 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, wherever possible at the same time.

#### Minutes of Meetings

The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

Members shall indicate to the Secretary any potential conflicts of interest at the beginning of each meeting and the Secretary shall minute them accordingly.

Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee for comment and, once provisionally agreed by the members of the Committee, the draft minutes shall be presented to the next meeting for approval and shall then be signed by the Chairman of that meeting as a true record of the proceedings. Once agreed the minutes shall be circulated to all members of the Board

#### Duties

The Committee shall:

- ◆ Advise on the company's capital and liquidity risk matters and frameworks.
- ◆ Advise on the company's overall risk appetite framework, consisting of 1) Risk Identification; 2) Risk Appetite Statements; 3) Embedding; and 4) Monitoring.
- ◆ Oversee and advise on the current risk exposures of the company and future risk strategy.
- ◆ In relation to company's risk materiality assessment, advise on the company's ability to assess key risks in the following areas:

Business Risk	Capital Risk
Concentration Risk	Credit Risk
Group Risk	Insurance Risk
Legislative Risk	Liquidity Risk
Operational Risk	Pension Risk
Reputational Risk	Residual Risk
Conduct Risk	Regulatory Risk
Earnings Risk	Securitization Risk
Interest Rate Risk	Operational Resilience
Market Risk	Cyber
Horizon Risk	

- ◆ Review the company's capability to identify and manage new risk types.
- ◆ Review reports on any material breaches of risk limits and the adequacy of proposed action.
- ◆ Coordinate with the Chair of the Audit Committee regarding the effectiveness of the company's internal financial controls and internal controls and risk management systems and review and approve the statements to be included in the annual report concerning internal controls and risk management.



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#### Duties

(Continued)

- ◆ Provide input to the to the remuneration committee on the impact of risk weightings to applied to performance objectives incorporated as incorporated in executive remuneration.
- ◆ Coordinate with the Chair of the Audit Committee regarding the adequacy and security of the company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- ◆ Review the effectiveness of the company's ability to identify and mitigate regulatory and legislative risk
- ◆ Consider and approve the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The committee shall also ensure the function has adequate independence and is free from management or other restrictions.
- ◆ Review promptly all records on the company from the chief risk officer.
- ◆ Review and monitor management's responsiveness to the findings and recommendations of the chief risk officer.
- ◆ The chief risk officer shall be given the right of direct access to the chairman of the board and to the committee.
- ◆ Ensure the permeation of a corporate culture that embraces a risk based approach
- ◆ Provide oversight and direction to the company's Whistleblowing procedure
- ◆ To provide guidance and direction on the Banks cyber risk appetite and operational resilience

#### Reporting

#### Responsibilities

- ◆ The committee chairman shall report to the board on its proceedings after each meeting on all matters within its duties and responsibilities.
- ◆ The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.
- ◆ The committee shall produce a report of its activities and the company's risk management and strategy to be included in the company's annual report.

#### Review and Reporting

#### Responsibilities

*The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.*

*The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.*

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

*Membership of the Committee and attendance will be noted in the annual accounts.*

*The Committee is authorised:*

- ◆ *to investigate any activity within its terms of reference;*
- ◆ *to seek any information it requires from any employee of the Company in order to perform its duties;*
- ◆ *to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference; and*
- ◆ *to call any employee to be questioned at a meeting of the Committee as and when required.*



## Terms of Reference

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FCE Bank plc

Reports to

Acronym (if applicable)

Version Number

Version Save Date

Last Review Date

Next Review Date

Board of Directors

RiskCo

2

11/12/2018

Nov 2018

Nov 2019

## Regulatory Compliance

The Committee shall:

- ◆ receive and review appropriate reports from the Head of Compliance;
- ◆ receive copies of all regulatory audit reports, significant findings and all letters received from the appropriate regulator of a significant regulatory compliance nature together with management's responses;
- ◆ review issues arising from the requirements of the Financial Services and Markets Act 2000 or other appropriate legislation and related relevant UK and European legislation as they apply to the Company and its European branches;
- ◆ review issues arising from the requirements of relevant UK and local legislation as they apply to the Company's activities in non-EU Member Countries and/or countries in which the Company was not operating through a Branch Office (to include operations through Representative Offices and subsidiary companies and other non-Branch legal trading entities);
- ◆ review key money laundering issues as recommended;
- ◆ review litigation actions which could involve significant costs;
- ◆ review significant matters including appropriate Unusual Events; and
- ◆ review as appropriate inputs to the Company's Individual Liquidity Adequacy Assessment (ILAA), Internal Capital Adequacy Assessment Process (ICAAP) documents and Recovery and Resilience Plan (RRP).

## Whistleblowing and Fraud

- ◆ the committee may request detailed reports from management (or outside experts) on any fraud or whistleblowing event, initially at the discretion of the committee Chairman
- ◆ the committee may review the company's arrangements for its employees to raise concerns in confidence about possible wrong doing within the organisation and review compliance with any appropriate FCE policies / procedures
- ◆ the committee may also review the arrangements for appropriate follow up action and review the company's procedures for detecting fraud.

## FCE Policies

The Committee shall, on an annual basis, or earlier if deemed appropriate, review the following FCE policies prior to either:

- (i) recommending them to the Board for approval; or
- (ii) (with the exception of PS07 – Treasury Policy), approving them itself without a requirement for further Board approval:

PL11 – Anti Money Laundering	PL32 – Risk Appetite Framework
PL12 – Regulatory Compliance	PS02 – Large Exposure Policy
PL20 – Operational Risk	PS05 – Funding and Capital Policy
PL26 – Data protection	PS06 – Liquidity Policy
PL 27 – Vehicle Residual Risk	PS07 – Treasury Policy
PL28 – Treating Customers Fairly	PS08 – Risk Management Policy ( this is a Treasury Policy)
PL29 – FCE Purchasing Policy	PS 09 - Treasury Outsourcing Agreement



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Unless waived by a unanimous vote of the Directors, the approval of a policy by the Risk Committee without a requirement for further Board approval, will not be effective unless:

- (i) the recommendation to the Risk Committee contains an express recommendation that the Risk Committee is to itself approve the policy without a requirement for further Board approval;
- (ii) the report to the Risk Committee is provided to all members of the Board at the same time as it is provided to members of the Risk Committee;
- (iii) at least two Executive Directors are in attendance at the Risk Committee at which the policy is approved; and
- (iv) no objection to such approval is made to the chair of the Risk Committee or to the chair of the Board, by any member of the Board before the meeting.

Where the approved Policy differs from the Policy contained in the written report, the objection referred to in point (iv) may be made within 3 working days of circulation of the minutes of the meeting.

#### **Sub-committees/ Working Groups**

The Committee may call for the establishment of project based sub-committees and/or working groups, after consultation with the Chairman of the Board.

#### **Annual calendar of work**

The Committee normally will carry out its programme of work in accordance with the calendar below, however the list of activities outlined below is not exhaustive and is in addition to standing agenda items. The Committee may make alterations to this running order if it is deemed appropriate.

#### **OUTLINE OF ANNUAL PROGRAMME FOR RISK COMMITTEE MEETINGS**

There will be four programmed Risk Committee meetings each year to be held in March, June, September and November or adjacent months.

<u>March</u>	
-	FCE's Risk Appetite Framework
-	PS05 Funding and Capital Policy
-	PS06 Liquidity Policy
-	PS07 Treasury Policy
-	PS08 Treasury Risk Management Policy
-	PS09 Treasury Outsourcing Agreement
-	PL26 Data Protection
-	PL32 Risk Appetite Framework
-	PS17 Funds Transfer Pricing Policy
-	AML Report
-	Conduct Risk Framework
-	Ford Credit Britain FCA Activity
-	Approve ICAAP for Board Submission



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Reports to  
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Version Number  
Version Save Date  
Last Review Date  
Next Review Date

Board of Directors  
RiskCo  
2  
11/12/2018  
Nov 2018  
Nov 2019

- June
- PL27 Vehicle Residual Risk
  - PL29 FCE Purchasing Policy
  - Compliance Update
  - FCA Risk Outlook and Business Plan
  - Operational Resilience incl. Cyber
  - Portfolio Reviews
- September
- ICAAP - Stress Tests Results
  - ICAAP - Approve Scenario Assumptions
  - PS02 Large Exposures Policy
  - PL11 Anti-Money Laundering
  - PL20 Operational Risk
  - PS21 Pillar 3 Disclosures – Risk aspect of the disclosures
  - PL28 Treating Customers Fairly
- November
- RiskCo Terms of Reference
  - ICAAP - Approve Stress Tests Results
  - ICAAP - Approve Scenario Results
  - ICAAP - Approve Capital Calculations
  - PL12 – Regulatory Compliance
  - Annual Report & Accounts - Risk Input
  - Operational Resilience incl. Cyber
  - Country Risk Update
  - CP&CRC Terms of Reference
  - CP&CRC - Deviations to Credit Policies for the year
- Standing Items
- CRO Report
  - Compliance Update
  - Portfolio Review