



# **Al Rayan Bank PLC**

("Company" or "Bank")

## **Board Risk Committee**

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### **Terms of Reference**

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**Effective 12 July 2021**

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# Board Risk Committee

## Terms of Reference

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### 1. Purpose

Without prejudice to its detailed responsibilities set out at section 11 of these terms of reference, the Board Risk Committee (the “**Committee**”) has purely advisory and specifically non-executive responsibility to:

- provide oversight of, and advice to the Board on, current and forward-looking risks, future risk strategy of the Bank and management of risk within the Bank;
- assess and advise the Board on the Bank’s principal and emerging risks and how these may affect the likely achievement of the Bank’s strategic objectives and continued viability of its business model;
- ensure the development and implementation of the Bank’s Enterprise-Wide Risk Management Framework and internal control systems (other than financial controls);
- monitor compliance with the Bank’s approved risk appetite;
- monitor executive control and management of risk including current and emerging risks;
- provide oversight and challenge of the design and execution of stress and scenario testing;
- help the Chair of the Committee fulfil his or her SMF and Prescribed Responsibilities;
- provide the advice, oversight and challenge necessary to embed and maintain within the Bank a supportive risk culture; and
- assess and advise the Board on the quality and appropriateness of the Bank’s risk information and reporting.

### 2. Membership and attendance

- 2.1 The Committee shall have at least three (3) members.
- 2.2 The Board, in conjunction with the Chair of the Committee where necessary, shall provide guidance to the Committee as to its membership.
- 2.3 Members of the Committee shall be appointed by the Board on the recommendation of the Remuneration & Nomination Committee in consultation with the Chair of the Committee. The Board shall review membership of the Committee on an annual basis.
- 2.4 All members of the Committee shall be Non-Executive Directors. A majority of the members of the Committee shall be independent Non-Executive Directors. Across its members as a whole, the Committee shall have a balance of relevant skills and risk experience.
- 2.5 The Chair of the Committee shall be an independent Non-Executive Director.
- 2.6 The Chair of the Board will not chair or be a member of the Committee except in exceptional circumstances, e.g. where no other Non-Executive Director is available to take on the role as a result of absence due to illness or a vacancy on the Board and provided further that the Chair of the Board shall only be the chair or a member of the Committee on a temporary basis until a suitable other chair or member (as the case may be) is appointed.
- 2.7 Save as set out in the provisos to this paragraph, appointments to the Committee shall be for a period of up to three years, which may be extended for two further periods of up to three years (i.e. a maximum of nine years from the date of first appointment).

The provisos are that: (a) the member still meets the other criteria for membership of the Committee, and (b) there will be no specific limit on the term of appointment of Shareholder Non-executive Directors, but their appointments will be reviewed regularly by Masraf Al Rayan (MAR).

- 2.8 Only members of the Committee have the automatic right to attend Committee meetings.

Other individuals may be invited to attend all or part of any meeting as and when deemed appropriate or necessary by the Chair of the Committee.

- 2.9 The Board shall appoint the Chair of the Committee (who shall be an independent Non-Executive Director, as above).

In the absence of the Chair of the Committee or an appointed deputy (who must also be an independent Non-Executive Director) at any meeting of the Committee: (a) the Senior Independent Director (if a member of the Committee) shall act as the Chair for that meeting, (b) in the absence of the Senior Independent Director, the remaining members present shall elect a Chair from among themselves for that meeting and (c) if there is only one remaining member, the meeting shall be postponed until a quorum for the meeting is possible.

### **3. Secretary**

The Company Secretary or, in his or her absence or unavailability, an alternate appointed by the Chair of the Committee, shall act as the secretary of the Committee.

### **4. Quorum and voting**

- 4.1 The quorum necessary for the transaction of business shall be two (2) members.
- 4.2 All members have one vote. Questions for or decisions by the Committee will be decided by a majority of votes (save that written resolutions shall require unanimity, as set out below). In the event of a tied vote, the Chair of the Committee will have a second or casting vote.

### **5. Frequency of meetings**

- 5.1 The Committee shall meet at least four (4) times a year at appropriate times and otherwise as required.
- 5.2 Outside of the formal meeting programme and subject to the provisos below, the Chair of the Committee (and to a lesser extent the other Committee members) shall maintain a dialogue with key individuals involved in the Bank's governance. Such key individuals may include the Chair of the Board, the Chief Executive, the Chief Financial Officer, the Chief Risk Officer and other senior members of the Risk function, the External Auditor and the Internal Auditor. Direct dialogue with key individuals outside of the Executive team, audit functions or the senior Risk function is not encouraged.

The provisos are that: (a) such dialogue or interactions do not in any way compromise the independence of the Chair of the Committee or other members of the Committee, (b) the individual Committee member provides to the Committee at the next occurring meeting of the Committee (or sooner if the individual Committee member deems it necessary and appropriate) a summary or outline of the matters in the engagement that are relevant to the Committee, including in respect of the topic and outcome of such interactions (provided that such Committee member shall be obliged to provide the other Committee members with such further details as they may reasonably request), and (c) all decisions of the Committee are made at formal meetings of the Committee duly convened and held in accordance with these terms of reference.

### **6. Notice of meetings and meeting packs**

- 6.1 Meetings of the Committee shall be convened by the secretary of the Committee at the request of the Chair of the Committee or (b) any other members if they consider it necessary, provided they do so after consultation with the Chair of the Committee wherever possible.
- 6.2 Unless otherwise agreed by the Committee, at least five working days before the date of the meeting (so that there will be a minimum of seven calendar days between the date of receipt of the notice and the date of the Committee meeting):
- 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 and any other person required or

requested to attend;

- supporting papers shall be sent to Committee members; and
- other attendees will receive such papers as are appropriate to them or for them, depending on the identity of those attendees and the contents of those papers.

- 6.3 The Chair of the Committee will be responsible for coordinating with the appropriate member of the Executive Team and the secretary of the Committee to ensure that the Committee's packs are distributed to Committee members and to other attendees, as appropriate, as far in advance of the meeting as is reasonably practicable, and in any event within the timeframes set out in paragraph 6.2 above.

All information contained in the packs distributed to Committee members shall be appropriate, focused and accurate, which shall be the responsibility of the person producing the information for the Committee.

The contents of the reports, information and supporting papers must:

- be provided in a format which ensures that members of the Committee and attendees at any meeting of the Committee are able easily to locate, digest and act on relevant information;
- enable the Committee to make informed decisions;
- include standing agenda items, being Previous Minutes, Review of Action Items and other management information relevant to the duties of the Committee;
- clearly distinguish between items for review and items for the Committee's decision; and
- where appropriate, contain an Executive Summary and Recommendation.

The Chair of the Committee will periodically reconfirm the standing requirements with the Committee members and ensure that there is regular feedback with respect to the quality and adequacy of information provided.

The Committee must ensure that: (a) the Board is kept fully informed of all matters within the remit of the Committee and (b) each of the Directors has all relevant information regarding any such matter for consideration by the Board.

Without prejudice to that key obligation and given: (a) the multiple governance processes that can apply to a matter before it reaches the Board and (b) the membership of the Board and its committees, the Committee shall also seek to avoid any unnecessary or excessive duplication of information prepared for the Board.

## **7. Minutes of meetings**

- 7.1 The secretary of the Committee shall minute the proceedings and decisions of all meetings of the Committee, including the names of those present and in attendance.
- 7.2 Draft Committee minutes shall be circulated promptly to all members of the Committee. The minutes shall then be circulated to all other members of the Board, unless it would be inappropriate to do so in the opinion of the Chair of the Committee.
- 7.3 Final signed copies of the minutes of the meetings of the Committee should be maintained for the Bank's records, in hard and soft copy where possible.

## **8. Remote/virtual attendance**

The members of the Committee shall be deemed to meet together if they are in separate locations but are linked by conference telephone or other communication equipment which allows those participating to hear and speak to each other.

## **9. Written resolutions and resolutions consented to by Electronic Means**

Decisions can be made by a written resolution signed by all Committee members.

Written resolutions avoid the need to convene a meeting and may involve no collective discussion of the item involved (other than informally).

Once signed by all Committee members, a written resolution has the same force as a resolution passed at a

meeting of the Committee.

The requirement for any resolution or other approval (or counterpart of such resolution or approval) to be in writing and signed by a Committee member will be satisfied by the member communicating consent to such resolution or other approval by electronic means, which consent must be sent to the address specified from time to time by the secretary of the Committee. For the avoidance of doubt, silence does not qualify as consent. If a member fails to reply within the time period specified by the secretary of the Committee, their response shall be counted as an objection to the resolution.

The Chair of the Committee should be mindful of the complexity or sensitivity of any matter to be decided by written resolution. In the event that the matter becomes complicated or protracted, the Chair should consider whether there is a need to call an ad-hoc meeting to discuss and approve the matter.

## **10. Annual general meeting**

The Chair of the Committee will attend the annual general meeting of the Company to respond to questions from shareholders on the Committee's activities or nominate an appropriate alternative to appear on his or her behalf.

## **11. Duties**

### **11.1 Risk Appetite**

The Committee shall:

- 11.1.1 consider and recommend to the Board for approval the Bank's overall risk appetite, risk tolerance, risk limits and risk strategy. The Committee shall assist the Board in managing all identified risks facing the Bank from time to time. The Committee shall take into account the current and prospective macroeconomic and financial environment, and draw on financial stability assessments such as those published by relevant industry and regulatory authorities including the Bank of England, the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority (or their successors from time to time) and other authoritative sources that may be relevant for the Bank's risk management;
- 11.1.2 consider and recommend to the Board for approval the appetite for each principal risk that the Bank chooses to assume including (but not limited to):
  - Credit Risk;
  - Capital Risk;
  - Liquidity and Funding Risk;
  - Market Risk;
  - Operational Risk and Resilience;
  - Conduct Risk;
  - Compliance and Legal Risk;
  - Financial Crime Risk;
  - Information Risk;
  - Strategic Risk; and
  - Sharia Non-Compliance Risk;
- 11.1.3 monitor and advise the Board on the interaction and integration of the Bank's business objectives, strategy and business plans with the Bank's risk appetite and risk strategy (including considering whether the Bank's risk strategy is aligned with its product offering and pricing strategy);
- 11.1.4 monitor the Bank's risk profile in relation to its risk appetite including (but not limited to):
  - risk exposures in relation to risk limits;
  - emerging trends that may result in future adverse developments against the Bank's risk appetite or risk strategy, including quality of credit origination, forbearance, impairment and provisioning experience;
  - key performance indicators for risk;
  - emerging risks that might impact on the Bank's risk choices, risk appetite and risk limits;
  - notifying promptly the Board of any breaches; and

- opining on the adequacy of management's responses, with recommendations for further action, if appropriate; and

11.1.5 review and advise the Board on the effective management of risks relating to the Bank's Operational and IT Resilience, including risks relating to cyber security.

## 11.2 Risk management and internal frameworks or control systems

The Committee shall:

11.2.1 review the effectiveness of the overall risk management framework to identify, assess, mitigate, monitor and report on risk within the agreed risk appetite and tolerance and recommend the risk management framework to the Board for approval;

11.2.2 establish that there are functioning risk control frameworks in place to manage key risks;

11.2.3 review reports including Management Information and key performance indicators on the risk profile of the Bank and adherence to regulatory requirements, risk policies, risk limits and risk standards;

11.2.4 oversee and advise the Board on the current risk exposures of the Bank and the impact of proposed plans and future risk strategy;

11.2.5 in relation to risk assessment:

- keep under review the Bank's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used;
- review regularly and approve the parameters used in these measures and the methodology adopted; and
- set a standard for accurate and timely monitoring of large exposures and certain risk types of critical importance;

11.2.6 review the Bank's capability to identify and manage new and emerging risks;

11.2.7 review the Bank-wide risk management functions and satisfy itself that these functions have the requisite skills, experience, resources and powers to discharge their responsibility;

11.2.8 consider and approve the remit and performance of the risk management function, including Compliance, in the three lines of defence model and ensure it has adequate resources and powers to perform its function effectively and in accordance with the relevant professional standards, ensuring also that the function has adequate independence and is free from management and other restrictions;

11.2.9 review the Bank's risk culture and the effectiveness of its embedding and maintenance throughout the Bank;

11.2.10 review the effectiveness of and adherence to the Bank's controls, processes and policies, including annually reviewing those policies which fall under the Committee's authority within the policy framework;

11.2.11 review the stress and scenario testing of the Bank's business plans, including those stress tests set out by regulators. The Committee shall receive reports on the outcomes that set out the resulting impact (gross and net of mitigating actions) on the Bank's risk capacity, including capital adequacy and liquidity; and

11.2.12 have oversight of, and the ability to challenge, the Executive team's day to day risk management.

## 11.3 Regulatory Requirements and Supervision

The Committee shall:

11.3.1 review the completeness of the process and the outcomes of the Bank's internal capital adequacy assessment process (the "ICAAP") and ensure the process is in accordance with the rules of the PRA,

and after such review, recommend the annual ICAAP, and any periodic re-assessments, to the Board;

- 11.3.2 review the completeness of the process and the outcome of the Bank's individual liquidity adequacy assessment process (the "ILAAP") to ensure the policy is in accordance with the rules of the PRA, and after such review, recommend the annual ILAAP and any periodic re-assessments, to the Board;
- 11.3.3 review the completeness of the process and the outcome of the Bank's recovery and resolution plans (the "RRP") to ensure the plans are in accordance with the rules of the PRA, and after such review, recommend the RRP to the Board;
- 11.3.4 consider the results of the PRA supervisory review and evaluation process (the "SREP") and any other regulatory reviews, both specific and thematic, to monitor the effective implementation of requirements and agreed recommendations arising from such reviews; and
- 11.3.5 consider the implications of any changes proposed to regulations and legislation that could be material to the Bank's risk appetite, risk exposure, management of risk and regulatory compliance.

#### **11.4 Other responsibilities**

The Committee shall:

- 11.4.1 before a decision to proceed is taken by the Board, advise the Board on proposed material transactions and strategic proposals, including acquisitions or disposals. In so doing, the Committee shall ensure that a due diligence appraisal of the proposition is undertaken, with a focus in particular on risk aspects and implications for the risk appetite and tolerance of the Bank, and take independent external advice on such proposal where appropriate;
- 11.4.2 review reports on any material breaches of risk limits and the adequacy of proposed action;
- 11.4.3 review policies which fall under the Committee's authority within the policy framework for any risk-related issues and once acceptable to the Committee recommend them to the Board for approval;
- 11.4.4 ensure the Bank has clear roles and responsibilities for the Board and its relevant committees in managing the financial risks from climate change;
- 11.4.6 in carrying out its risk governance responsibilities, have regard to any relevant advice from the Audit Committee or internal audit function concerning the effectiveness of its current control framework. In addition, the Committee should remain alert to the possible need for expert advice and support on any risk issue, taking action to ensure that it receives such advice and support as may be necessary to meet its responsibilities effectively; and
- 11.4.7 safeguard the independence and objectivity, and oversee the performance, of the Chief Risk Officer ("CRO") and the Bank's Risk function.

#### **11.5 Oversight of the Chief Risk Officer**

- 11.5.1 The CRO shall have an executive reporting line to the Chief Executive. In addition, the CRO shall have a dotted reporting line to the Chair of the Committee. The CRO shall be given the right of unfettered access to the Chair of the Board and the Chair of the Committee.
- 11.5.2 The Committee shall make recommendations to the Board:
  - on the appointment and removal of the CRO; and
  - regarding acceptance or agreement and the specific terms of the CRO's resignation or termination of contract.

### **12. Reporting responsibilities**

- 12.1 The Chair of the Committee shall report formally to the next occurring Board meeting after each Committee meeting on all matters within the duties and responsibilities of the Committee and shall also formally report to the Board on how the Committee has discharged its responsibilities. The report shall also include any issues on which the Board has requested the Committee's opinion.



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

### 13. Other matters

The Committee shall:

- have access to sufficient resources in order to carry out its duties, including access to the secretary of the Committee for assistance, as required;
- 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;
- give due consideration to laws and regulations;
- oversee any investigation of activities which are within its terms of reference;
- address any matters referred to it by the Board or by the Chair of the Board;
- establish regular communication channels between the Chair of the Committee and the Chair of MAR's Risk Committee, to enable the Chairs of such committees to share ideas and information and to enable MAR and the Bank to fulfil their respective statutory and regulatory obligations effectively; and
- work and liaise as necessary with other Board committees.

### 14. Authority

The Committee is authorised to:

- seek any information it requires from any employee/director of the Bank in order to perform its duties;
- obtain, at the Bank's expense, external legal or other professional advice on any matter within its terms of reference where required; and
- request the attendance of any employee at a meeting of the Committee as and when required.

### 15. Review

The Committee shall:

- arrange for annual reviews of its own performance and the performance of its members.
- at least annually review its constitution and terms of reference to ensure it is operating at maximum effectiveness.
- recommend to the Board any changes it considers necessary to these terms of reference.

### 16. Version History

Version	Date Updated	Author / Reviewing Party	Date Reviewed	Comment
1.	1 February 2019	Company Secretary	4 Dec 2018	Approved by the Board on 1 February 2019
2.	30 June 2021	General Counsel	19 May 2021	Approved by the Board on 12 July 2021