



AL RAYAN BANK

**Al Rayan Bank Plc
Board Risk Committee
Terms of Reference
December 2023**

1. Membership

- 1.1 The committee shall comprise of at least three members, the majority of which shall be independent non-executive directors.
- 1.2 Appointments to the committee are made by the board on the recommendation of the Remuneration & Nomination committee and shall be for a period of up to three years which may be extended for up to two additional three-year periods.
- 1.3 Only members of the committee have the right to attend committee meetings. However, other individuals such as the Chief Executive Officer, Chief Risk Officer, Chief Finance Officer, Chief Commercial Officer, Chief Operations Officer and Head of Internal Audit and external advisers may be invited to attend all or part of any meeting, as and when appropriate.
- 1.4 The board shall appoint the committee Chair who shall be an independent non-executive director. In the absence of the committee chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting who would qualify under these terms of reference to be appointed to that position by the board.

2. Secretary

The Company Secretary or their nominee shall act as the secretary of the committee and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

3. Quorum, Voting & Resolutions

The quorum necessary for the transaction of business shall be two members with each member receiving one vote where matters are tabled for approval. In the case where deadlock occurs, the Chair shall have the casting vote. Resolutions can also be approved electronically by the committee with majority approval.

4. Frequency of meetings

The committee shall meet at least four times a year and otherwise as required.

5. Notice of meetings

- 5.1 Meetings of the committee shall be called by the Company Secretary at the request of the committee Chair or any of its members.

- 5.2 Unless otherwise agreed, 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 to attend no later than five 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.

6. Minutes of meetings

- 6.1 The Company Secretary shall minute the proceedings and resolutions of all committee meetings, including the names of those present and in attendance.
- 6.2 Draft minutes of committee meetings shall be circulated to all members of the committee once reviewed by the Chair. Once approved, minutes should be circulated to all other members of the board unless, exceptionally, it would be inappropriate to do so.

7. Engagement with shareholders

The committee Chair should attend the annual general meeting 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.

8. Duties

The committee should carry out the duties detailed below: -

8.1 Risk appetite, tolerance and strategy

The committee shall:

- 8.1.1 Consider and recommend to the board for approval the company's overall risk appetite, limits, tolerance and strategy, and the principal and emerging risks the company is willing to take in order to achieve its long-term strategic objectives.
- 8.1.2 The committee should seek assurance on the risks the company identifies as those to which the business may be exposed, including but not limited to:-
- Strategic & Business Model Risk
 - Capital Risk
 - Liquidity & Funding Risk
 - Market Risk
 - Credit Risk
 - Conduct Risk
 - Compliance and Legal Risk
 - Environmental, Social & Governance Risk
 - People Risk
 - Operational Risk and Resilience
 - Financial Crime Risk
 - Information Technology & Cyber Risk
 - Sharia Non-Compliance Risk

- 8.1.3 Monitor and advise the board on the likelihood and the impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact.
- 8.1.4 Monitor and advise the board on 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.

8.2 Narrative reporting

The committee shall carry out the following duties to assist the board in fulfilling its reporting responsibilities in the annual report.

- 8.2.1 Monitor and review the effectiveness of the company's risk management framework and internal control systems.
- 8.2.2 Review the company's procedures and metrics to manage or mitigate principal risks and to identify emerging risks, to assist in the board's assessment of principal and emerging risks.
- 8.2.3 Review and assess the company's risk appetite and associated stress testing.
- 8.2.4 Evaluate the company's principal risks, to be taken into account by the board when assessing the company's financial prospects.
- 8.2.5 Review and approve the statements to be included in the annual report concerning internal controls and risk management.

8.3 Internal controls and risk management systems

The committee shall oversee and seek suitable assurance regarding:

- 8.3.1 The risk exposures of the company, including risk to the company's business model, and solvency and liquidity risks.
- 8.3.2 The adequacy and effectiveness of the company's processes and procedures to manage risk and the internal control framework, including the design, implementation and effectiveness of those systems.
- 8.3.3 The ability of the company's risk management and internal control systems to identify the risks facing the company and enable a robust assessment of principal risks.
- 8.3.4 The company's capability to identify and manage new and emerging risks.
- 8.3.5 The effectiveness and relative costs and benefit of particular controls.
- 8.3.6 The effectiveness of management's processes for monitoring and reviewing the effectiveness of risk management and internal control systems and ensuring corrective action is taken when necessary.
- 8.3.7 The company's ability to reduce the likelihood of principal risks materialising and the impact on the business of risks that do materialize.
- 8.3.8 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.

- 8.1.1 the company's systems and controls for the prevention of bribery and receive reports on non-compliance.
- 8.1.2 receiving reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the company's anti-money laundering systems and controls.

The committee shall also: -

- 8.3.9 Review and recommend to the Board the Risk Management Framework, Recovery & Resolution Plans, Risk Appetite, ICAAP, ILAAP and other material documentation and policies (set out within the bank's policy framework).
- 8.3.10 Review the performance of the Risk function, including Compliance, to ensure it has adequate resources and powers to perform its function effectively, also ensuring that the function is independent.
- 8.3.11 Review the company's risk culture and the effectiveness of its embedding across the bank.
- 8.3.12 Review the stress and scenario testing of the bank's business plans.
- 8.3.13 Consider the implications of any changes to regulation and legislation material to the bank's operations.
- 8.3.14 Review reports on any material breaches of risk limits and the adequacy of associated management actions.
- 8.3.15 Safeguard the independence of the Chief Risk Officer and oversee his / the Risk function's performance.
- 8.3.16 Oversee and ensure the Chief Risk Officer's right of direct access to the chairman of the board and chair of the committee.

9. Reporting responsibilities

- 9.1 The committee chair shall report to the board after each meeting on the nature and content of its discussion, recommendations and action to be taken.
- 9.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed, and adequate time should be made available for board discussion when necessary.

10. Other matters

The committee shall

- 10.1 Have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for advice and assistance as required.
- 10.2 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.

- 10.3 Give due consideration to all relevant laws and regulations impacting the committee's authority.
- 10.4 Ensure that a periodic evaluation of the committee's own performance is carried out.
- 10.5 At least annually, review its 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.
- 10.6 The Chair shall endeavor to meet with their counterpart Chair(s) at Group, with the assistance of the Company Secretary.

11. Authority

The committee is authorised by the board to obtain, at the company's expense, outside legal or other professional advice on any matters within its terms of reference.

Date of approval
December 2023
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