

## Group Risk Committee

Adopted by the Board on 12<sup>th</sup> May 2015

### 1. **Introduction**

The Shepherds Group Risk Committee (“GRC”) assists the Board of the Society (the “Board”) in meeting its obligations under the Friendly Societies Act 1992, the Financial Services and Markets Act 2000, the Financial Services Act 2012 and Solvency II when it takes effect in January 2016. The GRC provides a forum for independent oversight of the risks associated with the operation of the Society and its subsidiary companies (together, the “Group”).

### 2. **Appointment of GRC**

- 2.1 This Committee is established under the Authority of the Board to assist and advise the Board in exercising its responsibilities for all aspects connected with the current and future risk strategy including the determination of risk appetite, tolerance, risk measurement, management and mitigation procedures throughout the Group.
- 2.2 This Committee undertakes the role of the “second line of defense” within the Society’s governance framework and, in fulfilling its expectations under Solvency II, oversees the risk and compliance functions.

### 3. **Purpose and responsibilities**

The Group Risk Committee is a body that will:

- 3.1 be responsible for challenging Management and for providing guidance, advice and recommendations to the Board on all matters relating to risk management;
- 3.2 assist the Board to foster a culture within the Society that encourages good stewardship of risk and emphasises and demonstrates the benefits of a risk based approach to internal control and management of the Society;
- 3.3 have an over-riding responsibility to ensure that through its work the best interests of the Society’s members and customers are always considered and protected;
- 3.4 ensure that systems and processes are in place to enable existing and emerging risks to be identified, measured, mitigated, monitored and reported;
- 3.5 ensure the Group’s compliance with all relevant statutory requirements including Solvency II, and other regulatory requirements including those in respect of prudential and conduct risk; and
- 3.6 ensure the completion of a regular Own Risk and Solvency Assessment and the regulatory reporting requirements of all risk related matters.

#### **4. Composition**

- 4.1. The Committee will be appointed by the Board and will comprise three Non-Executive Directors of the Group. The Board will nominate one of the non-executive members of the Committee as Chairman of the Committee.
- 4.2. The Board may also elect to appoint an Independent Expert to the GRC from outside the Group in order to enhance its effectiveness;
- 4.3. The GRC will invite a minimum of two additional attendees from executive management; and
- 4.4. Any member should have the skills and experience necessary for them to make a useful contribution to the work of the Committee.

#### **5 Meetings**

- 5.1 Meetings will normally be held a minimum of four times a year. In case of need, the Chairman may call a special meeting of the Committee;
- 5.2 The agenda will be prepared by the Company Secretary and agreed with the Chairman of the GRC with reference to the Head of Capital and Risk;
- 5.3 Minutes of the meetings will be taken by the Company Secretary or such other person as the Chairman nominates and will then be circulated to Committee members and to Board members prior to the next meeting;
- 5.4. The agenda and support papers will be circulated to all members and invited attendees at least seven days before the next meeting;
- 5.5 Attendance may be by teleconference call with the consent of the Chairman;
- 5.6 Two Non Executive Directors are required to constitute a quorum. No business will be conducted in the absence of a quorum. A meeting will terminate as soon as it becomes inquorate;
- 5.7 The GRC may request any attendees to leave the meeting in order that the Committee members can discuss matters confidentially; and
- 5.8 Minutes of the proceedings and decisions of the Committee will be agreed and circulated promptly to members and to the Board and to other recipients identified by the Chairman.

#### **6. Objectives**

- 6.1 Provide oversight and advice to the Board in relation to current and potential future risk exposures, as well as on the principles and practice of the Society's current and future risk policy, risk measurement and management, including determination of risk appetite and tolerance within the capital constraints of the Society;

- 6.2 To provide independent oversight to the risk management function and the effective operation of risk management policies and systems and documented procedures and other internal controls, across all Group Companies;
- 6.3 Establish and maintain positive working relationships with the senior management of the Society and with the relevant executives to foster a collaborative approach to risk management;
- 6.4. Assist the Board to promote a culture of risk awareness throughout the Society, reflecting risk management practices which are consistent with the risk appetite as set by the Board;
- 6.5 Oversee the ORSA process and assist the Board and Head of Capital & Risk in fulfilling their respective roles in relation to the ORSA process; and
- 6.6 Assist on such matters as the Board and other Board Committees may refer to it.

## **7. Escalation and Reporting Structure**

The GRC will report directly to the Board.

Matters that are deemed to be outside the responsibilities of GRC will be submitted to the Board for consideration and/or guidance.

## **8. Detailed Responsibilities**

### **8.1. Strategy**

- Facilitate and direct the design and implementation of the risk management framework in the Group, including the production and implementation of all necessary risk policies ;
- Review the effectiveness of risk management strategies within the Group and the procedures for monitoring, measuring and managing risk;
- Oversee the completion of the Society's Individual Capital Assessment ("ICA") to ensure that it reflects accurately the Society's risk exposures;
- Facilitate the regular ORSA process and initiate an ad hoc ORSA process when triggered by a (defined or otherwise) significant change in the Group's current or proposed prospective circumstances; and
- Ensure that the Society adopts suitable mitigation tools and strategies to manage its risks.

### **8.2. Profile**

- Monitor the Society's risk profile in relation to current and future Group strategy and risk appetite identifying any risk trends or exposures that may necessitate changes to policy, appetite or management processes;

- Review the Society's performance relative to risk appetite and monitor the regular risk reports from management with risk responsibilities for significant issues that require remedial action or recommendations to the Board; and
- Initiate and direct the Society's stress-testing programme and ensure that it is sufficiently comprehensive and effective to ensure the sensitivity of the principal risks to various drivers is understood.

### 8.3. Appetite

- Facilitate annually with the Board the determination of the Group's the risk appetite, having regard to the Society's strategic intent, capital availability, liquidity management needs, and regulatory restrictions; and
- Ensure this appetite is cascaded across the Group in accordance with Board's intent, to ensure that the Board's appetite and tolerance levels are embedded within the Group so as to enable effective day-to-day risk management.

### 8.4. External communication

- Recommend the risk analysis contained in the Annual Report, including any report on the Committee's activities and practices, and consider whether there are any concerns in assurance from the risk management control framework or in the financial impact of risks that could impact the financial statements;
- Ensure that all regulatory reporting conforms to legislative and/or regulatory reporting as required by EIOPA, PRA, FCA and FRC; and,
- Be represented at the Annual General Meeting to respond to members' questions on Committee activities.

### 8.5 Compliance

- Ensure the Society meets all relevant legal and regulatory requirements;
- Review reports from the Society's Compliance and Money Laundering Reporting Officers to seek assurance that procedures and controls are up to date and effective, and that breaches are dealt with appropriately;
- Review the Society's summary complaints reports to identify any systemic problems or material breaches of compliance; and
- Review compliance with the regulators' threshold conditions.

### 8.6 Conduct risk framework

As part of the Group's conduct risk framework, review and report to the Board on the Group's governance and controls insofar as they relate to conduct risk, having reviewed:

- Corporate governance documents
- Operational governance documents
- Risk management system; and
- Any external reviews of the above.

#### 8.7 Relationship with other Board Committees

- Review and monitor on an ongoing basis the performance of Executive Management as regards the assessment and management of risk, with a view to making a recommendation to the Remuneration Committee as regards the appropriate level of any bonus award as against this Key Performance Indicator; and
- Make recommendations to the Group Audit Committee on the priorities for the Group's Internal Audit plan.

### **9. Authority**

- 9.1. The GRC may inspect any records of the Society and seek information from any of its Employees; and
- 9.2. The GRC may seek external legal and professional advice if this is required for it to fulfil its duties and responsibilities.

### **10. Self Appraisal**

On an annual basis the GRC should formally appraise its performance against its role and objectives and minute the extent to which it has met its requirements, together with an action plan should any shortcomings be identified.