



TERMS OF REFERENCE

RISK COMMITTEE

Adopted by the Board on 21st March 2017

1. Introduction

The Shepherds Risk Committee (“RC”) 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 the European Union’s Solvency II Directive. The RC provides a forum for independent oversight of the risks associated with the operation of the Society and any of its subsidiary companies.

2. Appointment of RC

- 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.
- 2.2 This Committee undertakes the role of the “second line of defence” 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 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 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 of at least three Non-Executive Directors, and such Executive as the Board see fit. 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 RC from outside the Society in order to enhance its effectiveness;
- 4.3 The RC will invite 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 RC with reference to the Finance and Risk Director;
- 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 five 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 RC 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;
- 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 Finance and Risk Director 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 RC will report directly to the Board.

Matters that are deemed to be outside the responsibilities of RC 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, including the production and implementation of all necessary risk policies ;
- Review the effectiveness of risk management strategies and the procedures for monitoring, measuring and managing risk;
- Facilitate the regular ORSA process and initiate an ad hoc ORSA process when triggered by a (defined or otherwise) significant change in the Society'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 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 Society's 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 Society in accordance with Board's intent, to ensure that the Board's appetite and tolerance levels are embedded within the Society 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 Officer 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 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;
- Make recommendations to the Audit Committee on the priorities for the Society's Internal Audit plan; and
- Review minutes and reports of the Audit Committee to ensure that any issues affecting the agenda of the RC are identified and addressed.

9. Conduct Risk

The Conduct Risk Framework falls under the responsibility of the Board.

10. Authority

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

11. Self Appraisal

On an annual basis the RC 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.