

## TERMS OF REFERENCE

### Board Risk Committee

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## THE CHANNEL ISLANDS CO-OPERATIVE SOCIETY LIMITED

### BOARD RISK COMMITTEE TERMS OF REFERENCE

First approved by the Board of Directors on 30 November 2021 and revised 8 September 2022

#### 1. MEMBERSHIP

The Board Risk Committee (the “**Committee**”) comprises at least three (3) elected or co-opted non-executive directors. Members of the Committee shall be appointed by the Board.

Members need to have appropriate knowledge, skills and expertise to fully understand risk appetite and strategy and at least one (1) member shall have recent and relevant experience of risk management. The President of the Board cannot be a member of the Committee.

Appointments are for a period of one (1) year. Any member who becomes the President can automatically no longer be a member of the Committee.

Only members of the Committee have the right to attend Committee meetings. However, the Chair of the Board, members of the Executive Leadership Team, colleagues holding Key Person roles, the Head of Risk and Compliance and other individuals may be invited to attend all or part of any meeting as and when appropriate.

The Board appoints the Committee Chair. If the Committee Chair is not present for a meeting or is in attendance however is not in Jersey or Guernsey at the time of the meeting, the other Committee members will elect one of themselves to chair the meeting.

In addition to the normal responsibilities and duties of the Committee Chair as set out in these terms of reference, it is the responsibility of the Committee Chair to maintain an informal dialogue with key individuals relevant to the work of the Committee, in particular the President and members of the Executive Leadership Team.

#### 2. SECRETARY

The Society Secretary, or their nominee, acts as the Secretary of the Committee and ensures that members receive information and papers in a timely manner to enable full and proper consideration to be given to issues.

#### 3. QUORUM

Two (2) is the minimum number of Committee members that need to be present for the transaction of business.

#### 4. MEETINGS

The Committee meets at least three times a year and otherwise as required. The Society’s appointed Key Persons (MLCO/MLRO) have the right to call a meeting of the Committee at any time in circumstances where they consider it appropriate.

#### 5. NOTICE OF MEETINGS

Committee meetings are arranged by the Society Secretary at the request of the Committee Chair or any of its members.

Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, will be forwarded to each member of the Committee and anyone invited to attend no later than five (5) working days before the date of the meeting. Supporting papers will be sent to Committee members and to other attendees, as appropriate, at the same time.

The Committee papers and minutes will be made available to all members of the Board of Directors of the Society.

## 6. MINUTES OF THE MEETINGS

The Society Secretary, or their designate, will minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.

Draft minutes of Committee meetings will be promptly circulated to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board and included in the next Committee papers.

## 7. DUTIES

The Committee has the main duty of overseeing for the Board:

- a) The Society's risk appetite and risk management framework (the "**Risk Management Framework**");
- b) The Society's financial services business including financial crime risk<sup>1</sup> management, including the effectiveness of the Compliance function and Key Persons (MLCO/MLRO) through the receipt of relevant reports; and
- c) any matters it considers necessary to oversee in order to advise the Board properly in relation to the duties set out above. The Committee has the duty of reporting to the Board any matter on which it remains unsatisfied.

### 7.1 Risk Management Framework

The Committee shall:

- (a) Review and challenge the design, implementation and effectiveness of the Risk Management Framework and recommend to the Board for approval at least annually.
- (b) Review and approve all new policies and procedures and those which have changed materially supporting the Risk Management Framework including but not limited to ensuring there are appropriate and consistent policies and procedures relating to the Society's financial services business in order to prevent and detect money laundering, financing of terrorism and proliferation financing, health & safety, food safety, data protection and information security.
- (c) Ensure the Society's risk management function has:
  - i. adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; and
  - ii. adequate independence, being free from management or other restrictions.

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<sup>1</sup> This applies to the Society's issue of withdrawable share capital which is financial services business for which the Society is supervised by the JFSC for AML/CFT/CPF compliance.

- (d) Review the capability of the Society to identify, assess, and manage principal and emerging risks and assist the Board in its annual business risk assessment of principal and emerging risks.
- (e) On the basis of its business risk assessment, assist the Board in establishing a formal strategy or strategies to mitigate risk/(s) including but not limited to the managing its financial services and financial crime risk exposure, including the countering of money laundering, financing of terrorism and proliferation risk, as well as health & safety, food safety, data protection and information security.
- (f) Considering the conclusions of the business risk assessment and strategy, oversee for the Board that the Society: (i) organises and controls its affairs in a way that effectively mitigates the risks that it has identified, including areas that are complex; and (ii) be able to demonstrate the existence of adequate and effective systems and controls (including policies and procedures) to counter money laundering and financing of terrorism.
- (g) Ensure that the Society documents systems and controls (including policies and procedures) and clearly apportions responsibilities for managing its financial services business and related financial crime including money laundering, financing of terrorism and proliferation financing, and, in particular, responsibilities of the MLCO and MLRO, as well as for health & safety, food safety, data protection and information security.
- (h) Support the Board in safeguarding the independence of and overseeing the performance of the Society's risk function.

## 7.2 Risk Culture, Whistleblowing and Fraud

The Committee shall:

- (a) Review, promote and challenge the Society's risk culture, and in so doing, liaise with the Board and other Board Committees and Executive Leadership Team and seek assurance to satisfy itself that an appropriate risk culture prevails in the organisation which supports fair customer outcomes and the values and the ethics of the Society.
- (b) Provide qualitative and quantitative advice to the Recruitment and Remuneration Committee, on risk weightings to be applied to performance objectives incorporated in executive remuneration and make recommendations.
- (c) Consider what barriers (including cultural barriers) exist to prevent the operation of effective systems and controls (including policies and procedures) to effectively mitigate the risks that it has identified, including financial crime risks.
- (d) Oversee for the Board, the adequacy and security of the Society's arrangements for its Colleagues and contractors to raise concerns, in confidence, about possible wrongdoing. The Committee shall ensure that these arrangements allow proportionate and independent investigation and appropriate follow up action.
- (e) Oversee for the Board, the Society's procedures for detecting and responding to fraud.

## 7.3 Risk Appetite, Limits, Tolerances and Framework Oversight

The Committee shall:

- (a) Review, challenge and recommend to the Board for approval all new Risk Appetite Statements, and at least annually and more frequently as required, the Business Risk Assessment/(s).

Review, challenge and approve any material changes to the Society's Risk Appetite measures, tolerances, limits, mandates and authorities in respect of risks facing the business.

This includes the Financial Services including Financial Crime (money laundering, countering the financing of terrorism and proliferation financing) Risk Appetite and Business Risk Assessment.

(b) Seek assurance on the risks the Society identifies as those it may be exposed to, including:

- a. business continuity plans;
- b. environmental, social and governance (ESG) issues;
- c. ethical matters;
- d. health and safety (including food safety);
- e. IT operations, including cyber risk and information security;
- f. Legal, regulatory and compliance risk;
- g. major incident;
- h. material litigation;
- i. operational risk;
- j. pandemic risk;
- k. financial services as they relate to

financial crime risks (including money laundering and terrorism financing, sanctions and proliferation)

- l. reputational risk; and
- m. threats to the business plan or strategy.

(c) Provide oversight for the Board, of the review and approval of any risks to be accepted which exceed the Society's Risk Appetite Statement.

(d) Ensure the business strategy aligns to the Society's Risk Appetite Statement.

#### 7.4 Business Strategy

The Committee shall:

- (a) Provide detailed review and challenge of proposed business strategy considering the impact on the Society's risk profile and make recommendations to the Board.
- (b) Ensure appropriate due diligence is carried out focusing on risk aspects and implications for risk profile and appetite when advising the Board on strategic acquisitions or disposals.

## 7.5 Risk Monitoring

The Committee shall:

- (a) Consider, oversee and advise the Board on, and provide challenge on the Society's exposure to, all principal and emerging risks to the business, and dedicate clear and explicit focus to current and forward-looking aspects of risk exposure, especially where those risks could undermine strategy, reputation or long term viability.
- (b) Advise the Board on the likelihood and the impact of principal risks materialising
- (c) Review and challenge management's risk mitigation and control remediation actions, including those arising from the financial services business financial crime compliance monitoring programme as tabled by the MLCO.
- (d) In cooperation with the Audit Committee, monitor identified control failings and weaknesses and management actions taken to resolve them to include but not limited to establishing and maintaining adequate procedures for:
  - i. monitoring compliance with, and testing the effectiveness of, its policies and procedures; and
  - ii. monitoring and testing the effectiveness of measures to promote awareness and training of relevant employees.
- (e) This includes the outcomes from the Key Person (MLCO/MLRO) reports and the status and outcomes arising from the financial crime compliance monitoring programme as tabled by the MLCO.
- (f) Review reports on any material breaches of risk limits and the adequacy of proposed action.
- (g) Oversee for the Board, any horizon scanning by the Society to identify potential threats, risks and emerging issues to include but not limited to the countering of money laundering, financing of terrorism, proliferation financing, health & safety, food safety, data protection and information security.
- (h) Receive prompt notification of any material adverse reports or sanctions by any competent authority.

## 7.6 Risk Reporting

The Committee shall:

- (a) Receive reports, findings and recommendations from the risk function and MLCO where appropriate including the outcomes of the compliance monitoring programme and separately noting significant issues.
- (b) In co-operation with the Audit Committee, review and approve the statements to be included in the annual report concerning internal controls and risk management.

## 7.7 Internal Audit, including Risk & Compliance function

In the context of the internal control arrangements set by the Executive, the Committee shall oversee for the Board, the effectiveness of the internal audit function and risk & compliance function including the Key Person role holders (MLRO/MLCO), of the Society:

- (a) approve the appointment of any Internal Auditor or third party providing Internal Audit services;

- (b) recommend for approval the appointment of any Key Person role holder (MLCO/MLRO), or third party engaged to provide financial services regulatory support;
- (c) review and approve any Internal Auditor's job description, terms of reference and objectives, and ensure the Internal Auditor has the necessary resources and access to information to enable the Internal Auditor to fulfil his or her mandate, and that he or she is equipped to perform in accordance with appropriate professional standards, or approve the basis of engagement of any third party providing Internal Audit Services;
- (d) recommend for approval any job description, terms of reference and objectives for any Key Person role holder as well as for any proposed appointment as a Deputy MLRO.
- (e) ensure the Internal Auditor has direct access to the Society's Chair of the Board and to the Committee Chair, and is accountable to the Committee;
- (f) ensure that the appointed Key Persons have unfettered access to ELT, the Committee and the Board.
- (g) review and assess the annual Internal Audit Work Plan;
- (h) review and assess the annual financial crime compliance monitoring programme;
- (i) receive a report on the results of the Internal Auditor's work;
- (j) review and monitor the Executive's responsiveness to the Internal Auditor's findings and recommendations;
- (k) if an Internal Auditor is appointed, meet with the Internal Auditor at least once a year without the presence of any Executive member; and
- (l) monitor and review the effectiveness of the Society's Internal Audit function, in the context of the Society's overall risk management system and compliance systems.
- (m) receive the Key Person reports on a regular basis from the Key Person role holders, including MLCO and MLRO;
- (n) review and monitor the Executive's responsiveness to the findings and recommendations arising from the Key Person reports, including the outputs from the compliance monitoring programme as tabled by the MLCO;

monitor and review the effectiveness of the Society's Compliance function, including MLRO.

## **8. REPORTING RESPONSIBILITIES**

The Committee Chair will report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also report to the Board on how it has discharged its responsibilities.

The Committee will compile a report on its activities to be included in the Society's annual report.

## **9. OTHER MATTERS**

The Committee will:

- a) Have access to sufficient resources in order to carry out its duties, including access to the Society Secretary's support team for advice and assistance as required;
- b) 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, including financial services and financial crime, data protection and Health & Safety, food safety and information security training & awareness;
- c) Give due consideration to all relevant laws and regulations applicable to the Society;
- d) Oversee any investigation of activities which are within its terms of reference;

- e) Work and liaise as necessary with all other Board Committees, ensuring interaction between Committees and with the Board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different Committees
- f) Ensure that a periodic evaluation of the Committee's performance is carried out
- g) 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. AUTHORITY**

The Committee is authorised by the Board of Directors of the Society to:

- a) Investigate any activity within its terms of reference;
- b) Obtain any information it requires from any employee of the Society in order to perform its duties;
- c) Obtain, at the Society's expense, independent legal, accounting or other professional advice on any matter if it believes it necessary to do so;
- d) Call any employee to be questioned at a meeting of the Committee as and when required.
- e) In the event that there are any issues that cannot be resolved between:
  - i. the members of the Committee, the matter shall be referred to the Board for resolution; and/or
  - ii. the Committee and the Board, the Board may refer the matter to the Society's Members in its annual report and accounts.