

# Court Risk Committee

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## Terms of Reference

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| <b>Document Title:</b>    | <b>Court Risk Committee Terms of Reference</b> |
| <b>Reviewed by CRC:</b>   | <b>24 July 2019</b>                            |
| <b>Approved by Court:</b> | <b>24 July 2019</b>                            |
| <b>Effective from:</b>    | <b>1 August 2019</b>                           |
| <b>Review frequency:</b>  | <b>Annually</b>                                |

# **The Governor and Company of the Bank of Ireland (the “Bank”)**

## **Court Risk Committee**

### **Terms of Reference**

#### **Section 1 – Objectives**

The Court Risk Committee (“**CRC**” or the “**Committee**”) is established to monitor risk governance and to assist the Court of Directors of The Governor and Company of the Bank of Ireland (the “**Court**”) in discharging its responsibilities in ensuring that risks relating to the Bank and its subsidiaries (the “**GovCo Group**”) are properly identified, reported, and assessed; that risks are properly controlled; and that strategy is informed by and aligned with the Group’s risk appetite.

#### **Section 2 – Risk Framework**

The CRC is a Court appointed committee. The CRC makes recommendations to the Court on risk issues where the Court has reserved authority, maintains oversight of the GovCo Group’s risk profile, including adherence to Group risk principles, policies and standards and approves certain material risk policies within delegated discretion. Within the parameters of Court approved Risk Appetite, high level policies, frameworks and principles, the CRC approves certain material risk policies. In addition the CRC ensures that risks are properly identified and assessed; that risks are properly controlled and managed; and that strategy is informed by and aligned with the Group’s risk appetite. The Terms of Reference of the CRC are approved by the Court.

#### **Section 3 - Membership**

- 3.1 The Committee shall comprise at least four (4) members, all of whom will be Non-Executive Directors whom the Court believes have appropriate knowledge, skills and expertise to understand and monitor risk strategy and risk appetite. To ensure co-ordination with the work of the Court Audit Committee (“**CAC**”), the Chairman of the CAC should be a member of the CRC and the Chairman of the CRC should be a member of the CAC. Additionally, at least one member of the Committee will also be a member of the Court Remuneration Committee. The Committee will include one or more member(s) who, the Court believes, have individually and/or collectively specific risk management expertise and experience.
- 3.2 The Chief Executive, the Group Chief Risk Officer, the Head of Internal Audit and the Chief Financial Officer, while not members of the Committee, will normally attend meetings.
- 3.3 Membership of the Committee will be reviewed each year by the Court Nomination and Governance Committee in consultation with the Chairman of the CRC and changes as required will be recommended to the Court at that time. While there is no fixed term of membership, the general aim is refresh the membership from time to time to ensure an appropriate balance between continuity and fresh perspectives.
- 3.4 The Chairman will be appointed by the Court on the recommendation of the Court Nomination and Governance Committee in consultation with the existing Chairman of the CRC. In the absence of the Committee Chairman the remaining members present shall elect one of themselves to chair the meeting.
- 3.5 The Chairman will be responsible for leadership of the Committee and for ensuring its effectiveness in all aspects of its role. The Chairman should also facilitate the effective contribution of all members.

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<sup>1</sup> As per Group document

- 3.6 The Group Secretary or his/her nominee, as agreed with the Chairman of the Committee will provide the secretariat function for the Committee. He/she will not be a member of the Committee. The Group Secretary's Office will support the Committee.
- 3.7 The Committee shall be provided with appropriate and timely training, both in the form of an induction programme for new members and ongoing skills refresh programme for all members. The Group Chief Risk Officer will be responsible for ensuring this training is provided.

#### **Section 4 - Meetings and Quorum**

- 4.1 Meetings shall generally be held at least four (4) times per year.
- 4.2 The Chairman of the Committee or the Governor of the Bank may each request that a meeting be held at any time. Any other member of the Committee, or the Group Chief Risk Officer may each request the Chairman to convene a meeting at any time.
- 4.3 The quorum for meetings will be three (3) members, to include the Chairman or alternate Chairman.
- 4.4 Meetings will be formal, with members attending in person or by conference call.
- 4.5 Questions arising at any Committee meeting shall be decided by a majority of votes, where there is an equality of votes, the Chairman shall have a second or casting vote. Votes shall be recorded in the minutes. Where decisions are unanimous, they shall be recorded as such in the minutes. Dissensions and negative votes shall be documented in the minutes in terms acceptable to the dissenting person or negative voter.

#### **Section 5 – Key Responsibilities & Functions**

The Committee has the following specified key functions and responsibilities:

- 5.1 It will consider the recommendations of Group Risk Policy Committee (“GRPC”) on items as detailed hereunder which are relevant to the GovCo Group.

##### **Risk Strategy/ Management**

- 5.1.1 Review and recommend to the Court for approval the GovCo<sup>1</sup> Group's Risk Appetite Statement, Risk Appetite Peer Group Selection Framework and Risk Appetite Peer Group Selection.
- 5.1.2 Review and recommend to the Court for approval the GovCo<sup>1</sup> Group Risk Framework.
- 5.1.3 Advise and support the Court regarding the monitoring of the GovCo Group's overall actual and future risk appetite and strategy, taking into account all types of risks, to ensure that they are in line with the business strategy, objectives, corporate culture and values of the GovCo Group;
- 5.1.4 Review and recommend to the Court for approval changes to the risk strategy resulting from, changes in the business model of the GovCo Group, market developments or recommendations made by the risk management function;

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<sup>1</sup> As per Group document

- 5.1.5 Consider as appropriate, on behalf of the Court, management documents on the risk appetite measures to be assessed through a 'Review and Challenge' process and report the conclusions to the Court.
- 5.1.6 Review and approve the output of the GovCo Group's annual Risk Identification Process including the output of the GovCo<sup>1</sup> Group's model risk assessment process.
- 5.1.7 Review all breaches of Board Risk Appetite and breaches of GRPC Supporting Metrics (and other limits that are not Risk Appetite Limits). Review materiality assessments of breaches deemed material by GRPC, with similar protocols at subsidiary level. Recommend to the Board an assessment of materiality, with onward reporting of material breaches to regulators.
- 5.1.8 Review and consider annually proposed changes to the Risk Management Notes contained in the Annual Report.
- 5.1.9 Review and consider the quarterly Court Risk Report.
- 5.1.10 Review and approve the Court Risk Report Reader Guide prior to noting by the Court.
- 5.1.11 Review and consider the semi-annual review of the Top 5 Risks facing the GovCo Group prior to review and consideration by the Court.
- 5.1.12 Review and recommend for approval to the Court the Group Recovery Plan.
- 5.1.13 Review and consider emerging risks for the GovCo Group. Perform deep dive risk reviews into subsidiaries and key business lines as appropriate.
- 5.1.14 Review and consider the Risk Appetite Statement and ICAAP of BOIUK plc.
- 5.1.15 Review and approve the GRPC's Terms of Reference. On an annual basis, receive the outcome of reviews of effectiveness of the GRPC and take action as appropriate on the findings.
- 5.1.16 Review and consider GRPC minutes.
- 5.1.17 Approve the Terms of Reference of the Risk Measurement Committee.

### **Credit Risk**

- 5.1.18 Review and consider as appropriate Asset Quality. Provide key observations on asset quality to the GCAC as an input into the CAC's consideration, review and evaluation of the GovCo Group's impairment charge, the quantum of impairment provisions and the defaulted loan balances at year end.
- 5.1.19 Review and recommend to the Court for approval the GovCo<sup>1</sup> Group's Credit Policy.
- 5.1.20 Review and recommend to the Court for approval the GovCo<sup>1</sup> Group's Commercial Property Valuation Policy.
- 5.1.21 Review and recommend to the Court for approval the GovCo<sup>1</sup> Group's Country Risk Policy (incorporating Country Risk Exposure Guide Points). Review and recommend Country Risk Policy exceptions.

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<sup>1</sup> As per Group document

- 5.1.22 Review and approve the GovCo<sup>1</sup> Group's Country Limits within Country Risk Exposure Guide Points and recommend limits outside the guidepoints to the Court for approval.
- 5.1.23 Review and recommend to the Court for approval Court Approved Personal Lending Discretions.
- 5.1.24 Review and recommend to the Court for approval bank limits that exceed the Risk Appetite limit for Single Name Bank Exposure.
- 5.1.25 Review and consider as appropriate Credit Policy Exceptions reported in the quarterly Court Risk Report.
- 5.1.26 Review and recommend to the Court for approval the GovCo<sup>1</sup> Group's Equity Underwriting Policy, delegated discretions in respect of the approval of equity underwriting, and equity underwrite transactions outside of discretions delegated by the Court.
- 5.1.27 In the event of a Credit Category limit breach, review and consider the breach as reported in the Court Risk Report and the relevant business unit's action plan detailing the cause of the limit breach and outlining how the breach will be addressed within a defined timeframe, in advance of review and consideration by the Court. Advise the Court of any material breaches of Credit Category and Portfolio limits where the frequency of breaches is a cause for concern.
- 5.1.28 In the event of a Portfolio limit breach, review and consider the breach as reported in the Court Risk Report and the relevant business unit's action plan detailing the cause of the limit breach and outlining how the breach will be addressed within a defined timeframe. Breaches of Portfolio limit are advised to the Court through the Court Risk Report.

### **Market Risk**

- 5.1.29 Review and recommend to the Court for approval the GovCo<sup>1</sup> Group's Policy on Market Risk.
- 5.1.30 Review and recommend to the Court for approval the GovCo<sup>1</sup> Group's overall Value at Risk ("VaR") limit.
- 5.1.31 Approve the GovCo<sup>1</sup> Group's Policy on Derivatives.

### **Capital Management**

- 5.1.32 Review and recommend to the Court for approval the Group's Internal Capital Adequacy Assessment Process ("ICAAP") report, incorporating the solvency stress testing results
- 5.1.33 Review and recommend to the Court for approval the ICAAP supporting detailed documents including:
  - (a) the Reverse Stress Testing Report;
  - (b) the Capital Allocation and Risk Adjusted Return on Capital Framework;
  - (c) the Capital Requirements Report;
  - (d) Financial Projections – Base and Stress Case; and
  - (e) Contingent Capital Plan.

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<sup>1</sup> As per Group document

## **Liquidity Risk**

- 5.1.34 Review and recommend to the Court for approval the following ILAAP supporting documents:
  - (a) the GovCo<sup>1</sup> Group Funding and Liquidity Management Strategy;
  - (b) the GovCo<sup>1</sup> Group Funding and Liquidity Policy; and
  - (c) the GovCo<sup>1</sup> Group Contingency Funding Plan.
- 5.1.35 Review and consider as appropriate the results of the GovCo<sup>1</sup> Group Liquidity stress testing position prior to review and consideration by the Court.
- 5.1.36 Review and consider as appropriate Asset and Liability Committee (“ALCO”) approved limits via GRPC minutes.
- 5.1.37 Review and recommend to the Court for approval the Group’s Internal Liquidity Adequacy Assessment Process (“ILAAP”) report.

## **Operational, Regulatory, Conduct and Other Risks**

- 5.1.38 Review and approve as appropriate Group high level policies and framework covering the GovCo Group’s relevant key risks except Credit, Funding & Liquidity and Market Risk where the Court has reserved authority:
  - (a) Group Operational Risk Policy;
  - (b) Group Anti-Money Laundering Policy;
  - (c) GovCo<sup>1</sup> Group Sanctions and Countering the Financing of Terrorism Policy;
  - (d) GovCo<sup>1</sup> Group Conduct Risk Policy;
  - (e) GovCo<sup>1</sup> Group Reputation Risk Policy;
  - (f) Group Sourcing Risk Policy; and
  - (g) Group Model Risk Policy.
- 5.1.39 Review progress on the CBI Risk Mitigation Programme (“RMP”) and other material regulatory interactions which the Group Chief Risk Officer brings to the attention of the Committee.
- 5.1.40 Monitor that the risk culture of the GovCo Group is implemented consistently.

In addition to items submitted via the GRPC, the CRC’s responsibilities include:

- 5.2 Monitoring the risk elements of a due diligence appraisal of any acquisition or divestment activity reserved for Court decision and advising the Court on their findings.
- 5.3 Receiving and considering as appropriate the implications for the GovCo<sup>1</sup> Group’s risk governance and management framework of the findings of the External Auditors and Group Internal Audit (including Group Credit Review) in respect of risk management and follow up on implementation of appropriate measures.
- 5.4 Provide oversight on the alignment between all material financial products and services offered to clients and the business model and risk strategy of the GovCo Group, taking into account the risks involved, and the alignment between the prices assigned to and the profits gained from those products and services;

<sup>1</sup> As per Group document

- 5.5 Providing advice to the Court in relation to the appointment, replacement or dismissal of the Group Chief Risk Officer.
- 5.6 Provide advice to the Court on the appointment of external consultants that the Court may decide to engage for advice or support on risk matters;
- 5.7 Providing Group Remuneration Committee with appropriate risk related input to their annual review of Group remuneration policy.
- 5.8 Approving the minutes of previous CRC meetings.
- 5.9 Reviewing and recommending the CRC Terms of Reference or amendments thereto to the Court on an annual basis. Reviewing and recommending changes to the CRC's membership panel to the Court Nomination and Governance Committee for Court approval.
- 5.10 Noting the minutes of the material subsidiary Risk Committee meetings.

### **Section 6 – Minutes/ Reporting**

- 6.1 Minutes are produced by the CRC Secretary, circulated to all members and submitted to a subsequent CRC meeting for approval. Copies of the approved minutes are submitted to the Court as soon as possible for review and consideration.
- 6.2 Minutes should clearly record what decisions were taken, whether decisions were taken unanimously or with dissent and record any dissenting arguments.
- 6.3 The Chairman will report formally on the key aspects of the proceedings of the Committee to the subsequent full meeting of the Court.

### **Section 7 – Authority**

- 7.1 The Committee may investigate any matter falling within its terms of reference or any other area of risk within the GovCo Group calling on whatever resources (including external professional or legal services) and information it considers necessary to so do. It shall have access to adequate funding to enable it to discharge its duties.
- 7.2 The Committee may invite any Director, Executive or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objectives.
- 7.3 The Committee is authorised to seek any information it requires from any employee of the GovCo Group to enable it to discharge its responsibilities.
- 7.4 The Committee shall periodically review and decide on the content, format and frequency of the information on risk to be reported to them.

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<sup>1</sup> As per Group document

## **Section 8 – Review of Operations**

On an annual basis, the Committee will review the effectiveness of its operations including a review of its Terms of Reference and submit a report to the Court on its findings and recommendations.

## **Section 9 – Responsibility of Management**

Management will ensure that all information relevant to the discharge by the Committee of its responsibilities, detailed above, is provided to the Committee (as requested by the Committee). Management will also ensure that matters of material concern that are relevant to the Committee's responsibilities are brought to the attention of the Committee promptly.

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<sup>1</sup> As per Group document