

VDS Risk and Compliance Committee Terms of Reference

16 July 2024

1. Introduction

These Terms of Reference for the Risk and Compliance Committee address the principal purpose and responsibilities that the Committee must discharge. There are corresponding documents describing the principal duties of the Board, Executive Committee, Audit Committee, Nominations Committee, and Remuneration Committee.

Committee members provide entrepreneurial leadership and are collectively responsible for the long-term success of the Veterinary Defence Society Limited.

2. Purpose

The Committee provides a forum for oversight of risk management and compliance functions across the Society, including the oversight of the financial risk of climate change and matters arising out of the Society's approach to Environmental, Social and Governance (ESG) matters, to ensure the effective operation of risk management policies, systems and documented procedures and other internal controls.

The Committee assists and advises the Board in exercising its responsibilities:

- To ensure the Society has sufficient resources to meet its overall solvency needs considering its risk profile, approved risk tolerance limits and business strategy.
- For all aspects of the risk management and internal control frameworks.
- For all aspects connected with the current and future risk strategy.
- To provide the Board with additional assurance regarding the Board's approach to the Risk Management Framework.
- To aim to maximise the efficiency and effectiveness of the Three Lines Model.
- To assist the Board in fulfilling its oversight responsibilities, specifically in relation to monitoring the effectiveness of the business's risk management processes and operating within the Board's Risk Appetite.

The Committee will coordinate its activities with the Society's Audit Committee, to avoid unnecessary duplication of work.

3. Duties

The Committee has the following duties and responsibilities. In the exercise of such responsibilities, the Committee will, via its Chair, seek the input of relevant members of the Executive Committee or Senior Management and will take advantage of the input and advice offered by the Audit Committee. The duties and responsibilities of the Committee shall extend to risks arising from the Society's Irish branch activities and, for the avoidance of doubt, the operations of the Irish branch office shall be included in the Society's overall Risk Management Framework.

Risk Management and Internal Controls

The Committee shall:

1. Ensure the development and maintenance of an effective and well-integrated risk management system, capital management strategy, and investment strategy.
2. Ensure that systems and processes are in place to enable existing and emerging risks to be identified, mitigated, monitored, and reported, and review the management actions required in response to changes in the risk profile.
3. Assist the Board to foster a culture within the Society that encourages good stewardship of risk

and demonstrates the benefits of a risk-based approach to internal control and management of the Society.

4. Review proposals in respect of overall risk appetite, tolerance and risk strategy, considering the Society's current risk profile and solvency position, covering as a minimum, the following risk categories: strategic, market, credit, operational, underwriting, liquidity, regulatory and emerging risks.
5. Oversee the Society's ORSA process, ensuring the regulatory reporting requirements of all risk related matters are fulfilled. In doing so the Committee shall:
 - Consider the method and assumptions used to prepare the Society's Solvency Capital Requirement and make recommendations to the Board.
 - Review the scenarios and stress tests, including the methodology adopted, that the Society uses to assess the adequacy of its capital and liquidity, and the reverse stress testing carried by the Society.
6. Have oversight of and challenge proposed strategic and material transactions including new ventures, ensuring that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the Society and taking independent external advice where appropriate and available.
7. In conjunction with the Audit Committee, review the effect on the Society's risk profile of the findings of any audits commissioned by the Audit Committee and follow up with management as appropriate.
8. Review reports from the Chief Risk Officer and or the Chief Executive, on any material breaches of risk limits and any recommendations on the adequacy of proposed action.
9. Consider and approve the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards
10. Oversee the implementation of the Society's Investment Strategy, ensuring that the Society's investment funds are managed in accordance with that strategy and providing assurance to the Board as required.
11. Keep under review the Society's relationship with the regulators.
12. Meet with the Chief Risk Officer at least once a year, without the presence of management.
13. Evaluate the Company's principal risks, to be considered by the Board when assessing the Company's prospects.

Governance Arrangements and Regulatory Compliance

The Committee shall:

1. Provide oversight of the Society's governance and regulatory compliance arrangements, and

its related policies and procedures, and monitor their effectiveness.

2. Keep under review developments and prospective changes in the regulatory environment.
3. Keep under review developments in the UK Corporate Governance Code as revised by the Association of Financial Mutuals and monitor the Society's compliance with the Code's principles and guidance.

Compliance Oversight

The Committee shall:

1. Review and approve the remit of the compliance function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate and is equipped to perform in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate independence and is free from management and other restrictions.
2. Review and approve the annual Compliance Activity and Monitoring Plan and monitor progress against the plan.
3. Review the compliance reporting to ensure it is appropriate.
4. Review and monitor management's responsiveness to the findings and recommendations of compliance monitoring reports and ensure that the agreed actions are put into effect.
5. Review the Society's summary complaints report to identify any systemic problems or material breaches of compliance.
6. Receive reports from the Society's Chief Risk Officer/Head of Compliance, who shall report directly to the Committee on the Society's approach to cyber or financial crime.
7. Oversee the effectiveness of the Society's cyber and financial crime processes.

External Actuarial Oversight

Oversee the relationship with the external actuarial advisors including (but not limited to):

1. Oversee the selection process for new actuarial advisors.
2. Approval of their terms of engagement, including the Engagement Letter issued at the start of each annual cycle.
3. Approval of their work plan for the year.
4. Annually assess their qualifications, expertise, and resources, and their effectiveness of the reserving and solvency processes
5. Ensure their work is completed in line with the relevant professional standards.
6. Seek to ensure co-ordination of their work with the activities of the external auditors in relation to year end and risk reporting.

4. Membership

Members of the Committee shall be appointed by the Board on the recommendation of the Nominations Committee and in consultation with the Chair of the Risk and Compliance Committee. The Committee shall comprise a majority of independent non-executive directors and the Chief Executive. The Chair of the Board shall not be a member of the Committee.

Only members of the Committee and the Chief Risk Officer ('the CRO' who undertakes Senior Insurance Management Function 4) have the right to attend Committee meetings. However, other individuals such

as the Chair of the Board, Executive Directors, or senior managers may be invited to attend all or part of any meeting as and when appropriate.

Chair

The Board shall appoint the Committee Chair who shall be an independent Non-Executive Director. The Chair of the Audit Committee shall, in the absence of the Committee Chair, act as deputy chair.

5. Secretary

The Company Secretary or their nominee shall act as the Secretary of the Committee. All directors shall have access to the advice of the Company Secretary, who is responsible for advising the committee on all governance matters.

6. Quorum

The quorum necessary for the transaction of business shall be two members, one of which must be the Chair of the Committee, or deputy (Chair of the Audit Committee). A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

7. Frequency of Meetings

The Committee shall meet at least three times a year at appropriate times in the regulatory and risk reporting cycle and otherwise as required. The Society's Audit Committee and may be held in person or remotely.

Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Society's governance, including the Chair of the Board, the Chief Executive and the Company Secretary.

8. Notice of Meetings

Meetings of the Committee shall be called by the Company Secretary at the request of any of its members if they consider it necessary.

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.

9. Conduct of Meetings

Except as outlined above, meetings of the committee shall be conducted in accordance with the Articles of Association where specified.

10. Minutes of Meetings

The Company Secretary or their nominee shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

Minutes of Committee meetings shall be circulated within 15 working days to all members of the Committee.

11. Conflicts of Interest

The Committee Chair shall ascertain any conflicts of interest of members of the Committee at the start of each meeting in relation to the matters to be discussed and shall be recorded accordingly in the minutes. The Committee Chair may require any such conflicted member to withdraw from the meeting whilst the matter is considered by the Committee.

12. Engagement

The Chair of the Committee shall attend the Annual General Meeting prepared to respond to any member questions on the Committee's activities.

In addition, the Chair of the Committee should seek engagement with key stakeholders on significant matters relating to the Committee's area of responsibility, including colleagues.

13. Annual performance review

At least once a year, review its own performance and constitution to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

14. Terms of Reference review

These Terms of reference shall be reviewed annually.

15. Authority

The Committee is authorised:

- To seek any information, it requires from any employee of the Society to perform its duties.
- To obtain, at the Society's expense and via the Company Secretary, outside legal or other professional advice on any matter within its Terms of Reference.

16. Reporting Structure

The CRO shall report directly to the Committee.

The Committee will report directly to the Board via the Chair of the Committee.

The Chair of the Committee shall provide a written or verbal report (as appropriate or as requested by the Chair of the Board) to the following Board meeting.

17. Other Matters

The Committee:

1. shall consider and make recommendations on any other issues as requested by the Board.