
BOARD RISK COMMITTEE CHARTER

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RISK GOVERNANCE

The Board of Directors and management of HFC Limited (hereinafter referred to as “HFC” or “the Bank”) have established a corporate risk governance process to manage the major risks that are inherent to the Bank and to provide reasonable assurance that the Banks’ key objectives will be achieved. In general, the Company’s risk model categorizes risks into eight risk types as per the CBK risk management guidelines:

- Credit risk,
- Operational risk.
- ICT Risk
- Liquidity risk
- Market risk
- Strategic risk
- Regulatory or Compliance risk
- Reputation risk.

Organizationally, the Bank intends to measure and manage risk according to the eight risk categories. The divisional directors and line managers are responsible for managing the risks related to their respective units. The management of all the risks is coordinated by the Risk and Compliance function under the risk management framework.

HFC has established various committees as part of its risk management framework to ensure adequate risk measurement and management of the Bank’s exposure to risk. These committees are jointly responsible for ensuring adequate risk measurement and management in their respective areas of authority. These committees include: Asset/Liability Management Committee (“ALCO”), the **Management** Lending Committee and the Executive Risk Management Committee (“ERMC”). The Executive Risk Management Committee is chaired by the Managing Director (“MD”), and is responsible for formulation and implementation of risk strategies for mitigation of the material risks faced by the Bank. The constitution and operation of ERMC will be defined as per Terms of References(TOR) approved by Board Risk Committee

The Risk & Compliance Manager provides overall leadership in the coordination and implementation of the company’s risk management framework and is also responsible for

the oversight of the company's risk management program as well as risk governance processes. The Risk & Compliance Manager may recommend the inclusion of such other officers or establishment of such other committees as required for effective risk management and governance, including risk measurement, risk monitoring, risk control or mitigation, and risk reporting.

The Board of Directors is responsible for oversight of the Bank's corporate risk governance process through the Board Risk Management Committee.

PURPOSE

The Board Risk Committee ("BRC") is a committee of the Board established under Central Bank of Kenya prudential guideline requirement CBK/PG/02-Corporate Governance section 3.5.2 (iv). It was formally constituted by the Board of Directors, in the 275th meeting of February 27th, 2007 minute 4107.

The main purpose of the committee is to:

- Ensure the quality, integrity and reliability of the institution's risk management
- Assist the Board of Directors in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting.
- Ensure that the company operates within the set risk appetite levels and that any deviations are corrected within a given time frame.
- Ensure compliance with applicable risk management policies as approved by BRC from time to time".

COMPOSITION

The Board Risk Committee will comprise of at least **three** Board Members. The chairman of the committee must an Independent Non- Executive Director and the majority of members must be Non Executive. The Board will appoint Committee members and the Committee chair. The Board of Directors may replace committee members. The Chairperson of the Board may not be the Chairperson of the committee. Membership will be reviewed annually or on a need be basis. The company secretary shall be the secretary of the Committee .

AUTHORITY

The Board Risk Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- a. Summon before it any senior management staff or any other staff for explanations regarding unresolved risk management review matters or for purposes of providing information to the committee to enable it achieve its objectives.
- b. Obtain outside or other independent professional advice as it carries out its duties. This will be authorised through the Board Executive Committee.
- c. Review and approve proposals to outsource any risk management activities.
- d. Have access to any information it needs to fulfil its responsibilities.

MEETINGS

- **The Committee will report directly to the Board through the Risk Committee chairman.**
- The committee will meet as often as it determines appropriate, but not less frequently than twice a year.
- All committee members are expected to attend at least 75% of the meetings in person.
- **The Committee decisions shall be taken by a majority of votes of those present. In case of a tie, the Chairman shall have a second or casting vote. The Chairman shall at his sole discretion and as he deems appropriate use the casting vote, or refer the matter to the full Board for decision.**
- **The agenda and the discussion papers of the meeting shall be circulated to the members of the Committee, and those invited to the meeting at least one week prior to the next scheduled meeting.**
- **The minutes of the meeting and the action plan arising therefrom shall be circulated to the Board chairman, members of Committee, and those who attended the meeting within one month of the meeting.**
- The Risk & Compliance function will be required to report to the committee on the key risks.
- As necessary or desirable, the chairman of the committee may request that certain members of management be present at meetings of the committee.
- A quorum will comprise of any two committee members.

RESPONSIBILITIES

The committee, to the extent it deems necessary will carry out the following responsibilities:

a. General Responsibilities

- To set policies on the Bank's risk profile and limits; and determine the adequacy and completeness of the Bank's risk detection and measurement systems.
- To evaluate the Bank's internal control and assurance framework, in order to satisfy itself on the design and completeness of the framework relative to the activities and risk profile of the Bank and its subsidiaries
- To oversee Management's process for the identification of significant risks across the Bank and the adequacy of risk mitigation, prevention, detection and reporting mechanisms.
- To set out the nature, role, responsibility and authority of the risk management function with the institution and outline the scope of the risk management framework.
- Establish a governance structure which contributes to the effective oversight of the Bank while taking into account of the nature, scale, and complexity of the different risks to which the Bank is exposed to.
- To review the Bank's compliance level with applicable laws and regulatory requirements which may impact on the Bank's risk profile
- To conduct periodic review of changes in the economic and business environment, including emerging trends and other factors relevant to the Bank's risk profile
- To review the Asset and Liability Management of the Bank;

Others

- b. Periodic review and approval of the Board Risk committee charter. The committee shall also review and approve the company's significant risk assessment and risk assessment policies. In addition, the committee retains the ability to authorize management to develop and implement any additional policies relating to risk management.
- c. Receive information from the Executive Risk Management Committee regarding the activities of the Executive Risk Management Committee and discuss matters related to the company's aggregate risk profile as appropriate.
- d. Perform other activities related to this charter as requested by the Board of Directors.

- e. Review and assess the adequacy of the committee charter, annually requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- f. Ensure that managers establish a risk aware culture which reflects the bank's risk policies and philosophies.
- g. Review methods of identifying broad areas of risk and set parameters or guidelines for business risk reviews.
- h. Through exception tracking, oversee and monitor to ensure corrective action on the results of internal/external audits and or internal/external/regulatory reviews.
- i. Assist the Board of Directors in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting;
- j. Provide independent and objective oversight and review of the information presented by management on corporate accountability and specifically associated risk, also taking account of risk concerns raised in the Audit Committee, Lending Committee and Asset and Liability Committee meetings;
- k. Monitor external developments relating to the practice of corporate accountability and the reporting of specifically associated risk, including emerging and prospective impact;
- l. Set out the nature, role, responsibility and authority of the risk management function with the institution and outline the scope of risk management work;
- m. Review and assess the integrity of the risk control systems and ensure that the risk policies and strategies are effectively managed;
- n. Develop strategies and tactics for managing assets and liabilities and provide guidelines to the board ALCO in line with identified risks;
- o. Establish the terms of reference for the risk department.
- p. Monitor and review the annual work plan of the Risk & Compliance department.
- q. Review the Business Continuity Planning process.
- r. Annually review the Committee's own performance

REPORTING

Reports of meetings of the Committee, including a report on all actions taken as well as any recommendations approved by the committee shall be made to the Board of Directors.

The committee shall keep written minutes of each meeting, which shall sets forth the Committees actions as required by the Committee charter, and shall be duly filed in the Company's records.

RELATIONSHIPS

At the Board level the Board Risk committee will:

- a. Review the work of the Executive Risk Management Committee and direct issues that need rectification to the relevant Board or Management committee.
- b. Other Board committees can also forward to the committee risk concerns raised by management in the Audit Committee, Lending Committee and Asset and Liability Committee meetings.

At the Management level the Executive Risk Management Committee will:

- a. Work with stakeholders, to the extent that this is compatible with requirements of independence and objectivity, in a collaborative and pro-active manner. The committee will partner with other line managers to monitor and ensure corrective action is taken on key risk exposures.
- b. Relate to professional organizations and bodies to keep a breast of advances in risk management practices.

Approved by the HFC Board onOctober 2020

Policy Owner

Head of Risk and Compliance