

Co-Operative Family Credit Union

Risk and Compliance Committee Chair's Report to the Annual General Meeting held on 26th January 2026

Summary

The Risk and Compliance Committee ("RCC") is a sub-committee of the Board. Its main purposes are:

- to support the Board in understanding and managing the risk profile of the credit union in order to safeguard the interests of the members and our viability as a business
- to support the Board in ensuring the credit union is compliant with regulation in its operations

The RCC meets three times a year typically in April, August and December. It provides a summary of its activities at the next board meeting.

At each RCC meeting, we review a standard set of risk-focussed reports prepared by management that provide an ongoing assessment of the principal risks the credit union is managing. These reports:

- assess the quality and effectiveness of risk mitigation;
- identify gaps in our risk framework including plans for closing these;
- monitor a set of risk measures which are designed to alert us to areas where we are might potentially breach our established "Risk Appetite" (see below)

Last year, I highlighted credit risk as a key area of focus and reported on our success in controlling losses through the structured approach we have adopted. That discipline has been maintained during the year under review, with similarly high levels of bad debt recovery and provisioning, ensuring that credit risk remains well managed.

At the same time, inflation has remained above target, placing continued pressure on household spending. This environment has required close monitoring of liquidity risk, particularly the impact of withdrawals from savings and shares. Encouragingly, we have once again observed growth in deposit funding, achieving a liquidity ratio of 30% of relevant liabilities—three times the minimum required by the regulator.

We have delivered this strong liquidity position while simultaneously reducing counterparty credit risk and securing robust returns on our investments. Taken together, these outcomes provide clear evidence of the effectiveness of the risk management framework we have developed and the resilience it brings to the credit union. We continue to strengthen our risk management framework and we are confident that this has now reached a good level of maturity.

Risk Appetite

In overall terms, the board has set a low “Risk Appetite” for the credit union. This means that the board is only content to accept deviations from our business plan which are well understood and arise either from our operating environment or an active decision made by the board.

A low Risk Appetite means that we wish to minimise unexpected losses and we seek to prevent them through processes and controls. A key element of this is the assurance provided by our independent Internal Audit process which formally reports to the Audit Committee but provides significant input to the RCC agenda in terms of areas where our processes and controls can be enhanced.

We feel that the processes and controls we have in place are functioning well and at least to the extent that we have not suffered any material unexpected losses in the period.

Stress Testing

Stress testing is an approach which seeks to understand what the impact of adverse events and business conditions might be on the credit union’s viability and regulatory compliance. Examples of this include investigating our tolerance levels to increases in bad debts on our loan book or pressure on our deposit funding driven, for instance, by rising interest rates.

In the year RCC reviewed regular annual stress test exercises including credit risk, reputational risk and compliance risk. These exercises provided RCC with comfort that our Credit Union could withstand significant shocks.

Risk Reporting to the Committee

The RCC, working with management, has now arrived at a consistent and focussed framework for managing risk with, in particular, a structured Risk Pack produced for each meeting.

Comments On Specific Types of Risk

Credit Risk (The risk of borrowers defaulting on their repayments)

- The economic environment with persistent inflation and high interest rates continues to put pressure on our members’ financial resilience which in recent years did see our losses increase due to borrowers facing financial difficulty. The measures we took to correct this and mitigate this risk continue to be effective with losses within budget and recoveries strong.

Interest Rate Risk (The risk of loss due to unexpected changes in interest rates)

- Market rates have begun to fall but remain high by the standards of recent years. Thanks to our short term loan book we have been able to mitigate this risk during the course of the year.

Market Risk (Risk of losses due to movements in the financial markets)

- The credit union does not invest in the stock markets or hold any market related derivative products. Surplus cash is invested with banks, and we have been able through the course of the year to maintain a low risk profile while boosting returns

Liquidity Risk (The risk of being unable to fund liabilities as they fall due, including member withdrawals)

- Our liquidity profile remains strong. The credit union's liquidity ratio (Cash as a percentage of current liabilities) was 30% as at year-ending September 2025. This greatly exceeds the regulatory threshold of 10%, and our internal target of 20%

Operational Risk (The risk of loss due to failure of operational controls)

- Operational risk is a key focus of the regulatory authorities, and we have spent significant time reviewing our processes and controls in this area. We are particularly focussed on ensuring our critical suppliers have robust controls in place to support our continuous operation.

Compliance Risk (The risk of loss due to a failure to comply with legal and regulatory requirements)

- During the year, the credit union continued to strengthen its compliance processes. Internal audit reviews were completed on Account Management and Anti-Money Laundering which did not find any critical issues and did produce some useful recommendations that the management team are progressing.

Robin Webster
Chair of the Risk & Compliance Committee

Audit Committee Report

The Audit Committee is a sub-committee of the Board, established to provide oversight of the credit union's systems of internal control and financial reporting. It was formed in 2022, replacing the Supervisory Committee following a vote by members.

The Committee oversees both internal audit, delivered by Alexander Sloan, and external audit of the annual accounts, delivered by KM Accountants. During the year, the Committee met formally on two occasions. In addition, members reviewed each internal audit report and had the opportunity to discuss findings directly with Alexander Sloan and the credit union's management team.

The Committee approved the Internal Audit plan for the year, under which Alexander Sloan completed two reviews—Account Maintenance in Q1 and Anti-Money Laundering in Q2—with a third review on Governance commencing in Q3. I am pleased to report that none of these reviews identified any critical issues. However, each produced recommendations which management is actively working through.

Alongside internal audit, the Committee reviewed in detail the annual accounts presented to members at today's AGM. Audit findings were discussed with KM Accountants before the Committee recommended the accounts to the Board for approval.

The Committee also received reports on Anti-Money Laundering, Financial Crime Management, and Transaction Monitoring. These reviews assessed the adequacy of the credit union's controls to prevent and detect fraud or money laundering. The Committee was satisfied with the controls in place.

Finally, the Committee is responsible for overseeing the credit union's Whistleblowing Policy. I am pleased to report that there were no instances of whistleblowing during the year.

Grant Mitchell
Chair of Audit Committee

Nominations & Reward Committee, Chair's report

The Nominations & Reward Committee, a sub-committee of the Board, meets twice annually in February and October. Its role is to ensure the Board retains the right balance of skills to support the strategic objectives of the credit union. This includes director recruitment and appointment, with a focus on diversity of background and life experience alongside the necessary skills and expertise.

In addition to recruitment, the committee is responsible for establishing the CEO's reward package (subject to Board approval) and overseeing the creation and implementation of Board-approved reward systems for staff. It also takes a lead on matters of Diversity & Inclusion, ensuring these principles remain embedded in our governance and culture.

Succession planning has been a key priority this year, with upcoming changes to the Board as our Chair, David Fawell, completes his third and final term in January 2026, and our Treasurer, Grant Mitchell, completes his third and final term in January 2027. To prepare for these transitions, a recruitment exercise was undertaken. At the January 2025 AGM, Helen Rawlings and Basil Foulkes were elected to the Board, and in March 2025 we co-opted Amanze Ejiogu, who will stand for election at the January 2026 AGM.

The committee also managed a significant leadership transition during the year. Our Chief Executive, Matt Bland, resigned at the start of 2025 to become Chief Executive of our trade body, the Association of British Credit Unions (ABCUL). Following a recruitment process led by the committee, Lisa Parry was appointed as his successor. She completed a handover in June 2025 and formally commenced her role full-time in September 2025.

Beyond recruitment and succession, the committee continues to oversee staff and director training and development, making use of the ABCUL Academy facility. All directors and staff are required to complete designated pathways annually. This year, we also introduced a Board skills framework, against which all directors completed an assessment. The results were encouraging, showing a broad range of relevant and appropriate skills across the Board. Importantly, no gaps were identified in roles requiring expert-level specialist skills, giving confidence in the Board's ability to meet future challenges.

On behalf of the Nominations & Reward Committee, I would like to thank our staff and board colleagues for their support and hard work this year.

Nisha Ravat
Chair, Nominations & Reward Committee