



Skipton Building Society

Board Risk Committee terms of reference

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1. Purpose

- 1.1 The role of the Board Risk Committee (the “**Committee**”) is to ensure that an adequate and effective Risk Management Framework exists for identifying, measuring, monitoring and managing key risks and stresses that the Skipton Group (the “**Group**”) might be exposed to.

The Group is defined as Skipton Building Society (the “**Society**”) and its subsidiary businesses:

- Connells group;
- Skipton Business Finance Limited;
- Skipton International Limited; and
- Jade Software Corporation Limited.

Specifically, the Committee will:

- 1.2 Ensure that the 2nd Line Risk functions remain independent of business operations and that the Group Chief Risk Officer has unfettered reporting access to the Committee and Board;
- 1.3 Recommend to the Society’s board of directors (the “**Board**”) a Group risk appetite, risk limits and tolerances across the full range of risks to which the business is exposed;
- 1.4 Ensure that business strategy is informed by and aligned with the agreed risk appetite;
- 1.5 Review major initiatives such as acquisitions or new initiatives and be assured that appropriate due diligence has been carried out and that the associated movement in risk profile remains within risk appetite, unless these are to be considered directly by the Board;
- 1.6 Monitor key risk exposures including any policy breaches, ensuring that management is exercising appropriate control to reduce the likelihood of risk crystallisation resulting in financial loss, poor customer outcomes, reputational damage or regulatory concern;
- 1.7 Review, challenge and approve scenarios, and monitor stress tests, including reverse stress tests; and
- 1.8 Determine the quality and effectiveness of the model risk management framework.

2. Duties of the Committee

The Committee shall:

2.1 *Risk Profile*

- 2.1.1 Ensure that the Group implements an effective risk governance structure and control framework which envelops all risk areas with appropriate reporting regimes;
- 2.1.2 Oversee the Group risk profile. Ensure processes for the identification, evaluation and prioritising of risks are robust, challenging the assessment and measurement of key risks while monitoring the actions taken to manage them; and
- 2.1.3 Receive quarterly reports on risk exposures, risk mitigation and emerging risks across the Group.

2.1 *Risk Appetite*

- 2.2.1 Consider on an annual basis and recommend for approval by the Board the Group's Risk Appetite for current and future strategy taking account of the current and prospective macroeconomic and financial environment. Drawing on financial stability assessments such as those published by the Bank of England and PRA, as well as other respected commentators;
- 2.2.2 Review, challenge and recommend to the Board the Society's appetite and tolerance levels for:
- Business Risk;
 - Credit Risk;
 - Funding Risk;
 - Liquidity Risk;
 - Interest Rate Risk and Wholesale Credit Risk;
 - Operational Risk;
 - Outsourcing and Third Party Risk;
 - Operational Resilience including Minimum Impact Tolerance levels for important business services;
 - Model Risk;
 - Capital Risk;
 - MREL Risk;
 - Leverage Risk;
 - Investment Risk;
 - Tax Risk; and
- (each of which form part of the Risk Appetite Statement) on, at least, an annual basis, ensuring that these remain aligned to the Board's overarching Risk Appetite ensuring that the Board is advised of all material changes;
- 2.2.3 Receive monthly updates on compliance with agreed Risk Appetites, and on the mitigation of risks to which the business is exposed to;
- 2.2.4 Consider the risks associated with proposed strategic acquisitions or disposals across the Group and major new initiatives within the Group, in line with agreed mandate structures, ensuring that such proposals are aligned to the Board's Risk Appetite, unless these matters are to be considered directly by the Board;
- 2.2.5 Oversee the control framework to ensure effective operational resilience arrangements are in place across the Group designed to provide a reliable service to customers and clients;
- 2.2.6 Ensure that the Society's operational resilience framework incorporates Operational Continuity in Resolution ("OCIR") requirements;
- 2.2.7 Review, challenge and recommend to the Board for approval the Resolution Assessment Framework; and
- 2.2.8 Review and challenge of the financial and operational risks arising from climate change and management strategy to mitigate these risks.

2.3 *Policies*

- 2.3.1 Review, challenge and approve the Society's:
- Treasury Policy;
 - Stress Testing Policy;
 - The Contingency Funding Plan;
 - ICAAP Policy; and
 - Model Risk Management Policy
- on, at least, an annual basis, ensuring these remain aligned to the Board's overarching Risk Appetite, ensuring that the Board is advised of all material changes;
- 2.3.2 Oversee the following policies and update the Board on any material changes to:
- Lending Policy;

- Credit Management Policy; and
 - Group Operational Risk Policy
- following consideration of proposals by the Executive Risk Committee as appropriate, on at least an annual basis; and

2.3.3 Oversee the operation of relevant policies, e.g. the Treasury Policy and Lending Policy, to ensure they cover, as appropriate, the management of risks arising from climate change.

2.4 Modelling and Planning

2.4.1 Review, challenge and recommend the Capital Management and Model Risk Management frameworks to the Board for approval;

2.4.2 Be informed by Model Risk Committee, to which the Committee delegates responsibility for Model oversight, of appropriate challenge and material information in regard to key aspects of all Tier I and Tier II models/Deterministic Quantitative Methods (“DQMs”) including development, implementation, model performance ratings, identified risks and risk mitigants in place, and overall compliance with regulatory requirements;

2.4.3 Be notified of material changes to Model Risk Management documents, resources or techniques, including Model Development Standard, Model Validation Standard, Model Monitoring Standard and Model Risk Mitigant Standard;

2.4.4 The Committee receives notification about the creation of new Tier I and Tier II models or DQMs, and information on the schedule and outcomes of validation and monitoring for Tier I and Tier II models and DQMs;

2.4.5 Receive and review recommendations from the Chair of the Model Risk Committee on at least an annual basis, to update that committee’s terms of references and approve, as appropriate;

2.4.6 Review and challenge quality of data reporting of the IRB rating system;

2.4.7 Review and recommend scenario assumptions for inclusion in business planning (e.g. Corporate Plan, ILAAP and ICAAP) and receive the results of stress and scenario analysis and determine whether proposed mitigation is sufficient to manage the business risk profile within Board appetite;

2.4.8 Review, challenge and approve the stress and scenario tests (including reverse stress tests and climate change stress scenario testing) and management actions, on, at least, an annual basis highlighting any specific issues to the Board;

2.4.9 Understand the circumstances in which the Society and/or the Group would fail (reverse stress testing) and be satisfied with the level of risk mitigation in place to reduce the likelihood of this occurring.

2.4.10 Review, challenge and recommend the ILAAP to the Board for approval;

2.4.11 Review, challenge and recommend the ICAAP to the Board for approval;

2.4.12 Review, challenge and recommend the Recovery and Resolution Plans to the Board for approval;

2.4.13 Monitor on an ongoing basis the Society’s actual and forecast capital and liquidity positions.

2.5 Other

- 2.5.1 Satisfy itself that the Group Risk function is adequately resourced, has appropriate access to information and is free from constraint by management or other restrictions so as to be able to perform its function effectively;
- 2.5.2 Receive reports on the suitability of business resilience, contingency arrangements and information security (including IT/Digital control matters) across the Group on, at least, an annual basis;
- 2.5.3 Be satisfied that the risk of poor conduct and/or poor outcomes for members and customers is managed and mitigated and receive regular reports on the approach to Customer Duty;
- 2.5.4 Challenge and support management to embed an appropriate risk culture so that colleagues are alive to the wider impact on the organisation of their actions and decisions and respond accordingly;
- 2.5.5 Give due consideration to all relevant laws and regulations, including the PRA and FCA's Listing Rules, Prospectus Regulation Rules and Disclosure Guidance and Transparency Rules, the FCA's Consumer Duty, applicable data protection legislation, the Building Societies Act 1986, and the recommendations of the UK Corporate Governance Code as appropriate;
- 2.5.6 Review significant risk-related FCA & PRA correspondence and ensure that management's response is appropriate unless these are considered directly by the Board;
- 2.5.7 Review and approve the statements to be included in the Society's annual report and accounts concerning the role and responsibilities of the Committee and the action it has taken to discharge those responsibilities;
- 2.5.8 Determine the training and development needs for members of the Committee both at appointment and an on-going basis to ensure that Members of the Committee are appropriately skilled;
- 2.5.9 Obtain such professional external advice as the Committee deems appropriate as a means of taking full account of relevant risk experience elsewhere and in challenging its analysis and assessment;
- 2.5.10 At the request of the Chair of the Board Remuneration Committee ("**RemCo**") review proposals regarding Society executive incentive scheme objectives and provide an opinion to the RemCo on whether there are suitable risk management objectives included and, where appropriate, whether any adjustments to executive remuneration require consideration;
- 2.5.11 In conjunction with the Nominations Committee recommend to the Board the appointment and removal of the Group Chief Risk Officer (noting that the Chair of the Committee will be consulted in respect of the Group Chief Risk Officer's performance appraisal and compensation, the Group Chief Risk Officer's formal reporting line is to the Society's Group Chief Executive Officer; however, the Group Chief Risk Officer also has a reporting line to the Committee through the Chair of the Committee in respect of the matters set out in this TOR); and
- 2.5.18 Work and liaise as necessary with other board committees, ensuring the interaction between committees and with the board is reviewed regularly.

3. Membership

Appointments to the Committee are made by the Board following consideration of recommendations by the Board Nominations Committee in consultation with the Chair of the Committee.

- 3.1 All members of the Committee shall be non-executive directors of the Society.
- 3.2 The Committee shall comprise of up to four members, one of whom shall be designated Chair. The Chair of the Board shall not be a member of the Committee.

- 3.3 The Chair of the Board Audit Committee shall be a member.
- 3.4 One of the Committee members shall also be a member of the Board Remuneration Committee, to ensure holistic risk oversight.
- 3.5 Other individuals, such as the Group Chief Executive, Group Chief Financial Officer and Group Chief Risk Officer may be invited to attend all or part of any meeting to facilitate effective operation of the Committee.
- 3.6 Any non-executive director may, with the agreement of the Chair of the Committee, attend any meeting of the Committee.

4. Quorum

- 4.1 Meetings of the Committee shall be quorate where attended by a minimum of 2 members.
- 4.2 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 by the Board.
- 4.3 Members of the Committee shall be deemed to meet together if they are in separate locations, but are linked by conference telephone, video or other electronic communications equipment. Such a meeting shall be deemed to take place where the largest group of members of the Committee participating is assembled or if there is no such group where the Chair of the meeting is present.

5. Frequency of Meetings

- 5.1 The Committee shall meet at least four times each year or on a more frequent basis as agreed by the Chair of the Committee.
- 5.2 The Committee will meet, at least once per year, in private session, without members of the Group Executive Committee present.

6. Administration

The Group Secretary and General Counsel or their nominee shall act as secretary to the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

7. Authority and Reporting

- 7.1 The Committee is a committee of the Board and has delegated authority from the Board to which it reports.
- 7.2 The Committee is authorised to:
 - 7.2.1 Investigate any activity within its terms of reference;
 - 7.2.2 Obtain external legal or other independent professional advice, at the Society's expense, as it considers necessary to undertake its duties, and to secure the attendance of any such advisers at any meetings of the Committee;
 - 7.2.3 Seek any information it requires from any employee of the Society or any of its subsidiary companies in order to perform its duties;
 - 7.2.4 To delegate any or some of its responsibilities and authority as it sees fit, including to a sub-committee, in relation to specific issues and subject to reporting back to the Committee; and

- 7.2.5 Invite any employee to attend a meeting of the Committee as and when required.
- 7.3 Minutes of the Committee meetings will be made available to the Board for review. In addition, the Chair of the Committee will provide a verbal update to the next Board after each meeting of the Committee on the key matters considered by the meeting.

8. Annual General Meeting

The Chair of the Committee shall attend the Society's annual general meeting prepared to respond to any member questions on the Committee's activities or any matter within the remit of the Committee.

9. Annual Review

- 9.1 The Committee shall review and approve any statements to be included in the Society's Annual Report and Accounts concerning the role and responsibilities of the Committee and the action it has taken to discharge those responsibilities.
- 9.2 The Committee shall work and liaise as necessary with other Board committees, ensuring the interaction between committees and with the board is reviewed regularly.
- 9.3 The Committee shall conduct an annual review of these terms of reference for approval by the Board.