

Board Risk Committee

Terms of Reference



1. Purpose

The role of the Board Risk Committee is to ensure that there is proper consideration and assessment of future risks and stresses ensuring that management develop appropriate strategies to protect the Skipton Group. Specifically, it will:

- 1.1 Recommend to the Board a Group risk appetite, risk limits and tolerances across the full range of risks to which the business is exposed;
- 1.2 Ensure that business strategy is informed by and aligned with the agreed risk appetite;
- 1.3 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;
- 1.4 Monitor key risk exposures ensuring that management is exercising appropriate control to reduce the likelihood of risk crystallisation resulting in financial loss, reputational damage or regulatory concern;
- 1.5 Review, challenge, approve and monitor stress and scenario tests, including reverse stress tests; and
- 1.6 Oversee the risk control framework designed to ensure that the key decision making Risk models are developed and maintained in line with agreed standards and remain fit for purpose.

2. Membership

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

- All members of the Committee shall be Non-Executive Directors.
- The Committee shall comprise of up to four members, one of whom shall be designated Chair. The Chairman of the Board shall not be a member of the Committee.
- The Chair of the Board Audit Committee shall be a member.
- One of the Committee members shall also be a member of the Board Remuneration Committee to ensure holistic risk oversight.
- Other individuals, such as the Group Chief Executive, Group Finance Director, Chief Conduct Risk Officer and Chief Financial Risk Officer may be invited to attend all or part of any meeting to facilitate effective operation of the Committee.
- Any Non-Executive Director may, with the agreement of the Chairman of the Committee, attend any meeting of the Committee.

3. Quorum

Meetings of the Committee shall be quorate where attended by a minimum of 2 members.

4. Frequency of Meetings

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

5. Secretary

The Society Secretary or their nominee shall act as secretary to the Committee.

6. Reporting Responsibilities

Minutes of Committee meetings will be submitted to the Board in the month following each meeting. In addition, the Chairman 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.

Continued overleaf

7. Annual General Meeting

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

8. Duties of the Committee

Without limiting the Committee's remit, the Committee shall:

8.1 Risk Profile

- 8.1.1 Ensure that the business implements an effective risk governance structure and control framework which envelops all risk areas with appropriate reporting regimes; and
- 8.1.2 Oversee the Group risk profile, challenging the assessment and measurement of key risks while monitoring the actions taken to manage them.

8.2 Risk Appetite

- 8.2.1 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. This should draw on financial stability assessments such as those published by the Bank of England and PRA, as well as other respected commentators;
- 8.2.2 Review, challenge and approve the:
 - Credit Risk Appetite;
 - Liquidity Risk Appetite;
 - Market Risk Limits;
 - Operational Risk Appetite; and
 - Model Risk Appetite

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;

- 8.2.3 Receive reports from the Model Governance Committee on compliance with Model Governance Policy on, at least, an annual basis;
- 8.2.4 Receive reports from the Retail Credit Committee, Asset and Liability Committee and Conduct and Operational Risk Committee on compliance with agreed Risk Appetites on a quarterly basis; and
- 8.2.5 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.

8.3 Policies

- 8.3.1 Review, challenge and approve the:
 - Treasury Policy;
 - Stress Testing Policy;
 - Policy on Investment of Net Free Reserves;
 - The Society's Contingency Funding Plan; and
 - The Model Governance 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; and

- 8.3.2. Oversee the following policies and make recommendations to the Board on material changes to:
 - Lending Policy;
 - Credit Management Policy; and

- Group Operational Risk Policy
- following consideration of proposals by the Retail Credit Committee, Model Governance Committee, Asset and Liability Committee or the Conduct and Operational Risk Committee, as appropriate, on at least an annual basis.

8.4 Planning

- 8.4.1 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;
- 8.4.2 Review, challenge and approve the stress and scenario tests (including reverse stress tests) and management actions on, at least, an annual basis highlighting any specific issues to the Board; and
- 8.4.3 Understand the circumstances in which the Society / Group would fail (reverse stress testing) and be satisfied with the level of risk mitigation in place to reduce the likelihood of this occurring.

8.5 Other

- 8.5.1 Review Remuneration Committee proposals regarding Society executive Incentive Scheme objectives and provide an opinion to the Remuneration Committee on whether there are suitable risk management objectives included and, where appropriate, whether risk weightings attached to these objectives are suitable;
- 8.5.2 Review and challenge quality of data reporting of the IRB rating system;
- 8.5.3 In respect of the Model Governance Committee (to which the Committee delegates responsibility for model oversight) ensure annual confirmation is received that, where relevant, IRB models have been;

(a) reviewed by Model Validation and Internal Audit or a suitable external body; and

(b) attested as fit for purpose to the PRA.

- 8.5.4 Receive reports on the suitability of business resilience, contingency arrangements and information security (including IT/Digital control matters) across the Group on, at last, an annual basis;
- 8.5.5 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;
- 8.5.6 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;
- 8.5.7 Review significant risk related FCA & PRA correspondence and ensure that management's response is appropriate;
- 8.5.8 Receive and review recommendations from the Chairmen of the Asset and Liability Committee, Retail Credit Committee, Model Governance Committee and the Conduct and Operational Risk Committee, on at least an annual basis, to update their respective Committee terms of references and approve, as appropriate; and
- 8.5.9 Ensure that the 2nd Line Risk functions remain independent of business operations and that the Chief Financial Risk Officer and Chief Conduct Risk Officer have unfettered reporting access to the Committee and Board.

9 Annual Review

The Committee's terms of reference shall be reviewed, at least, annually with agreed changes presented to the Board for approval.

