



# **Board and Committees Terms of Reference**

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## **INTRODUCTION**

The Board in accordance with the rules of the Society may delegate any of its power to a sub committee consisting of two or more directors or other persons it considers appropriate.

The following committees have been established to provide appropriate levels of control and meet regulatory responsibilities:

- Audit Committee
- Investment Committee
- Nomination Committee
- Remuneration Committee
- Risk & Compliance Committee
- With-Profits Advisory Arrangement

Additionally, this document includes the terms of reference for the Executive Committee, which is not a sub-committee of the Board, but is charged (either individually or collectively) with running the Society's business within the delegated authority of the Board

## DEFINITIONS & ABBREVIATIONS

“AGM”	Annual General Meeting.
“Board”	The Board of National Friendly.
“Chairman”	In Board Terms of Reference - The Chairman of the Board.  In other Terms of Reference – The Chairman of the named Committee.
“Committee”	The Committee of the Society named in the Terms of Reference.
“Company Secretary”	The Secretary of the Society.
“Directors”	The members of the Board.
“Executive Director”	A Director who holds an executive office with the Society.
“FCA”	The Financial Conduct Authority.
“Chief Actuary”	The person appointed by the Board to head the Society’s actuarial function.
“Investment Policy”	The Investment Risk Management Policy
“Investment Strategy”	Need defining
“Key Function Holder”	A person effectively responsible for running the Society
“National Friendly”	The trading name of National Deposit Friendly Society Ltd.
“Non-Executive Director”	A Director who is not an Executive Director.
“PPFM”	Principles and Practices of Financial Management
“PRA”	The Prudential Regulatory Authority
“Risk Manager”	The key function holder appointed with day to day responsibility for managing risk.
“Rule”	A rule contained in National Friendly’s Memorandum and Rules.
“Society”	National Deposit Friendly Society Ltd and its subsidiaries.
“Secretary”	The Secretary of the Committee.
“Senior Independent Director”	The Director appointed to that office under Rule 8.4(a).
“With-Profits Actuary”	The person appointed by the Board to perform the with-profits actuary function.

## **THE BOARD**

### **Role of the Board**

The Board is the main decision making body for National Friendly and its subsidiary companies. It determines the strategic direction and has responsibility for the overall management of the Society's business affairs. The Board sets the Society's values and standards and has overall responsibility for establishing that obligations to members and other stakeholders are understood and met. The Board monitors and oversees the Society's operations with the purpose of maintaining competent management, sound planning, robust and prudent risk and capital management, an effective internal control environment, a culture of risk awareness and ethical behaviour, and compliance with statutory and regulatory obligations.

### **Membership**

The Board shall consist of such number of individuals as the Board may determine from time to time and no more than 50% shall be Executive Directors.

Director appointments or re-appointments will not be for a term exceeding the date of the third AGM following their election. At the ninth AGM following a Director's election, the Director shall not be re-appointed for a term exceeding the date of the next AGM.-The normal retirement age for a director shall be age 70 and the provisions of schedule 11 of the 1992 Act shall apply.

The Directors shall from time to time appoint one of their members (who shall not be an Executive Director) as Chairman of the Board, and another (who shall not be an Executive Director) as Senior Independent Director, each to hold office for a maximum term of one year (subject to re-appointment).

Only Board members and the Secretary have the right to attend board meetings. The Chief Actuary and the With-Profits Actuary may request to attend and other individuals may be invited to attend all or part of any meeting as and when appropriate.

### **Administration**

*Secretary* -The Company Secretary or his/her nominee shall act as the Secretary.

*Quorum* - The quorum for the transaction of the business of the Directors shall be three Directors present in person, of whom at least two shall be Non-Executive Directors. Decisions made outside of meetings through electronic approval must be formally ratified at the next meeting of the Board.

*Frequency of meetings* - The Board shall meet sufficiently regularly to discharge its duties. The Board will schedule a minimum of six scheduled meetings a year and meet more frequently if required.

*Notice of meetings* - Meetings of the Board shall be summoned by the Secretary at the request of any of its members. 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 Board and any other person required to attend. Supporting papers shall be sent to Board members and to other attendees as appropriate, at the same time.

*Minutes of Meetings* - The Secretary, or his nominee shall minute the proceedings and resolutions of all meetings, including recording the names of those present and in attendance. Minutes of Board meetings shall be circulated as soon as practicable to all members of the Board.

### **Annual General Meeting**

The Directors of the Board shall attend the Annual General Meeting of the Society prepared to respond to any questions on the Society's activities.

### **Duties**

Matters specifically the responsibility of the full Board and are included in a formal schedule of matters reserved for its decision.

Responsibilities of the Board are to:

#### *Govern effectively*

- 1 Exercise the powers and duties of the Board as laid down in the Society's Memorandum and Rules effective from 1<sup>st</sup> December 2006 and as may be amended from time to time thereafter.
- 2 Retain responsibility for, and oversight of, matters delegated to Board sub-committees.
- 3 Consider and approve appointments to the Board upon recommendations from the Nominations Committee.
- 4 Consider and approve appointments to Committees ensuring that the composition enables competent and independent judgements on the matters within their remit.
- 5 Oversee the effectiveness of the 'fit and proper' policy to ensure that persons who effectively run the Society or have other key functions are 'fit and proper' to do so.
- 6 Maintain succession plans that address the unexpected loss of key individuals.
- 7 Review and approve changes to the terms of reference of the Board and its Committees.
- 8 Review and report on the Board's effectiveness, in line with reporting and industry governance standards.
- 9 Establish, implement and maintain organisational and operational structures aimed at supporting the strategic objectives and operations of the Society, making necessary adaptations in a timely manner.
- 10 Ensure that duties and responsibilities are allocated, segregated and co-ordinated in line with the Society's policies and documented appropriately, comprehensively, and avoiding unnecessary overlap.
- 11 Ensure that any significant decision involves at least two persons who effectively run the Society before the decision is implemented.

- 12 Appropriately document the decisions taken by the Board including how information from the risk management system has been taken into account.
- 13 Determine the Society's key financial objectives including prudential ratios and target rates of return on capital and assets.
- 14 Keep under review, and maintain, the Society's capital and liquidity position, continuing to meet the Threshold Conditions.
- 15 Establish and maintain appropriate accounting policies and implement and monitor the maintenance of systems of internal control.
- 16 Review and approve proposals for the acquisition or disposal of assets which are material in terms of the business of the Society.
- 17 Obtain information from any employee of the Society or contracted party, or from any records of the Society, to assist in the performance of its duties.
- 18 Secure the services of external professional advisers when required and, if considered necessary, secure the attendance of same at its meetings.
- 19 Declare all significant interests and related third party transactions.
- 20 Review and approve the society's external auditor, upon recommendation from the Audit Committee.
- 21 Review and approve the Society's financial statements, returns and reports, upon recommendation from the Audit Committee.
- 22 Keep under review the nature, specific content, frequency, and overall effectiveness of management information provided to the Board.

*Set strategy*

- 23 Determine and review the Society's strategic direction, mission and values and promote the success of the company.
- 24 Consider emerging issues which may be material to the business and affairs of the Society.
- 25 Review and approve the Society's annual business plans and budgets (and any material changes thereto).
- 26 Receive timely business and financial reports and regularly review the Society's strategy, objectives, business plans and budgets.
- 27 Consider and approve proposals for business development, including new products, significant changes to existing products and the formation of additional subsidiary operations and associations with third parties.
- 28 Approve all significant joint ventures, partnerships, alliances and acquisitions.

*Lead culture*

- 29 Oversee a culture of risk awareness and ethical behaviour for the Society to follow in pursuit of its business goals.
- 30 Oversee co-operation between staff to ensure that duties and responsibilities are discharged efficiently and effectively.

*Direct risk appetite and risk management*

- 31 Review and approve the Society's risk appetite statement, risk tolerance limits, and the main risk management strategies and policies, upon recommendations from the Risk and Compliance Committee.
- 32 Oversee the effectiveness of the risk management and control system, and its alignment with the Society's risk appetite and risk tolerance limits.
- 33 Receive and consider high level reports through the reporting lines and governance structures, on matters material to the Society including but not limited to:
  - a. relations with regulatory authorities
  - b. legal and regulatory compliance
  - c. risk management and internal controls
  - d. fitness and propriety
  - e. human resources
  - f. information security
  - g. business continuity
  - h. insurance cover
  - i. litigation
  - j. investment policy and performance
  - k. capital adequacy
  - l. the interests of the Society's policyholders and beneficiaries.
- 34 Determine matters in respect of officers' liability insurance.

To enable the Board to carry out its objectives, authority has been delegated, under agreed terms of reference, to committees appointed by the Board and to executive management. The committees are accountable to the Board but shall not relieve the Board of any of its responsibilities.

## **AUDIT COMMITTEE**

### **Purpose**

The underlying purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities in respect of the integrity of the Society's systems of internal control, financial processes, financial statements and performance of its internal audit function.

### **Membership**

Members of the Audit Committee shall be appointed by the Board in consultation with the Chairman. The Committee shall be made up of at least three members.

All members of the Committee shall be Non-Executive Directors who are determined by the Board to be independent and at least one of whom is considered by the Board to have recent and relevant financial experience competence in accounting and/or auditing. Collectively the members shall have competence relevant to the insurance sector.

Only members of the Committee and the Secretary have the right to attend Committee meetings. However, other individuals may be invited to attend all or part of any meeting as and when appropriate. The Committee may co-opt any Non-Executive Director satisfying the requirements for membership to join the Committee for a meeting or any longer period. The Secretary shall inform the Board when any such co-option has taken place.

The lead partner or senior representative from both the external auditors and outsourced internal auditors will be invited to attend meetings of the Committee on a regular basis.

Appointments to the Committee shall be for a period of up to three years (unless the Director is subject to annual election), which may be extended for two additional three-year periods and annually thereafter, provided the Non-Executive Director remains independent, as determined by the Board, throughout the period of appointment.

The Board shall appoint the Chairman. In the absence of the Chairman, the remaining members of the Committee present shall elect one of themselves to chair the meeting.

### **Administration**

*Secretary* - The Committee shall elect a member of the Committee to act as the Secretary.

*Quorum* - The quorum necessary for the transaction of business shall be two members.

*Frequency of meetings* - The Committee shall meet at least four times a year at appropriate times in the financial reporting and audit cycle and otherwise as required.

*Notice of meetings* - Meetings of the Committee shall be summoned by the Secretary at the request of any of its members or at the request of the external or internal auditors. 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. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

*Minutes of Meetings* - The Secretary 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 as soon as practicable to all members of the Committee and to all members of the Board.

## **Duties**

- 1 *Annual General Meeting* - The Chairman shall attend the Annual General Meeting of the Society prepared to respond to any questions on the Committee's activities.
- 2 *Financial Reporting* - The Committee shall review and recommend to the Board for approval:
  - a) The draft financial statements of the Society, including significant financial reporting issues and judgements that they contain.
  - b) Summary financial statements.
  - c) Significant financial returns to regulators by the Society.
  - d) Any financial information contained in other documents that require Board approval.

In carrying out its financial reporting duties the Committee shall review and challenge where necessary:

- i. The consistency of, and any changes to, accounting standards both on a year on year basis and across the Society.
  - ii. The methods used to account for significant or unusual transactions where different approaches are possible.
  - iii. Whether the Society has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor.
  - iv. The clarity of disclosure in the Society's financial reports and the context in which statements are made.
  - v. All material information presented with the financial statements, such as the operating and financial review and corporate governance statement (insofar as it relates to audit).
- 3 *Internal Controls and Risk* - The Committee shall:
  - a) Keep under review the adequacy and effectiveness of the internal control and risk management systems of the Society, including in respect of its policies:
    - i. the alignment of policies required as part of the system of governance with each other and with the business strategy;

- ii. The goals, tasks, person or role responsible, processes and reporting procedures, and obligations to inform the risk management, internal audit, compliance and actuarial functions of any facts relevant for the performance of their duties.
  - iii. Ensuring that policies are implemented consistently across the business units within the Society.
- b) Review and recommend to the Board for approval the statements to be included in the Annual Report concerning internal controls and risk management.
  - c) Monitor and review the Board's succession plans to take account of current and future business needs and requirements.
  - d) Identify material risks to be addressed by contingency plans and review, update, and test the contingency plans on a regular basis
- 4 *Whistle Blowing* - The Committee shall review arrangements by which staff within the Society may raise concerns, in confidence, about possible improprieties in matters of financial reporting or other matters
- 5 *Fraud* - The committee shall review the Society's procedures for detecting fraud.
- 6 *Internal Audit* - The Committee shall:
- a) Monitor and review the effectiveness of the Society's internal audit function.
  - b) Determine the scope and frequency of internal reviews of the system of governance and ensure the scope, findings and conclusions are properly documented and reported to the Audit Committee.
  - c) Approve the appointment and termination of the Society's internal audit providers.
  - d) Consider and approve the remit of the Society's internal audit function and making certain it has adequate resources and appropriate access to information to enable it to perform its function effectively, independently, and in accordance with relevant professional standards.
  - e) Make sure it has adequate standing and freedom from management or other restrictions.
  - f) Review and assess the annual internal audit plan.
  - g) Review promptly all reports on the Group from the internal auditors.
  - h) Review and monitor management's responsiveness to the findings and recommendations of the Society's internal audit function.
  - i) Meet the Society's Internal Audit lead partner at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits which have been carried out. In addition, the Society's Internal Audit lead partner shall have direct access to the Chairman of the Board and to the Committee.

- j) Monitor and review the liaison and co-ordination of work between the internal and external auditors.

7 *External Audit* - The Committee shall:

- a) Consider and make recommendations to the Board in relation to the appointment, re-appointment and removal of the Society's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required.
- b) Oversee the relationship with the external auditor including (but not limited to):
- c) approval of the remuneration of the external auditor, whether fees for audit or non-audit services, and satisfying itself that the level of fees is appropriate to enable an adequate audit to be conducted;
- d) approval of the terms of engagement of the external auditor, including any engagement letter issued at the start of each audit and the scope of the audit;
  - i. assessing annually the independence and objectivity of the external auditor taking into account relevant professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of, and level of fees for, any non-audit services;
  - ii. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Society (other than in the ordinary course of business);
  - iii. agreeing with the Board a policy on the employment of former employees of the external auditor, then monitoring the implementation of this policy;
  - iv. monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Society compared to the overall fee income of the firm, office and partner and other related requirements;
  - v. assessing annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures; and
  - vi. promoting co-ordination with the activities of the internal audit function.
- e) Meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage; and at least annually, without management being present, to discuss their remit and any issues arising from the audit.
- f) Review and approve the annual audit plan and make certain that it is consistent with the scope of the audit engagement.

- g) Monitor the audit process of the annual and consolidated financial statements, in particular its performance, taking into account any findings and conclusions.
  - h) Review the findings of the audit with the external auditor, including:
    - i. a discussion of any major issues that arose during the audit;
    - ii. any accounting and audit judgements; and
    - iii. levels of errors identified during the audit.
  - i) Review any representation letter(s) requested by the external auditor before they are signed by management.
  - j) Review the management letter and management's response to the findings and recommendations.
  - k) Approve and review the implementation of a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.
  - l) Review the effectiveness of the audit.
- 8 *Reporting Responsibilities* - The Chairman shall report formally to the Board on all matters that fall within the Committee's remit. This shall include a report on how the external audit contributed to the integrity of financial reporting and what the role of the audit committee was in that process.

### **Other Matters**

The Committee shall:

- Be provided by the Society with sufficient resources in order to carry out its duties.
- Be provided by the Society with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- At least once a year, review its own performance, constitution, composition and terms of reference to assess its operational effectiveness and recommend any changes it considers necessary to the Board for approval.

### **Authority**

The Committee is authorised by the Board:

- To seek any information it requires from any system, employee, contracted party, or director of the Society in order to perform its duties.

- To obtain, at the Society's expense, external legal or other professional advice on any matter falling within its terms of reference.
- To call on any employee to attend a meeting of the Committee as and when required.
- To report in the Annual Report any disagreement between the Audit Committee and the Board that cannot be resolved.

## **INVESTMENT COMMITTEE**

### **Purpose**

The underlying purpose of the Investment Committee is to oversee compliance with the terms of the PPFM in relation to the Investment Strategy and review its continuing appropriateness in the light of changing circumstances with consideration to the needs of both with-profit and non with-profit policyholders.

### **Membership**

Members of the Committee shall be appointed by the Board in consultation with the Chairman.

The Investment Committee will consist of three Non-Executive Directors, the Chief Executive and Executive Director of Finance, Risk & HR.

Only members of the Committee and the Secretary have the right to attend Committee meetings. However, the Chief Actuary and other individuals may be invited to attend all or part of any meeting as and when appropriate. The Committee may co-opt any Non-Executive Director satisfying the requirements for membership to join the Committee for a meeting or any longer period. The Secretary shall inform the Board when any such co-option has taken place.

Appointments to the Committee shall be for a period of up to three years (unless the Director is subject to annual election), which may be extended for two additional three-year periods and annually thereafter, provided the Non-Executive Director remains independent, as determined by the Board, throughout the period of appointment.

The Board shall appoint the Chairman. In the absence of the Chairman, the remaining members of the Committee present shall elect one other Non-Executive Director to chair the meeting.

### **Administration**

*Secretary* - The Committee shall elect a member of the Committee to act as the Secretary.

*Quorum* - The quorum necessary for the transaction of business shall be two members.

*Frequency of meetings* - The Committee shall meet at least four times a year.

*Notice of meetings* - Meetings of the Committee shall be summoned by the Secretary at the request of any of its members or at the request of the external or internal auditors. 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. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

*Minutes of Meetings* - The Secretary 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 as soon as practicable to all members of the Committee and to all members of the Board.

### **Duties**

- 1 To set the Investment Policy in compliance with the terms of the PPFM in respect of with-profit policyholders and in line with the requirements of other non with-profit policy holders.
- 2 To periodically review the appropriateness of the Investment Policy in light of current circumstances of the Society, in particular in respect of capital requirements and overall market conditions.
- 3 Develop and keep under review the appropriateness of key risk indicators and tolerances, and information provided by third parties, such as financial institutions, asset managers and rating agencies.
- 4 To oversee the application of the Investment Policy in respect of:
  - a) Appointing, monitoring and terminating the Society's fund managers, investment managers, and asset managers;
  - b) Determining the asset allocation and performance benchmarks of its funds and other investments in order to obtain a sustainable yield and meet policyholders' expectations;
  - c) The appropriate selection of investments of unit-linked and index-linked contracts in the best interests of policyholders and beneficiaries, taking into account and managing constraints related to unit-linked contracts;
  - d) The implementation, management, monitoring and control procedures in relation to investments that are not admitted to trading on a regulated financial market, or to complex products, which are difficult to value;
  - e) The rationale and demonstration of the effective risk transfer obtained by the use of derivatives where these are used to contribute to a reduction of risks or as a risk mitigation technique;
  - f) Ensuring that the interests of the Society and the interests of the originator or sponsor are well understood and aligned, where investing in securitised instruments;
  - g) The completion of an appropriate assessment in respect of any non-routine investment activities;
  - h) Monitoring the performance of the funds, other investments, and derivatives;
  - i) Key risk indicators and tolerances, including any significant risks or changes in the risk profile of the investments or investment activities;

- j) The regular review and monitoring of the security, quality, liquidity, and profitability of the portfolio as a whole, including any significant impairment to the same where using derivatives to facilitate efficient portfolio management;
- k) The appropriateness of any actions taken to identify and manage conflicts of interest regarding investments, whether arising in the Society or in a third party entity which manages an asset portfolio.

### **Other Matters**

The Committee shall:

- Be provided by the Society with sufficient resources in order to carry out its duties.
- Be provided by the Society with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- At least once a year, review its own performance, constitution, composition and terms of reference to assess its operational effectiveness and recommend any changes it considers necessary to the Board for approval.

### **Authority**

The Committee is authorised by the Board:

- To seek any information it requires from any employee or director of the Society in order to perform its duties.
- To obtain, at the Society's expense, external legal or other professional advice on any matter falling within its terms of reference.
- To call on any employee to attend a meeting of the Committee as and when required.
- To report in the Annual Report any disagreement between the Committee and the Board that cannot be resolved.



## **NOMINATION COMMITTEE**

### **Purpose**

The underlying purpose of the Nomination Committee is to lead the appraisal process for appointments to the Board and to make recommendations to the Board and members on the appointment or re-appointment of Directors.

### **Membership**

Members of the Committee shall be appointed by the Board in consultation with the Chairman.

The Committee shall comprise of a majority of Non-Executive Directors. The Chairman of the Committee shall be a Non-Executive Director.

Only members of the Committee and the Secretary have the right to attend Committee meetings. However, other individuals may be invited to attend all or part of any meeting as and when appropriate. The Committee may co-opt any Non-Executive Director satisfying the requirements for membership to join the Committee for a meeting or any longer period. The Secretary shall inform the Board when any such co-option has taken place.

Appointments to the Committee shall be for a period of up to three years (unless the Director is subject to annual election), which may be extended for two additional three-year periods and annually thereafter, provided the Non-Executive Director remains independent, as determined by the Board, throughout the period of appointment.

The Board shall appoint the Chairman. In the absence of the Chairman, the remaining members of the Committee present shall elect other Non-Executive to chair the meeting.

### **Administration**

*Secretary* - The Committee shall elect a member of the Committee to act as the Secretary.

*Quorum* - The quorum necessary for the transaction of business shall be two members.

*Frequency of meetings* - The Committee shall meet to lead appraisal process as and when required.

*Notice of meetings* - Meetings of the Committee shall be summoned by the Secretary at the request of any of its members or at the request of the external or internal auditors. 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. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

*Minutes of Meetings* - The Secretary 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 as soon as practicable to all members of the Committee and to all members of the Board.

## **Duties**

- 1 Evaluate the balance of skills, knowledge and experience on the Board and, in light of this evaluation, prepare a description of the role and capabilities required for an appointment.
- 2 Be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.
- 3 Consider candidates from a wide range of backgrounds and look beyond the traditional sources.
- 4 Conduct an annual assessment of the time commitment required from Non-Executive Directors.
- 5 Give full consideration to succession planning in the course of its work, taking into account the challenges and opportunities facing the company and what skills and expertise are needed on the Board in the future.
- 6 Review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes.
- 7 Keep under review the leadership needs of the organisation, both Executive and Non-Executive, giving consideration to the continued ability of the organisation to compete effectively in the marketplace.
- 8 Make a statement in the Annual Report about its activities; the process used for appointments and explain if external advice or open advertising has not been used; the membership of the Committee, number of Committee meetings and attendance of members over the course of the year.
- 9 Make publicly available its Terms of Reference explaining clearly its role and the authority delegated to it by the Board.
- 10 Make certain that on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, Committee service, and involvement outside Board meetings.
- 11 Make recommendations to the Board concerning the re-election of any Director under the retirement by rotation provisions in the Society's Rules.
- 12 Make recommendations to the Board concerning any matters relating to the continuation in office of any Director at any time.

## **Other Matters**

The Committee shall:

- Be provided by the Society with sufficient resources in order to carry out its duties.
- Be provided by the Society with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.

- At least once a year, review its own performance, constitution, composition and terms of reference to assess its operational effectiveness and recommend any changes it considers necessary to the Board for approval.

### **Authority**

The Committee is authorised by the Board:

- To seek any information it requires from any employee or director of the Society in order to perform its duties.
- To obtain, at the Society's expense, external legal or other professional advice on any matter falling within its terms of reference.
- To call on any employee to attend a meeting of the Committee as and when required.
- To report in the Annual Report any disagreement between the Committee and the Board that cannot be resolved.

## **REMUNERATION COMMITTEE**

### **Purpose**

The underlying purpose of the Remuneration Committee is to manage the overall remuneration policy of the Society.

### **Membership**

Members of the Committee shall be appointed by the Board in consultation with the Chairman.

The Committee shall comprise of at least three Non-Executive Directors. The Chief Executive and / or another Executive Director shall attend on an ex-officio basis as required.

Only members of the Committee have the right to attend Committee meetings. However, other individuals may be invited to attend all or part of any meeting as and when appropriate. The Committee may co-opt any Non-Executive Director satisfying the requirements for membership to join the Committee for a meeting or any longer period. The Secretary shall inform the Board when any such co-option has taken place.

Appointments to the Committee shall be for a period of up to three years (unless the Director is subject to annual election), which may be extended for two additional three-year periods and annually thereafter, provided the Non-Executive Director remains independent, as determined by the Board, throughout the period of appointment.

The Board shall appoint the Chairman. In the absence of the Chairman, the remaining members of the Committee present shall elect one other Non-Executive Director to chair the meeting.

### **Administration**

*Secretary* - The Committee shall elect a member of the Committee to act as the Secretary.

*Quorum* - The quorum necessary for the transaction of business shall be 50% of the Committee, which must include two Non-Executive Directors.

*Frequency of meetings* - The Committee shall meet as required but at least once a year.

*Notice of meetings* - Meetings of the Committee shall be summoned by the Secretary at the request of any of its members or at the request of the external or internal auditors. 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. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

*Minutes of Meetings* - The Secretary 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 as soon as practicable to all members of the Committee and to all members of the Board.

## **Duties**

- 1 Establish, implement and maintain a remuneration policy and practices in line with the Society's risk management strategy, risk profile, objectives, risk management practices, which:
  - a) promote the long-term performance and interests of the Society;
  - b) do not threaten the Society's ability to maintain an adequate capital base;
  - c) promote sound and effective risk management;
  - d) do not encourage risk-taking that is excessive in view of the risk management strategy;
  - e) incorporate measures that avoid conflicts of interest;
  - f) support the independence of Key Function Holders in risk, compliance, internal audit, and actuarial from the operational units and areas under their review.
- 2 To observe best practice industry standards for corporate governance as regards Executive Director, Non-executive Director, and Key Function Holder remuneration, including disclosure requirements and avoidance of conflict between business objectives and compliance with legal and regulatory requirements.
- 3 Review and approve an appropriate remuneration package for members of the Executive Committee.
- 4 Review and approve the remuneration policy in respect of pension arrangements for members of the Executive Committee.
- 5 Advise the Executive Committee on the emoluments of Non-executive Directors in line with the remuneration policy.
- 6 Review and approve the remuneration package for Key Function Holders in risk, compliance, internal audit and actuarial.
- 7 Review and approve targets for any performance-related pay schemes.
- 8 Review and approve all remuneration and incentive programmes for other Key Function Holders, consultants, and staff.
- 9 Make certain that contractual terms on termination, and any payments made, are in line with the remuneration policy and are fair to the individual and the Society.
- 10 Agree the policy for authorising claims for expenses from the Chief Executive.

## **Restrictions**

- 11 The Remuneration Committee will not recommend or approve the emoluments of Non-Executive Directors.
- 12 The Executive Committee will consider and propose the emoluments of Non-Executive Directors which will be approved by the Board.

## **Other Matters**

The Committee shall:

- Be provided by the Society with sufficient resources in order to carry out its duties.
- Be provided by the Society with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- At least once a year, review its own performance, constitution, composition and terms of reference to assess its operational effectiveness and recommend any changes it considers necessary to the Board for approval.

## **Authority**

The Committee is authorised by the Board:

- To seek any information it requires from any employee or director of the Society in order to perform its duties.
- To obtain, at the Society's expense, external legal or other professional advice on any matter falling within its terms of reference.
- To call on any employee to attend a meeting of the Committee as and when required.
- To report in the Annual Report any disagreement between the Committee and the Board that cannot be resolved.

## **RISK AND COMPLIANCE COMMITTEE**

### **Purpose**

The principal role of the Committee is to assist the Board in its leadership and oversight of risk across the Society including the understanding and, where appropriate, optimisation of current and future risk strategy, overall risk appetite and tolerance, risk management framework including risk policies, process and controls, and the promotion of a risk awareness culture throughout the Society.

### **Membership**

Members of the Committee shall be appointed by the Board in consultation with the Chairman. The Committee shall be made up of at least four members, with at least two being independent Non-Executive Directors.

Members of the Committee shall be two Non-Executive Directors, at least one of whom is considered by the Board to have recent and relevant risk management experience, the Chief Executive Officer and Executive Director (Finance, Risk & HR)

Only members of the Committee have the right to attend Committee meetings. However, other individuals including other directors, Chief Actuary and representatives of the risk function, compliance, and internal and external audit may be invited to attend all or part of any meeting as and when deemed appropriate and necessary by the Board or its Risk & Compliance Committee.

Appointments to the Committee shall be for a period of up to three years (unless the Director is subject to annual election), which may be extended for two additional three-year periods and annually thereafter, provided the Non-Executive Director remains independent, as determined by the Board, throughout the period of appointment.

The Board shall appoint the Chairman who shall be a Non-Executive Director. In the absence of the Chairman, the remaining members of the Committee present shall one other Non-Executive Director to chair the meeting.

### **Administration**

*Secretary* - The Committee shall elect a member of the Committee to act as the Secretary.

*Quorum*- The quorum necessary for the transaction of business shall be three members.

*Frequency of meetings* - The Committee shall meet at least four times a year at appropriate times and otherwise as required.

*Notice of meetings* - Meetings of the Committee shall be summoned by the Secretary at the request of any of its members.

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 days before the date of the meeting. The agenda shall be circulated together with relevant supporting papers to Committee members and to other attendees as appropriate.

*Minutes of Meetings - The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.*

Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, the minutes should be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the Chairman of the Risk & Compliance Committee.

## **Duties**

The Committee shall:

- 1 Make recommendations to the Board concerning the Society's overall risk appetite, tolerance and strategy, and policies, taking account of the current and prospective financial environment and drawing on financial stability assessments such as those published by relevant industry and regulatory authorities including the Bank of England, the Prudential Regulation Authority, the Financial Conduct Authority and other authoritative sources that may be relevant for the Society's risk policies.
- 2 Monitor, and advise the Board on, the current risk exposures of the Society and future risk strategy.
- 3 In relation to risk assessment and subject to overlap with the Audit Committee:
  - a) Keep under review the Society's overall risk assessment process that informs the board's decision making, ensuring both qualitative and quantitative metrics are used;
  - b) Review regularly and approve the parameters used in these measures and the methodology adopted; and
  - c) Set a standard for accurate and timely monitoring of large exposures and certain risk types of critical importance
- 4 Review the Society's capability to identify and manage new risks and risk types, in conjunction with the Audit Committee.
- 5 Before a decision to proceed is taken by the Board, advise the Board on proposed strategic transactions including significant acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focussing 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.
- 6 Review reports on any material breaches of risk appetite and risk limits and the adequacy of proposed actions.



- 7 Keep under review the effectiveness of the Society's internal controls and risk management systems and review and approve the statements to be included in the annual report concerning internal control and risk management.
- 8 Provide qualitative and quantitative advice to the remuneration committee on risk weightings to be applied to performance objectives incorporated in executive remuneration
- 9 Review the adequacy and security of the Society's arrangements for its employees and contractors to raise concerns, in confidence, and under the protection of the Society, about possible wrongdoings in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- 10 Keep under review the Society's compliance with statutory and regulatory requirements. Receive reports on risk and compliance issues from any of the Society's business units as may be appropriate.
- 11 In relation to financial crime:
  - 12 Review the Society's procedures for the prevention and detection of fraud;
  - 13 Review the Society's procedures for the prevention and detection of bribery and corruption; and
  - 14 Review the Society's procedures for the prevention and detection of money laundering
- 15 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. The committee shall also ensure the function has adequate independence and is free from management restrictions and other restrictions.
- 16 Review promptly all reports on the Society from the risk function.
- 17 Review and monitor management's responsiveness to the findings and recommendations of the risk function.
- 18 Ensure that the risk function has direct access to the Chairman and other members of the Committee and the Chairman and other members of the Committee have direct access to the risk function
- 19 *Reporting responsibilities:*
  - a) The Committee Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
  - b) The Committee shall make whatever reports to the Board it deems appropriate on any area of particular significance within its remit where action or improvement is needed.
  - c) The Committee shall make whatever recommendations to the Board it deems appropriate on any area outside its remit where action or improvement is needed.

- d) The Committee shall produce a report of its activities and the Society's risk management and strategy to be included in the Society's annual report.
- e) The Directors report in the Annual Report and Accounts should set out risk management objectives and policies including in relation to financial instruments.

### **Other matters**

The Committee shall:

- Be provided by the Society with sufficient resources in order to carry out its duties, including access to the Society's Secretariat for assistance as required.
- Be provided by the Society with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- At least once a year, review its own performance, constitution, composition and terms of reference to assess its operational effectiveness and recommend any changes it considers necessary to the Board for approval.

### **Authority**

The Committee is authorised by the Board:

- To seek any information it requires from any system, employee, contracted party or director of the Society in order to perform its duties.
- To obtain, at the Society's expense, external legal or other professional advice on any matter falling within its terms of reference.
- To call on any employee to attend a meeting of the Committee as and when required.
- To report in the Annual Report any disagreement between the Committee and the Board that cannot be resolved.

## **WITH PROFITS ADVISORY ARRANGEMENT**

### **Purpose**

The underlying purpose of the With-Profits Advisory Arrangement (“the Committee”) is to independently monitor and bring some independent judgment to the extent to which procedures, systems and controls are adequate and effective to enable National Friendly to comply with the requirements contained within the FCA Handbook over the management and governance of with profits business.

### **Membership**

Members of the Committee shall be appointed by the Board in consultation with the Chairman.

The Committee shall comprise of at least two Non-Executive Directors. The With-Profits Actuary attends meetings of the Committee as appropriate. No member of the Committee may hold an Executive position within the Society, nor may any member be appointed if they have acted as a professional advisor to the Society within the year preceding a proposed first appointment to the Committee.

Only members of the Committee and the Secretary have the right to attend Committee meetings. However, other individuals may be invited to attend all or part of any meeting as and when appropriate. The Committee may co-opt any Non-Executive Director satisfying the requirements for membership to join the Committee for a meeting or any longer period. The Secretary shall inform the Board when any such co-option has taken place.

Appointments to the Committee shall be for a period of up to three years (unless the Director is subject to annual election), which may be extended for two additional three-year periods and annually thereafter, provided the Non-Executive Director remains independent, as determined by the Board, throughout the period of appointment.

The Board shall appoint the Chairman who shall be a Non-Executive Director. In the absence of the Chairman, the remaining members of the Committee present shall one other Non-Executive Director to chair the meeting.

### **Administration**

*Secretary* - The Committee shall elect a member of the Committee to act as the Secretary.

*Quorum* - The quorum necessary for the transaction of business shall be two members.

*Frequency of meetings* - The Committee shall meet to review bonus recommendations, product projection rates at least once a year and further as required.

*Notice of meetings* - Meetings of the Committee shall be summoned by the Secretary at the request of any of its members or at the request of the external or internal auditors. 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. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

*Minutes of Meetings* - The Secretary 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 as soon as practicable to all members of the Committee, the Board and the With-Profits Actuary.

## **Duties**

- 1 In advising and reporting to the Board, the Committee should monitor and consider all relevant issues, including but not limited to:
  - a) The rights, interests or expectations of different classes and generations of with profits policyholders.
  - b) The way in which the Society exercises discretion in the conduct of the with profits business.
  - c) The way in which the Society addresses competing or conflicting rights, interests or expectations of its policyholders (or groups of policyholders).
  - d) Any communication with policyholders relating to either the principles or practices set out in the PPFM.
  - e) Proposals from the With Profits Actuary for bonus rates, surrender values or market value adjustments in respect of with-profits policies.
  - f) Proposals for changes to the PPFM.
  - g) Compliance with PPFM.
- 2 The Committee shall make an annual report to with profits policyholders, recording any significant activity it has undertaken and highlighting any issues that it has raised with the Board

## **Other Matters**

The Committee shall:

- Be provided by the Society with sufficient resources in order to carry out its duties.
- Be provided by the Society with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- At least once a year, review its own performance, constitution, composition and terms of reference to assess its operational effectiveness and recommend any changes it considers necessary to the Board for approval.

## **Authority**

The Committee is authorised by the Board:

- To seek any information it requires from any employee or director of the Society in order to perform its duties.
- To obtain, at the Society's expense, external legal or other professional advice on any matter falling within its terms of reference.
- To call on any employee to attend a meeting of the Committee as and when required.
- To report in the Annual Report any disagreement between the Committee and the Board that cannot be resolved.

## **EXECUTIVE COMMITTEE**

### **Purpose**

The Executive Committee forms part of the Society's documented internal corporate governance structure. The Board is the main decision making body of the Society and the Executive Committee, whilst not a sub-committee of the Board, is charged (either individually or collectively) with running the Society's business within the delegated authority of the Board.

### **Membership**

Members of the Committee shall be appointed by the Board in consultation with the Chairman.

The Committee will consist of the Executive Directors and appointed members of Senior Management.

Only members of the Committee and the Secretary have the right to attend Committee meetings; other individuals may be invited to attend all or part of a meeting as appropriate.

The CEO will be Chairman. In the absence of the Chairman, the remaining members of the Committee present shall elect one of themselves to chair the meeting.

### **Administration**

*Secretary* - The Committee shall elect a member of the Committee to act as the Secretary.

*Quorum* - The quorum necessary for the transaction of business shall be three members of which at least one will be an Executive Director.

*Frequency of meetings* - The Executive Committee shall meet sufficiently regularly to discharge its duties being at least twelve times a year or more frequently if required.

*Minutes of Meetings* – Minutes of meetings shall be made and circulated as soon as practicable to all members of the Committee and to members of the Board on request.

### **Duties**

- 1 Managing the business on a day to day basis and reviewing performance against budget.
- 2 Reviewing management information identifying major variances and rectifying adverse variances where appropriate.
- 3 Reviewing the Society's strategic plan with recommendations, modifications and developments being presented to the Board for consideration.
- 4 Implementing and maintaining an effective member relations strategy.

- 5 Overseeing the strategic approach to regulatory and legislative matters.
- 6 Reviewing strategic projects and overseeing their return on investments and their performance against delivery time and budget.
- 7 Placing business development proposals, including new products, significant changes to existing products, the formation of additional subsidiary operations and other associations with third parties before the Board for their approval and instruction on future reporting.
- 8 Review and approve all new business relationships/partnerships making presentation to the Board where matters reserved for the Board require.
- 9 Establishing systems for business relationships/partnerships, particularly outsourced arrangements, so that regulatory obligations are complied with, contractual service standards are delivered, and business needs met.
- 10 Considering the emoluments of each Non-Executive Director seeking advice as appropriate from the Remuneration committee on the alignment of the emoluments with the remuneration policy, and recommend the proposals to the Board for approval.
- 11 Embedding, maintaining and promoting a culture of risk awareness and ethical behaviour for the Society's staff to follow in pursuit of its business goals and which is conducive to treating customers fairly
- 12 Undertaking tasks delegated to it by the Board as required.
- 13 Apprising the Board of all significant matters about which the Board should be aware, not limited to those matters formally reserved for the Board or falling outside the Board's stated risk appetite.
- 14 Enabling the Board to exercise its role and discharge its responsibilities effectively.

In making decisions the Committee will be mindful of the schedule of matters reserved for the Board and of approved individual financial sign off limits. The Executive will not action any decisions falling within the former and/or outside of the latter without prior Board approval.

### **Other Matters**

The Executive Committee shall:

- Be provided by the Society with sufficient resources in order to carry out its duties.
- At least once a year, review its own performance, constitution, composition and terms of reference to assess its operational effectiveness and recommend any changes it considers necessary to the Board for approval.

### **Authority**

The Executive Committee is authorised by the Board:

- To seek any information it requires from any employee or director of the Society in order to perform its duties.
  - To call on any employee to attend a meeting of the Executive Committee as and when required.
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