



## **Terms of Reference for the Audit, Nomination & Remuneration Committees**

## 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.
"Directors"	The members of the Board.
"Executive Director"	A Director who holds an executive office with the Society
"FSA"	The Financial Services Authority.
"Head of Actuarial Function"	The person appointed by the Board to head the Society's actuarial function.
"Member Director"	a Non-executive Director who is also a Member of National Friendly.
"National Friendly"	The trading name of National Deposit Friendly Society Ltd.
"Non-Executive Director"	A Director who is not an Executive Director.
"Society"	National Deposit Friendly Society Ltd and of its Subsidiaries
"Company Secretary"	The Company Secretary of the Society.
"Secretary"	The Secretary of the Committee.
"Risk Manager"	The Manager appointed with day to day responsibility for managing risk.
"Rule"	A rule contained in National Friendly's Memorandum and Rules.
"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.

## **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 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.

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, which may be extended for two additional three-year periods, 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 Company Secretary or his nominee shall 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:
  - The draft financial statements, including significant financial reporting issues and judgements that they contain, of the Society.
  - Summary financial statements.
  - Significant financial returns to regulators by the Society.
  - 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:

- The consistency of, and any changes to, accounting policies both on a year on year basis and across the Society.
  - The methods used to account for significant or unusual transactions where different approaches are possible.
  - Whether the Society has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor.
  - The clarity of disclosure in the Society's financial reports and the context in which statements are made.
  - 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:
    - Keep under review the adequacy and effectiveness of the internal control and risk management systems of the Society.
    - Review and recommend to the Board for approval the statements to be included in the Annual Report concerning internal controls and risk management.
  - 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:
    - Monitor and review the effectiveness of the Society's internal audit function.
    - Approve the appointment and termination of the Society's Internal Audit providers.
    - 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 and in accordance with relevant professional standards.
    - Make sure it has adequate standing and freedom from management or other restrictions.
    - Review and assess the annual internal audit plan.
    - Review promptly all reports on the Group from the internal auditors.
    - Review and monitor management's responsiveness to the findings and recommendations of the Society's internal audit function.
    - 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.
    - Monitor and review the liaison and co-ordination of work between the internal and external auditors.

7 *External Audit* - The Committee shall:

- 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.
- Oversee the relationship with the external auditor including (but not limited to):
  - 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;
  - 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;
  - 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;
  - 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);
  - agreeing with the Board a policy on the employment of former employees of the external auditor, then monitoring the implementation of this policy;
  - 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;
  - 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
  - promoting co-ordination with the activities of the internal audit function.
- 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.
- Review and approve the annual audit plan and make certain that it is consistent with the scope of the audit engagement.
- Review the findings of the audit with the external auditor, including:
  - a discussion of any major issues that arose during the audit;
  - any accounting and audit judgements; and
  - levels of errors identified during the audit.
- Review any representation letter(s) requested by the external auditor before they are signed by management.
- Review the management letter and management's response to the findings and recommendations.
- 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.
- 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.

## **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 Audit 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, which may be extended for two additional three-year periods, 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 Company Secretary or his nominee shall 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 shall attend on an ex-officio basis as required.

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, which may be extended for two additional three-year periods, 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. The Chairman of the Committee shall be a Non-Executive Director.

### **Administration**

*Secretary* - The Company Secretary or his nominee shall 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 To review and approve an appropriate remuneration package for members of the Executive Committee.
- 2 To review and approve targets for any performance-related pay schemes.
- 3 To review and approve all remuneration and incentive programmes for Managers, Consultants and Staff.
- 4 To review and approve the policy for and scope of pension arrangements for members of the Executive Committee.
- 5 Make certain that contractual terms on termination, and any payments made, are fair to the individual and the Society.
- 6 To observe best practice corporate governance guidelines as regards Executive remuneration, including disclosure requirements and avoidance of conflict between business objectives and compliance with legal and regulatory requirements.
- 7 Agree the policy for authorising claims for expenses from the Chief Executive.

## **Restrictions**

- 8 The Remuneration Committee will not consider or approve the remuneration of Non-Executive Directors.
- 9 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.