

**TERMS OF REFERENCE**

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**1.0 GENERAL**

- 1.1 The Risk and Capital Committee ("Committee") is a sub-committee of the Board of the Ancient Order of Foresters Friendly Society Ltd.
- 1.2 The Committee considers matters in relation to risk management.
- 1.3 The Committee reports to the Board of the Society and conducts its business in accordance with the Society's Rules, these Terms of Reference, any applicable legislation or regulation and the Society's policies, principles and values.

**2.0 MEMBERSHIP**

- 2.1 Membership and Chairmanship of the Committee will be determined by the Board of the Society taking into account the recommendations of the Nominations Committee.
- 2.2 The Committee shall consist of not fewer than three members. The majority of the members of the Committee must be independent Non-Executive Directors.
- 2.3 The Chairman of the Audit Committee shall be a member of the Committee.
- 2.4 The Chairman of the Committee shall be an independent Non-Executive Director.
- 2.5 Only members of the Committee have the right to attend Committee meetings but other individuals such as the Chief Finance Officer, the Chief Risk Officer and the Compliance Manager may be invited to attend whole or part of the meeting if appropriate.
- 2.6 The Committee may request the presence, at any of its meetings, of any Employees of the Society as it may decide.

**3.0 MEETINGS**

- 3.1 The Chairman of the Committee will chair each meeting. In the case of the Chairman's absence, the members present will elect one of their number to chair the meeting.
- 3.2 The Committee will meet not less than four times a year or as it may otherwise determine.
- 3.3 The Society's Chief Risk Officer (CRO) may request a meeting if it is considered necessary.
- 3.4 The date of any meeting will not be changed without all members being given at least one week's notice of the revised date.
- 3.5 The quorum will be two members at least one of whom must be a Non-Executive Director. Committee members may be present in person or through any other means of communication but to count towards a quorum, members must be able, fully, to hear and participate in the Committee's proceedings.

- 3.6 The content of the Agenda for each meeting shall be drafted by the Company Secretary, in a form agreed from time to time with the Chairman, and as discussed by the Senior Management Team prior to approval by the Chairman.
- 3.7 The Agenda and papers for each meeting of the Committee will be submitted under the authority of the Chairman and will be circulated to members at least one week prior to the meeting. Papers not complying with these requirements will not be tabled at the meeting except with the prior approval of the Chairman.
- 3.8 The Chairman may vote on any issue as an ordinary member of the Committee. If, having done so, the voting is level; he may, if he so decides, exercise an additional casting vote to decide the issue.
- 3.9 The Company Secretary, or his or her nominee, will act as Secretary to the Committee. The Secretary is responsible for producing minutes of the Committee meetings. The minutes will be passed to the Chairman and circulated to all Committee members and appropriate attendees within two weeks.

#### **4.0 MAIN FUNCTIONS**

- 4.1 The Committee shall provide advice to the Board on risk strategy and appetite, including the oversight of current risk exposures of the business, with consideration of prudential and non prudential risks. The Committee shall develop proposals for consideration by the governing body in respect of overall risk appetite and tolerance, as well as the metrics to be used to monitor the firm's risk management performance. Further details of the Committee's duties are provided below:
  - 4.1.1 advise the Board on the Society's overall risk appetite, tolerance and strategy, taking account of the current and prospective economic and financial environment. Drawing on guidance from regulatory bodies such as the Financial Conduct Authority (or its relevant successors) and other authoritative sources that may be relevant for the Society's risk policies;
  - 4.1.2 advise the Board in relation to non-prudential risk factors including credit and counterparty risk, market risk, liquidity risk, strategic risk, operational risk and regulatory risk;
  - 4.1.3 advise the Board on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on risk aspects and implications for the Society's position against its stated Risk Appetite, and taking independent external advice where appropriate and available;
  - 4.1.4 oversee and advise the Board on the current risk exposures of the company and future risk strategy;
  - 4.1.5 ensure that the CRO shall be given the right of direct access to the Chairman of the Board and to the Committee;
  - 4.1.6 review the Individual Capital Assessment and Pillar II capital;
  - 4.1.7 review and recommend on stress testing including reverse stress testing.
- 4.2 The responsibilities of the Committee in respect to the Annual ORSA Report and other reporting requirements include to review, and challenge where necessary, the actions and judgements of management, before submission to the Board, paying particular attention to:
  - 4.2.1 the position against agreed appetite;
  - 4.2.2 the overall risk profile of the Society;

- 4.2.3 the level of capital held against Pillar 1 requirements and Standard Capital Requirements (SCR) and the modelling therein;
  - 4.2.4 the output of relevant audit and independent reviews.
- 4.3 The responsibility of the Committee in respect to risk and capital management is to provide the Board with assurance that the Society's prudential and non-prudential risks are identified, recorded, monitored and managed effectively. The Committee will:
- 4.3.1 receive and review the reports of the CRO;
  - 4.3.2 monitor and challenge the risk, capital and compliance information received, including whether all key risks have been identified and are being managed to an acceptable and proportionate level;
  - 4.3.3 review and recommend to the Board actions on significant risk issues, trends, practices and loss events, whether realised or potential, that have implications for the Society;
  - 4.3.4 monitor and challenge the implementation and effectiveness of, and compliance with, approved risk policies and standards on risk and the resultant action in respect of policy breaches;
  - 4.3.5 ensure the immediate reporting of policy breaches;
  - 4.3.6 monitor the effectiveness of the Society's overall risk management framework through ongoing review and independent assurance by the auditors;
  - 4.3.7 ensure material risk incidents are investigated in a timely manner and monitor remedial plans and implementations;
  - 4.3.8 review the Risk Register at least semi-annually and whenever there is a significant change in structure, business environment or when risks may be affected by other material factors and make recommendations to the Board;
  - 4.3.9 review the risk appetite at least annually and recommend the level of risk to the Board for approval;
  - 4.3.10 review annually and recommend to the Board the overall risk management, control and exception reporting framework and the processes the Society uses to identify, record, assess and manage risks;
  - 4.3.11 review annually and recommend to the Board the Society's policies in relation to risk, including credit and counterparty risk, market risk, liquidity risk, strategic risk, operational risk and regulatory requirements;
  - 4.3.12 make recommendations to the Board in respect of the appointment and termination of appointment of the CRO. The Committee will receive recommendations from the Nominations Committee on suitable applicants for the role of CRO;
  - 4.3.13 review annually the Terms of Reference of the other committees which are part of the Society's risk management framework including the Risk and Capital Committee;

4.3.14 review at least annually the effectiveness of the process for the maintenance of capital and reserves so as to ensure that the Society's processes are structured as optimally as possible to meet regulatory and risk benchmarks;

4.3.15 allocate and review risk accountabilities to risk owners;

4.3.16 review the adequacy of resources for the risk management function and that it has an appropriate degree of independence.

## **5 STANDARDS**

5.1 It is the responsibility of the Committee to monitor that in regards to performance reporting, risk management and governance, the Society follows appropriate good practice as laid down in the Society's policies, principles and values and relevant codes of practice.

5.2 The Committee should take due regard of market conditions, regulatory requirements and guidelines, applicable legislation and the Society's business needs in its deliberations.

5.3 The Committee should take into account the recommendations of the Chief Executive and other members of management.

## **6 REPORTING**

6.1 The Chairman shall report formally to the Board on the proceedings of the Committee after each meeting and on how it has discharged its responsibilities.

6.2 The Committee will make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

6.3 The Committee shall produce a report, in accordance with any applicable governance code and any other relevant regulations or guidance, to be included in the Society's Annual Report, and ensure that all appropriate disclosure obligations are fulfilled.

6.4 The Chairman of the Committee will attend the Annual General Meeting to respond to any questions on Committee activities.

## **7 AUTHORITY**

7.1 The Committee is authorised to seek any information it requires from any employee of the company in order to perform its duties.

7.2 The Committee is authorised to obtain, at the Society's reasonable expense, outside legal or other professional advice on any matters within its Terms of Reference.

## **8 CHANGES IN CIRCUMSTANCES AND OTHER INTERESTS**

8.1 The Committee will adhere to the Society's Conflict of Interest Policy, Society Rules and relevant legislation. When there is an agenda item which poses a conflict of interest for any Committee member, that member should withdraw from the meeting.

8.2 All declarations of conflicts of interest shall be recorded in the minutes of the meeting. They shall also be recorded in the register of interests of Directors and senior staff.

8.3 All Committee members are required to notify the Secretary of the Society of all other bodies in which they have a significant interest or of which they are an employee, director, partner, trustee or for which they perform a similar role.

- 8.4 All Committee members are required to notify the Secretary of the Society of any changes in circumstances which may affect their Approved Person status under the Appropriate Regulator's regulatory regime or their ability to perform their role as a member of the Committee.

## **9 MONITORING**

The Committee will:

- a) Periodically review these Terms of Reference and make any necessary proposals to the Board as to their amendment;
- b) Periodically review and report to the Board on the effectiveness of the Committee;
- c) Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members.

Approved by the Board on 11 December 2014

A handwritten signature in blue ink, appearing to read 'Glossal', is written over the printed name of the Company Secretary.

Company Secretary