

TERMS OF REFERENCE

1 GENERAL

- 1.1 The Audit, Risk and Compliance Committee ("Committee") is a sub-committee of the Board of the Ancient Order of Foresters Friendly Society Limited.
- 1.2 The Committee considers matters in relation to internal and external audit and matters in relation to risk management.
- 1.3 The Committee has established a sub-committee, the Reserving Committee, which if required, considers matters in relation to key reserving judgements and assumptions prior to presentation to the Committee and/or the Board.
- 1.4 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 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 will consist of no fewer than three members who are Independent Non-Executive Directors. At least one member of the Committee should be regarded by the Board as having recent and relevant financial experience.
- 2.3 Only members of the Committee have the right to attend Committee meetings but other individuals may be invited to attend whole or part of the meeting if appropriate.
- 2.4 The Committee may request the presence, at any of its meetings, of any Employees or advisors of the Society as it may decide.

3 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. Where appropriate, meetings will coincide with key dates in the Society's financial reporting cycle.
- 3.3 At least two meetings, or part thereof, each year will be held with the External and Internal Auditors, either individually or together without the Executive Directors and/or Management being present.
- 3.4 A meeting may be requested by (i) the Society's External/Internal Auditors, (ii) Chief Risk Officer or (iii) Chief Compliance Officer if they consider it necessary.
- 3.5 The date of any meeting will not be changed without all members being given at least one week's notice of the revised date.

- 3.6 The quorum will be two members. Committee members may be present in person or through any other means of communication but to count towards a quorum, members must be able to fully participate in the Committee's proceedings.
- 3.7 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.
- 3.8 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.
- 3.9 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.
- 3.10 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 Committee members and appropriate attendees within three weeks.

4 MAIN FUNCTIONS

- 4.1 It is the responsibility of the Committee to assist the Board in fulfilling its mandated external reporting requirements. In respect to the external audit of the Report and Accounts and other mandated reporting requirements the Committee will:
 - 4.1.1 receive the report of the Finance Director about accounting, auditing and other matters relevant to the role and responsibilities of the Committee at least quarterly;
 - 4.1.2 oversee the process for selecting the External Auditors and make appropriate recommendations to the Board for consideration at the Annual General Meeting;
 - 4.1.3 assess the independence and objectivity of the External Auditors, ensuring that they rotate their key personnel in accordance with current guidance;
 - 4.1.4 recommend the audit fee to the Board and pre-approve any services and fees in excess of £10,000 in respect of non-audit services provided by the External Auditors to ensure that the provision of such services does not impair the External Auditors' independence or objectivity;
 - 4.1.5 review with the External Auditors, before their audit commences, the prior year's work, the nature and scope of the audit and to assess the External Auditors' quality control and ability to respond to changes in regulation and other requirements;
 - 4.1.6 review and consider Management's response to any letters, reports and recommendations from the External Auditor;
 - 4.1.7 monitor the effectiveness of the External Auditor;
 - 4.1.8 investigate the issues behind any resignation of the External Auditors and decide on any appropriate action;
 - 4.1.9 approve the terms of engagement of the External Auditors, including any engagement letter issued prior to each audit;

- 4.2 The responsibilities of the Committee in respect to the Annual Report and Accounts and other reporting requirements include monitoring the integrity of all such reports and reviewing and challenging where necessary, the actions and judgements of Management, before submission to the Board, paying particular attention to:
- 4.2.1 the Statement of Risk Management and Internal Controls Annual Review;
 - 4.2.2 critical accounting policies and practices, and any changes in these;
 - 4.2.3 critical valuation policies and practices and any changes in these;
 - 4.2.4 decisions requiring a major element of judgement and where appropriate recommendations from the Reserving Committee;
 - 4.2.5 the extent to which the financial statements are affected by any unusual transactions and how these are disclosed;
 - 4.2.6 the relevance and clarity of disclosures;
 - 4.2.7 significant adjustments resulting from the audit;
 - 4.2.8 the going concern assumption;
 - 4.2.9 compliance with accounting standards, law and regulatory requirements and the accounting and audit requirements of any applicable code on corporate governance;
 - 4.2.10 the quality and relevance of any non-financial performance reporting;
 - 4.2.11 the contents of these reports, advise the Board on whether they are fair, balanced and understandable and the narrative provides the information necessary for users to assess the Society's performance, business model, governance and strategy.
- 4.3 The responsibility of the Committee in respect to internal auditing is to assist the Board in ensuring that the Society's internal auditing processes are executed as effectively as possible. The Committee will:
- 4.3.1 support the Board in the design and content of the Society's Internal Audit Policy and review the Policy regularly to ensure it remains appropriate during changes to the Society's operations or business environment.
 - 4.3.2 oversee the process for selecting those who perform internal audits and make recommendations on their appointment to the Board;
 - 4.3.3 where some or all of the internal audit work is outsourced:
 - 4.3.3.1 oversee the process for selecting the service provider and recommend an appointment to the Board;
 - 4.3.3.2 recommend their audit fees to the Board and pre-approve any services and fees in excess of £10,000 respect of non-audit services provided by the outsourcer to ensure that the provision of such services does not impair their independence or objectivity;
 - 4.3.3.3 assess the on-going independence and objectivity of the internal auditors, ensuring that they rotate their key personnel in accordance with current guidance.
 - 4.3.4 where internal audit work is performed by employees of the Society, ensure that the persons performing the audits have appropriate skills and experience and maintain their skills with adequate training;

- 4.3.5 approve internal audit programmes and consider with the Internal Auditors the prior year's audit work, the key and relevant risks and ensure that the planned audit programme is appropriate;
 - 4.3.6 assess the Internal Auditor's quality control and ability to respond to changes in regulation and other requirements;
 - 4.3.7 ensure that operations, Courts and other relevant non-financial processes and activities receive an appropriate standard of audit;
 - 4.3.8 review and consider any letters, reports and recommendations from the Internal Auditors and Management's response to these;
 - 4.3.9 monitor the effectiveness of the Society's internal audit processes and those who perform these;
 - 4.3.10 consider at least annually if the internal audit function is resourced adequately and has appropriate standing within the Society;
 - 4.3.11 investigate the issues behind any resignation of Internal Auditors and decide on any appropriate action;
 - 4.3.12 approve the terms of engagement of the Internal Auditors.
- 4.4 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 all 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:
- 4.4.1 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 and Prudential Regulation Authority (or its relevant successors) and other authoritative sources that may be relevant for the Society's risk policies;
 - 4.4.2 advise the Board in relation to risk factors including credit and counterparty risk, market risk, liquidity risk, strategic risk, operational risk and regulatory risk;
 - 4.4.3 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;
 - 4.4.4 oversee and advise the Board on the current risk exposures of the company and future risk strategy;
 - 4.4.5 ensure that the CRO shall be given the right of direct access to the Chairman of the Board and to the Committee;
 - 4.4.6 review and recommend on stress testing including reverse stress testing.
- 4.5 The responsibilities of the Committee in respect to the Own Risk and Solvency Assessment Report ("ORSA") 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:
- 4.5.1 the position against agreed appetite;

- 4.5.2 the overall risk profile of the Society;
 - 4.5.3 the level of capital held against the Solvency II Pillar 1 Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR") and the modelling therein;
 - 4.5.4 review of the Solvency II Pillar 2 economic capital requirements in the ORSA;
 - 4.5.5 the forward looking assessment including capital projections;
 - 4.5.6 the output of relevant audit and independent reviews.
- 4.6 The responsibility of the Committee in respect to risk and capital management is to provide the Board with assurance that the Society's risks are identified, recorded, monitored and managed effectively. The Committee will:
- 4.6.1 support the Board in the design and content of the Society's Risk Management Policy and Capital Management Policy; the Committee will review these policies regularly to ensure they remain appropriate during changes to the Society's operations or business environment;
 - 4.6.2 receive and review the reports of the CRO;
 - 4.6.3 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 including conduct risk and TCF metrics;
 - 4.6.4 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;
 - 4.6.5 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;
 - 4.6.6 ensure the immediate reporting of policy breaches;
 - 4.6.7 monitor the effectiveness of the Society's overall risk management framework through ongoing review and independent assurance by the auditors;
 - 4.6.8 ensure material risk incidents are investigated in a timely manner and monitor remedial plans and implementations;
 - 4.6.9 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;
 - 4.6.10 review the risk appetite at least annually and recommend the level of risk to the Board for approval;
 - 4.6.11 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;
 - 4.6.12 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;

- 4.6.13 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;
- 4.6.14 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;
- 4.6.15 allocate and review risk accountabilities to risk owners;
- 4.6.16 review the adequacy of resources for the risk management function and that it has an appropriate degree of independence.
- 4.6.17 consider risk priorities for audit planning.
- 4.7 Other responsibilities of the Committee are to:
 - 4.7.1 consider the effectiveness of any relevant internal control processes which are not addressed elsewhere (e.g. anti-money laundering);
 - 4.7.2 review the sections of the Annual Report and Accounts of the Society which address Reporting, Governance and Risk;
 - 4.7.3 consider and recommend to the Board the methodology and assumptions for the Solvency II Actuarial Valuation of the technical provisions valuation assumptions.
 - 4.7.4 approve the submission of Q1, Q3 and Q4 Solvency II reporting.

5 STANDARDS

- 5.1 It is the responsibility of the Committee to monitor that, in regards to auditing, performance reporting and governance that the Committee 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 will attend the Annual General Meeting to propose that the meeting receive the Auditor's Report on the Annual Accounts and the Directors' Report and 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 in accordance with any procedures agreed by the Board.

8 CHANGES IN CIRCUMSTANCES AND OTHER INTERESTS

- 8.1 The Committee will adhere to the Society's Conflict of Interest Policy, the 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

- 9.1 The Committee will:
 - 9.1.1 Periodically review these Terms of Reference and make any necessary proposals to the Board as to their amendment.
 - 9.1.2 Periodically review and report to the Board on the effectiveness of the Committee.
 - 9.1.3 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 April 2019.



Company Secretary