



COMMITTEE

TERMS OF REFERENCE

Revised: December 2011

CONTENTS

	Page No.
- Audit & Compliance Committee - Terms of Reference	2
- Assets & Liability Committee (ALCO) - Terms of Reference	7
- Remuneration Committee - Terms of Reference	9
- Nominations Committee - Terms of Reference	12
- Lending Committee - Terms of Reference	14
- Risk Committee - Terms of Reference	16

AUDIT AND COMPLIANCE COMMITTEE: TERMS OF REFERENCE

Composition:- **Mrs. A. East (Chairperson)**
 D.J. Milner
 K.A. Langley

Membership

The Board shall appoint the Committee. All members of the Committee shall be independent non-executive directors of the Society. The Committee shall consist of not less than three members. A quorum shall be two members.

The Board shall appoint the Chairman of the Committee from amongst the independent non-executive directors. The Society Chairman cannot be the Committee Chairman.

One member of the Audit Committee should have recent and relevant financial experience.

Secretary

The Secretary of the Society shall be the Secretary of the Committee.

Attendance at Meetings

No one other than the Audit Committee members shall be entitled to attend Audit Committee Meetings.

Other non-executive directors, Chief Executive, Finance Director and representatives of internal and external auditors, or other persons shall attend meetings at the invitation of the Committee.

There should be at least one meeting a year, or part thereof, where the Audit Committee meets the external and internal auditors without executive Directors present. This need not be the same meeting.

Frequency of Meetings

Meetings shall be held not less than four times a year.

External auditors or internal auditors may request a meeting if they consider that one is necessary.

Authority

The Committee is authorised by the Board to:

- investigate any activity within its terms of reference.
- seek any information that it requires from any employee of the Society and all employees are directed to co-operate with any request made by the Committee.
- obtain outside legal or independent professional advice, at the Society's expense, and secure the attendance of outsiders with relevant experience if it considers this necessary.

Duties

The duties of the Committee shall be to:

Reporting

- Review, and challenge where necessary, the actions and judgements of management, in relation to the Society's financial statements, Summary Financial Statements and the operating and financial review before submission to, and approval by, the Board, and before clearance by the auditors. Particular attention should be paid to:-
 - critical accounting policies and practices, and any changes in them.
 - decisions requiring a significant element of judgement.
 - the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed.
 - the clarity of disclosures.
 - significant adjustments resulting from the audit.
 - the going concern assumption.
 - compliance with accounting standards.
- Consider other topics, as defined by the Board, including the necessary Pillar 3 disclosures required by Basel II.

Management Controls and Systems

- Review the Society's procedures for detecting fraud and whistle blowing and ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters.
- Review management's and the internal auditor's reports on the effectiveness of the systems for internal financial control, financial reporting and risk management.
- Monitor the integrity of the Society's internal financial controls.
- Review the statement in the annual report and accounts on the Society's internal controls and risk management framework.
- Assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks. The Board retains responsibility for the review of the effectiveness of the system of internal control and must form its own opinion despite aspects of that review being delegated to the Audit Committee.

Internal Audit

- Review the internal audit programme and ensure that the internal audit function company/organisation is adequately resourced and has appropriate standing within the Society.

- Ensure that the internal auditor has direct access to the Audit Chairman and the Audit Committee and is accountable to the Audit Committee.
- Receive reports on the results of the internal auditors' work on a periodic basis, which must cover:-
 - (i) the adequacy of the Society's accounting records and accounting controls, and resulting recommendations for improvement where appropriate and necessary;
 - (ii) the adequacy of the Society's systems of business control and, in particular, its arrangements for evaluating risks in relation to its existing and future business and related capital requirements and to advise the Board on the adequacy of the Society's systems of business controls and to make recommendations for improvement when necessary.
 - (iii) the review of the accuracy and timeliness of management information and other reports made available to the Board.
 - (iv) significant information provided to the Financial Services Authority (FSA) (eg ILSA / ICAAP)
- Review and monitor management's responsiveness to the internal auditor's findings and recommendations.
- Monitor and assess the role and effectiveness of the internal audit function in the overall context of the Society's risk management system.
- Annually consider the re-appointment of the outsourced internal auditors and agree/set their fees.
- Become involved in an assurance capacity during the development of significant new IT systems or other projects to ensure the appropriate controls are in place.

External Audit

- Oversee the Society's relations with the external auditor.
- Consider, and make recommendations to the Board on the appointment, reappointment and removal of the external auditor.
- Approve the terms of engagement and the remuneration to be paid to the external auditor in respect of the audit services provided.
- Assess the qualification, expertise and resources, effectiveness and independence of the external auditors annually. Steps to consider include:
 - seeking reassurance that the auditors and their staff have no family, financial, employment, investment or business relationship with the Society (other than in the normal course of business).

- seeking from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff.
 - monitoring the external audit firm's compliance with applicable ethical guidance relating to the rotation of audit partners, the level of fees that the company pays in proportion to the overall fee income of the firm, office and partner and other related regulatory requirements.
 - agreeing with the Board and monitoring the Society's policy for the employment of former employees of the external auditor.
- Discuss with the external auditor, before the audit commences, the nature and scope of the audit.
 - Review with the external auditors, the findings of their work, including, any major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved; key accounting and audit judgements; levels of errors identified during the audit, obtaining explanations from management and, where necessary the external auditors, as to why certain errors might remain unadjusted.
 - Review the audit representation letters before consideration by the Board, giving particular consideration to matters that relate to non-standard issues.
 - Assess, at the end of the audit cycle, the effectiveness of the audit process by:
 - reviewing whether the auditor has met the agreed audit plan and understanding the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks.
 - consideration of the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements identified and in responding to questions from the audit committees, and in their commentary, where appropriate, on the systems of internal control.
 - obtaining feedback about the conduct of the audit from key people involved.
 - Review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the Society's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.
 - Develop and recommend to the Board the Society's policy in relation to the Provision of non-audit services by the auditor and ensure that the provision of such services does not impair the external auditor's independence or objectivity. In doing so, the Audit Committee should:

- consider whether the skills and experience of the audit firm make it a suitable supplier of the non-audit services.
- consider whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor.
- consider the nature of the non-audit services, the related fee levels, and the fee levels individually and in aggregate relative to the audit fee.
- consider the criteria that govern the compensation of the individuals performing the audit; and
- set and apply a formal policy specifying the types of non-audit work from which the external auditors are excluded; for which the external auditors can be engaged without referral to the Audit Committee; and for which a case-by-case decision is necessary.

Compliance

- Assess the adequacy of resources/skills of those involved in independent compliance monitoring.
- Approve the annual Compliance Monitoring Plan, taking into account the risk assessment of each area of the business.
- Receive the results of the findings from the independent compliance monitoring performed and details of any corrective action proposed by management.

and specifically:

- Annually review the Money Laundering Report and ensure its recommendations are carried out.
- Review the reports arising from the Society's internal monitoring of mortgage completions.
- Annually review the Society's risk management and control document and assess its appropriateness.

Reporting

The Secretary shall circulate the minutes of the Committee to all members of the Board, Meeting attendees, and the external auditors. The Chairman of the Committee shall, as a minimum, attend the Board Meeting at which the accounts are approved.

The Audit Committee shall annually review its terms of reference and its own effectiveness and recommend any necessary changes to the Board.

The Audit Committee Chairman shall attend the AGM and shall answer questions, through the Chairman of the Board, on the Audit Committee's activities and their responsibilities.

ASSETS AND LIABILITIES COMMITTEE (ALCO) – TERMS OF REFERENCE

Composition:	Three Non-Executive Directors:	Mrs. A. East B.W. Frankling D.J. Milner
	The Executive Directors:	G.J. Caves (Chairman) J.N. Bland T.D. Taylor
	Secretary & Treasury Dealer:	P. Jeavons

Minutes will be taken at each meeting and circulated to the full Board.

The Assets and Liabilities Committee report monthly to the main Board.

The main responsibilities of the Committee are:-

Treasury

- To review and agree Treasury policy in respect of production of the Liquidity and Financial Risk Management, including the Annual ILSA document.
- To review previous Treasury activity and performance.
- To review and approve Treasury counterparties and their associated credit limits.
- To review cash-flow projections and liquidity stress testing.
- To monitor and approve contingent funding lines.
- Monitor use of hedging instruments.
- Monitor and agree proposed developments/changes in treasury activity.

General Policy

- Maintain policy in accordance with FSA Requirements.
- Monitor, discuss and agree future FSA proposals in the area of Treasury and Financial Risk Management.

Finance

- Monitor structure of Society's Assets and Liabilities.
- Monitor mortgage and investments products in terms of Balance Sheet structure, product pricing and risk.
- Consider Society's trading in accordance with the Annual Corporate Plan and associated Key Performance Indicators.

Capital

- To review the Society's level of Capital in comparison to the Corporate Plan.
- To consider the 'Capital Buffer' in a stressed trading situation.

Economic Outlook

- To consider general economic reports from the Society's Treasury advisors.
- To consider the general effects of house price changes within the economy, and consider their effect on Society policy.
- To consider the general level of lending with the UK.
- To consider regional employment/unemployment rates and their effect on Society policy.

JNB/VJW
6 September 2011

REMUNERATION COMMITTEE – TERMS OF REFERENCE

Composition: **D.A. Gamble (Chairman)**
 J.R.D. Anton
 B.W. Frankling

Members of the Committee shall be appointed by the board. The Chairman of the Committee will also be appointed by the board.

The Committee shall be made up of at least 3 members, all of whom shall be independent non-executive directors.

Only members of the Committee have the right to attend Committee Meetings. However other individuals such as the Chief Executive and External Advisers may be invited to attend for all or part of any meeting as and when appropriate.

In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

The Chairman of the Board shall not be Chairman of the Committee.

Secretary

The Society Secretary or a person nominated by the Committee.

Quorum

The quorum necessary for the transaction of business shall be 2.

A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in our exercisable by the Committee.

Frequency of Meetings

The Committee shall meet at least twice a year. One in February to consider aspects of pay policy for the next financial year and one in September to review and evaluate all current pay policies and practices.

The Committee will meet at other times as the Chairman of the Committee shall require.

Notice of Meetings

Meetings of the Committee shall be summoned by the Secretary of the Committee 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, any other person required to attend and all other non-executive directors, no later than 5 working days before the date of the meeting.

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 Committee Meetings, including the names of those present and in attendance.

Minutes of the Committee Meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the board, unless a conflict of interest exists.

Duties

The Committee shall:-

- Determine and agree with the board the framework or broad policy for the remuneration of the Society's Executive, the Chairman, the general management and staff of the Society.
- Refer decisions on remuneration of non-executive directors to the Chairman and executive members of the Board.
- No director or manager shall be involved in any decisions as to their own remuneration.
- In determining such policy, take into account all factors which it deems necessary. The objective of such policy shall be to ensure that members of the executive management of the Society are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Society.
- Review the on-going appropriateness and relevance of the remuneration policy.
- Approve the design of, and determine targets for, any performance related pay schemes operated by the society and approve the total annual payments made under such schemes.
- Determine the policy for, and scope of, pension arrangements for each executive director and other senior managers.
- Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the society, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- Within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive as appropriate, determine the total individual remuneration package of each executive director and other senior manager including bonuses, incentive payments and other awards.
- Review and note annually the remuneration trends across the Society.
- Oversee any major changes in employee benefits structures throughout the Society.

- Review the policy for authorising claims for expenses for Board members.
- Ensure that all provisions regarding disclosure of remuneration, including pensions are fulfilled.
- Be exclusively responsible for establishing the selection criteria, selecting, appointment and setting the terms of reference for any remuneration consultants who advise the Committee.
- Obtain reliable, up-to-date information about remuneration in other companies. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations.

Reporting Responsibilities

The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action and responsibilities.

The Committee shall produce an annual report of the Company's Remuneration Policy and practices which will form part of the Company's annual report and ensure each year that it is put to shareholders for approval at the AGM.

Review of Committee Performance

The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum 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 of the Society in order to perform its duties.

In connection with its duties the Committee is authorised by the Board, at the Society's expense, to obtain any outside legal or other professional advice within any budgetary restraints imposed by the board, to appoint remuneration consultants, and to commission or purchase any relevant reports, surveys or information which it deems necessary to help fulfil its duties.

NOMINATIONS COMMITTEE – TERMS OF REFERENCE

Composition: Full Board

The Nomination Committee is responsible for identifying and nominating candidates for the approval to fill Board vacancies as and when they arise.

A review of existing skills, knowledge and experience of Board members should be carried out and, in the light of this evaluation, a description of the role and capabilities required for a particular appointment should be written.

The full Board will represent the Committee. [The Chairman should chair the Committee, but the Chairman should not chair the Nomination Committee when it is dealing with the appointment of a successor of the Chairmanship] [Combined code A.4.1].

A report/copy of the minutes should be made following any meetings of the Committee.

Principal Duties

The Board Appointment/Nomination Committee should:-

- give full consideration to succession planning, taking into account the challenges and opportunities facing the Society and what skills and expertise are therefore needed on the Board in the future;
- In March and September each year review the structure, size and composition of the Board (including skills, knowledge and experience) and agree any changes;
- Review the leadership needs of the Society, both Executive and Non-Executive, with a view to ensuring the continued ability of the Society to compete effectively in the marketplace.
- When looking to recruit a new Director consider candidates from a wider range of backgrounds.
- Minutes must be kept of meetings to recruit a new appointment, the method of attainment of candidates and number of candidates interviewed and records of interviews.
- ensure that on appointment to the Board, Non Executive Directors receive a formal letter of appointment setting out clearly what is expected of them of time commitment, Committee service and involvement outside Board meetings.
- review annually the time required from a Non Executive Director. Performance evaluation should be used to assess whether the Non Executive Director is spending enough time to fulfil their duties.
- if a Non Executive Director has been on the Board beyond six years (they may serve nine years – three 3 year terms) a review must be carried out to ensure that the Board retains a good balance of skills and knowledge.

- where a Non Executive Director is to serve longer than nine years the Committee must state the reasons and the outcome of the review.
- review the Non Executive Director's re-appointment at the conclusion of any specified term of office as appropriate under the Society's Rules in respect of retirement by rotation;
- ensure that the terms and conditions of appointment of a Non Executive Director should be made available for inspection.
- record how the new appointment has been determined, e.g, through an AGM process, external research consultancy or has been openly advertised. [Combined Code A.4.6].
- ensure that an induction training programme is in place for a new Non Executive Director.

LENDING COMMITTEE - TERMS OF REFERENCE

Composition:- **B.W. Frankling (Chairman)**
 K.A. Langley,
 D.A. Gamble,
 G.J. Caves,
 J.N. Bland,
 T.D. Taylor,
 K.E. Robinson (Arrears Manager)
 K. Joyce (Mortgage Manager).

The Chairman of the LC is appointed by the Board.

Constitution

The Board has established a sub-committee to be known as the Lending Committee (LC) to support it in achieving its lending risk objectives and responsibilities. LC reports directly to the Board.

Quorum

For a quorum to be established a minimum of four of the members must be present who must include one Non-Executive Director, one Executive Director and two other committee members.

Frequency of Meetings

Meetings should be held on a monthly basis. The Chairman of LC may also convene meetings of the committee if in his judgement a mortgage proposal or issue arises that must be sanctioned/addressed before the next scheduled meeting.

Authority

LC is authorised by the Board to:

- Maintain lending risk within Board approved limits.
- Maintain lending policy, risk control and profitability to assist in delivering the corporate plan.
- Set and agree the terms of reference for lending risk model development.
- Provide an oversight role in relation to the operation of the lending business. This will include ensuring that there are adequate resources in place (staff numbers, experience and skills) and that the systems established by management to identify, assess, manage and monitor loans are effective.
- Approve the launch of new mortgage products, and agree pricing subject to the 'Hurdle Rate' set by the Assets and Liabilities being achieved.
- To sanction new lending up to £1m per borrower; and
- To sanction new lending up to £1m per borrower that does not satisfy current underwriting policy.

Objectives

The objectives of the LC are:

- Provide challenge and oversight of lending risk assessments.
- Monitor lending portfolio quality.
- Recommend to the Board for approval and inclusion within policy amendments to exposure limits, any new lending product area, market or lending jurisdiction.
- Monitor lending areas for alignment to the Board risk appetite.
- Annually review the lending policies and present to the Board for approval.
- Update the Board with regards to Society lending risks.
- Monitor lending risk elements to the Society's ICAAP.
- Monitor and recommend to the Board the lending risk inputs to the pricing model.
- Monitor arrears statistics and performance of cases > 70% LTV and = > 1.5% arrears banding.
- Monitor and review the mortgage book exposure quarterly.
- Monitor and review loans 2 months or more in arrears within 12 months of origination on a quarterly basis.
- Review the arrears analysis of loans in the arrears banding = > 1% every 6 months.
- Undertake a Lending Policy review at least every 12 months and report recommendations to the Board.
- Review the underwriting of all loans where the society has repossessed the security and incurred a loss.

LC Mortgage Mandate

The LC is authorised by the Board to sanction new lending up to £1.0 million per borrower and to sanction new lending up to £1.0 million per borrower that does not satisfy current lending policy.

Loans must be approved by 3 of the LC members to include 2 non-executive directors and the Chief Executive or in the absence of the Chief Executive the Finance Director or General Manager Administration.

Communication

The Secretary of the LC will circulate the agenda and papers for meetings at least two days before the meeting.

Loans requiring approval by the LC will be submitted for approval in a format agreed by the LC.

Formal minutes, approved by the Chairman of the LC shall be submitted to the main Board following each meeting of the LC

RISK COMMITTEE: TERMS OF REFERENCE

1. Composition of the Committee

The Board Risk Committee is a sub-committee of the Board. Each member of the Board is also a member of the Committee. The Committee is chaired by one of the Board's independent directors. The Society's Secretary, other members of the management team and external advisors (such as internal and external audit) may also attend meetings as appropriate.

2. Duties

The Committee is tasked with identifying the key risks facing the Society and determining their importance given their potential impact and likelihood of occurrence. The Committee will also ensure that the Society's response to all identified key risks is appropriate.

More specifically, the Committee will:-

- i)** Review the Society risk register, ensuring that all principal risks are identified, appropriately categorised (GENPRU 1.2.30; Credit, Liquidity, Operational, Concentration, Business and Interest Rate) and adequately managed. The Committee will also satisfy itself regarding the Society's procedures for identifying new risks and tracking the development of all identified risk over time. To the extent that any of this work is delegated to the Management, an update on actions taken will be provided by the Society's Risk Officer to the Board Risk Committee. The Committee will also ensure that the principal risks identified by the risk register are adequately considered within both the Society's ICAAP and internal audit programme.
- ii)** Receive and review management information and make recommendations for change as and when appropriate.
- iii)** Review the results of the suite of stress tests designed to help the Committee discharge its responsibilities in respect to SYSC 3, Systems and Controls and SYSC 20 Reverse stress testing. Ensure the suite of tests is developed so that it continues to support the Society's risk governance arrangements and the work of the Committee.
- iv)** Review and consider any reports from internal and external audit and compliance relating to any findings relating to business risk and risk management systems.
- v)** Review and approve the Society's ICAAP and Capital Requirements Directive Pillar 3 disclosures. Each document will be reviewed at least annually and more frequently if dictated by market conditions. It will generally be the case that the ICAAP will be updated and approved annually (following completion the Business Plan) and reviewed quarterly and the Pillar 3 disclosure will be updated and approved annually in accordance with the minimum requirements set out BIPRU 11.3.

- vi) Review any reports from the Management's Conduct Risk Committee and consider results arising from such issues as Treating Customers Fairly, Payment Services Directive and Financial Fraud matters.
- vii) Consider at least annually the adequacy of the Society's risk governance arrangements. This is to constitute a general review of those arrangements, but will also consider the specific issue of whether the Society should maintain an independent risk governance structure.
- viii) Recommend to the Remuneration Committee the detail of that part of the Finance Director's job description relating to risk governance, or any amendments thereto. If risk governance becomes an executive responsibility of any other executive director, the Committee will make similar recommendations to the Remuneration Committee concerning that individual's job description.

3. Meetings

The Committee will meet monthly. Minutes of each meeting will be taken and circulated to each member prior to the next meeting.

4. Authority

The Risk Committee is authorised by the Board:-

- to seek any information it requires from any employee, consultant and other provider of services to the Society (for example, solicitors, tax advisers, management consultant(s)) in order to perform its duties;
- to obtain, at the cost of the Society, such outside legal or other independent professional advice as the Risk Committee shall consider, in its discretion, to be appropriate to the exercise of its powers and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

JNB/LJL
17 October, 2011