

## Commercial Board

References within this document to “CB” means the Commercial Board and “Board” means Main Board.

### 1 Membership

- (1) The CB shall appoint its own Chairman. In the absence of the CB Chairman, the remaining members present shall elect one of themselves to chair the meeting. Neither the CEO nor the Insurance Director can be elected Chairman.
- (2) The CB shall be made up of at least seven persons, and should include:
  - Chairman
  - CEO
  - Insurance Director
  - One External Non-Executive Director (NED)
  - Chairman of the Board
  - Two Member Nominated Non-Executive Directors (MNED)

All are subject to acceptance by the <sup>1</sup>PRA / FCA Regulated Person.

- (3) Only members of the CB have the right to attend CB meetings. However, other individuals may be invited to attend all or part of any meeting as and when appropriate.
- (4) In addition to (3) above the Society’s Chief Actuary and the With Profits Actuary shall have the right to attend CB Meetings.

### 2 Secretary

- (1) The designated Clerk to the CB shall act as the Secretary of the CB. The Clerk to the CB should be accountable to the Chairman for the performance of his or her duties.
- (2) The Clerk to the CB may with the approval of the Chairman appoint a nominee of appropriate standing and experience.

### 3 Quorum and Membership

- (1) The CB meeting will be deemed quorate providing at least four members are present, one of whom must be an Executive Director. The CB may have their meeting via Conference Call to ensure a quorum. A duly convened meeting of the CB at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the CB.

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<sup>1</sup> PRA/FCA Senior Manager Function (SMF), Certification Role and/or Notified NED

- (2) Except as provided in (3) below, no person may serve on the CB for more than nine years, unless otherwise approved by the CB and the Board.
- (3) The maximum term of membership of the CB shall not apply to the Chief Executive Officer or the Insurance Director, so long as they hold those offices. If an individual ceases to be Chief Executive Officer or Insurance Director but remains eligible to be appointed a member of the CB, the maximum term shall apply, having regard to the total number of years he or she has been a member, in any capacity.

#### **4 Frequency of Meetings**

- (1) The CB shall meet at least eight times a year, on dates to be agreed by the CB.
- (2) Subject to prior notice given in accordance with 5 below, a meeting may be convened for a date other than a scheduled date, at the request in writing of any member of the CB, the Compliance & Risk Officer, the Society's Chief Actuary or the With Profits Actuary.

#### **5 Notice of Meetings and CB papers**

- (1) Meetings of the CB shall be summoned by the Clerk to the CB issuing written notice not less than five business days before the scheduled date of the meeting or, if summoned in accordance with 4(2) above, not less than three business days before the date of the meeting.
- (2) Notice of each meeting shall be issued to each member of the CB and each other person invited to attend, stating the venue, time and date together with an agenda of items to be discussed.
- (3) Notice of a meeting of the CB may be issued by hand, surface mail or by electronic means.
- (4) Notice of a meeting shall be accompanied by reporting papers and such other supporting papers as are appropriate and necessary for the CB to conduct the business for which it has been convened.
- (5) The CB may consider papers issued later than as set out in (4) above or tabled at a meeting, if the Chairman has given consent.

#### **6 Minutes of the Meeting**

- (1) The Clerk to the CB shall minute the proceedings, agreed actions and resolutions of all meetings of the CB, including recording the names of those in attendance.
- (2) Members of the CB shall declare the existence of any actual and/or potential conflicts of interest prior to discussions on the subject matter and the Clerk to the CB will record the conflict of interest in the minutes. If the conflict of interest is material, the CB member may be asked to leave the meeting for that particular subject matter. For any conflicts of interest other than material ones the CB member may remain in the meeting for that particular subject matter and take part in the discussions and decision.
- (3) The minutes and report of each meeting of the CB shall be circulated promptly to all members of the CB after each meeting. Copies of the minutes are also circulated to the Directors of the Society who are not on the CB, the Compliance & Risk Officer, Society's Chief Actuary and the With Profits Actuary..

## 7 Duties

On behalf of the Board, the CB is responsible for the tactical application of strategy and implementation of policy with respect to:

### 7.1 Strategy and Management

- (1) Considering the Society's LTB strategy and business plan (including any material changes) for the purpose of advising the Board of their appropriateness for the LTB of the Society. The CB shall advise the Board of any financial impact or risk relevant to the LTB Funds and any changes in financial, human or other resources, systems or controls required to implement the LTB strategy and business plan;
- (2) Reviewing on a regular basis the performance of the Society in relation to its LTB in the light of approved strategy, objectives, business plans and budgets and ensure that any corrective action is taken;
- (3) Considering reports from the Society's Chief Actuary Function Holder and/or With Profits Actuary Function Holder including valuation reports and bonus recommendations and determine bonus strategy;
- (4) Considering the Society's capital and liquidity in relation to such capital adequacy and liquidity requirements and practices as shall apply from time to time, and ensure they are appropriate. In the event of requiring notional or actual capital support, the CB shall make recommendations to the Board;
- (5) Considering the Society's Own Risk and Solvency Assessment (ORSA) reports including consideration as to the appropriateness of the assumptions and methodology used, including base assumptions and stress tests;
- (6) Considering the results of the ORSA and approve the ORSA from the aspect of the Society's LTB Funds;
- (7) Considering the Society's Solvency Financial Capital Report (SFCR) and Regulatory Solvency Report (RSR), specifically that the Society has complied in all material respects with the requirements of the PRA Rules; and
- (8) Approving the SFCR and RSR from the aspect of the Society's LTB Funds.

### 7.2 Operational Management of the Long Term Business Funds

- (1) Reviewing the effectiveness of the Society's policies, which includes oversight responsibility of the following Risk Management Framework (RMF) policies:
  - Asset & Liability Management;
  - Concentration Risk;
  - Data;
  - Investment Risk;
  - Liquidity Risk;
  - Market Risk;
  - ORSA/SFCR;
  - Reinsurance Risk;
  - Reserving; and
  - Underwriting Risk.

and delegated responsibilities within the following RMF policies:

- Business Continuity;
  - Conduct Risk;
  - Internal Control; and
  - Outsourcing.
- (2) To ensure clear procedures and adequate internal controls and resources are in place for managing the LTB of the Society;
  - (3) Receiving and considering reports upon changes in the LTB Funds. These reports shall be sufficient to inform the CB of key movements in the LTB Funds and enable it to identify un-forecast changes, understand the impact upon the finances of the Society and consider the cause and appropriateness of any proposed remedy; and
  - (4) Considering the effectiveness of the Society's arrangements for treating customers fairly.

### **7.3 Risk Management**

- (1) Overseeing risk in relation to the particular risk appetite statements relating to the business of the CB;
- (2) Overseeing the management of financial risks from climate change relating to the business of the CB;
- (3) Reviewing the effectiveness of the Society's policies and procedures for identification, assessment and reporting of risks relating to the conduct of the business of the CB;
- (4) Receiving reports highlighting strategic, external, operational and finance risk matters relating to the business of the CB. The report shall inform the CB of the systems or processes by which these risks are identified and managed, the owner of each risk, the priority attached to it and current actions in place to address it;
- (5) Reviewing regular reports from internal audit, external audit, compliance & risk and others on the operational effectiveness of measures relating to the risks of the business of the CB;
- (6) Reviewing the timeliness of and reports on the effectiveness of corrective action taken by management to mitigate risks relating to the business of the CB;
- (7) Reviewing risk management activity plans relating to the business of the CB; and
- (8) Considering any significant pending regulatory or legal actions against the Society relating to the business of the CB.

### **7.4 Compliance & Prevention of Financial Crime**

In relation to the LTB, the CB shall:

- (1) receive reports on compliance issues. The reports shall be sufficient to inform the CB of the systems and processes by which compliance issues are identified and managed, and to identify the owners of issues, the priority attached to them and the measures in place to address them; and
- (2) receive reports on prevention, detection and investigation of fraudulent activity, financial crime or misconduct within or against the Society in relation to the Society's business.

### **7.5 Finance**

- (1) Investments – the CB shall determine the asset strategy of both Unity Funds and LTB. Investment strategy for LTB will be determined in consultation with the Society's Chief Actuary.

Any investment strategy for Unity Funds will be determined in consultation with the Fraternal Board.

- (2) The CB delegates implementation of the strategy to appointed external Investment Managers. The agreed guidelines are defined in the terms of engagement drawn up between the Society and the Society's external Investment Managers;
- (3) Receive and consider reports upon the investment performance of the Unity and LTB funds in regards to investment risk and investment management and remedy any under-performance;
- (4) The CB ensures that investments are managed in accordance with current investment policy;
- (5) The performance of the Society's external Investment Managers is reviewed on a quarterly basis; and
- (6) Periodically the CB carries out a review of the investment policy and the Society's external Investment Managers.

## **7.6 Unity Office**

The CB shall review any strategic matter in respect of the Office premises in Manchester and Liverpool.

## **7.7 Society Rules and Procedures/Legislation**

- (1) The CB is responsible for ensuring that the Society's Rules and Procedures comply with the requirements of the Friendly Society's Act ( as applicable at the time) on an ongoing basis. It reviews information from the PRA / FCA with regard to requirements and legislation;
- (2) In addition, the CB monitors updates to the Board high level procedures documented in the Board Handbook where relevant; and
- (3) Monitors changes in legislation, receiving reports from management and staff.

## **8 Resolutions**

The CB is also responsible for the passing of resolutions in furtherance of the aims and directives of the Society's strategy and in accordance with the policy of the Board, which will receive and approve its minutes.

## **9 Reporting Responsibilities**

- (1) The CB shall require:
  - (a) the ARC Committee and the Compliance & Risk Officer to provide written or verbal reports on any material weaknesses or significant issues identified, insofar as they relate to the financial and internal controls, risk management, regulatory compliance or operations of the Society's LTB or Unity Office;
  - (b) the Finance and Insurance Departments to provide written reports relating to the financial condition of the Society in relation to the Society's operation of the LTB Funds and Unity Office;
  - (c) the Finance Department to provide monthly asset distribution reports to enable the CB to monitor the investments;
  - (d) the CEO to provide quarterly reports on the performance of the LTB investments; and
  - (e) the Society's Chief Actuary and/or With Profits Function Holder to provide reports in fulfilment of his or her reporting obligations as set out in the Terms of Engagement of the Actuary or as otherwise directed by the Society.

- (2) The CB shall make such report and recommendations to the Board when the ORSA/SFCR is being presented for approval by the Board.
- (3) The CB shall make such report and recommendations to the Board as it shall consider appropriate on any area or subject within its remit.

## 10 Other Matters

The CB shall:

- (1) have access to sufficient resources in order to carry out its duties, including access to the Actuaries, Auditors, Solicitors, Investment Managers and other advisors approved by the Board for assistance as required;
- (2) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- (3) be provided with timely relevant information and reports as set out in these Terms of Reference;
- (4) give due consideration to laws, Regulatory Principles, Rules and Guidance of the PRA / FCA, and the provisions of the Association of Financial Mutuals (AFM) Corporate Governance Code (CGC) as appropriate;
- (5) oversee any investigation of activities within these Terms of Reference and act, as a board of the last resort for decision, judgement, direction and control;
- (6) 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 for approval by the Board;
- (7) advise the Board on the suitability of candidates for the proposed appointment of the Chief Actuary and With Profits Actuary Function Holders; and
- (8) acting in its With Profits Advisory Arrangement capacity, receive guidance, input and advice from the Society's With Profits Actuary and any other individuals as required and any reasonable requests for additional support and/or external resource in order to perform its role effectively will be authorised by the Board.

## 11. Authority

The CB is authorised:

- (1) to carry out its duties and investigate any matter within these Terms of Reference;
- (2) to seek any information it requires from any personnel of the Society in order to perform its duties;
- (3) to obtain, at the Society's expense' outside legal or other professional advice on any matter within its Terms of Reference and within the agreed budgetary control procedure;
- (4) to call any employee to be questioned at a meeting of the CB as and when required; and
- (5) to delegates decisions and authorities in the following areas to others as shown below:

Delegated To	Area of Responsibility
Fund Investment Managers	Implementation of investment policy as defined in the terms of engagement for the sales and purchase of stocks, shares, gilts, corporate bonds and property funds.
Chief Executive Officer	Security and management of investments.

## 12 With Profits Advisory Arrangement

### 12.1 General

- (1) The Board of the Society has appointed the CB as the Advisory Arrangement for the responsibility of the With Profits governance in accordance with COBS 20.5.1R, having regards to the size, nature and complexity of the Society's With Profits funds;
- (2) The ultimate responsibility for managing the With Profits funds rests with the Society's Board. The role of the CB in acting as the Advisory Arrangement is, in part, to act in an advisory capacity to inform the decision making of the Board. The CB as the Advisory Arrangement, also acts as a means by which the interests of With Profits policyholders are appropriately considered within the Society's governance structures; and
- (3) The Society has a number of LTB Funds, which are all separately ring-fenced funds. The same advisory arrangement will apply to all LTB funds.

### 12.2 Key Actions

The CB shall:

- (1) assess whether the LTB with profits funds are managed in accordance with the Principles & Practices of Financial Management ("PPFM") as detailed in the PPFM;
- (2) assess whether the Society is complying with the principles and practices set out in the PPFM;
- (3) assess whether the Society is addressing the rights and interests of its With Profits policyholders compared with other stakeholders in a way that is consistent with treating customers fairly;
- (4) provide advice and guidance on any other issues that With Profits policyholders might reasonably expect the Advisory Arrangement to be involved in;
- (5) identify surplus and excess surplus and the merits of distribution/retention;
- (6) consider how bonus rates, smoothing and, if relevant, market value reductions have been calculated and applied;
- (7) assess the fair outcomes for policyholders taking into account any relevant historical provisions detailed in any relevant Instrument of Transfer;
- (8) consider the relative interests of policyholders with and without guarantees;
- (9) consider With Profits customer communications, such as annual reports, bonus statements, product literature and reports to With Profits policyholders;
- (10) consider and assess any significant changes to the risk/investment profile of the funds;
- (11) assess any future new product developments, supported by the With Profits assets and its impacts on the surplus of the funds;
- (12) assess the impact of any planned management actions;
- (13) assess management information, including any policyholder complaints;
- (14) assess and consider the appropriateness of the costs and expenses incurred in running the funds;
- (15) review and update the Society's Run-Off Plan; and
- (16) assess the performance of the With Profits Actuary at least annually.

### **12.3 Reporting**

- (1) The CB, acting in its Advisory Arrangement capacity, is required to report formally to the Board once a year on the Society's compliance with the PPFM documents;
- (2) The CB will also be asked to consider and comment on other documents produced by the Society's Chief Actuary Function Holder and/or the With Profits Actuary Function Holder to ensure the interests of the Society's With Profits policyholders are taken into account in a fair and reasonable manner; and
- (3) The CB shall report to the Board at least annually on the performance of the With Profits Actuary Function Holder.