

British Friendly Society

Audit and Risk Committee

Terms of Reference

British Friendly Society (The Society) has a Board structure consisting of a Board and supporting committees. The Audit and Risk Committee (ARC) is a permanent committee of the Board whose purpose is to advise and support in the preparation of decisions to be taken by the Board.

The committee is established in line with the Society's Memorandum and Rules ("the Rules") and unless specifically stated otherwise, terminology, words or expressions used in these Terms of Reference have the same meaning as in the Rules.

1. Membership

- 1.1. The Audit and Compliance Committee shall comprise of at least 2 members, all of whom shall be independent non-executive directors of the Society.
- 1.2. The Chair and Members of the Committee shall be appointed by the Board on the recommendation of the Remuneration and Nomination Committee. At least one member shall have recent and relevant financial experience, and the Committee as a whole, shall have competence relevant to the sector in which the Society operates. The Chair of the Board shall not be a member of the Committee.
- 1.3. Only members of the Committee and other non-executive directors have the right to attend Committee meetings.
- 1.4. Individuals such as the Chief Executive, Chief Risk Function Holder, Chief Actuary, Internal Audit, External Audit and Investment Managers will be invited to attend meetings on a regular basis. Other individuals may be invited to attend for all or part of any meeting, as and when appropriate.
- 1.5. The Board has the power to dismiss members of the ARCC at any time.

2. Chair and Company Secretary

- 2.1. The committee chairperson is required to co-ordinate the activities of the committee. The chairperson is the main contact for the Board.
- 2.2. In the absence of the Committee Chairperson the remaining members present shall elect one of themselves to chair the meeting who would qualify under these terms of reference to be appointed to that position by the Board.
- 2.3. The Company Secretary, or their nominee, shall act as the secretary to the Committee. Committees will be called by the Company secretary at the request of the chair or at the request of the any of its members.
- 2.4. The Company Secretary supports the Chairperson in organising affairs of the committee and will provide the committee with Supporting papers in a timely manner to

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enable full and proper consideration ahead of the committee taking place. The Company Secretary facilitates in the provision of information to the Board.

3. Conflicts of Interest

- 3.1 Each member of the committee has an obligation to act in the best interest of the Society. Members must refrain from participating in the decision-making process if there is a direct or indirect personal interest that conflicts with the interests of the Society. Accordingly, each member of the committee has an obligation to raise any potential conflicts of interest at the earliest opportunity through the Committee. Members of the committee will consider how to address any potential conflict of interest and where appropriate, may seek legal advice or guidance. Where the committee is unable to resolve any such conflict the matter is referred to the Board to take a decision.

4. Frequency of meetings

- 4.1 The Committee shall meet as a minimum twice a year. Further meetings may be required as appropriate.

5. Minutes of the meeting

- 5.1. The Company Secretary, or their nominee shall minute the proceedings and decisions of all Committee meetings.
- 5.2. Chair approved draft minutes of Committee meetings shall be circulated to all members of the Committee and shall be reviewed, amended if necessary and approved by the Committee at its next meeting.

6. Engagement with Members

- 6.1. The Committee Chair should attend the annual general meeting (AGM) to answer any member questions on the Committee's activities. The Committee Chair should also be made aware of, and where appropriate, collaborate with the Chief Executive Officer or Company Secretary to answer any questions that are submitted virtually by members in advance of the annual general meeting.

7. Duties (Financial Reporting)

The Committee shall:

- 7.1. Review and consider the application of accounting policies and practices and any proposed changes to them.
- 7.2. Review and consider all material information presented in the management accounts in relation to budgetary oversight including expenses.
- 7.3. Review and consider information provided by the Society's Actuarial Function before its inclusion in the financial statements and regulatory returns.
- 7.4. Review and consider the clarity, completeness and context of disclosures in financial statements, including its annual reports (including that of any relevant subsidiary

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company accounts), strategic reports and corporate governance statements relating to audit and risk management. The committee will on consideration of its judgements and any matters arising, such from external audits of such statements, recommend approval by the Board.

- 7.5. Review and consider returns to be submitted to the Prudential Regulation Authority ("PRA"), such as the Solvency and Financial Conditions Report ("SFCR") ensuring they comply with relevant regulations and recommending approval by the Board.

8. Duties (Investment)

The Committee shall:

- 8.1. Appoint appropriate Investment managers to the Society who will be required to attend each committee meeting.
- 8.2. Undertake formal reviews of investment services as appropriate.
- 8.3. Receive and review regular reports from Investment Managers, whilst considering the Management of Capital, investment and portfolio performance and risks in line with the investment strategy, mandate and risk appetites.
- 8.4. Monitor, review and make recommendations to the Board on appropriate asset allocations of investments having taken advice from the Actuarial Function and Finance Function regarding the liabilities of the Society.
- 8.5. Consider and approve any requests by the Investment Managers in variations to the Society's strategic asset allocation ranges. Where this occurs, the committee should notify the Board of such events.
- 8.6. Instruct a property re-evaluation every three years or more regularly if necessary.

9. Duties (Risk Management)

The Committee shall:

- 9.1. Ensure the Society's Risk Management function is adequately resourced and has appropriate information to perform effectively whilst maintaining adequate independence from management (first line of defence). The committee will ensure that the SMF4 has direct access to non-executive directors, including the Chair of the Committee and the Board.
- 9.2. Advise and recommend Board approval on matters relating to the risk management framework including but not limited to the setting and monitoring of risk appetite, tolerances, key risk indicators, and incident reporting.
- 9.3. Review and consider regular risk reporting from the Chief Risk Function Holder to ensure that all the risks to which the business is, or may be exposed to have been identified and ensure that appropriate risk treatment and mitigations are taken.
- 9.4. Review and consider the annual risk assurance activities proposed. Findings of completed activities will be shared with the committee who, may make recommendations on remedial actions identified and monitor the progress of identified actions to completion.

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- 9.5. Keep under review the design and operational effectiveness of the Society's Risk Management and Internal Controls Framework.
- 9.6. Monitor and review any ongoing and new key regulatory areas such as, but not limited to, operational resilience and business continuity planning and where required recommend to the Board for approval.
- 9.7. Review and recommend to the Board the Annual Own Risk and Solvency Assessment Report (ORSA), in line with Solvency UK directives, including those stresses and scenarios to be conducted as part of the process.
- 9.8. Review regularly Solvent Exit planning of the Society and report to the Board on that plan, its trigger points and its projected outcomes.

10. Duties (Capital Management)

The Committee shall:

- 10.1 Keep under review the adequacy of the capital, associated management policies, procedures, controls and reporting metrics of the business.
- 10.2 Keep under review the adequacy of the asset and liability management, associated policies, procedures, controls and reporting metrics of the business.
- 10.3 Receive and review regular reports from the Head of the Actuarial Function and Head of the Finance Function on the capital and asset-liability-management positions of the business.

11. Duties (Compliance)

The Committee shall:

- 11.1. Keep under review the adequacy and effectiveness of the Compliance functions operation.
- 11.2. Review and consider regular reporting received from the Compliance function.
- 11.3. Review and consider an annual report from the Society's Whistleblowing Champion
- 11.4. Review and consider the Money Laundering Reporting Officer's annual report
- 11.5. Review and provide feedback on the annual compliance function plan. Findings of completed activities will be shared with the committee who, may make recommendations on remedial actions identified and monitor the progress of identified actions to completion.
- 11.6. Review and consider the adequacy of the Society's arrangements for its employees, contractors and external parties, in confidence, about possible wrongdoing. The Committee shall ensure proportionate and independent investigation of any such matters and ensure appropriate follow up action is taken.
- 11.7. Review and approve the Society's procedures for financial crime. The committee shall also receive, review and consider reports of any non-compliance to these procedures.

12. Duties (Internal Audit)

The Committee shall:

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- 12.1. Oversee and recommend to the Board any appointment or termination of the internal audit function.
- 12.2. Monitor and review the effectiveness of any internal audit activity within the context of the Company's overall risk management system and determine whether it is satisfied that the quality, experience and expertise internal audit.
- 12.3. Review and approve the annual internal audit plan ensuring it is aligned to the key risks of the business.
- 12.4. Review and consider any reports issued by the internal audit.

13. Duties (External Audit)

The Committee shall:

- 13.1. Maintain and oversee the selection procedure for the appointment of the audit firm. In the event of an external auditor resignation, the committee shall investigate further and agreed any further action required.
- 13.2. Consider and make recommendations to the Board, to be put to members for approval at the AGM, in relation to the appointment, re-appointment and removal of the company's external auditor.
- 13.3. Approve external auditor remuneration, including fees for audit and non-audit services.
- 13.4. Receive and review a regular reporting from the external auditor on their own internal quality procedures.
- 13.5. Meet at least once annually with the external auditor without management present.
- 13.6. Monitor and assess the external auditor's effectiveness, independence and objectivity of the audit process and services provided, including the quality, handling of key judgements by the auditor, the qualifications, expertise and resources of the external auditor.
- 13.7. Review and assess non-audit services by the auditor ensuring there are no threats to the independence of the auditor and impacts on the nature of the non-audit services and the fees associated for non-audited services.
- 13.8. Review and discuss the proposed audit plan as well as the findings of audit works conducted to determine any major issues which arose during the audit, explanation of how the risks to the audit quality were addressed, key accounting and audit judgements, auditor's view of interaction with senior management and levels of errors identified during the audit.
- 13.9. Review the management letter and management's response to the auditor's findings and recommendations.

14. Reporting Responsibilities

- 14.1. The Committee Chair shall provide a report to the Board after each meeting on the nature and content of its discussions as well as its recommendations to the Board. The Committee shall make whatever recommendations to the Board it seems appropriate within its remit where action or improvement is needed, and appropriate.

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- 14.2. The committee shall inform the Board in a clear and timely manner about the way in which it has used delegated powers and of major developments in the area of its responsibilities.
- 14.3. The Committee shall produce a report to be included in the Society's annual report describing the work of the Audit and Compliance Committee.

15. Other Matters

The Committee shall:

- 15.1. Have access to sufficient resources in order to carry out its duties.
- 15.2. 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.
- 15.3. Give due consideration to all relevant laws and regulations as appropriate.
- 15.4. Ensure that a periodic evaluation of the Committee's own performance is carried out. At least annually, the Committee will review its constitution and terms of reference to ensure it is operating at maximum effectiveness recommending any changes necessary to the Board for approval.
- 15.5. The Committee is authorised by the Board to obtain, at the Society's expense, outside research, legal or other professional advice on any matters within its terms of reference.

Terms of Reference approved by the Board on 28th May 2026.