

**Darlington Building Society Limited (the 'Society')**  
**Board of Directors (the 'Board')**  
**Terms of Reference**

**1. Purpose**

- 1.1 The Society is a Mutual Society, registered on the Mutuals Public Register (number: 159B), whose principal office is at Sentinel House, Morton Road, Darlington, County Durham, DL1 4PT.
- 1.2 The Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, (Financial Services Register, FRM: 205895).

**2. Authority**

- 2.1 The Board must ensure that the Society operates within the Society's Memorandum and Rules (as amended from time to time), rules and guidance issued by the regulatory authorities and all applicable laws and regulations.

**3. Constitution**

**3.1 General**

- 3.1.1 The Society is run by a Board of Directors which comprises both executive and non-executive directors. The Society's Rules allow for the appointment of a minimum of six and a maximum of twelve Directors. The Board has further determined that its composition should at all times reflect the best practice principles in the UK Corporate Governance Code issued by the Financial Reporting Council (last updated in July 2018) to the extent that they apply to a building society, including maintaining a majority of independent non-Executive directors.
- 3.1.2 The Society's Memoranda defines its purpose, its adoptable powers and any restrictions. Society Rules cover the main operating aspects including the powers and duties of the Board and requirements for meetings, resolutions and ballots. The Society also has specific regard to the UK Corporate Governance Code when establishing and reviewing its corporate governance arrangements which takes place on an annual basis.
- 3.1.3 The Board directs and supervises the Society's affairs.
- 3.1.4 The Board operates through a series of meetings of the full Board, held as often as considered necessary for the proper conduct of its business, and through its sub-committees, which report regularly to the Board verbally and by circulation of minutes. These are:
  - Audit Committee
  - Risk & Compliance Committee
  - Nominations & Governance Committee
  - Remuneration Committee

- 3.1.5 Where a particular issue, activity or responsibility applies across the Society and its subsidiaries then this will be referred to as a Group activity. Where a particular issue, activity or responsibility applies only to Darlington Building Society, this will be referred to as a Society activity.

### **3.2 Powers of the Board to delegate**

- 3.2.1 The Board may delegate and confer on any Directors holding executive office any of its powers, authorities and discretions (including the power to sub-delegate) for such time and on such terms as it thinks fit. The Society's Delegation of Authority Framework details this further.
- 3.2.2 The Board may delegate any of its powers, authorities and discretions (including the power to sub-delegate) for such time and on such terms as it thinks fit to any committee consisting of one or more Directors and (if thought fit) one or more other persons, provided that where the committee consists of more than one member, not less than two members of such committee shall be Directors, and no resolution of a committee shall be effective unless one of those present when it is passed is a Director .

### **3.3 Membership**

- 3.3.1 The Board of the Society should have the appropriate balance of skills, experience, independence and knowledge of the Society to enable it to discharge its duties and responsibilities effectively. In doing so, it will 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. Evidence of this assessment and of the Board's competency will be captured in the Board Skills Matrix which is overseen by the Chairman.
- 3.3.2 The Board should be of sufficient size that the requirements of the business can be met and that changes to the Board's composition can be managed without undue disruption. The Board should comprise a balance of executive and non-executive directors such that no individual or small group of individuals can dominate the Board's decision-making.
- 3.3.3 More than half of the Board, excluding the Chairman, will be non-executive Directors who have been determined by the Board to be independent in character, judgement and relationships, meaning that Directors are free from relationships or circumstances which are likely to affect their judgement, that any relationships or circumstances which could appear to do so have been considered not to be material.
- 3.3.4 The Board shall appoint the Chair of the Board, upon recommendation of the Board Nominations & Governance Committee.
- 3.3.5 The Board also appoints one of the independent non-executive directors to be the Senior Independent Director to provide a sounding board for the Chairman and to serve as an intermediary for the other directors when necessary.

- 3.3.6 The Board will make appointments to the Board and changes to the structure, size and composition of the Board, following recommendations from the Board Nominations & Governance Committee.

### **3.4 Role of the Chairman, Senior Independent Director/Vice-Chairman and Chief Executive**

- 3.4.1 The offices of Chairman and Chief Executive are distinct and held by different individuals. For clarity, the allocation of the responsibilities for the Society between the Chairman and the Chief Executive Officer are set out in an appendix to this Terms of Reference, demonstrating the responsibilities as set out in the Statements of Responsibilities and recorded in the Management Responsibilities Map (MRM).
- 3.4.2 The primary role of the Chairman is to lead the Board, ensuring that it acts effectively, and to facilitate communication with the Society's members on behalf of the Board.
- 3.4.3 The Vice-Chairman is responsible for deputising for the Chairman and chairing the Remuneration Committee, subject to being suitably qualified.
- 3.4.4 The Senior Independent Director (SID) is a sounding board for the Chairman and serves as an intermediary for other directors, staff and members when necessary, due to the normal channels being inappropriate or where they have failed to enable resolution and is also responsible for the independence, autonomy and effectiveness of the whistle-blowing procedures. They are also responsible for the assessment of the performance of the person performing the Chairman role.
- 3.4.5 The responsibilities of the Chief Executive are to manage the Society's business on a day-to-day basis, being accountable to the Board for the financial and operational performance of the Society and for the formulation and implementation of a corporate plan to achieve the strategic objectives set by the Board.

### **3.5 Duration of appointments**

- 3.5.1 Committee membership shall be reviewed on a regular basis and any extension of the term shall not be given without consultation with the Board Nominations & Governance Committee.
- 3.5.2 Members of the Board are appointed by the Board, on the recommendation of the Nominations & Governance Committee.
- 3.5.3 All members shall be subject to re-election every two years, by rotation, by the Society's Members at the Annual General Meeting as required by the Memorandum and Rules. The Society's members have the right to nominate candidates for election to the Board.

- 3.5.4 At its first meeting after every Annual General Meeting, the Board elects from its membership a Chairman, Vice Chairman and Senior Independent Director who shall generally hold office until the commencement of the first meeting after the next Annual General Meeting.

### **3.6 Secretary**

- 3.6.1 The Secretary of the Board shall be agreed with the Chair of the Board.
- 3.6.2 The Secretary of the Board shall record the proceedings and decisions of the Board and Committee meetings and the minutes shall be circulated to all Directors and attendees, as appropriate, taking into account any Conflicts of Interest that may exist.

## **4. Responsibility of the Chairman**

- 4.1 The Chairman's role and responsibilities require:
  - 4.1.1 Fostering an open, inclusive and, where appropriate, challenging discussion;
  - 4.1.2 Ensuring the Board has the information necessary to perform its tasks and devote sufficient time and attention to the matters on the Board agenda and those brought by the Committees of the Board as well as any other matters brought to the Board's attention;
  - 4.1.3 Facilitating the running of the Board;
  - 4.1.4 Ensuring the minutes and actions arising are an accurate record of proceedings; and
  - 4.1.5 Attendance at the Annual General meeting to answer questions on the Board's activities.
- 4.2 Board meetings will be chaired by the Chair of the Board, or in his absence, the Vice Chairman. In the absence of both, the Directors present shall elect one of their members to be the Chairman of that Meeting.

## **5. Responsibilities of the Board**

- 5.1 The Board is the main decision-making body of the Society and Group.
- 5.2 The Board is responsible for managing the business of the Society and, in doing so, may exercise all the powers of the Society, subject to any relevant laws and regulations and subject to the Rules of the Society and the Society's Memorandum.
- 5.3 The Board is to provide leadership of the Society within a framework of prudent and effective controls which enables risk to be assessed and managed in accordance with the powers conferred upon the Directors as set out in the Society's Rules and Memorandum.
- 5.4 The Board will set the Society's strategic aims, ensure the necessary financial and human resources are in place for the Society to meet its objectives and review management performance.
- 5.5 A formal schedule of matters reserved to the Board is appended to these Terms of Reference.

## **6. Proceedings of Meeting**

### **6.1 Frequency of Meetings**

- 6.1.1 The Board will normally meet at least nine times a year at appropriate times and otherwise as required. Meetings of the Board will be called by the Secretary of the Board at the request of any of its members.
- 6.1.2 The Chair of the Board may convene meetings at any time to consider any matters falling within these Terms of Reference.
- 6.1.3 At least once a year, the non-executive directors are to meet without the executive directors present.
- 6.1.4 At least once a year, led by the Senior Independent Director, the directors meet without the Chairman present.

### **6.2 Notice and Quorum**

- 6.2.1 The quorum necessary for a valid meeting shall be four Directors, one of whom must be an Executive Director, a majority of directors present must be independent Non-Executive Directors.
- 6.2.2 A voting majority of non-executive directors is required at all times.
- 6.2.3 All matters shall be decided by a majority of votes. Every member present, including the Chairman shall have one vote. In the event of a tie, the Chairman shall have a second and casting vote.
- 6.2.4 Notice of each meeting confirming the venue, time and date together with an agenda and supporting papers shall be forwarded to each member of the Board no later than five days in advance of the date of the meeting. This may be sent in electronic form or paper form in line with the Society's protocols and procedures.

### **6.3 Attendees**

- 6.3.1 Non-members may be invited to attend meetings at the Chair of the Board's discretion.

## **7. Role of the Board (Detailed Scope and Purpose)**

- 7.1 The Board has collective responsibility for the long-term success and strategic aims of the Society. In doing so, it sets the Society's strategy and approves plans presented by management for the achievement of strategic objectives it has set having regard to the Society's members and stakeholders.
- 7.2 The Board's role is to provide entrepreneurial leadership of the Society within a framework of prudent and effective controls which enables risk and customer outcomes to be assessed and managed.
- 7.3 The Board sets the Society's values and standards and ensures that its obligations to its members and others are understood and met.

- 7.4 The Board determines the nature and extent of the significant risks it is willing to take in achieving its strategic objectives and is responsible for ensuring maintenance of sound risk management and internal control systems, adequate accounting and other records and compliance with statutory and regulatory obligations.
- 7.5 Implementation of strategy set by the Board, together with management and day to day running of the Society is delegated to the CEO with the exception of the matters reserved to the Board which are appended to this document.
- 7.6 The Board leads the development of the Society's culture, values and standards and will act in accordance with all relevant and applicable legislative and regulatory rules.
- 7.7 The Board ensures the Society's management team achieves the right balance between promoting long-term growth and delivering short-term objectives.
- 7.8 The Board will ensure there is a formal, rigorous and transparent procedure for the appointment of new directors.
- 7.9 Give due consideration to laws and regulations, as appropriate.

## **8. Board Governance and Resources**

### **8.1 Governance of the Board**

- 8.1.1 The Board shall review annually the Board's Terms of Reference and its own effectiveness. Changes to the Terms of Reference must be approved by the Board.
- 8.1.2 The Board shall conduct an annual self-assessment and shall consider whether or not it receives adequate and appropriate support in fulfilment of its role, the sufficiency of its competency to fulfil the business plan from a strategic, risk and operational perspective, as recorded in the Board Skills Matrix, and whether or not its current workload is manageable.
- 8.1.3 The Board will state in the annual report how performance evaluation of the Board, its committees and its individual directors has been conducted.
- 8.1.4 The non-executive directors, led by the Senior Independent Director of the Board, will be responsible for performance evaluation of the Chair of the Board, taking into account the views of executive directors.
- 8.1.5 Review and implement the board effectiveness and strategic development recommendations based on annual reports from external auditors and other advisers.

### **8.2 Independent Advice**

- 8.2.1 Directors may appoint, employ or retain such professional advisors as they may consider appropriate. Usually any such appointment is facilitated through the Society Secretary who is responsible for contractual arrangements.

Approved by the Board of Directors

17.12.2019

**Darlington Building Society Limited (the 'Society')**

**Board of Directors (the 'Board')**

**Matters Reserved to the Board**

**1. Structure and Capital**

- 1.1. Approval of the Group's long-term objectives and business plan, annual operating and expenditure budgets, financial forecasts and any material change to them which may impact upon prudential targets and structures (capital and liquidity).
- 1.2. Review of delivery of the strategy, and review of performance against plan and budget.
- 1.3. Approval of the business plan and the annual budget.
- 1.4. Approval of the allocation and maintenance of capital and liquidity and approval of any material amendment to the Society's Treasury policies, including any transaction which has the potential to impact on the Society's regulatory capital or which would cause the Group's capital adequacy ratio to fall below the stated risk appetite of the required minimum level agreed with the Prudential Regulation Authority (PRA).
- 1.5. Approval of the Capital Requirements Pillar 3 disclosure.
- 1.6. Approval of capital projects, including IT related projects whose total development, hardware and software cost is in excess of £100,000.00, of contracts which are material, strategic or by reason of size, entered into by the Society in the ordinary course of business, and acquisitions or disposals of fixed assets above £500,000.00 and contracts of the Society not in the ordinary course of business above £1m.

**2. Financial reporting and control**

- 2.1. Approval of the Society's periodic and annual report and accounts (including corporate governance statements and director's remuneration report).
- 2.2. Approval of any significant changes in accounting policies or practices (upon the recommendation of the Society's Audit Committee).
- 2.3. Approval of the levels of delegated authority, including the Chief Executive's authority limits (in writing).
- 2.4. Recommendation and re-appointment of both internal and external auditors following the recommendation of the Audit Committee, the external auditors being subject to approval at the Society's Annual General Meeting.
- 2.5. Approval of the appointment of the Group's principal professional advisers.

**3. Strategy and Product Management**

- 3.1. Ensuring maintenance of a sound system of internal control and risk management including: receiving reports from the Risk Committee acting under a delegated authority from the Board on their review of the effectiveness of the Society's risk and control processes; to support its strategy and objectives; approving procedures for the detection of fraud and prevention of bribery; and undertaking an annual assessment of these processes on receipt of the Annual Report from the Money Laundering Reporting Officer (MLRO).

- 3.2. Extension (or material withdrawal) of the Society's activities into new business initiatives or geographic areas, including approval of new products and/or lending niches that could pose a material risk to the Society's reputation or regulatory relationship, or significant changes to existing products, that exceed the delegated authority of the Chief Executive Officer.
- 3.3. Approval of any activity which would require a change to regulatory permissions.
- 3.4. Approval of the establishment or acquisition of new subsidiaries.
- 3.5. Appointment of the Group's main bankers.

#### **4. Culture**

- 4.1. Overseeing and setting the tone for the culture, values and behaviours of the Society linked to the Prescribed Responsibilities held by the Chairman and the Chief Executive.

#### **5. Risk Management and Internal Controls**

- 5.1. Approval of the Society's Risk Appetite Statement (RAS) (on the recommendation of the Society's Risk Committee).
- 5.2. Approval of the Society's Risk Management Framework (RMF) (on the recommendation of the Society's Risk Committee).
- 5.3. Approval of the prudential regulatory submissions of Internal Capital Adequacy Assessment Process (ICAAP) and the Individual Liquidity Adequacy Assessment Process (ILAAP) following consideration by the Society's Risk Committee as well as the Recovery Plan (RP).
- 5.4. Prosecution, commencement, defence or settlement of, or appeal against the outcome of, litigation, an alternative dispute resolution mechanism or regulatory proceedings that are material i.e. involving or likely to involve sums of over £100,000.00 (except in the case of claims brought by employees or former employees, in which case over £50,000.00) or which are not in the ordinary course of business of the Society.
- 5.5. Approval of any undertaking not in the ordinary course of business under which a material contingent liability is assumed by the Society e.g. guarantee or letter of comfort or support which is less than the member reserved matters threshold set in the Society's Memorandum and Rules.
- 5.6. Ensuring and overseeing the integrity and independence of the risk and compliance functions, as detailed within the Prescribed Responsibilities of the Chairs of the Audit Committee and the Risk Committee.
- 5.7. Approval of procedures for the detection of fraud and the prevention of bribery, with annual reporting by the MLRO on these matters, and appropriate reporting in the Annual Report
- 5.8. Approval of any mortgage application in excess of £1m, subject to any restrictions set out in the Risk Appetite Statement (RAS).

#### **6. Board membership and other appointments**

- 6.1. Appointment to the board and changes to the structure, size and composition of the Board, following recommendation from the Society's Nominations & Governance Committee and continuation in office of any director at any time, including the suspension or termination of service of an executive director as an employee of the Society, subject to the law and their service contract.

- 6.2. Appointments to subsidiaries.
- 6.3. Appointment and removal of the Chairman of the Board, the Senior Independent Director, the Vice Chairman, the Chairmen of Board Committees and other Senior Management Function (SMF) roles, appointment being subject to regulatory approval.
- 6.4. Approval of the documented division of responsibilities between the Chairman and Chief Executive Officer.
- 6.5. Appointment and removal of the Company Secretary (on the recommendation of the Society's Nominations & Governance Committee).
- 6.6. Approval of membership of Board Committees following consideration of the Board Skills Matrix and recommendations by the Society's Nominations & Governance Committee and approval of their Terms of Reference.
- 6.7. Appointment and removal of the Society's Executive Directors.
- 6.8. Approval of the Job Description and Role Profile of the Chief Executive.

## **7. Remuneration**

- 7.1. Determining the Remuneration Policy for the directors and other senior executives and determination of the remuneration of the non-executive directors' subject to the Society's Memorandum and Rules (and following the recommendation of the Chairman and Chief Executive Officer) and approving the introduction of incentive plans or major changes to existing plans, to be put to members for approval (on the recommendation of the Society's Remuneration Committee).

## **8. Corporate Governance**

- 8.1. Considering recommendations in respect of the Society's corporate governance arrangements.
- 8.2. Approval of the process for the formal and rigorous annual review of the performance of the Board, Board Committees and individual directors. Review and approval of implementation of findings (on the recommendation of the Society's Nomination & Governance Committee).
- 8.3. Ensuring adequate Succession Planning to maintain an appropriate balance of skills and experience both within the company and on the Board (on the recommendation of the Nominations & Governance Committee).
- 8.4. Authorising Conflicts of Interest where they are permitted by the Society's Memorandum and Rules or overseeing the management of any potential or actual Conflicts of Interest which may arise.
- 8.5. Approval of the Code of Conduct (on the recommendation of the Society's Risk Committee) and any other policies that the Board from time to time determines.
- 8.6. Annual approval of the Senior Manager Regime Management Responsibilities Map (MRM) on the recommendation of the Society's Nominations & Governance Committee, to ensure the Society meets its obligations under SM&CR.
- 8.7. Assist the Senior Management Function (SMF) role holders in fulfilling their prescribed responsibilities. Assessing the fitness and propriety of SMF holders will lie with the Nominations & Governance Committee.

- 8.8. Where matters are being discussed in relation to a Prescribed Responsibility, the relevant SMF role holder should attend and participate in the discussion, or if they are unable to attend, to ensure that they are suitably represented.
- 8.9. Authorisation of any benefits or loans offered to any director.
- 8.10. Establishment of the Pension Policy for the Society including new pension arrangements and major changes to the contribution and benefit structure of existing pension arrangements, on the recommendation of the Remuneration Committee.
- 8.11. The appointment of any Committees of the Board and their Terms of Reference
- 8.12. Approval, review and oversight of changes to the Corporate Governance framework for the Group.

## **9. Other**

- 9.1. The framework of charitable donations and considering the balance of interests between stakeholders, employees, customers and the community.
- 9.2. Approval of the overall levels of insurance for the Society including directors' & officers' liability insurance and indemnification of directors.
- 9.3. Approval of policies, following review, including, inter alia:
  - 9.3.1. Financial Risk Management Policy
  - 9.3.2. Financial Support Policy
  - 9.3.3. Vulnerable Customers Policy
  - 9.3.4. Complaints Management Policy
  - 9.3.5. Responsible Lending Policy
  - 9.3.6. Financial Crime Policy
  - 9.3.7. Health & Safety Policy
- 9.4. Formal approval of the Business Continuity Management Plan, Disaster Recovery Plan and Recovery and Resolution Plan following recommendations by the Risk Committee.
- 9.5. Approval of resolutions to be put to members at the AGM.
- 9.6. Ensuring a satisfactory dialogue with members based on the mutual understanding of objectives.
- 9.7. Approval of press releases concerning material resolutions by the Board.
- 9.8. Approval of the Corporate Governance Manual.
- 9.9. Approval of the reporting format and requirements from Board Committees.

## **10. Duties and matters not reserved to the Board**

- 10.1. Duties and matters not reserved to the Board are delegated to:
  - 10.1.1. Board Committees in accordance with the Terms of Reference approved by the Board
  - 10.1.2. The Group Chief Executive who may sub delegate certain powers within his powers to other Executive Directors, Executives or the Executive Committee.

**Darlington Building Society (the 'Society')**

**Division of Responsibilities between Chairman and Chief Executive**

| <b><u>Chairman</u></b>  | <b><u>Chief Executive</u></b>   |
|---|---|
| The Chairman reports to the Board   | The Chief Executive reports to the Chairman (on behalf of the Board) and to the Board directly  |
| The Chairman is not responsible for executive matters. Other than the Chief Executive and the Company Secretary, no other executive or member of staff reports to the Chairman  | The Chief Executive is responsible for all executive management matters affecting the Group. All members of the executive management report, either directly, or indirectly, to the Chief Executive   |
| The Chairman's principle responsibility is the effective running of the Board. The Chairman is the guardian of the Board's decision making processes  | The Chief Executive is responsible for proposing and developing the Group's strategy and overall commercial objectives, which he does in close consultation with the Chairman and the Board. The Chief Executive is responsible, along with the Executive Committee, for implementing the decisions of the Board      |
| The Chairman is responsible for setting and having oversight of the Board agenda, taking into account the issues and concerns of all Board members. The agenda should consider past and current performance as well as be forward looking, concentrating on strategic matters                           | The Chief Executive should provide input to the Board's agenda from himself and other members of the Executive Committee. The Chief Executive should ensure that effective working relationships are established and maintained with the Chairman, the Board and all directors and members of the Executive Committee |
| The Chairman should strive to make sure that the directors receive accurate, timely and clear information, including that on the society's current performance, to enable the Board to take sound decisions, monitor effectively and provide advice and challenge to promote the success of the Society | The Chief Executive should ensure that the Executive Committee members give adequate priority to providing reports to the board which contain accurate, timely and clear information  |
| The Chairman should provide oversight of compliance with the board's approved procedures, including the schedule of matters reserved for the board, the forward agenda, the actions log, the delegated authorities framework and each committee's terms of reference                                    | The Chief Executive should ensure that all members of the Executive Committee comply with the board's approved procedures, including the schedule of matters reserved for the board, the forward agenda, the actions log, the delegated authorities framework and each committee's terms of reference                 |
| The Chairman should arrange informal meetings of the directors as required, at which the executive directors are not present, to ensure that sufficient time and consideration is given to complex, contentious or sensitive issues   | The Chief Executive should ensure that the Chairman is alerted to forthcoming complex, contentious or sensitive issues affecting the Group of which he might not otherwise be aware   |