



Nominations & Governance Committee

Terms of reference

February 2021

Darlington Building Society (the 'Society')

Board Nominations & Governance Committee (the 'Committee')

Terms of Reference

1. Purpose

The Board of Darlington Building Society (the 'Society') has delegated responsibility to the Nominations and Governance Committee for:

- 1.1. Leading the process for Board, Board Committee and Senior Management appointments.
- 1.2. Identifying, nominating and recommending for the approval of the Board, candidates for appointment to the Board.
- 1.3. Assessing the fitness and propriety of SMF Holders.
- 1.4. Oversight of the Society's Corporate Governance arrangements.

2. Authority

- 2.1. The Committee is a Committee of the Board of Directors (the 'Board') from which it derives its authority and to which it regularly reports.
- 2.2. The Committee may sub-delegate appropriate powers and authority as it sees fit, including the establishment of sub-committees to analyse particular issues or themes and to report back to the Committee.
- 2.3. The Committee has authority to investigate any matter relating to the Society within its Terms of Reference and to obtain such information as it may require from any Director, Officer or employee of the Society.
- 2.4. The Committee does not have the authority to enter into any contract, whether actual or implied, involving the appointment or removal of directors.
- 2.5. The Committee does not have the authority to set the remuneration or associated benefits for directors or staff.

3. Constitution

3.1. Chairman of Committee

- 3.1.1. The Chairman of the Board will chair the Committee.
- 3.1.2. The Chairman of the Board should not chair the Committee when it is dealing with the appointment of a successor to the Chairman of the Board. The Committee should appoint an alternate from its membership.

3.2. Membership

- 3.2.1. The Committee (including the Chairman) comprises a majority of non-executive Directors.
- 3.2.2. Appointments to the Committee will normally be for a three-year period, subject to annual review and reappointment by the Board (see 3.3 below).
- 3.2.3. The Committee will comprise:
 - 3.2.3.1. The Chairman of the Board
 - 3.2.3.2. The Vice Chairman of the Board
 - 3.2.3.3. Chief Executive

- 3.2.4. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Company Secretary and/or the Director of people and Culture, if appointed, and external advisers may by invitation attend for all or part of any meeting, as and when appropriate and necessary.

3.3. Duration of appointments

Committee membership shall be reviewed annually by the Board and are normally for three years. Any extension of the term shall not be given without consultation with the Chairman of the Committee or Board as appropriate.

3.4. Secretary

- 3.4.1. The Secretary of the Committee shall be agreed with the Chair of the Committee.
- 3.4.2. The Secretary of the Committee shall record the proceedings and decisions of the Committee meetings, maintain an appropriate register of minutes to account for each meeting taking place.
- 3.4.3. Draft minutes are to be circulated promptly to all members of the Committee and once approved circulated to all other members of the Board as part of the next board meeting pack.

4. Responsibility of Chairman

The Chairman's role and responsibilities require:

- 4.1. Fostering an open, inclusive and, where appropriate challenging discussion;
- 4.2. Ensuring the Committee has the information necessary to perform its tasks and devote sufficient time and attention to the matters within the Committee's remit;
- 4.3. Facilitating the running of the Committee;
- 4.4. Reporting to the Board formally on the Committee's activities at the next board meeting following the committee meeting. The minutes of the Committee meeting will be considered as part of that report; and
- 4.5. Attending the Annual General Meeting to answer questions on the Committee's activities.

5. Role of the Committee

The Committee's role and responsibilities shall include:

- 5.1. Ensuring that the Board is of appropriate size and structure and has the necessary balance of skills experience and knowledge to lead the business, making recommendations to the Board on appointments against objective criteria and with due regard for the benefits of diversity on the board, including gender and social and ethnic backgrounds.
- 5.2. Planning for the orderly succession and making recommendations for appointment and reappointment by the Board of executive Directors and independent non-executive Directors. Additionally, to advise and consider appointments on non-Board SMF function appointments.
- 5.3. Overseeing the adoption of appropriate internal policies and procedures on the assessment of the suitability of members performing senior management functions under the PRA and FCA's Senior Managers & Certification Regime (SM&CR), including the use of an assessment tool, such as the Board Skills Matrix, to record their assessments.
- 5.4. Oversight of the Management Responsibilities Map (MRM) documentation for oversight of process, prior to its submission to the Board.
- 5.5. In making any recommendations to the Board, the Committee shall take account of the following:
- 5.5.1 The leadership needs of the Society;
- 5.5.2 The structure, size, composition and time inputs required of the Board;

- 5.5.3 The balance of skills, experience, independence and knowledge of candidates who are best able to meet the challenges and opportunities facing the Society and to promote its success;
- 5.6 Overseeing the application of the Board's Diversity Statement, including the need to consider candidates from a wide range of social and ethnic backgrounds. Develop and periodically review measurable objectives for the implementation of the Board's Diversity Statement and monitor progress towards the achievement of such objectives.
- 5.7 Oversee the process by which the Board, its committees and individual directors assess their effectiveness and report to the Board on findings and recommendations.
- 5.8 Independence of Directors: the Committee is responsible for reviewing the independence of the non-executive directors of the Board including:
 - 5.8.1 The balance and number of non-executive Directors;
 - 5.8.2 The re-election by members of Directors retiring by rotation;
 - 5.8.3 Any situational conflict which a Director may have with the interests of the Society; and
 - 5.8.4 Any other relevant matter.
- 5.9 Keeping the governance arrangements under review and make appropriate recommendations to the Board ensure that the Society's arrangements are consistent with best practice corporate governance standards. In doing this the Committee will have due regard to the UK Corporate Governance Code and any relevant standards applicable to mutual societies.

6. Proceedings of Meetings

6.1. Frequency of Meetings

- 6.1.1 The Committee shall meet a minimum of three times a year and as otherwise required to consider any matters falling within these Terms of Reference.
- 6.1.2 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members.

6.2. Notice and Quorum

- 6.2.1. The Chairman shall ensure that the Committee meets with sufficient notice and frequency.
- 6.2.2. The quorum necessary for the transaction of business shall be any two independent non-executive Directors, including the Chairman. 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 or exercisable by the Committee.
- 6.2.3. Notice of each meeting confirming the venue, time and dates together with an agenda and supporting papers shall be forwarded to each member of the Committee 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. Only the members of the Committee have the right to attend Committee meetings.
- 6.3.2. Any Director, Officer or employee of the Society may attend at the invitation of the Chairman of the Committee and they may collectively or individually be requested to withdraw from meetings of

the Committee if required to do so by the Chairman of the Committee or at the instigation of any Committee member.

7. Responsibilities (in detail)

The Committee will undertake the following functions:

7.1. Composition of the Board and its Board Committees

- 7.1.1. The Committee will regularly review the structure, size and composition in consultation with the Chairman of the Committee, taking into account the results of the Board performance evaluation process.
- 7.1.2. Factors for consideration will include, but are not be limited to:
- 7.1.3. Total number of Directors taking into account the optimum size range of the Board as determined by the Committee from time to time;
- 7.1.4. Balance of the number of executive and non-executive Directors;
- 7.1.5. Ensuring an adequate collective knowledge and experience required relevant to the activities of the Society;
- 7.1.6. Length of service and likely retirement dates of existing Directors;
- 7.1.7. Diversity, including the skill mix, regional and industry experience, background and gender of Directors;
- 7.1.8. Responsibilities of specific Directors;
- 7.1.9. Scope and mix of outside experience brought to the Board; and
- 7.1.10. The expected time commitment required of non-executive Directors and each key Board position.
- 7.1.11. Membership of the Board Audit, Board Risk & Compliance and Board Remuneration Committees, in consultation with the Chairman of those committees.

In making recommendations on the composition of Board Committees, the Committee shall give consideration to the benefits of cross membership on Board Committees and the benefits of progressive refreshing of the Board Committees to promote fresh perspectives.

7.2. New Appointments

- 7.2.1. The Committee shall be responsible to the Board for leading the process for Board appointments and for identifying and nominating candidates for approval by the Board for appointment as Directors of the Society. This will include preparation of a role description specifying the skills, capabilities and anticipated minimum time commitment for the appointment in question.
- 7.2.2. The Committee will be mindful at all times of the requirements of the SM&CR in all appointments to the Board, both non-executive and executive, and to senior management positions (non-Board) given the scale of the Society.
- 7.2.3. Prior to the appointment of a director, the proposed appointee should be required to disclose any other business interests that may result in a conflict of interest and be required to report any future business interests that could result in a conflict of interest;
- 7.2.4. The Committee shall review annually the time required from non-executive directors;
- 7.2.5. Ensure there are proper mechanisms in place for the communication of changes in Board composition to colleagues, the media, trade bodies and industry commentators. At the request of the Chairman of the Board or the Board, the Committee will evaluate the balance of skills, experience, independence, knowledge and diversity, on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.
- 7.2.6. The content of the Contract for Services of non-executive directors will be made available for inclusion within the pack to be submitted to the Regulators. The letter of appointment will set out the expected time commitment. The Committee will ensure that prospective non-executive

Directors will have sufficient time to meet what is expected of them. Their other significant commitments will be disclosed to the Board before appointment, with a broad indication of the time involved and the Board will be informed of subsequent changes.

- 7.2.7. For the appointment of the Chairman of the Board, the search will be led by the Senior Independent Director. No director seeking this appointment will be eligible to participate in the process. The Committee will prepare a role and job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of a crisis. The Chairman of the Board's other significant commitments will be disclosed to the Board before appointment and included in the Annual Report.
- 7.2.8. For the appointment of any non-executive director their existing non-executive and executive commitments will be considered and align with the regulatory requirements of the General Organisational Requirements (GOR) contained within the PRA Rulebook. Changes to such commitments will be reported to the Board as they arise, and their impact explained in the next Annual Report.

7.3. Succession Planning

- 7.3.1. The Committee will review and make recommendations to the Board, at least once a year, for Board and Board Committee succession over the longer term in order to maintain an appropriate balance of skills, experience, independence, judgement, knowledge and diversity to ensure progressive refreshing of the Board taking account of the issues, including strategy, performance, resources and standards of conduct.
- 7.3.2. The Committee will keep under review the leadership needs of the Society and, at regular intervals, and at least once a year, consider the adequacy of proposals for the succession, over the longer term, to key leadership positions within the Society, taking into account the challenges and opportunities facing the Society, and the skills, experience, independence, knowledge and diversity needed on the Board and Board Committees in the future with a view to ensuring the continued ability of the Society to compete effectively in the marketplace.
- 7.3.3. In identifying suitable candidates, the committee shall use open advertising and/or the services of external advisers following a selection process against pre-set criteria agreed by the Board, to facilitate the search. The committee will consider candidates from a wide range of backgrounds and will consider candidates on merit against objective criteria.

7.4. Board Effectiveness

The Committee shall:

- 7.4.1. Consider and set the criteria for the objective and rigorous performance review of each non-executive Director, the Board and Board Committees;
- 7.4.2. Ensure that an annual performance evaluation is conducted of the effectiveness of the Board and the Board Committees taking into account the contribution of each Director;
- 7.4.3. Ensure an effectiveness evaluation should be externally facilitated at least once every three years;
- 7.4.4. Agree an action plan addressing the results of the Board effectiveness review and at each meeting until completed review the progress against the plan; and
- 7.4.5. Consider the effectiveness of each Board evaluation carried out.

7.5. Serving Directors

The Committee is responsible for ensuring that the Senior Management and Directors are able to fulfil their duties to the Society. The Committee shall:

- 7.5.1. Maintain an assessment tool, such as the Board Skills Matrix, against which current and planned competency of Directors and non-Board SMF holders, including their development needs, is maintained. This will be refreshed at least annually to enable the Committee to satisfy itself of

the ongoing competency of directors as well as for informing recruitment and succession planning.

- 7.5.2. Consider the additional commitments of non-executive Directors during their tenure especially where such commitments might affect the time the non-executive Director is able to devote to their role at the Society;
- 7.5.3. Review annually the time commitment required on non-executive Directors taking into consideration the assessment made in performance evaluations;
- 7.5.4. Make recommendations to the Board concerning the independence of non-executive Directors and the individual's ability to perform their duties independently without undue influence from other persons;
- 7.5.5. Make recommendations to the Board concerning any matters relating to the continuation in office of any Director at any time;
- 7.5.6. Review and monitor the training and development of directors and Senior Management in accordance with SM&CR requirements; and
- 7.5.7. Take into account the Director's performance and ability to contribute as well as the need for progressive refreshing of the Board.
- 7.5.8. To consider any matters relating to the continuation in office of any Director at any time including the suspension or termination of any executive director as an employee of the Society subject to the provisions of the law and his/her service contract.

Further the Committee shall:

- 7.5.9. The Committee shall ensure that on appointment to the board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings and a tailored induction programme.
- 7.5.10. Receive annually a report from the Chief Risk Officer and Secretary that Board members remain fit and proper persons to be Directors and Approved Persons under the requirements of the PRA & FCA;
- 7.5.11. The Committee shall review the results of the board performance evaluation process that relate to the composition of the board;
- 7.5.12. Receive and review a list of the members of Boards of all subsidiaries on an annual basis.

7.6. Assessment of suitability of members of the Board, Board Committees and Senior Management

- 7.6.1. The Committee shall be responsible for adopting appropriate internal policies on the assessment of the suitability of members of the Board, Board Committees and Senior Management.
- 7.6.2. The Committee should ensure that the policies, which should include assessments of fitness and propriety undertaken prior to the individual taking up their position and regularly thereafter, provide for taking appropriate measures to rectify the situation and inform the competent authority where a re-assessment concludes that the individual is no longer suitable.

7.7. Corporate governance

The Committee shall:

- 7.7.1. Review and approve changes to the Board's Corporate Governance guidelines, monitor the Group's compliance with such guidelines and recommend to the Board such changes or additional action as it deems necessary;
- 7.7.2. Review and approve changes to the Board diversity aspirations and regularly review progress against any measurable objectives that the Board has set in respect of Board diversity.
- 7.7.3. Demonstrate how senior management, Board appointments and succession planning practices are designed to promote diversity, not only for gender but also of social and ethnic backgrounds;

- 7.7.4. Review and recommend to the Board for approval the Corporate Governance report for inclusion in the Annual report; and
- 7.7.5. Monitor developing trends, initiatives or proposals in relation to legal developments, Board governance issues and best corporate governance practice in order to determine the extent to which these initiatives impact the Society and provide periodic updates to the Board.

7.8. Conflicts of Interest

The Committee shall:

- 7.8.1. With assistance from the Company Secretary, ensure that prospective executive and non-executive Directors disclose any business interests that may result in any actual or potential conflict of interests with those of Society prior to any offer of appointment being made and be required to report any future business interest that could result in a conflict of interest;
- 7.8.2. Consider and authorise, subject to ratification by the Board, any situational conflict in which a director may have a direct or indirect interest that conflicts, or possibly may conflict with the interests of the Society, as recorded in the Directors' Register of Interests
- 7.8.3. Have regard to the possible time required to fulfil this role of Board or Committee member, and all other outside commitments notified by the Director, and whether it could impede the Director from spending sufficient time to fulfil his/her obligations to the Society;
- 7.8.4. Conduct an annual review of the Conflicts Register and review any disclosure relating to conflicts of interest to be made public.

8. Reporting

- 8.1. The Annual Report shall include a separate section, describing the work of the Committee, including the process it has used in relation to board appointments, a description of the board's Diversity Policy, including gender, any measurable objectives that it has set for implementing the policy and progress on achieving the objectives. An explanation should be given if neither external search consultancy nor open advertising has been used in the appointment of the Chairman of the Board or a non-executive Director.
- 8.2. The Annual Report shall include the Director's Report on Corporate Governance, setting out the work of the Committee in this area and summarising the outcome of the annual Board Effectiveness Review
- 8.3. The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The minutes of the Committee meeting will be considered as part of that report.
- 8.4. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

9. Committee Governance and Resources

The Committee shall:

- 9.1. Conduct an annual self-assessment and report any conclusions and recommendations to the Board and, as part of this assessment, consider whether or not it receives adequate and appropriate support in fulfilment of its role and whether or not its current workload is manageable;
- 9.2. Have access to sufficient resources in order to carry out its duties, including access to external advisers and Secretariat team for assistance as required; and
- 9.3. 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.
- 9.4. Give due consideration to laws and regulations impacting the Society's business.

10. Terms of Reference Review

These Terms of Reference shall be reviewed by the Committee at least once a year and any proposed amendments will be recommended to the Board for approval. Changes to the Terms of Reference must be approved by the Society's Board.

Approved by Committee February 2021