

Approved by the Board 28th November 2019

TERMS OF REFERENCE – REMUNERATION COMMITTEE

1. Composition: The Committee shall comprise of the Chairman of the Society and two or more non-executive directors (as appointed by the Board from time to time).
2. Chairman: The Committee Chairman shall be determined from time to time by the Board. Before appointment, the Committee Chairman should have served on a remuneration committee for at least 12 months.
3. Quorum: The quorum necessary for the transaction of business shall be two members. In the event that there are only two attendees, neither shall have a casting vote.
4. Attendees: At the invitation of the Committee Chairman.
5. Frequency of Meetings: The Committee shall meet at least twice a year.
6. Notices of Meetings: Notices of meetings shall be given by the Committee Chairman, usually verbally at Board Meetings, although any member of the Committee is entitled to call a meeting subject to giving every member at least two clear days written notice.
7. Meeting Minutes:

The Committee will appoint a Secretary who shall minute the proceedings and resolutions of all meetings of the Committee.

Draft minutes of Committee meetings shall be circulated promptly to the Committee Chairman, and once agreed, to all members of the Board.
8. Annual General Meeting: The Committee Chairman shall attend the Annual General Meeting prepared to respond to any member questions on the Committee's activities.
9. Principal Objectives:

Consideration of all matters relating to the performance, remuneration and terms and conditions of employment of all executive directors of the Society and its subsidiaries and the remuneration and terms and conditions of employment of all other Group employees deemed to be 'Code Staff' in compliance with statutory obligations and best practice, notably as regards observance of the dual regulated firms Remuneration Code (the Code).

Subject to the basic fee for non-executive directors having been determined by the executive directors, the setting of additional payments for the Chairman of the Board, the Chairmen of the Audit, Remuneration and Risk Committees and the Senior Independent Director, with the Committee members not taking part in discussions concerning their own remuneration.
10. Duties: The Committee shall:
 - a) determine the policy for executive director remuneration and set remuneration for the Chairman of the Board, executive directors and senior management;

- b) at least annually, review the Group Remuneration Policy Statement, and submit to the Board any recommendations for changes in order to ensure compliance with the risk principles set out in the Code;
- c) be responsible for the appointment of any remuneration consultant;
- d) exercise independent judgment when evaluating the advice of external third parties and when receiving views from executive directors and senior management;
- e) review workforce remuneration and related policies and the alignment of incentives and rewards with culture, and take these into account when setting the policy for executive director remuneration;
- f) annually review the performance, salaries and incentive payments made to executive directors;
- g) review all benefits and terms of employment of all executive directors, with particular reference to the contractual terms on termination, ensuring that any payments made are compliant with the Code, notably as regards not rewarding failure;
- h) approve any changes to executive directors' service contracts;
- i) approve the detailed composition of any incentive payments scheme for executive directors and their immediate subordinates, ensuring that it is compliant with the Code and reflects the views of the Board Group Risk Committee as regards consistency with the Group's risk appetite;
- j) approve the forecast payments under the Society's incentive payment scheme. In this regard the Finance Director shall provide a report to each meeting forecasting incentive payments based upon the latest full year forecast;
- k) when reviewing the Society's remuneration schemes and policies, ensure that:
 - i. levels of remuneration for the Chairman of the Board reflect the time commitment and responsibilities of the role and do not include any performance-related elements;
 - ii. the Society's remuneration schemes and policies enable the use of discretion to override formulaic outcomes and allow the Society to recover and/or withhold sums, specifying the circumstances in which it would be appropriate to do so;
 - iii. only basic salary is pensionable and that pension contribution rates for executive directors, or payments in lieu, are aligned with those available for the workforce;
 - iv. the pension consequences and associated costs of basic salary increases and any other changes in

pensionable remuneration, or contribution rates, particularly for directors close to retirement, are carefully considered when compared with workforce arrangements;

- v. all notice or contract periods are no longer than one year;
 - vi. compensation commitments do not reward poor performance; and
 - vii. directors' terms of appointment are robust in reducing compensation to reflect the departing director's obligations to mitigate loss.
- l) when determining executive remuneration policy and practices, address the following factors:
- i. clarity - remuneration arrangements should be transparent and promote effective engagement with the Society's members and the workforce;
 - ii. simplicity - remuneration structures should be non-complex and their rationale and operation should be easy to understand;
 - iii. risk - remuneration arrangements should ensure reputation and other risks from excessive rewards and behavioural risks that can arise from target-based incentive plans should be identified and mitigated;
 - iv. predictability - the range of possible values of rewards to individual directors and any other limits or discretions identified should be explained at the time of approving the policy;
 - v. proportionality - the link between individual awards, the delivery of strategy and the long-term performance of the Society should be clear and avoid rewarding poor performance ; and
 - vi. alignment to culture - incentive schemes should drive behaviours consistent with the Society's purpose, values and strategy.

11. Reporting Responsibilities: Minutes, or a verbal report by the Committee Chairman, shall be considered by the Board at its next meeting following the Committee meeting, whereupon recommendations arising from the meeting are considered and approved or rejected as appropriate.

The Committee Chairman shall make a statement in the Annual Report on behalf of the Committee about its activities which shall include:

- a) an explanation of the strategic rationale for executive directors' remuneration policies, structures and any performance metrics;
- b) reasons why the remuneration is appropriate using internal

and external measures, including pay ratios and pay gaps;

- c) a description, with examples, of how the remuneration committee has addressed the factors set out above in paragraph 10(l);
- d) whether the remuneration policy operated as intended in terms of the Society's performance and quantum, and, if not, what changes are necessary;
- e) what engagement has taken place with members and the impact this has had on remuneration policy and outcomes;
- f) what engagement with the workforce has taken place to explain how executive remuneration aligns with the Society's wider pay policy; and
- g) to what extent discretion has been applied to remuneration outcomes and the reasons why.

12. Other:

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.

13. Authority:

The Committee is authorised by the Board to:

- a) investigate any activity within its terms of reference;
- b) seek any information it requires from employees and external bodies in furtherance of satisfying its obligations arising from its terms of reference;
- c) obtain at the Society's expense, outside legal or other professional advice on any matters within its terms of reference; and
- d) select and instruct remuneration consultants as deemed necessary but usually at intervals of not more than three years.