

REMUNERATION COMMITTEE **TERMS OF REFERENCE**

Authority

The Remuneration Committee (the Committee) is authorised by the Board to investigate any activity within its Terms of Reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any reasonable request made by the Committee.

The Committee is authorised by the Board to appoint remuneration consultants and to commission, obtain or purchase any professional advice, reports, surveys or information which it reasonably deems necessary, within any budgetary restraints imposed by the Board.

Purpose

The Remuneration Committee is a Board Committee, established and authorised by the Board to consider and (as appropriate) determine matters relating to the Society's Remuneration Policy Statement and the level of remuneration of the Chairman and those members of the senior executive management, including Executive Directors, who participate in the Long Term Incentive Plan ('Relevant Senior Employees'). It also oversees remuneration arrangements required by SYSC19D (Remuneration & Dual Regulated Firms) (Remuneration Code), including remuneration for employees in control functions such as Internal Audit, Risk, Compliance, HR and Legal functions, even if they are covered by the 'de minimis' exemption.

The review and recommendation to the Board of the remuneration of Non-Executive Directors (other than the Chairman) shall be undertaken by the Non Executive Remuneration Committee.

A key purpose of the Committee is to approve the Society's Remuneration Policy. The objective of the Remuneration Policy shall be to attract, retain and motivate individuals of the quality required to run the Society successfully without paying more than is necessary, having regard to the views of members and other stakeholders. The Remuneration Policy Statement should have regard to the risk appetite of the Society and alignment to the Society's long strategic term goals. A significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and designed to promote the long-term success of the Society. In discharging its responsibilities, take into account all factors which it deems necessary including the principles of Members First and relevant legal and regulatory requirements, the provisions, guidance and recommendations of the PRA Remuneration Code (SYSC 19A), the UK Corporate Governance Code and the UK Disclosure and Transparency Rules.

Meetings and membership

Chairman The Committee will be chaired by an independent Non Executive Director (NED) (other than the Board Chairman) as appointed from time to time by the Board.

Membership The Committee will comprise at least three Non Executive Directors, as appointed by the Board on the recommendation of the Nominations & Governance Committee and in consultation with the Chairman of the Remuneration Committee.

The Chairman of the Board may also serve on the Committee if considered independent on appointment as Chairman but will not be present at any discussion by the Committee relating to the Chairman's fees.

Attendance Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive, the Human Resources Director and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary.

Frequency The Committee will meet at least twice annually and otherwise as required.

Meetings A meeting of the Committee can be called upon two clear days notice (in writing or by telephone) by any member of the Committee.

Meetings of the Committee may be held by telephone conference call if required.

In the absence of the Chairman or an appointed deputy, the remaining members shall elect one of their number other than the Chairman of the Board to chair the meeting.

Quorum Meetings of the Committee will be quorate if there are present at least three members.

Secretary The General Counsel and Secretary will be secretary to the Committee.

Minutes Formal minutes of the meetings of the Committee will be taken and circulated to members and others in attendance for the relevant meeting.

Duties:

The Committee shall:

1. be responsible for the approval and annual review of the Society's Remuneration Policy and the PRA Remuneration Policy Statement. No one shall be involved in any decisions as to their own remuneration.)
2. obtain reliable, up-to-date information about remuneration in other businesses of comparable scale, complexity and location;
3. approve the design of, and determine targets for, any performance related pay schemes and/or incentive plans operated by the Society ensuring such arrangements are compliant with the requirements of the Remuneration Code;
4. in assessing the targets for the performance-related pay schemes and long term incentive plans, ensure that risk adjustments for current and future risks are built into the scope of all decisions relating to variable remuneration;
5. in respect to any schemes or plans, as referred to under paragraph 2 above, determine each year whether awards will be made, and if so, the overall amount of such awards and the individual awards to be made to participants under any such scheme and/or plan ensuring such arrangements are compliant with the requirements of the Remuneration Code ;
6. determine the policy for, and scope of, pension arrangements for Relevant Senior Employees;
7. determine the remuneration of Relevant Senior Employees, in consultation with the Chief Executive in respect of his direct reports including any decisions on clawback, deferral and malus assessments required under the Remuneration Code;
8. receive updates from the HR Director on the remuneration of all other PRA Remuneration Code Staff who are not Relevant Senior Employees including any decisions on clawback, deferral and malus assessments required under the Remuneration Code for such employees ;
9. oversee any major changes in employee benefits structures throughout the Society;
10. ensure that contractual terms on the appointment and termination of employment of Relevant Senior Employees, and any payments made, are fair to the individual and the Society, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
11. review the annual internal remuneration risk review, undertaken by the Chief Risk Officer, in compliance with the Remuneration Code and act on its findings, as appropriate;
12. have regard to any relevant advice from the Board Risk Committee to satisfy itself that performance objectives do not drive excessive risk taking and that reward takes account of risk management performance;
13. be exclusively responsible for establishing the selection criteria for selecting, appointing and setting the terms of reference for, and monitor the performance of, any remuneration consultants or other external professional advisers who may advise the Committee;
14. ensure that the disclosure of remuneration, including pensions, in the Society's Annual Accounts and the Directors Remuneration Report is accurate and meets required standards;
15. In particular, ensure that the disclosure of remuneration, both internally, and externally within the Society's Pillar 3 Disclosure requirements follows the Prudential Regulation Authority's rules regarding remuneration disclosure in compliance with the Capital Requirements Directive (CRD IV) and including the guidelines published by EBA on remuneration rules for high earners as required under Article 75 of CRD IV.

16. If the committee has appointed remuneration consultants, the annual report of the Society's remuneration policy should identify such consultants and state whether they have any other connection with the Society.
17. ensure, through the General Counsel and Secretary, that the frequency of, and attendance by members at Committee meetings is reported in the Society's Annual Report;
18. determine the policy for the approval of the expenses of the Chief Executive;
19. approve or decline the retention by Relevant Senior Employees of any financial rewards from external directorships or similar appointments;
20. receive a report, on at least an annual basis, from the Society's Reward Committee;
21. review the Board Chairman's fees at least annually and make recommendations to and seek approval from the Board for any changes.

Reporting Responsibilities

Minutes of the Committee will be submitted to the Board as appropriate in the month following each meeting. In addition, the Chairman of the Committee will verbally report to the Board after each meeting of the Committee.

The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

The Committee shall produce a report of the Society's remuneration policy and practices to be included in the Society's annual report and ensure each year that it is put to members for approval at the AGM.

The Chairman of the Committee or another of its members will be available at the Society's AGM to answer questions on matters falling within the Committee's remit.

Through the Chairman of the Board, ensure that the Society maintains contact with its members about remuneration.

Annual Review

The Committee shall arrange for annual reviews of its own performance and effectiveness.

The Committee's Terms of Reference are reviewed at least annually by the Committee. Any changes are approved by the Board on recommendation from the Committee and the Nominations & Governance Committee and the up-to-date Terms of Reference are included in the Board Governance Manual and made available on the Society's website.

Other matters

The Committee shall have access to sufficient resources in order to carry out its duties, including access to the General Counsel & Secretary for assistance as required.

These terms of reference were approved by the Committee at its meeting on 17 November 2015 and by the Board at its meeting on 18 December 2015