

THE CO-OPERATIVE BANK PLC (the 'Company')
REMUNERATION COMMITTEE

Terms of Reference

1. Constitution

The Remuneration Committee (the 'Committee') is a committee of the Board of the Company (the 'Board') from which it derives its authority and to which it reports. The Terms of Reference were approved by the Board on 25 January 2017.

The purpose of the Committee is to consider and recommend to the Board remuneration policies which maintain the link between remuneration, including variable pay, and the achievement of the Bank's commercial objectives. The Committee is required to operate within the defined regulatory framework and take into consideration shareholder requirements.

2. Membership and Attendance

2.1 The Committee shall be appointed by the Board of the Bank, on the recommendation of the Nomination Committee in consultation with the Chairman of the Committee, and shall consist of no less than three members, all of whom shall be independent Non-Executive Directors and one of whom should be a member of the Risk Committee. The Chair of the Bank may also serve on the Committee as an additional member if he or she was considered independent on appointment as Chair. Any Independent Director appointed under the Shareholder Rights Agreement may serve on the Committee. In the event that no such Director is Independent, at least one of the Directors appointed under the Relationship Agreement who is Independent shall serve on the Committee.

2.2 The Chair of the Committee shall be an independent Non-Executive Director appointed by the Board from among the members of the Committee and shall not be the Chair of the Bank. The Committee Chair may be replaced at any time by the Board. In the absence of the Chair of the Committee (and/or an appointed alternate member), the members present at any meeting of the Committee shall elect one of their number to chair the meeting who would qualify under these terms of reference to be appointed to that position by the Board.

2.3 The Chairman and members shall be listed each year in the annual report of the Bank.

2.4 Appointments shall be for a term of three years, extendable by no more than one additional three year term ordinarily, provided the director still meets the criteria for membership of the Committee.

3. Secretary

The Company Secretary, or his or her nominee, shall act as the Secretary of the Committee.

The Secretary should ensure that the Committee receives information and papers in a timely manner to support full consideration of the issues.

4. Quorum

- 4.1 A quorum shall be two members present throughout the meeting in person, by telephone or other electronic communications.
- 4.2 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.
- 4.3 In the event of difficulty in relation to achievement of a quorum, independent Non-Executive Directors who are not members of the Committee may be co-opted and empowered by the Board of the Bank as members for individual meetings.

5. Notice

- 5.1 Meetings of the Committee may be convened at any time by the Chair of the Committee and the Chairman of the Board or upon the recommendation of the Chief Executive of the Bank, or on the reasonable request of any Committee member who considers it necessary.
- 5.2 Unless otherwise agreed, notice of each meeting of the Committee confirming the venue, date and time together with an agenda of items to be discussed and supporting papers where appropriate shall be forwarded to each member of the Committee and to each other person invited to attend, in a timely manner to enable full and proper consideration of issues.

6. Attendance at Meetings

- 6.1 Only the Committee Chair and its members shall have the right to attend meetings of the Committee, unless at the invitation of the Chair. The Chief Risk Officer will be required to attend at least one meeting per annum for the purpose of providing advice to the Committee on risk adjustments to be applied to performance objectives and targets and in connection with the risks arising from remuneration policies.
- 6.2 The Chairman may invite external advisers to attend meetings of the Committee as appropriate.
- 6.3 The Chairman of the Bank to the extent not already a member of the Committee and/or Chief Executive may be invited by the Committee to attend meetings to discuss the performance of other Executives and to make proposals as necessary. The Committee may consult the other Non-Executive Directors in its evaluation of the Chief Executive in the context of his role as Chief Executive of the Bank.
- 6.4 No Executive Director or member of the Bank Executive Committee (together defined as the "Executive") or manager shall be present at any meeting of the Committee when his own remuneration is being discussed. No Executive shall be involved in any decision as to his own remuneration.

7. Voting

In the event of an equality of votes, the Chair of the Committee shall have a casting vote.

8. Frequency of Meetings

Meetings shall be held no fewer than four times a year. Meetings can be convened at any other time where circumstances require, in accordance with clause 5.

9. Minutes of meetings

9.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

9.2 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved by the Chair of the Committee, minutes should be circulated to all other members of the Board unless it would be inappropriate to do so.

10. Annual General Meeting

The Committee Chair should attend the Annual General Meeting to answer any shareholder questions on the Committee's activities. All members of the Committee shall also attend the Annual General Meeting.

11. Responsibilities

The Committee should carry out the duties below for the Bank and major subsidiary undertakings, taken individually and together with the Bank as a whole, as appropriate:

11.1 Remuneration Policy

Policy and contractual terms

11.1.1 Set and recommend to the Board for approval, the overarching principles and parameters of the Remuneration Policy across the Bank to ensure an overall coherent approach to remuneration in respect of all employees. Ensure that all relevant legislation, regulatory requirements and guidance on remuneration practice including but not necessarily limited to the Companies Act 2006, the Remuneration Code and the UK Corporate Governance Code published from time to time, are considered and complied with when setting the Remuneration Policy.

11.1.2 Support the Chairman of the Committee in overseeing the development and implementation of the Bank's Remuneration Policy and supporting practices in accordance with SYSC 19D (Remuneration Code).

11.1.3 The Remuneration Policy should have regard to the risk appetite of the Bank, whilst being consistent with effective risk management

principles, be aligned to the Bank's long term strategic goals, and comply with relevant applicable legislation.

- 11.1.4 Review at least annually the on-going appropriateness and relevance of the Remuneration Policy and exercise its judgement in the application of the remuneration framework and policies to promote the long term success of the Company.

Salary

- 11.1.5 Determine the policy for reviewing and setting salary levels, including the policy on using external advisors and data.

Benefits

- 11.1.6 Advise on major changes in employee benefit structures that apply to all employees of the Bank.

Pension

- 11.1.7 Set the principles of the policy for pension arrangements for all employees of the Bank, including the type of pension scheme offered.

“Material Risk Takers”

- 11.1.8 Review and agree the remuneration policy and decisions relating to remuneration, including variable pay, performance related payments and pension arrangements, for any employees, present and prospective, in senior management roles, risk takers and staff in control functions, who are included on the Bank's register of Prudential Regulation Authority/Financial Conduct Authority Remuneration Code (“the Remuneration Code”) Staff (“Material Risk Takers”).

- 11.1.9 Seek advice from the Board's Risk Committee and Chief Risk Officer (by way of an annual report from the Chief Risk Officer) on the risks arising from the remuneration policies for the purpose of the ICAAP and other regulatory matters and specific risk adjustments to be applied to performance objectives of any Material Risk Takers, set in the context of incentive packages; in the event of any difference of view between the two Committees, the matter shall be referred to the Board Chair and the Non-Executive Directors.

11.2 Executive Directors, Executive Committee members and Senior Management Function role holders (the “Executive”)

Having regard to the overarching principles and parameters of the Company's remuneration policy:

Policy and contractual terms

- 11.2.1 Establish, implement and maintain the Bank's policy on all aspects of the remuneration of the Executive present and prospective, including pension rights and any compensation payments. Have regard to pay and employment conditions of employees across the Company, especially when determining annual salary increases and ensure that all relevant legislation and regulatory requirements (including applicable

terms of the Companies Act 2006) are considered and complied with when setting the remuneration policy.

- 11.2.2 Review at least annually the on-going appropriateness and relevance of the Remuneration Policy.
- 11.2.3 Oversee contractual arrangements and approve the principal terms and conditions of employment.
- 11.2.4 Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Bank, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- 11.2.5 Within the terms of the agreed policy and in consultation with the Chair and/or Chief Executive, as appropriate, determine the total individual remuneration package of each Executive and the Chair, including bonuses, incentive arrangements, pension rights and any compensation payments. Ensuring full compliance with the relevant legislation and regulatory requirements (including applicable terms of the Companies Act 2006).
- 11.2.6 Ensure that the remuneration of each Executive (including any payments for loss of office) is consistent with the most recently approved Remuneration Policy.

Salary

- 11.2.7 Review salaries, normally at the start of the Bank's financial year, which may include reference to comparisons against the agreed financial services sector market policies. The Committee will take into account recommendations from the Chief Executive in respect of individuals, based on job role, market comparisons, contribution and performance.
- 11.2.8 Review salaries at times other than the annual review, should it be necessary, e.g. on appointment, on promotion or if there is a significant change in job role.

Benefits

- 11.2.9 Advise on any major changes in employee benefit structures throughout the Bank or its subsidiaries which relate to Executives.

Pension

- 11.2.10 Receive, review and decide on issues raised in respect of the Co-operative Pension Scheme (Pace) and any other retirement benefit schemes in respect of which the Co-operative Banking Group (or its subsidiaries or associated companies) is a participating employer or guarantor that affect or have implications for levels of remuneration and remuneration policy and advise the Board of them as appropriate.

Expenses

- 11.2.11 Agree the policy for authorising claims for expenses from the Executives.

11.3 Incentive arrangements – annual and long term

- 11.3.1 Determine and review the policy for all incentive plans for approval by the Board and shareholders in accordance with the agreed Remuneration Policy and taking into account recommendations made by the HR Director, with a view to ensuring that employees and the Executives are provided with appropriate incentives.
- 11.3.2 Consider and review the terms and rules of any new incentive plans including the over-arching approach to measuring performance for any performance related plans.
- 11.3.3 Approve any amendments to all incentive plans prior to obtaining any necessary shareholder approval.
- 11.3.4 For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to be made and set appropriate performance targets. Ensure that appropriate consideration has been taken for risk matters and events that have occurred both in year and in prior years (as identified through the risk adjustment process outlined in 11.3.9 (1) and (3)) and may lead to Ex-Ante or Ex-Post adjustments.
- 11.3.5 Authorise payments under incentive plans, subject to the achievement of performance and balanced scorecard metrics, and relevant underpin as applicable, and in accordance with the rules of the plan.
- 11.3.6 Authorise the application of the Malus and Clawback policy in relation to specific individual adjustments that may be agreed through the risk adjustment review process.

Incentive arrangements of the Executive & Material Risk Takers

- 11.3.7 The Committee shall determine the design, performance measures and associated targets for any performance related pay schemes operated by the Company in respect of Executives and Material Risk Takers and review individuals' performance against those targets and agree any payments proposed.
- 11.3.8 The Committee shall consider not less than annually whether or not it is necessary to apply malus and/or clawback in relation to the performance related pay schemes.
- 11.3.9 Seek advice and input from:
 - (1) the Board's Risk Committee and Chief Risk Officer (by way of an annual report from the Chief Risk Officer) on the risks arising from the remuneration policies for the purpose of the ICAAP and other regulatory matters and on specific risk adjustments to be applied to performance targets of the Chief Executive, Executive Directors and the members of the Bank Executive Committee, set in the context of incentive packages; in the event of any difference of view between

the two Committees, the matter shall be referred to the Board Chair and the Non-Executive Directors.

- (2) the Chief Financial Officer to confirm that the variable pay takes account of the cost and quality of capital and the liquidity required and that the payment takes into account the timing and the likelihood of the receipt of potential future earnings included in the current earnings. The Chief Financial Officer should also confirm that the calculations of the variable remuneration elements are based on appropriate measures of profit.
- (3) The Individual Risk Adjustment Committee (IRAC) through a quarterly report from the CRO, recommending any specific adjustments to be applied to the overall bonus pool or individual Executives or Material Risk Takers following investigation into specific risk events.

12. Reporting Responsibilities

12.1 The Chair of the Committee shall report on Committee business to the Board after each meeting with such recommendations as the Committee may deem appropriate.

12.2 The Committee shall ensure that:

- (1) the applicable provisions regarding disclosure of information, including pensions, as set out in the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the Listing Rules of the Financial Conduct Authority and the UK Corporate Governance Code, are satisfied to the extent possible and approve a remuneration report to be included in the Bank's annual report and accounts.
- (2) appropriate remuneration disclosures are made in accordance with regulatory requirements on the Company's website.

12.3 If the Committee has appointed remuneration consultants, the annual report of the Bank's remuneration policy should identify such consultants and state whether they have any other connection with the Bank.

12.4 Consider and approve all submissions to the Prudential Regulation Authority/Financial Conduct Authority, including the annual statement on the Bank's remuneration policy.

12.5 Through the Chair of the Committee, ensure that the Bank maintains contact as required with its principal shareholders about remuneration.

12.6 The minutes of the meeting shall be provided to the non-executive directors of the Bank.

12.7 Consider other disclosures, documents or topics, as determined by the Board and other subsidiaries from time to time.

13. Other matters

The Committee shall:

- 13.1 Assist the Senior Management Function (SMF) role holders in fulfilling their prescribed responsibilities.
- 13.2 Where matters are being discussed in relation to a prescribed responsibility, ensure the relevant SMF role holder attends and participates in the discussion, or if unable to attend, ensure that they are suitably represented.
- 13.3 Have access to sufficient resources in order to carry out its duties, including access to the Bank Secretariat for assistance as required.
- 13.4 Give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of directors of listed/non listed companies and formation and operation of share schemes including but not limited to the provisions of the UK Corporate Governance Code, the requirements of the Financial Conduct Authority's Listing, Prospectus and Disclosure and Transparency Rules as well as guidelines published by the Association of British Insurers and the National Association of Pension Funds and any other applicable rules, as appropriate.
- 13.5 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.
- 13.6 Arrange for periodic reviews of its own performance and, at least annually, 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.
- 13.7 Ensure these terms of reference are published on the Bank's website.

14. Authority

- 14.1 The Committee is authorised by the Board to investigate any activity within its terms of reference and seek information that it requires from any employees of the Bank, all of whom are directed to co-operate with any request made by the Committee.
- 14.2 The Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary, and to obtain inside or outside legal or other professional advice, at the expense of the Bank but within any budgetary restraints imposed by the Board.
- 14.3 The Committee shall have the authority to use external advisers to ensure practice is in line with the market, with regulatory and legal guidance as appropriate. The Committee shall have the authority to appoint consultants in respect of Executive Director remuneration and make the terms of reference of such consultants, together with a statement of whether they have any other connection with the Bank,

available (by placing it on the Bank's website) and shall consider how such advice is independent and objective.

14.4 The Committee is connected with the business of the whole of the Bank group of companies and accordingly its authority extends to all relevant matters relating to the Company and its subsidiaries.

14.5 The Committee does not have any authority with respect to the approval of remuneration of the Non-Executive Directors which is determined by the Board of the Company and which shall be a matter for the Chairman and the executive members of the Board.

14.6 The Committee may delegate its powers and authority as it sees fit, including without limitation the establishment of a sub-committee to consider particular issues and report back to the Committee.