

THE CO-OPERATIVE BANK PLC

REMUNERATION COMMITTEE

Terms of Reference

1. CONSTITUTION

- 1.1 The Remuneration Committee (the “**Committee**”) terms of reference of The Co-operative Bank plc (the “**Bank**”) were approved by The Co-operative Bank Holdings Limited (the “**Parent**”), the sole shareholder of the Bank on 26 September 2017.
- 1.2 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 commercial objectives of the Bank and its subsidiary undertakings (the “**Group**”). The board of directors of the Bank (the “**Board**”) must ensure that the remuneration policies are consistent with and promote sound and effective risk management and do not encourage risk taking that exceeds the level of tolerated risk of the Bank. The Committee is also responsible for the preparation of decisions regarding remuneration (including those which have implications for risk and risk management of the Bank) to be taken by the Board. The Committee is required to operate within the defined regulatory framework and take into consideration the long-term interests of shareholders, investors and other stakeholders in the Bank as well as the public interest.

2. MEMBERSHIP

- 2.1 The members and chair of the Committee (the “**Chair**”) shall be appointed on the recommendation of the Nomination Committee and shall consist of a minimum of three and maximum of five members, all of whom shall be non-executive directors (the majority of whom shall be independent) and, to the extent there is a non-executive B Director on the Board, at least one member shall be a non-executive B Director. The chair of the Board may also serve on the Committee as an additional member if he or she was considered independent on appointment as chair of the Board.
- 2.2 The Chair 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 Board. The Chair may be replaced at any time by the Board.
- 2.3 In the absence of the Chair (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.
- 2.4 The Chair and members shall be listed each year in the annual report of the Bank.
- 2.5 Each member of the Committee shall disclose to the Committee:
 - 2.5.1 any personal financial interest (other than as a shareholder) in any matter to be decided by the Committee; or

2.5.2 any potential conflict of interest arising from a cross directorship. Any such member shall abstain from voting on resolutions of the Committee in relation to which such interest exists and from participating in the discussions concerning such resolutions and (if so requested by the Board) shall resign from the Committee.

2.6 Appointments to the Committee 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

3.1 The company secretary of the Bank, or an alternate selected by the Chairman, shall act as the secretary of the Committee (the “**Secretary**”).

3.2 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 The quorum necessary for the transaction of business shall be two members both of whom are present throughout the meeting, of whom one shall be a non-executive B Director (to the extent a non-executive B Director is a member of the Committee) and the other shall be an Independent Director (or two Independent Directors to the extent no non-executive B Director is a member of the Committee or the non-executive B Director is conflicted and unable to count in the quorum).

4.2 A member may be present for the purpose of paragraph 4.1 in person, by telephone or other electronic communications. 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 Subject to notice of a meeting of the Committee having been given in accordance with paragraph 5.2, in the event that it is confirmed to the Secretary prior to the scheduled start of such meeting that a non-executive B Director will not be able to attend such meeting, the quorum for this meeting only shall be any two members provided that the non-executive B Director in question has given his views on the business of the meeting to the Chairman in advance.

5. NOTICE

5.1 Meetings of the Committee may be convened at any time by the Chair, the chair of the Board or upon the recommendation of the Chief Executive Officer 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, each B Director and to each other person invited to attend,

in a timely manner to enable full and proper consideration of issues, usually no later than three working days prior to the date of the meeting.

6. ATTENDANCE AT MEETINGS

- 6.1 Only the Chair and Committee members shall have the right to attend and vote at meetings of the Committee. However, other individuals such as the Chief Executive Officer of the Bank, the HR Director of the Bank, other Executives, managers and external advisers of the Bank or the Parent may be invited by the Chair to attend for all or part of any meeting, as and when the Chair reasonably determines appropriate or necessary.
- 6.2 The Chief Risk Officer of the Bank 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.
- 6.3 Subject to the Inside Information Framework (as defined in the articles of association of the Bank (the “**Articles**”), any non-executive B Director(s) who are not members of the Committee shall be entitled to attend each meeting of the Committee unless the Chair reasonably determines that it is inappropriate.
- 6.4 The chair of the Board to the extent not already a member of the Committee and/or the Chief Executive Officer of the Bank may be invited by the Committee to attend meetings to discuss the performance of other Executives and to make proposals as necessary.
- 6.5 The Chair may consult the other non-executive directors in the Committee's evaluation of the Chief Executive Officer in the context of his role as Chief Executive Officer of the Bank.
- 6.6 No Director 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 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 paragraph 5.1.

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.

- 9.3 Once approved by the Chair, minutes should be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the Chair.

10. ANNUAL GENERAL MEETING

The Chair should attend the annual general meeting of the Bank (the “**AGM**”) to answer shareholder questions on the Committee's activities. The members of the Committee should be prepared to meet shareholders at the AGM.

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, the overarching principles and parameters of a remuneration policy (such policy, the “**Remuneration Policy**”) across the Bank to ensure an overall coherent approach to remuneration in respect of all Executives and employees including ensuring that the Remuneration Policy and the appraisal process for Executives and employees is clear and documented.
- 11.1.2 Ensure that all relevant legislation, regulatory requirements and guidance on remuneration practice published from time to time, are considered and complied with when setting the Remuneration Policy (including applicable terms of the Companies Act 2006).
- 11.1.3 Support the Chair in overseeing the development and implementation of the Bank's Remuneration Policy and supporting practices in accordance with SYSC 19D (the “**Remuneration Code**”).
- 11.1.4 The Remuneration Policy should:
- (1) include measures to avoid conflicts of interest;
 - (2) not encourage risk taking that exceeds the level of tolerated risk of the Bank;
 - (3) include a clear, verifiable mechanism for measuring performance with any risk adjustment applied in a clear and transparent manner;
 - (4) have regard to the risk appetite of the Bank, whilst being consistent with effective risk management principles;
 - (5) be aligned to the Bank's long term strategic and commercial goals; and

(6) comply with relevant applicable legislation.

11.1.5 Centrally and independently review at least annually the ongoing 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 Bank.

Salary

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

Benefits

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

Pension

11.1.8 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"

11.1.9 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 staff ("**Material Risk Takers**").

11.1.10 Seek advice from the Bank'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 chair of the Board and the non-executive directors.

11.2 Independent Directors

The Committee shall consider and recommend to the sole shareholder of the Bank a policy on remuneration for non-executive directors and set any fees to be paid to Independent Directors (as such term is defined in the Articles) taking into account recommendations from the Chief Executive Officer of the Bank and the Shareholder in respect of individuals, based on job role, market comparisons, contribution and performance.

11.3 Executive Directors, B Directors, Executive Committee members and Senior Management Function role holders (each as appointed at the level of the Bank and with respect to his or her role at the Bank) (the "Executive")

Having regard to the overarching principles and parameters of the Remuneration Policy:

Policy and contractual terms

- 11.3.1 Set and recommend to the Board and the sole shareholder of the Bank for approval in accordance with the Articles a policy for the remuneration of any director of the company appointed to any executive office or any B Director and, without prejudice to any existing contractual terms and subject to regulatory restrictions, the individual remuneration of directors with executive office or any B Director
- 11.3.2 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 Bank, 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.
- 11.3.3 Review at least annually the on-going appropriateness and relevance of the Remuneration Policy.
- 11.3.4 Oversee contractual arrangements and approve the principal terms and conditions of employment for the Executive.
- 11.3.5 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.
- 11.3.6 Within the terms of the Remuneration Policy and subject always to the approvals and consents required by the Articles, in consultation with the chair of the Board and/or the Chief Executive Officer of the Bank, as appropriate, determine the total individual remuneration package of each Executive and the chair of the Board, including bonuses, incentive arrangements, pension rights and any compensation payments.
- 11.3.7 Ensure that the remuneration of each Executive (including any payments for loss of office) is consistent with the Remuneration Policy.

Salary

- 11.3.8 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 Officer of the Bank in respect of individuals, based on job role, market comparisons, contribution and performance.
- 11.3.9 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

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

Pension

- 11.3.11 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 Bank is a participating employer or guarantor that affect or have implications for levels of remuneration and Remuneration Policy and advise the Board (and the shareholders of the Bank) of them as appropriate.

Expenses

- 11.3.12 Agree the policy for authorising claims for expenses from the Executive.

11.4 Incentive arrangements – annual and long term

- 11.4.1 Determine and review the policy for all incentive plans for approval by the Board and the shareholder of the Bank in accordance with the agreed Remuneration Policy and taking into account recommendations made by the HR Director of the Bank, with a view to ensuring that employees and the Executive are provided with appropriate incentives.
- 11.4.2 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.
- 11.4.3 Approve any amendments to all incentive plans prior to obtaining any necessary shareholder approval.
- 11.4.4 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.

- 11.4.5 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.
- 11.4.6 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

- 11.4.7 The Committee shall determine the design, performance measures and associated targets for any performance related pay schemes operated by the Bank in respect of the Executive and Material Risk Takers and review individuals' performance against those targets and agree any payments proposed.
- 11.4.8 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.
- 11.4.9 Seek advice and input from:
 - (1) the Bank'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 Officer, 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 shareholders of the Bank.
 - (2) the Bank's 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 Bank's Chief Financial Officer should also confirm that the calculations of the variable remuneration elements are based on appropriate measures of profit.
 - (3) the Bank's Individual Risk Adjustment Committee (IRAC) through a quarterly report from the Bank's Chief Risk Officer, 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 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 Disclosure and Transparency Rules (DTR) and the Listing Rules of the Financial Conduct Authority are satisfied to the extent possible to be included in the Bank's annual report and accounts.
 - (2) appropriate remuneration disclosures are made in accordance with regulatory requirements on the Bank'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, ensure that the Bank maintains contact and seeks approvals as required in accordance with the Articles and from the Parent about remuneration.
- 12.6 The minutes of meetings 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 of the Bank 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 Company Secretariat for assistance as required.
- 13.4 Give due consideration to applicable 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 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 member(s) of the Bank 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 shall consider how such advice is independent and objective.

14.4 The Committee is connected with the business of the whole of the Group and accordingly it shall liaise with the Parent as appropriate.

14.5 Subject to the Articles, 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.