



# REMUNERATION COMMITTEE

## TERMS OF REFERENCE

<b>Policy Owner</b>	<b>Chair of the Remuneration Committee</b>
<b>Policy Approver</b>	<b>Board</b>
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## REMUNERATION COMMITTEE

### Terms of Reference

#### 1. Constitution

- 1.1 The Board has established a Committee of the Board known as the Remuneration Committee.
- 1.2 The Remuneration Committee makes decisions and recommendations for final approval to the Board in line with its responsibilities outlined below.
- 1.3 The Remuneration Committee's Terms of Reference are approved by the Board.

#### 2. Membership and Quorum

- 2.1 The Committee shall comprise of at least three independent Non-Executive Directors (NED) appointed by the Board.
- 2.2 Appointments to the Committee shall be for a period of one year. Following the election of directors at the AGM, committee membership will be reviewed and members will be appointed/reappointed to the committee.
- 2.3 Executive Directors (ED) may not be members of the Committee.
- 2.4 The Chair of the Committee shall be appointed by the Board from among the Members of the Committee and, before appointment, should have served on a remuneration committee for at least 12 months. The Chair of the Society's Board of Directors may be a member, but not the Chair of the Committee, and must not participate in any discussion of the Board Chair's fee.
- 2.5 In the absence of the Committee Chair, the remaining members shall elect one of their number to Chair the meeting.
- 2.6 Following appointment, members of the Committee shall receive initial induction training on the role and duties of membership of the Committee. It is the responsibility of the Committee Chair to ensure that all Committee members are in receipt of regular technical updates and ongoing training in respect of relevant new Regulation and Legislation.
- 2.7 A quorum necessary for the transaction of business is two members.

#### 3. Attendance at Meetings

- 3.1 The Chief Executive (CEO) and HR Director shall normally attend meetings, at the invitation of the Committee.
- 3.2 No Director shall be involved in discussions of their own Remuneration.
- 3.3 The HR Director shall act as Secretary to the Committee.
- 3.4 The Committee may require the attendance of any employee at part or the whole of any meeting.

#### 4. Frequency of Meetings

- 4.1 Scheduled meetings shall be held at least quarterly with additional meetings being arranged when required.
- 4.2 Additional meetings of the Committee shall be convened at the request of any of its members.

#### 5. Notice of Meetings

- 5.1 The four meetings of the Committee noted in section 4 shall be scheduled annually in advance.
- 5.2 A work plan and standing agenda shall be used to which items may be added by notifying the Committee Chair.

- 5.3 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other Non-Executive Directors, no later than three working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate at the same time.

## 6. Minutes of Meetings

- 6.1 The secretary shall minute the proceedings of all Committee meetings, recording the names of those in attendance, the substance of the discussions, agreed action points, action owners and dates for completion of those actions. The secretary may delegate minute taking to a member of the HR department.
- 6.2 Draft minutes of meetings shall be forwarded to the Committee Chair within 10 working days of the meeting taking place. When approved by the Chair, the minutes shall be forwarded to all members, for approval, and circulated to the Board for noting at the next Board meeting. If there is a need to record private minutes, due to the sensitive content, the Board would be notified by the Chair of the Committee however the content of these minutes would not be shared with the Board for noting.

## 7. Authority

The Committee is authorised by the Board to:

- 7.1 Investigate any activity within its Terms of Reference.
- 7.2 Seek any information that it requires from any employee of the Society and all employees are directed to co-operate with any request made by the Committee.
- 7.3 Obtain outside legal or independent professional advice and such advisors may be requested to attend meetings as necessary.
- 7.4 Deal with any other matters referred to it specifically by the Board.
- 7.5 Items requiring approval shall be resolved by a majority of votes and, in the case of an equality of votes, the Chair of the meeting shall have a second or casting vote. Only members of a committee shall have voting and decision-making rights.
- 7.6 Where a committee member has a fundamental disagreement with other committee members, the minutes of the meeting should detail full discussions held to ensure they are a true reflection of the meeting.
- 7.7 Where a decision is required outside of the meeting by email circulation, a unanimous vote will be required.

## 8. Responsibilities

The Committee is a sub-committee of the Board and is authorised by the Board to:

- 8.1 Review and recommend to the Board the overarching 'Remuneration Policy' that the Society should adopt when considering the remuneration, including pay scales, pensions and other benefits of all employees and office holders of the Society and its subsidiaries. In reviewing this policy the Committee must:
- Ensure that remuneration is aligned with the Society's longer term strategy, the interests of the members and that the Society is able to recruit and retain high calibre individuals.
  - Ensure that the 'Remuneration Policy' has regard to the provisions of the UK Corporate Governance Code, the PRA Rulebook and the FCA Remuneration Code. In particular the policy must be designed to be consistent with and promote sound and effective risk management.
  - Ensure that the Society meets the requirements of the PRA Rulebook and the FCA Remuneration Code including the preparation of the 'Remuneration Policy'

Statement' listing 'Material Risk Takers' and that the Committee reviews this Statement annually and agrees the list of 'Material Risk Takers'.

8.2 Determine the policy for ED remuneration having reviewed and taken account of workforce remuneration and related policies and the alignment of incentives and rewards with culture. When addressing ED remuneration policy and practices, the remuneration committee should address the following:

- Clarity – remuneration arrangements should be transparent and promote effective engagement with members and the workforce
- Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand
- Risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target based incentive schemes are identified and mitigated
- Predictability – the range of possible values of rewards to individual ED's and any other limits or restrictions should be identified and explained at the time of approving the policy
- Proportionality – the link between individual awards, the delivery of strategy and the long term performance of the Society should be clear. Outcomes should not reward poor performance
- Alignment to culture – incentive schemes should drive behaviours consistent with the Society's purpose, values and strategy

8.3 Approve the maximum overall increase that is appropriate in respect of the annual review of salaries. The actual apportionment as between 'across the board' increases and 'alignment' increases is to be left to the discretion of the CEO. If the CEO perceives a need for a higher overall additional cost, they shall put forward a reasoned and costed proposal to the Committee. If such a proposal involves a cost above that established as the maximum determined in accordance with this paragraph, the matter shall be referred to the Board for consideration and determination.

8.4 All NED fees (including any additional fees for specific NED roles) will be reviewed annually taking into account relevant benchmarking data provided by the HR Director. The fees for the Chair of the Board will be approved by the Committee with the fees for all other NEDs being approved by the Chair, and EDs based upon a recommendation from the Committee. If an approval or a recommendation is to increase NED fees by more than the annual percentage increase payable to all staff, a clear rationale for the additional increase, together with supporting market data, must be provided. The NED expenses policy is reviewed by Board Risk Committee ahead of the policy being tabled at Board for approval by the Chair and the EDs.

8.5 Based upon a recommendation from the CEO which takes account of appropriate market data, the Committee should approve and review annually all elements of the total individual pay and benefits package of each ED and each individual member of the Executive Committee. In respect of CEO remuneration, the market data should be provided to the Chair of the Committee by the HR Director and the decision made by the Committee. In all cases, decisions linked to pay and benefits should take account of individual performance, the annual percentage increase payable to all staff and having regard to responsibility 8.2.

8.6 Approve the salary of the Chief Risk Officer upon receipt of a recommendation from the Chair of the Board Risk Committee and having regard to responsibility 8.2.

- 8.7 Approve the design and implementation of any incentive schemes proposed by the CEO that relate to employees of the Society and/or subsidiaries. This may include but is not limited to any proposal relating to Performance Related Pay. In considering such schemes the Committee shall pay particular regard to the risk of the scheme in question encouraging inappropriate behaviours, ensuring such schemes comply at all times with regulatory requirements. They shall also reflect the Society's belief in maintaining customer interests at the heart of its business actions. Incentive schemes should enable the use of discretion to override formulaic outcomes and include provisions that would enable the Society to recover and/or withhold payments and specify the circumstances in which it would be appropriate to do so.
- 8.8 Monitor such incentive schemes at intervals to be determined as part of the approval process of each scheme.
- 8.9 To annually review contractual payments made to material risk takers when the Society terminates their employment and any non-contractual payments made to other staff when the Society terminates their employment, considering fairness to the individual and the Society; and to approve any non-contractual payments to material risk takers when the Society terminates their employment ensuring fairness to the individual and the society, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- 8.10 Obtain access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.
- 8.11 Work and liaise as necessary with all other Board Committees as appropriate.
- 8.12 Review the Committee's Terms of Reference on an annual basis and make amendments as appropriate, subject to Board approval.
- 8.13 Make the Committee's Terms of Reference available on the Society's website in line with our Corporate Governance responsibilities.
- 8.14 Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed, and in particular on matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the Society subject to the provisions of the law and their service contract.

## 9. Reporting Responsibilities

- 9.1 The Committee Chair shall report verbally to the Board on its proceedings at the following Board Meeting with the meeting minutes being submitted to the next month's Board for noting.
- 9.2 The Committee shall prepare a report on its activities to be included in the Society's Annual Report. This annual report on remuneration must comply with relevant regulations and forms part of the Society's 'Annual Report and Accounts' for approval by the Board and for submission to an advisory vote by members at the Society's Annual General Meeting.
- 9.3 The Chair of the Committee shall attend the Society's AGM and be available to answer questions through the Chair of the Board.

## 10. Committee Evaluation

- 10.1 The Committee shall conduct an annual review of its effectiveness by 31<sup>st</sup> December each year and shall consider the results, agreeing actions as appropriate.
- 10.2 The results of the evaluation will be documented and reported to the Board.