

Nationwide Building Society, Virgin Money UK PLC and Clydesdale Bank PLC

Board Terms of Reference and Matters Reserved

For the purposes of these Terms of Reference and Matters Reserved, terms shall have the meanings given to them in the Group Governance Framework.

1. PURPOSE AND AUTHORITY

- 1.1 Each respective entity's Board is its main decision-making body.
- 1.2 The Board of the Nationwide Building Society (the "Society") has overall responsibility for the business and affairs of the Group (being the Society and its subsidiaries), the establishment of the Group's strategy and oversight of the Group's risk management.
- 1.3 The "Group Board" means the Board of the Society. Any section which applies only to the Group Board is titled "**Group Board Only**".
- 1.4 The purpose of the Board is to set the strategic direction of the Group or its specific entity and to be the ultimate decision-making body for all strategic, financial, regulatory or reputational matters.
- 1.5 The Board is responsible for directing, controlling and managing the business and the conduct of affairs of the Group or its specific entity and, in doing so, may exercise its powers, subject to any relevant laws and regulations and to the Society's Memorandum and Rules.
- 1.6 The Board may delegate any or all of its responsibilities as it sees fit, including, without limitation, the establishment of sub-committees to analyse particular issues and report back to the Board.
- 1.7 The Board is authorised to oversee any investigation of its relevant entity's activities which are within its Terms of Reference.
- 1.8 The Board is authorised to seek any information it requires from any employee of the Group in order to perform its duties or call on any employee to be questioned at a meeting of the Board as and when required.
- 1.9 The Board is authorised to obtain, at its entity's expense, external legal or other professional advice on any matter within its Terms of Reference and/or Matters Reserved for the Board.

2. MEMBERSHIP

- 2.1 Non-executive directors of the Board shall be appointed by the Board, on the recommendation of the Nomination and Governance Committee. The majority of Board members shall be independent non-executive directors.
- 2.2 Executive directors of the Board shall be appointed by the Board.
- 2.3 All directors shall be subject to annual election and re-election at each entity's Annual General Meeting.
- 2.4 The Board shall appoint the Group Chair. At the time of appointment as Group Chair, the director concerned shall be an independent non-executive director.
- 2.5 In the absence of the Group Chair and/or an appointed deputy, the remaining Board members present shall elect one of themselves to chair the Board meeting.
- 2.6 **Group Board only:** The Society's members have the right to nominate candidates for election to the Board.
- 2.7 Non-executive director appointments to the Board shall ordinarily be for a period of up to three years, which may be extended for a further three year period (or, in exceptional circumstances, two such periods), provided the director still meets the criteria for membership and is re-elected at the Annual General Meeting. However, if there is a compelling commercial imperative, the nine-year period may be extended for a limited time.
- 2.8 Only the members of the Board have the right to attend Board meetings. Non-Board members may be invited to attend meetings at the Chairman's discretion.

3. SECRETARY

- 3.1 The Group Society Secretary or their nominee shall be the Secretary to the Board and will ensure that the Board receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

4. QUORUM AND MODE OF MEETINGS

- 4.1 The quorum for the transaction of business shall be five Board members, of which the majority shall be non-executive directors.

- 4.2 A duly convened meeting of the Board 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 Board.
- 4.3 A decision of the Board may be taken by written resolution (including by electronic means). A decision in this instance will be valid only if signed by all the directors of the relevant Board.
- 4.4 The members of the Board shall be deemed to meet together if they are in separate locations, but are linked by conference telephone, video or other communication equipment. For the avoidance of doubt, a quorum in that event shall be as set out in 4.1 above. Such a meeting shall be deemed to take place where the largest group of directors participating is assembled or, if there is no such group, where the meeting Chair is located.

5. FREQUENCY OF MEETINGS

- 5.1 The Board shall meet at least eight times a year at appropriate times in the financial reporting and strategic cycle, and otherwise as required.
- 5.2 Outside of the formal governance programme, non-executive directors will maintain a dialogue with key individuals involved in the governance of the Group, such as members of the Group Executive Committee and other Group committees.

6. NOTICE OF MEETINGS

- 6.1 Meetings of the Board shall be called by the Group Society Secretary at the request of the Group Chair or Senior Independent Director.
- 6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with the agenda and papers will be sent to all members of the Board and any other person required to attend no later than three working days before the date of the meeting.

7. MINUTES OF MEETINGS

- 7.1 The Group Society Secretary, or their nominee, shall minute the proceedings and resolutions of all meetings of the Board. The minutes will be produced as a composite document, but the Secretary will identify to which entity the issue relates and separate minutes may be provided as necessary.
- 7.2 The Group Society Secretary, or their nominee, shall record any conflicts of interest reported at the meeting.
- 7.3 Draft minutes of Board meetings shall be circulated to the Chairman for approval in principle and once that approval is given, to all members of the Board (unless, in the opinion of the Chairman, it would be inappropriate to do so).

8. DUTIES AND RESPONSIBILITIES

- 8.1 The principal functions of the Board are set out below and a formal schedule of matters reserved to the Board is in place.
- 8.2 The principal functions of the Board are to:
- Determine the strategy and policies of each entity to ensure its long-term success, reviewing delivery of the strategy and measure performance against Plan;
 - Set out the guidelines within which the business is responsibly managed;
 - Review business performance;
 - Determine the nature and extent of significant risks;
 - Ensure judgements and decisions are taken with due regard to the creation or increase in conduct risks, taking proactive steps to avoid or prevent these where possible; and
 - Ensure that each entity operates within rules and guidance issued by competent regulatory authorities and all applicable laws.
- 8.3 **Group Board only:** The Board has a general duty to ensure that the Group operates within the Society's Memorandum and Rules (as amended from time to time).

9. DECISION MAKING AND SENIOR MANAGER AND CERTIFICATION REGIME RESPONSIBILITIES

- 9.1 Board directors are responsible for and bound by the decisions taken by the relevant Board whether or not they actively supported or participated in the decisions although dissent can be recorded.

- 9.2 A director who is a Senior Management Function (SMF) Holder under the Senior Manager and Certification Regime (SMCR) remains individually accountable for their contributions to collective decisions and their implementation insofar as those contributions are in scope of their Senior Manager responsibilities and therefore they also remain accountable for taking reasonable steps in respect of their function and allocated responsibilities.

10. ANNUAL GENERAL MEETING

- 10.1 **Group Board only:** Board directors shall attend the Society's Annual General Meeting, prepared to respond to any questions on the Group Board's activities. As a minimum, where all members of the Board cannot attend, the Chairman, the Group Chief Executive Officer ("CEO") and one further Board member, or their appointed alternates, will attend.

11. MISCELLANEOUS

The Board shall:

- 11.1 give due consideration to applicable laws and regulations;
- 11.2 be cognisant of any conduct risks arising (or increasing) as a result of its judgment and will take proactive steps to avoid or mitigate these risks where possible;
- 11.3 work and liaise as necessary with all Board Committees as required, including receiving regular updates on the activities of all Board Committees;
- 11.4 have access to sufficient resources in order to carry out its duties, including access to Secretariat for assistance as required;
- 11.5 receive appropriate and timely training, both in the form of an induction programme for new Board directors and on an on-going basis for all Board directors; and
- 11.6 at least once a year, to review its own performance, constitution and terms of reference to ensure it is operating effectively and in line with PRA and FCA requirements, and report the results of this review and approve any changes necessary.

MATTERS RESERVED FOR THE BOARD

1. STRATEGY AND MANAGEMENT INCLUDING CULTURE AND VALUES

- 1.1 Responsibility for the overall direction, control and management of the Group and setting its values and standards ensuring it remains a trusted and sustainable business.
- 1.2 Responsibility for the adoption and development of the Group's culture as a mutual organisation.
- 1.3 Approval of the Group's long term objectives and commercial strategy, which should be designed to achieve long-term success, including the Group Plan.
- 1.4 Approval of the Group's annual operating and expenditure budgets.
- 1.5 Approval of the Group's annual assessment of good member outcomes.
- 1.6 Oversight of the Group's operations ensuring:
 - competent and prudent management;
 - sound planning and risk management;
 - an adequate system of internal control;
 - adequate accounting and other records;
 - compliance with statutory and regulatory obligations;
 - adequate financial resources; and
 - fair outcomes for members and customers, communities, society, the environment and suppliers.
- 1.7 Review of Group performance in the light of the Group's strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken, including review of the Business Performance Pack.
- 1.8 Any extension of the Group's activities into new business or new geographic areas.
- 1.9 Any decision to cease to operate all or any part of the Group's business which would have a major impact on the Group.

2. STRUCTURE, CAPITAL AND FUNDING

- 2.1 All issues or redemptions of Core Capital Deferred Shares, except that the Group CEO or the Group Chief Financial Officer ("CFO") may approve the (potential and actual) issuance of any Core Capital Deferred Shares that are (or may be) required to be issued upon conversion, in accordance with the terms thereof, of any additional tier 1 (or equivalent) capital instruments the issuance of which is approved by the Group CEO or the Group CFO in accordance with paragraph 2.4 below.
- 2.2 All intra-group down streaming of Common Equity Tier 1 ("CET1") capital to Virgin Money UK PLC ("VMUK"), except that the Group CEO or the Group CFO may approve any downstreaming of CET1 capital included in the Group Financial Plan then in effect.
- 2.3 Subject to paragraph 2.2 above, the Group Board has delegated the management of the internal capital plan to the Group CEO and CFO, with the approval to undertake down streaming of capital and funding to be approved by either the Group CEO or Group CFO.
- 2.4 All issues or redemptions of other external capital instruments ("Capital Transactions"), except that (subject to paragraph 2.1 above) the Group CEO or the Group CFO may approve:
 - (a) any Capital Transaction(s) which the Group CEO or Group CFO determines in good faith will result in a net change of less than 10% in the Group's consolidated capital resources calculated as follows:

Net Change = (Capital Resources Delta)/(Total Capital Resources)

where:

- (i) “Capital Resources Delta” = the sum total notional amount of all external capital issuances over the prior 6 months minus the sum total notional amount of all external capital redemptions over the prior 6 months; and
 - (ii) “Total Capital Resources” = the Group’s consolidated capital resources (Members’ Interests and Equity or equivalent) as documented in the then most recent monthly management accounts; and
- (b) any Capital Transactions included in the Group Financial Plan then in effect and which the Group CEO or Group CFO determines in good faith will not breach any Group risk appetite trigger. Any Capital Transactions approved by the Group CEO or Group CFO pursuant to paragraph 2.4(b), or which are separately approved by the Group Board shall be excluded from the calculation of Capital Resources Delta for the purposes of any Net Change calculation made pursuant to paragraph 2.4(a) above.
- 2.5 If the Group CEO or Group CFO determines in good faith that any wholly new form of wholesale funding or capital instruments with characteristics materially different from those previously approved by the Group Board may be issued by any member of the Group, then they shall refer to the Group Board for approval of the principles of such wholly new form of wholesale funding or capital instrument. If any sub-delegate of the Group CEO or Group CFO considers this may be relevant then they should refer to the Group CEO or Group CFO, whose determination shall be final.
- 2.6 As used in this section 2 (Structure, Capital and Funding), “capital” refers to the regulatory capital (including tier 1 and tier 2 own funds instruments), and “funding” refers to any other secured or unsecured financing (including senior non-preferred MREL instruments and any other eligible liabilities instruments).
- 2.7 Changes to the Group’s corporate structure including any merger or creation, acquisition or disposal of any subsidiary or associated company, or of any significant business operation, or any other initiative which has significant strategic implications for the Group, including when the Society is invited to rescue another building society or other financial institution by way of merger or acquisition.
- 2.8 Any acquisition, disposal or securitisation of trading assets or liabilities with a gross book value in excess of £1 billion or where there is an unbudgeted loss arising in excess of £50 million.
- 2.9 The acquisition or disposal of any individual non-trading asset, including freehold or leasehold property, with a gross book value in excess of £50 million or where there is an unbudgeted loss arising in excess of £25 million.
- 2.10 The above paragraphs (2.8 and 2.9) exclude all dealings in any trading assets as duly authorised by Group Board delegated authorities or under other Board Committees’ terms of reference.
- 2.11 Changes to the Group’s management and control structure unless separately approved by the Group Audit Committee or Group Board Risk Committee under their terms of reference.
- 2.12 **Group Board only:** Any change to the Society’s mutual status.
- 2.13 Any utilisation by any member of the Group of central bank emergency liquidity support such as the Discount Window Facility.

3. FINANCIAL REPORTING AND CONTROLS

- 3.1 **Group Board only:** The Group Board has delegated final approval of preliminary announcements of the Group’s half-year and full-year financial results (including any related media communications) to the Group Results Approval Committee, subject to the Group Board having previously reviewed and approved them in principle.
- 3.2 **Group Board only:** The Group Board has delegated approval of the payment of distributions and/or interest (whether in respect of the Society’s or VMUK’s listed securities or otherwise) to the Group Results

Approval Committee, subject to the Group Board having previously reviewed and authorised the Committee to approve such payment.

- 3.3 **Group Board only:** Approval of the distribution policy for periodic investment returns on Core Capital Deferred Shares.
- 3.4 **Group Board only:** Approval of the policy for discretionary reward distributions to Society members (Member Reward Distributions Policy).
- 3.5 **Group Board only:** Approval of member eligibility criteria and declaration of distributions to be made under the Member Reward Distributions Policy.
- 3.6 **Group Board only:** Approval of the Group's Annual Report and Accounts including the corporate governance statement and remuneration report, on recommendation from the Group Audit Committee.

4. INTERNAL CONTROLS AND RISK MANAGEMENT

- 4.1 Approval of risk appetite.
- 4.2 Ensuring maintenance of a sound system of internal control and risk management including:
- receiving reports on, and reviewing the effectiveness of, the Group's risk and control processes to support its strategy and objectives;
 - undertaking at least an annual assessment of these processes; and
 - approving an appropriate statement for inclusion in the Group's Annual Report and Accounts.
- 4.3 The Board may delegate certain responsibilities for approval of other aspects of risk management to the Group Board Risk Committee. Delegations of authority to the Group Board Risk Committee are set out in that Committee's terms of reference which is approved annually by the Board.
- 4.4 The Board has delegated approval of the Pillar 3 disclosure requirements to the Group CFO (or their nominated deputy).
- 4.5 The Group Board Risk Committee will advise the Board on risk matters and highlight significant risks identified through the the Group's risk reporting framework for discussion and if appropriate, approval.

5. PROJECTS AND CONTRACTS

- 5.1 Projects which in aggregate involve project spend in excess of £100 million over the life of the project. Project spend shall include, but not be limited to, third party supplier contract expenditure as well as internal spend and internal resource costs.
- 5.2 Contracts with third parties which involve total life of contract spend in excess of £250 million which are not included within the Board-approved Plan.
- 5.3 Entering into individual or inter-related leases or tenancies where the annual rent exceeds £5 million, or disposal of surplus leasehold premises with an annual rental value in excess of £5 million.

6. LENDING AND BORROWING

- 6.1 Approval of recommendations from the Group Executive Committee for:
- lending proposals in excess of the Group Executive Committee's lending mandate;
 - borrowing propositions which, in the opinion of the Group Executive Committee, fall outside the Society's normal business; and
 - acquisition of external loan portfolios in excess of the Group Executive Committee's mandate.
- 6.2 Approval of Treasury Counterparty exposures in excess of the Group Executive Committee's mandate.

7. COMMUNICATION

- 7.1 **Group Board only:** Approval of resolutions and corresponding documentation to be put forward to the Society's members at a general meeting, including proposals for amendments to the Society's Memorandum and Rules.
- 7.2 Approval of communications that are material to the Group including all circulars, prospectuses and listing particulars.
- 7.3 The Group Board has delegated authority to: (i) identify, and determine the need for disclosure of, inside information; (ii) (other than in respect of an announcement of a routine nature or that has otherwise been considered and approved by the Board) approve the content and form of any announcement in relation to inside information; and (iii) disclose inside information to the market in a timely, accurate and full manner in accordance with all applicable laws and regulations, and to the Group Disclosure Committee (as applicable).

8. BOARD MEMBERSHIP AND SENIOR MANAGEMENT

- 8.1 Changes to the structure, size and composition of the Board, following recommendations from the Group Nomination and Governance Committee.
- 8.2 Ensuring adequate succession planning for the Board and Senior Management following recommendations from the Group Nomination and Governance Committee, including any changes to the Board Composition and Succession Policy.
- 8.3 Appointments and removals to the Board, following recommendations by the Group Nomination and Governance Committee, including the appointment of the Group Chair, the Group CEO, the Senior Independent Director and the selection of members and Chairs of Board Committees.
- 8.4 Continuation in office of directors, including:
 - at the end of their term of office when they are due to be re-elected at the relevant Annual General Meeting; and
 - the suspension or termination of service of an executive director as an employee, subject to the law and their service contract.
- 8.5 **Group Board only:** Appointment or removal of the Group Chief Risk Officer and the Group Society Secretary.
- 8.6 Appointment, reappointment or removal of the External Auditor to be put to the Annual General Meeting for approval, following a recommendation from the Group Audit Committee.

9. REMUNERATION

- 9.1 **Group Board only:** Determining the remuneration policy for the executive directors and other senior executives subject to the Society's Memorandum and Rules and any member approval as appropriate. The remuneration of non-executive directors shall be a matter for the Group Chair and the executive directors of the Board.
- 9.2 **Group Board only:** Determining whether the circumstances are such that the Society's members should be invited at the Annual General Meeting to approve the Remuneration Policy.
- 9.3 **Group Board only:** Approving the introduction of new incentive plans for executive directors, Group Executive Committee members or any other senior managers or significant changes to existing plans subject to any member approval as appropriate.

10. CORPORATE GOVERNANCE MATTERS

- 10.1 Approval of the division of responsibilities between the Group Chair, the Group CEO and the Senior Independent Director, which should be in writing.

- 10.2 Approval of terms of reference of Board Committees including any delegation of authority to those committees.
- 10.3 Approval of Additional Job Information statements for each of the Group Chair, Group CEO, Senior Independent Director, Group Board Committee Chairs and for non-executive directors.
- 10.4 Receiving minutes and/or reports from the Board Committees and the Group CEO on their activities.
- 10.5 Review of the Group's corporate governance arrangements.
- 10.6 Undertaking a formal and rigorous review annually of its own performance, that of its committees and individual directors and the division of responsibilities.
- 10.7 Determining the independence of non-executive directors, including reviewing and, if appropriate, approving the Directors Register of Interests.
- 10.8 Considering the balance of interests between Society members, other customers, employees, the community and other stakeholders
- 10.9 Receiving reports on the views of the Group's customers and employees.

11. WHISTLEBLOWING

- 11.1 *Group Board only:* Reviewing the adequacy and security of arrangements for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Group Board shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

12. RECOVERY AND RESOLUTION

- 12.1 Approve the direction of recovery actions deployed in response to breaches of R4 recovery indicators.
- 12.2 In the event of Recovery and Resolution, approval of any decision to commence Resolution activity and convene the Board Contingency Planning Committee once R4 recovery indicators have breached or as indicated via regulatory engagements.

13. DEFENCE

- 13.1 Reviewing and noting the latest valuation of the Group taking into consideration the overall market and economic environment.
- 13.2 Reviewing and approving the overall defence planning strategy, possible scenarios and potential responses, including reviewing and agreeing the state of alert in relation to either a member / activist supported campaign for conversion, a hostile takeover and / or the overall environment.
- 13.3 *Group Board only:* Reviewing the ongoing appropriateness and robustness of the Group's charitable assignment scheme.

14. MISCELLANEOUS

- 14.1 Approval of political donations.
- 14.2 Approval of the prosecution, defence or settlement of litigation or alternative dispute resolution mechanism involving sums above £25 million or which would have a major impact on the Group.
- 14.3 Approval of the overall levels of insurance for the Group including the Group's directors' & officers' liability insurance.

- 14.4 Approval of any significant changes to the rules or arrangements of Nationwide's or VM Sub-Group's pension schemes.
- 14.5 Approval of this schedule of matters reserved for Board decisions and the Board Terms of Reference.