

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

### **Group Remuneration Committee Terms of Reference**

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

#### **1. PURPOSE AND AUTHORITY**

- 1.1 The Board of Nationwide Building Society, the Board of Virgin Money UK PLC (VMUK) and the Board of Clydesdale Bank PLC (CB) have delegated authority to the Remuneration Committee (the Committee) to oversee the remuneration arrangements for the Group and its subsidiaries as set out in these Terms of Reference.
- 1.2 The Committee may sub-delegate any or all of its powers and authority as it sees fit, including, without limitation, the establishment of sub-committees to analyse particular issues and to report back to the Committee.
- 1.3 The Committee has authority to oversee any investigation of activities relating to the Group which are within its Terms of Reference.
- 1.4 The Committee is authorised to seek any information it requires from any employee of the Group in order to perform its duties or call any employee to be questioned at a meeting of the Committee as and when required.
- 1.5 The Committee may obtain, at the Group's expense, external legal or other professional advice on any matter within its Terms of Reference.
- 1.6 The Committee Chair and the Society Secretary are authorised by the Board to review and approve any non-material change required to be made to the Committee's Terms of Reference. Any such change should be reported to the Board.

#### **2. MEMBERSHIP**

- 2.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination and Governance Committee in consultation with the Chair of the Committee.
- 2.2 The Committee shall be made up of at least three independent non-executive directors of the Group, including a member of the Group's Board Risk Committee.
- 2.3 The Board shall appoint the Committee Chair who shall be an independent non-executive director, with at least one year's service on a remuneration committee before appointment as Committee Chair.
- 2.4 In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- 2.5 The Group Chair may serve as an additional member of the Committee, but not its Chair, if they were considered independent on appointment as Group Chair.

- 2.6 Appointments to the Committee shall 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 of the Committee.
- 2.7 Only the members of the Committee have the right to attend Committee meetings. Other individuals such as the Group Chair, Group CEO, Group Chief People Officer, Group CRO, and external adviser(s) may be invited to attend all or part of any meeting as and when appropriate.

### **3. SECRETARY**

- 3.1 The Group Society Secretary or their nominee shall act as the Secretary of the Committee and will ensure that the Committee 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 necessary for the transaction of business shall be two members, one of whom must be the Chair of the Committee or their appointed deputy.
- 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 forming a quorum, independent non-executive directors of the Group who are not members of the Committee may be co-opted as members for individual meetings.
- 4.4 A decision of the Committee may be taken by written resolution or electronic means. A decision in this instance will be valid only if taken by a quorum as set out in 4.1 above.
- 4.5 The members of the Committee 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 members of the Committee participating is assembled or, if there is no such group, where the Committee Chair is located.

### **5. FREQUENCY OF MEETINGS**

- 5.1 The Committee shall meet at least four times a year and otherwise as required.

### **6. NOTICE OF MEETINGS**

- 6.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Committee Chair.
- 6.2 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.

- 6.3 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 and any other person required to attend no later than three working days before the date of the meeting.
- 6.4 Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## **7. MINUTES OF MEETINGS**

- 7.1 The Secretary of the Committee shall minute the proceedings and resolutions of all meetings of the Committee.
- 7.2 The Secretary of the Committee shall record any conflicts of interest reported at the meeting.
- 7.3 Draft minutes of Committee meetings shall be circulated to all members of the Committee and, once agreed, to all members of the Board (unless, in the opinion of the Committee Chair, it would be inappropriate to do so).

## **8. DUTIES AND RESPONSIBILITIES**

The Committee shall:

- 8.1 Review and approve the remuneration strategy and the broad policy for remuneration of directors of the Group, members of the Group Executive Committee, and other employees of the Group identified as Material Risk Takers for the purposes of the PRA Remuneration Code and applicable FCA Remuneration Codes (collectively “Material Risk Takers”);
- 8.2 Review and approve the specific remuneration packages for the Group Chair, the Executive Directors of the Society or of the VMUK Sub Group, members of the Group Executive Committee, other employees of the Group identified as Material Risk Takers, and any other Group employees specified by the Committee from time to time. The specific remuneration of non-executive directors shall be a matter for the Group Chair and the Group’s executive directors. No individual shall be involved in any decisions as to their own remuneration;
- 8.3 Provide oversight and advice to the Board on the appropriateness and relevance of the remuneration policy and pay practices for the workforce across the Group;
- 8.4 When determining the broad policy for remuneration of Material Risk Takers, take into account all factors which it deems necessary, including applicable legal and regulatory requirements, the PRA and FCA’s Remuneration Codes, and the UK Corporate Governance Code and associated guidance. The objective of such policy shall be to ensure that Material Risk Takers are incentivised and encouraged to provide enhanced performance which promotes the long-term sustainable success of the Group, are aligned to the Group’s core purpose and values, and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group;
- 8.5 Any policy for performance-related remuneration for Material Risk Takers should include provisions that would enable the Group to recover sums paid or withhold the payment of any sum, and specify the

circumstances in which it would be appropriate to do so, subject to the application of the PRA and FCA's Remuneration Codes;

- 8.6 When setting a remuneration policy for Material Risk Takers, have due regard to the remuneration trends across the Group and its culture(s);
- 8.7 Determine the policy, term, objectives and content of Material Risk Takers' service contracts and regularly review these contracts to ensure that they remain aligned to the Group's overarching remuneration policy and best practice guidance;
- 8.8 Approve the design of, and determine targets for any performance related pay schemes, including any short- and long-term plans, operated by Nationwide for the benefit of Material Risk Takers and approve the total annual payments under such schemes;
- 8.9 When designing and determining performance related pay schemes, consideration should be given to ensure such schemes drive behaviours consistent with the purpose, values and strategy of the Group;
- 8.10 Determine the policy for, and scope of, pension arrangements for Material Risk Takers;
- 8.11 Ensure that in relation to the Group's executive directors, contractual terms on termination, and any payments made, are fair to the individual and the Group, that failure is not rewarded, that the duty to mitigate loss is fully recognised and that severance payments are fully disclosed in the Directors' Remuneration Report where required;
- 8.12 Within the terms of the agreed policy and in consultation with the Group Chair and/or Group CEO as appropriate, approve the total individual remuneration package of each Material Risk Taker including variable pay and incentive payments, which should be transparent, stretching and rigorously applied. As part of this the Committee will consider the performance of individuals and whether any risk adjustment, malus or clawback of variable pay awards is required subject to any decisions already taken by the Chief People Officer or delegated by the Committee and subject to any representations made by individuals;
- 8.13 Matters for consideration for freezing or performance adjustment will be referred to the Committee by any appropriate means including the Group Investigations Oversight Committee, the Board Risk and Audit Committees, and the Group Chief People Officer. The Committee shall consider, and if appropriate, approve freezing of variable pay awards due to Executive Directors, Group Executive Committee members and Material Risk Takers. All decisions made by the Committee in relation to performance adjustment will be subject to representations made by the relevant individuals and the Committee reserves the right to reconsider any matter as a result of representations made;
- 8.14 The Committee will receive input from the Board Risk and Audit Committees in relation to any risk or audit matters that may have an impact on variable remuneration. In the case of the Group Chief Risk Officer and the Group Chief Internal Auditor, the Chairs of the Group Board Risk Committee and the Group Audit Committee respectively will be asked to review performance ratings prior to consideration by the Remuneration Committee. The Committee will also receive input from the Group Investigations Oversight Committee in relation to any matters it has overseen requiring consideration for performance adjustment not otherwise considered by the Board Risk or Audit Committees;
- 8.15 Having due regard to the advice provided by the compliance function, oversee and approve the Group's remuneration policy as applied to all persons who could have an impact on the service provided by or organisational behaviour of the Group, including persons who are customer-facing staff or other staff indirectly involved in the provision of the Group's products and services ("relevant staff") to ensure that

they are remunerated in accordance with regulatory requirements, including that such policy encourages responsible business conduct and good customer outcomes managing conflicts of interest, and ensuring that variable remuneration is based on appropriate qualitative and quantitative criteria and that an appropriate balance between fixed and variable remuneration for such staff is maintained;

- 8.16 Review the ongoing appropriateness and relevance of the remuneration policy and pay practices in respect of the wider workforce across the Group noting the risks posed by remuneration policies, including but not limited to conduct risk and risks relating to remuneration practices which may create a conflict of interest that could incentivise relevant staff to act against the interests of the Society's members;
- 8.17 In determining such packages and arrangements, give due regard to any relevant legal and regulatory requirements as applicable from time to time, including the PRA and FCA's Remuneration Codes, and the recommendations in the UK Corporate Governance Code. This includes seeking appropriate authorisation from the relevant governing bodies, as required;
- 8.18 Oversee any major changes to the Resolution Retention and Incentivisation Approach as required;
- 8.19 On the convening of any Board Contingency Planning Committee, delegate authority to the Board Contingency Planning Committee to oversee the implementation of any agreed Resolution Retention and Incentivisation Approach, subject to any material deviations being brought back to the Committee for review;
- 8.20 Work and liaise as necessary with all other board committees as required;
- 8.21 Oversee the proportion of risk-adjusted profits that should be accrued, and paid out, in the form of variable remuneration on an annual basis;
- 8.22 oversee any major changes in employee benefits structures throughout the Group;
- 8.23 Agree the policy for authorising claims for expenses from the Group Chair, Group CEO and other Executive Directors of the Group;
- 8.24 Ensure that all provisions regarding disclosure of remuneration including pensions, as set out in Part 15 of the Companies Act 2006 and the UK Corporate Governance Code, are fulfilled as appropriate for the Group;
- 8.25 Be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee; and
- 8.26 obtain reliable, up-to-date information about remuneration in other organisations operating in the same market as the Group; and
- 8.27 have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations.

### **VMUK Specific matters**

The VMUK Remuneration Committee shall:

- 8.28 consider and approve the malus and clawback policy, in alignment with the Society's policies on incentive schemes on risk adjustments, to be applied to any incentive plans of the VM Sub-Group, including historical share awards made to individuals by Virgin Money Holdings (UK) plc (now Virgin Money Holdings (UK) Limited).

## 9. CONSOLIDATED OVERSIGHT

- 9.1 The Committee is responsible for oversight of the remuneration arrangements of the Group as outlined in these terms of reference as supplemented by any agreed matrix of arrangements as in place from time to time.

## 10. REPORTING RESPONSIBILITIES

- 10.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3 The Committee shall review and approve under delegated authority from the Board the Group's gender and ethnicity pay gap reporting.
- 10.4 The Committee shall review and approve the annual Directors' Remuneration Report and Directors' Remuneration Policy (at least once every three years) which will form part of the Group's Annual Report and Accounts and ensure that each report is put to members as an advisory/binding vote, as decided from time to time by the Committee.
- 10.5 If the Committee has appointed remuneration consultants, the annual report of the Group should identify such consultants alongside a statement as to any other engagements the remuneration consultants had with the Group and its directors during the year.
- 10.6 A report to members on the Committee's activities is to be included in the Group's Annual Report and Accounts. The report shall include a description of the key decisions made by the Committee including the use of discretion and, if no discretion was exercised, confirmation of this.
- 10.7 The Committee shall provide the PRA and FCA with a statement of the Group's remuneration policy from time to time, as required.

## 11. AUTHORITIES DELEGATED BY THE COMMITTEE

- 11.1 The Committee has delegated authority as follows to the:
- Committee Chair to approve the annual Remuneration Policy Statement to be submitted to the PRA;
  - Committee Chair to approve the final Directors' Remuneration Report and any other remuneration related disclosures contained in the Group's annual reporting documentation;
  - Committee Chair to approve the final MRT remuneration disclosures for the Group;
  - Group Chief People Officer to approve the annual resolution remuneration related activity;
  - Committee Chair to approve out of cycle pay proposals for Material Risk Takers that exceed an amount specified from time to time by the Committee; and
  - Group CEO and Group Chief People Officer to approve out of cycle pay decisions for Material Risk Takers below the thresholds referred to in paragraph 11.5.

- 11.2 The Committee will receive an annual update on delegated authorities to ensure the Committee is able to monitor the use of such delegation as part of its annual review of the policy library. The Committee may further delegate authority to manage any other matter as appropriate.

## **12. DECISION MAKING AND SENIOR MANAGER AND CERTIFICATION REGIME RESPONSIBILITIES**

- 12.1 All members of the Committee are responsible for and bound by the decisions taken by the Committee whether or not they actively supported or participated in the decisions although dissent can be recorded.
- 12.2 A member of the Committee 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.

## **13. ANNUAL GENERAL MEETING**

- 13.1 The Committee Chair or a deputy chosen from the Committee membership shall attend the Annual General Meeting to respond to any member questions on the Committee's activities or any matter within the remit of the Committee.

## **14. MISCELLANEOUS**

The Committee shall:

- 14.1 give due consideration to applicable laws and regulations and any published guidance regarding the remuneration of directors in similar businesses, as appropriate;
- 14.2 be cognisant of any conduct risks arising (or increasing) as a result of their judgment and will take proactive steps to avoid or mitigate these risks where possible;
- 14.3 have access to sufficient resources in order to carry out its duties, including access to the Secretariat for assistance as required;
- 14.4 receive appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members; and
- 14.5 at least once a year, 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 recommend any changes necessary to the Board for approval.