

**Principality Building Society
Terms of Reference
Remuneration Committee**

1. Main Purpose:

Responsible for the development and oversight of the implementation of the Society's remuneration policies and practices ensuring that Remuneration policies and practices are appropriate to enable the Society to attract, retain and reward individuals with the right skills, experience, knowledge and behaviours to support the achievement of the Society's purpose.

2 Membership:

The Committee shall comprise at least three members, all of which shall be independent Non-Executive Directors. Members of the Committee are appointed by the Board, upon the recommendation of the Governance & Nominations Committee and in consultation with the Chair of the Remuneration Committee. 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.

In the absence of the Committee Chair at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.

The Secretary of the Committee shall be the Group Secretary or nominee.

3 Quorum:

Two members.

4 Attendance:

Only members of the Committee have the right to attend Committee meetings. However, the Chief Executive Officer, Chief People Officer and Head of Reward and People Analytics will be invited to attend on a regular basis. Other colleagues may be invited to attend all or part of any meeting, as and when appropriate and necessary.

5 Frequency:

This is a Board Committee and will meet no less than four times per annum. Outside of the formal meeting programme, the Committee Chair, and to a lesser extent the other Committee members, will maintain a dialogue with key individuals involved in the Society's remuneration arrangements.

6 Committee Functions:

6.1 Be satisfied that the Society's Remuneration Policy is consistent with regulatory requirements, having regard to the Society's financial situation and future prospects, corporate values, best practice and guidance, current and future risk profile, promotes sound risk management; does not give rise to conflicts of interest regulatory guidance, remuneration trends and supports the Society's strategy and its long term success.

6.2 To receive a report, at least annually, from the CRO, on the implications from an assessment of risk and risk management in the context of the Society's performance and strategy.

6.3. Review colleague remuneration (including approval of the annual pay review) and related policies and the alignment of incentives and rewards with culture taking these into account when setting the policy for executive remuneration.

6.4 Determine and agree with the Board the remuneration policy for the Society's executive directors. Determine the salaries (including annual adjustments) and variable pay awards for executive directors, senior management (including Secretary) and other Material Risk Takers (MRTs) having due regard to the remuneration trends across the Society. Determine the base salaries for any external appointments or promotions whereby the base salary exceeds £100k. Determine the fee for the Chairman of the Board.

- 6.5 Approve any exceptional/one-off variable pay awards for Executives that arise outside the variable pay schemes in place at that time.
- 6.6 Produce an annual 'Remuneration Policy Statement' as required by the Prudential Regulatory Authority.
- 6.7 Maintain oversight and governance of Society remuneration policies having due regard for risk and the Society's long term strategic goals, practices and processes through the operation of the Society's Reward Variable Pay Policies and relevant supporting documentation.
- 6.8 Oversee the annual objectives of the Chief Executive Officer, ExCo members and Chief Internal Auditor.
- 6.9 Develop and recommend to the Board the strategy, framework and broad policies for the remuneration of the Society's executive directors and other MRTs. No director or manager shall be involved in any decisions as to his or her own remuneration. In determining such policy the Committee shall take into account all factors which it deems necessary. The objective of such policy shall be to ensure that executive directors and MRTs are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Society.
- 6.10 Review the ongoing appropriateness and relevance of the Remuneration Policy including a regular review of the market positioning of the remuneration packages for executive directors as appropriate. The Committee shall:
 - 6.10.1 Obtain reliable and up-to-date benchmarking information about remuneration in other organisations of comparable scale and complexity operating in the same markets as the Society;
 - 6.10.2 If considered necessary, appoint remuneration consultants, commission or purchase any reports, surveys or information which it deems necessary; and
 - 6.10.3 Be responsible for establishing the selection criteria, selection, appointment and setting the terms of reference for any remuneration consultants appointed to advise the Committee
- 6.11 Consider proposals from the executive directors for the remuneration of the Chairman. The remuneration of Non-Executive Directors shall be a matter for the Chairman and the Executive members of the Board.
- 6.12 Approve the design of, and payments under, any performance related pay schemes (setting transparent, stretching and rigorously applied performance criteria), both annual and longer term, operated by the Society for the benefit of executive directors of the Society, the managing directors of any business units and MRTs employed by the Society which have been identified to the Committee as 'high risk'.
- 6.13 Apply malus or clawback to any individual's payments in the event that the circumstances or Chief Risk Officer deem necessary.
- 6.14 Determine the policy for, and scope of, pension arrangements for executive directors and MRTs.
- 6.15 Approve service contracts for the appointment of executive directors, MRTs and other senior management positions as may be required.
- 6.16 Be satisfied that in relation to executive directors' and MRTs' contractual terms on termination, any payments made are fair to the individual, and the Society or business unit, that failure is not rewarded and that the duty to mitigate loss is fully recognised and regularly review these service

contracts to ensure they remain aligned to the Committee's overarching remuneration policy and best practice guidance.

- 6.17 Give due regard to the potential impact on responsible business conduct, encouraging desired behaviours and the delivery of fair outcomes for customers when determining remuneration packages and arrangements.
- 6.18 Review and note annually the remuneration trends across the Society for referring in the Annual Report and elsewhere as appropriate.
- 6.19 Oversee any major changes in employee benefits structures throughout the Society.
- 6.20 Agree the policy for authorising claims for expenses from the Chief Executive Officer and Chairman.
- 6.21 Be satisfied that the Society's Remuneration policies comply with governing laws and regulations.
- 6.22 At least once per year, the Committee shall review its own performance and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
- 6.23 Determine appropriate training and development for Committee Members both on appointment and on an ongoing basis to ensure that Members of the Committee are appropriately skilled
- 6.24 Work and liaise as necessary with all other Board Committees, ensuring good outcomes for customers and Members.
- 6.25 Review and monitor the Society's compliance with relevant gender pay reporting requirements. Be satisfied that the Society's remuneration arrangements do not contribute to gender pay discrimination.

7. Reporting to the Committee:

- 7.1 The Committee may obtain such information as it considers necessary from any employee or officer of the Society and may obtain legal or other professional advice as it considers necessary.
- 7.2 The Committee shall receive information on and undertake the activities set out in the attached Appendix.
- 7.3 The Secretary of the Committee shall circulate the agenda and papers for each meeting of the Committee no less than five clear working days in advance of the relevant meeting.

8. Reporting from the Committee:

- 8.1 This Committee reports to the Board.
- 8.2 The Chair of the Committee will provide a verbal report on the activities of the Committee to the Board following each meeting of the Committee.
- 8.3 The Secretary to the Committee will record any conflict of interest disclosed at a Committee meeting.

9. Annual General Meeting

- 9.1 The Chair of the Committee shall attend the annual general meeting to answer member questions on the Committee's activities.

