

TSB BANKING GROUP PLC (THE 'COMPANY')
BOARD REMUNERATION COMMITTEE
TERMS OF REFERENCE

1. Purpose:

- 1.1 The Board of Directors of the Company (the '**Board**') has established a Remuneration Committee (the '**Committee**'). The Committee is a sub-committee of the Board and has such powers as have been delegated to it.
- 1.2 The Committee should carry out the duties recorded in section 2 for the Group (including the Company and TSB Bank plc (the '**Bank**')) as appropriate.
- 1.3 The Committee is authorised by the Board to:
- 1.3.1 undertake any activity within its terms of reference;
 - 1.3.2 seek any information that it requires from any employee or any external provider of services to the Group from time to time;
 - 1.3.3 obtain, at the Group's expense, external legal or other professional advice on any matter within its terms of reference and to invite those persons to attend at meetings of the Committee;
 - 1.3.4 call any employee and/or other representative of a service provider to be questioned at a meeting of the Committee, as and when required, and all employees are directed to co-operate with any requests made by the Committee; and
 - 1.3.5 delegate any of its powers to one or more of its members or the secretary, or a sub-Committee, including one established solely for that purpose.

2. Responsibilities

- 2.1 The Committee is authorised by the Board to consider and recommend to the Board the framework of the remuneration policy of the Group and specifically to manage, consider and approve the remuneration arrangements of the Chairman, the Chief Executive, the Company Secretary, each direct report to the Chief Executive Officer (excluding personal assistants), and employees who are designated as Code Staff under the PRA's Remuneration Code, or any other employee as determined by the Committee from time to time in accordance with the requirements of the Bank's regulators (all together the '**Designated Group**').

- 2.2 Specifically, the Committee will undertake the following:

2.2.1 Formulate Overall Remuneration Policy

- 2.2.1.1 Have responsibility for setting the over-arching objectives, principles and parameters of remuneration and talent management policy across the Bank. This should be supported by robust processes which would, amongst other things, assess the impact of all remuneration arrangements on sustainable performance and culture and all elements of risk management.
- 2.2.1.2 In formulating the policy, the Committee will approve the compensation frameworks, reward, talent management and performance appraisal structures and exercise judgement in the application of the frameworks and policies to promote the long-term success of the Group.

- 2.2.1.3 This will include review and approval of the over-arching design and approach to measuring performance for any performance related remuneration schemes operated by the Group, including any all-employee share schemes.
- 2.2.1.4 The Committee will seek input from the Chief Risk Officer to ensure that awards reflect the Group's risk appetite and profile and takes into account current and potential future risks.
- 2.2.1.5 Determine the design of, eligibility for and performance measures and targets for any longer term performance related pay schemes operated by the Group.
- 2.2.1.6 Review and approve over-arching design of pensions and other benefits.
- 2.2.1.7 Periodically review the general principles of the policy and its implementation, including compliance with the PRA's Remuneration Code and UK Corporate Governance Code.

2.2.2 Monitor Remuneration Policy

- 2.2.2.1 Regularly review the operation and effectiveness of the policy and compensation and talent frameworks that support it, as well as seeking periodic internal assurances that the Group's remuneration and talent processes and principles are being implemented in line with the policy.
- 2.2.2.2 This will include the annual review of a report from the Human Resources Director on the operation of the policy and its effectiveness including procedures and processes to avoid conflicts of interest and to note the arrangements in place to ensure employees receive adequate information to understand the requirements of the policy and the PRA's Remuneration Code.
- 2.2.2.3 Monitor the application of the authority delegated to the Chief Executive Officer to ensure that policies and principles are being consistently and effectively applied, seeking support and input from HR and Risk as appropriate and appropriate sign off from the business units.
- 2.2.2.4 Review the budget for annual salary increases across the Bank.
- 2.2.2.5 Review and approve the overall remuneration spend (fixed and variable) as a proportion of profit and economic profit and ensure that evidence exists to demonstrate that awards have been adjusted where appropriate for risk.
- 2.2.2.6 Liaise as required with the Audit and Risk Committees and Risk Function in relation to risk-adjusted performance measures to confirm that the remuneration policy is in line with sound and effective risk management.
- 2.2.2.7 Review performance against the overriding framework for any performance related remuneration schemes operated by the Group.
- 2.2.2.8 The Committee will seek input from the Chief Risk Officer to ensure that awards reflect the Group's risk appetite and profile and take into account current and potential future risks and any performance measures are appropriately risk adjusted.
- 2.2.2.9 Additionally, the Committee will seek the input of the Chief Financial Officer to confirm that any 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 likelihood of the receipt of

potential future earnings included in the current earnings. The Committee will also ask the Chief Financial Officer to confirm that the calculations of the variable remuneration elements are based on appropriate measures of profit.

2.2.2.10 Determine whether total variable remuneration levels will limit the ability of the Bank to strengthen the capital base.

2.2.2.11 Commission an annual review of the risks arising from the Remuneration Policies for the purposes of the Internal Capital Adequacy Assessment Process (ICAAP).

2.2.2.12 Periodically review the general principles of the Remuneration Policy and its implementation including compliance with the PRA's Remuneration Code and the UK Corporate Governance Code.

2.2.3 Determine and Approve Remuneration Arrangements for the Designated Group (in consultation with the Chairman and, where appropriate, the Chief Executive Officer)

2.2.3.1 Determine and approve the contracts of employment, including all aspects of remuneration (including base salary, bonuses and performance-related payments, discretionary payments, pension contributions, benefits in kind and share options, share awards and their equivalents).

2.2.3.2 The terms and other commitments to be made on retirement, resignation or dismissal, with the aim of ensuring fairness, avoiding reward for failure and recognising the duty to mitigate loss.

2.2.3.3 Review and approve any payments or awards to be made upon recruitment.

2.2.3.4 Review and approve any salary increases and consider the individual pensions impact/costs of any increases.

2.2.3.5 Determine the design, performance measures and associated targets for any performance related pay schemes operated by the Bank and subsequently review individuals' performance against these targets and agree any payments proposed. In both circumstances, the Committee will seek independent input from the Chief Risk Officer to ensure that awards reflect the Group's risk appetite and profile and takes into account current and potential future risks. Additionally, the Committee will seek independent input of the Chief Financial Officer to confirm that any 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 likelihood of the receipt of potential future earnings included in the current earnings. The Committee will also ask the Chief Financial Officer to confirm that the calculations of the variable remuneration elements are based on appropriate measures of profit.

2.2.3.6 Review, approve and monitor the talent management and succession planning for the Designated Group. This will include the review and approval of individual objectives, with the exception of the Chairman whose objectives will be reviewed and approved by the Board.

2.2.3.7 Review and approve total remuneration outcomes.

2.2.3.8 In considering Designated Group remuneration, have regard to the remuneration trends and employment conditions across other employees in the Bank and in other relevant organisations.

2.2.4 Approve other Remuneration Arrangements

2.2.4.1 Agree the policy for authorising claims for expenses from the Executive Directors and Chairman.

2.2.5 Reporting Responsibilities

2.2.5.1 Ensure that provisions regarding disclosure of information as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the UK Corporate Governance Code, are fulfilled. In particular, the Committee shall prepare a report incorporating a “Director’s Remuneration Policy” and an “Annual Report on Remuneration” to be included in the Group’s Annual Report. The Director’s Remuneration Policy will detail the Group’s remuneration policy for Directors and will be subject to a binding shareholder vote at the Annual General Meeting at least every three years (or sooner if material changes are proposed to the stated policy). The remainder of the report will detail remuneration arrangements in respect of the year under review and will be put to shareholders annually for an advisory shareholder vote at the Annual General Meeting.

2.2.5.2 Ensure that provisions regarding disclosure of remuneration policy and practices for employees who are designated as Code Staff under the PRA’s Remuneration Code as set out in the BIPRU Prudential sourcebook, are fulfilled.

2.2.5.3 Through the Chairman of the Board, ensure that the Group maintains regular contact as required with its principal shareholders about remuneration.

2.2.5.4 Approve the contents of the annual Remuneration Policy Statement for the PRA and, through the Committee chairman, be available to meet with the PRA to discuss the Remuneration Policy and related issues, as required.

2.2.5.5 The Committee chairman should attend the Annual General Meeting to answer any shareholder questions on the Committee’s activities.

2.2.6 Miscellaneous Responsibilities

2.2.6.1 The Committee shall have regard to laws, regulations, any published guidelines or recommendations regarding the remuneration of directors and established and evolving best practice corporate governance standards including, where relevant, standard set by voting agencies and voluntary codes. This includes but is not limited to the PRA Remuneration Code, the provisions of the UK Corporate Governance Code, the requirements of the Listing Rules, the Prospectus Rules and the Disclosure and Transparency Rules and any other applicable rules, as appropriate.

2.2.6.2 Obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity.

2.2.6.3 Ensure that all payments to directors are made within the remuneration policy as stated in the Annual Report & Accounts (see Reporting Responsibilities above).

2.2.6.4 Arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

3. Membership and operation of the Committee

3.1 The Committee shall have at least three members, who shall be appointed by the Board on the recommendation of the Nomination Committee of the Board and in consultation with the chairman of the Committee from time to time. All members of the Committee shall be independent non-executive directors. Independence is determined by relevant legislation and corporate governance. Any member who is determined by the Board no longer to be independent shall cease to be a member of the Committee.

3.2 Appointments to the Committee will normally be for a period of three years, which may be extended for further three-year periods, provided the director still meets the criteria for membership of the Committee.

3.3 The Board will appoint the chairman of the Committee who will be an independent Non-Executive Director. In the absence of the chairman of the Committee, and/or an appointed deputy, the remaining members present shall elect one of themselves (excluding the Chairman of the Board if in attendance) to chair the meeting.

3.4 The Company Secretary or his or her 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 to be addressed by the Committee.

3.5 The quorum for the meeting will be any two members. No member of the Committee or chairman of the Committee shall have a casting vote.

3.6 Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee chairman.

3.7 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.

3.8 Members may attend meetings via teleconference if required.

4. Inputs

4.1 The Committee may invite any director, executive or other person to attend any meeting(s) of the Committee as it may consider desirable to assist the Committee in the attainment of its duties.

4.2 In particular, the Committee will be supported by HR, Risk and Finance, and will have access to whatever additional advice or support it requires in the discharge of its duties. This will include, but is not limited to:

4.2.1 access to the advice and services of the HR Director and HR team;

4.2.2 access to the advice and services of the Chief Risk Officer and the Risk teams;

4.2.3 access to the advice and services of the Chief Financial Officer and the Finance team;

- 4.2.4 advice and support of consultants appointed on behalf of the Committee; and
 - 4.2.5 independent professional, technical and/or legal advice or other resources from outside the Bank as and when it considers this necessary, including, if considered necessary or appropriate, an independent review of individual packages for higher earners.
- 4.3 To assist the Committee in understanding the implications of risk in the discharge of its responsibilities, the Committee shall:
- 4.3.1 at least annually, receive reports from the Chief Risk Officer on the implications of the remuneration policy for risk and risk management;
 - 4.3.2 invite the Chief Risk Officer to attend meetings at least twice yearly, specifically for the purpose of setting and reviewing performance targets for the Designated Group;
 - 4.3.3 meet with the Chief Risk Officer as required without management being present to discuss matters of relevance to the Committee; and
 - 4.3.4 hold a joint meeting annually with the Risk Committee.
- 4.4 To assist the Committee in understanding the financial implications of the remuneration policy the Committee shall invite the Chief Financial Officer to attend meetings at least twice yearly specifically for the purpose of setting and reviewing performance targets for the Designated Group.
- 4.5 No person shall be in attendance when matters concerning their own remuneration or fees are discussed.
- 4.6 The Committee shall 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.

5. Outputs

- 5.1 The secretary of the Committee shall minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance.
- 5.2 Minutes of the meeting will be distributed to all members within five working days of the meeting. Once approved, minutes should be circulated to all other Board members unless, in the opinion of the Committee chairman, a conflict of interest exists.
- 5.3 Final signed copies of the minutes of the meetings of the Committee should be maintained for the Company's records, in hard and soft copy where possible.
- 5.4 The Committee chairman shall report formally to the Board on the Committee's proceedings.
- 5.5 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

6. NON MEMBERS/OTHER ATTENDEES

- 6.1 Only members of the Committee have the right to attend Committee meetings. However, all other independent non-executive directors have an open invitation to attend meetings. Additionally, the Chief Executive Officer, HR Director, Chief Financial Officer, Chief Risk Officer, General Counsel and external advisors may be invited to attend all or part of the meeting as appropriate, together with other attendees at the discretion of the Committee Chairman. No person shall be in attendance when matters concerning their own remuneration or fees are discussed.

7. FREQUENCY OF MEETINGS

7.1 Meetings shall be held as circumstances require, but at least four times a year to enable responsibilities to be discharged.

8. MISCELLANEOUS

8.1 In these Terms of Reference, '**Group**' means the Company together with its subsidiaries and subsidiary undertakings from time to time (as defined in the Companies Acts 2006).