

THE CO-OPERATIVE FINANCIAL SERVICES

REMUNERATION AND APPOINTMENTS COMMITTEE

Terms of Reference

1. Constitution

The Remuneration and Appointments Committee ("the Committee") Terms of Reference were approved on 22 July 2009 by the Boards of Co-operative Financial Services, The Co-operative Bank, Co-operative Insurance Society, and CIS General Insurance (collectively known as "CFS").

2. Membership

- 2.1 The Committee shall be appointed by CFS and shall consist of no less than five members.
- 2.2 The membership shall include the Chairs of the Boards of Co-operative Financial Services Limited and Co-operative Group Limited, the Chief Executive of the Co-operative Group and two further non-executive directors who shall ordinarily include one independent professional non-executive director.
- 2.3 Members of the Committee shall have no direct financial interest in the decisions made by the Committee.
- 2.4 The Chair of the Committee shall be the Chair of CFS.
- 2.5 The Secretary, or such person as the Secretary may recommend to CFS, shall be the Secretary of the Committee and shall circulate the minutes of the meetings to the Committee and to all members of CFS unless a conflict of interest exists.
- 2.6 Appointments shall be for a term of three years, extendable by no more than one additional three year term ordinarily.

3. Quorum

- 3.1 A quorum shall be three members.
- 3.2 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. Attendance at Meetings

- 4.1 No one other than the Committee Chair and its members shall attend meetings of the Committee, unless at the invitation of the Chair.
- 4.2 The Chair may invite the external advisers appointed under paragraph 6.2 to attend meetings of the Committee as appropriate.

5. Frequency of Meetings

- 5.1 Meetings shall be held no fewer than two times a year or more frequently as circumstances require.
- 5.2 The Chair of the Committee shall convene a meeting if he or the Secretary considers it necessary, or on the reasonable request of any Committee member who considers it necessary.

6. Authority

- 6.1 The Committee is authorised by CFS to investigate any activity within its terms of reference and seek information that it requires from any employees of CFS and their subsidiaries, all of whom are directed to co-operate with any request made by the Committee.
- 6.2 The Remuneration & Appointments Committee of the Co-operative Group will appoint independent external advisers to advise it and the Committee to ensure that policies and practices are in line with current best practice in respect of remuneration and other terms and conditions of employment in the financial services sector.

7. Responsibilities

The responsibilities of the Committee are set out below. The Committee shall carry out these duties for CFS and subsidiary undertakings.

7.1 In respect of the CFS Executive

- 7.1.1 Establish, implement and maintain remuneration policies, procedures and practices that are appropriate in the context of CFS' long term business performance and are consistent with effective risk management principles.
- 7.1.2 Determine and ensure policy on main terms and conditions of employment having regard to applicable good practice on remuneration and corporate governance as outlined by Financial Services regulatory bodies.
- 7.1.3 Oversee contractual arrangements and approve the principal terms and conditions of Employment.
- 7.1.4 Review salaries, normally at the start of CFS' financial year, using comparisons against the agreed financial services sector market policies. The Committee will use the external advisers appointed under 6.2 to ensure practice is in line with the market, with regulatory and legal guidance and, as appropriate, in accordance with Group policies. The Committee will take into account recommendations from the Chief Executive in respect of individuals, based on job role, market comparisons, contribution and performance.
- 7.1.5 Review salaries at times other than the annual review, should it be necessary, e.g. on appointment, on promotion or if there is a significant change in job role.
- 7.1.6 Approve any Variable Pay arrangements and ensure that they are in line with current best market practice for the financial services sector and encourage and reward good performance by individuals and CFS against fair and unequivocal measures in the long term interests of CFS. The Committee will periodically review the application of Variable Pay arrangements and may, where appropriate, amend the arrangements..
- 7.1.7 Authorise payments under any Variable Pay arrangements in line with their rules.
- 7.1.8 Confirm the appointments of Senior Executives made by the Chief Executive and recommend confirmation to the Board.
- 7.1.9 Review and agree, where necessary, potential arrangements for a Senior Executive who leaves CFS, for reasons other than normal retirement.
- 7.1.10 Receive, review and decide on issues raised by the Directors of The Co-operative Group Pace (Average Career Earnings) Scheme, The Co operative Bank Pension Trust Limited, the CIS Employees Pension and Death Benefit Schemes and any other retirement benefits scheme within CFS and advise the Board of them as appropriate.
- 7.1.11 Receive from the Chief Executive an annual appraisal of the Succession Planning Process for Senior Executives. An appropriate summary of this shall be passed to the Remuneration & Appointments Committee of the Co-operative Group for information.

7.2 In Respect of the Chief Executive

- 7.2.1 Review and make recommendations to the Remuneration & Appointments Committee of the Co-operative Group in respect of the application of paragraphs

7.1.1, 7.1.2, 7.1.3, 7.1.4, 7.1.5, 7.1.6, 7.1.7, 7.1.9, and 7.1.10 as they may apply to the Chief Executive.

- 7.2.2 The Chair shall present an annual appraisal of the succession planning process for the CFS Chief Executive which shall also be presented to the Group Remuneration & Appointments Committee for consideration.

7.3. Other Matters

- 7.3.1 Annually review and update its Terms of Reference requesting approval from CFS for all proposed changes.
- 7.3.2 Ensure that an induction programme is provided for new members.
- 7.3.3 Ensure that ongoing training is provided to members and to include an understanding of the principles of, and developments in remuneration policies, risk management practices and corporate governance.
- 7.3.5 Evaluate, annually, its own performance against its terms of reference and best practice.
- 7.3.4 Consider other disclosures, documents or topics, as determined by CFS, and other subsidiaries from time to time.
- 7.3.6 Periodically review the remuneration policy against CFS business strategy and Risk Reports to ensure adequacy and effectiveness of current practices.
- 7.3.7 Approve the Remuneration Report for inclusion in the Annual Report and Accounts of Co-operative Financial Services and The Co-operative Bank.
- 7.3.8 Prepare a statement on the CFS remuneration policy and the impact of this policy on the risk profile of CFS and employee behaviours as requested by the Financial Services Authority.

8. Reporting Lines

- 8.1 The Chair of the Committee shall report on Committee business to
- 8.1.2 CFS with such recommendations as the Committee may deem appropriate.
- 8.1.3 The Remuneration & Appointments Committee of the Co-operative Group which has a remit to provide an overview on remuneration and to oversee the application of principles across the Group, consistent with the differing businesses and industries within the Group.
- 8.1.4 The Committee will provide details of the remuneration and terms and conditions of employment of the CFS Executive annually, in the CFS Remuneration Reports included in the CFS Report and Accounts. The Remuneration & Appointments Committee of the Co-operative Group will provide such details in respect of the Chief Executive to be included in the CFS Remuneration Reports.
- 8.1.5 The minutes of the meeting shall be provided to the non-executive directors of CFS.