



# Remuneration Committee Terms of reference

July 2020

**Darlington Building Society (the 'Society')**

**Board Remuneration Committee (the 'Committee')**

**Terms of Reference**

**1. Purpose**

- 1.1 The Board of Darlington Building Society (the 'Society') has delegated responsibility to its Board Remuneration Committee (the 'Committee') matters relating to remuneration, including severance packages, enhanced or discretionary pension payments together with salary and bonus payments for the purposes of the Committee to set the principles, parameters and governance framework of the Society's remuneration policy.
- 1.2 The Committee is to set the remuneration of executives and other Senior Management including senior management function holders under the Senior Managers & Certification Regime ('SM&CR') in accordance with the requirements of the Society's regulators.
- 1.3 The Committee will establish the overarching principles and parameters for remuneration within the Society and ensure that they reward fairly, responsibly, supporting the long-term interests of the Society with a clear foundation to risk management and individual performance.
- 1.4 Act in accordance with all relevant and applicable legislative and regulatory rules and guidance including those issued by the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') generally and the PRA Rulebook and FCA Dual-regulated firms Remuneration Code (SYSC 19D and SYSC 19F) as amended (together 'the Remuneration Code') together with the UK Governance Code.
- 1.5 The Committee must have particular regard to how executive remuneration is aligned to strategic achievements and the long-term success of the Society/Group.  
In doing so, all executive long-term incentives will have to be subject to a vesting and holding period of at least five years

**2. Authority**

- 2.1 The Committee is a Committee of the Board of Directors (the 'Board') from which it derives its authority and to which it regularly reports.
- 2.2 The Committee may sub-delegate appropriate powers and authority as it sees fit, including, the establishment of sub-committees to analyse particular issues or themes and to report back to the Committee.
- 2.3 The Committee has authority to investigate any matter relating to the Society within its Terms of Reference and to obtain such information as it may require from any Director, Officer or employee of the Society.

**3. Constitution**

**3.1 Chairman of Committee**

- 3.1.1 The Chairman of the Committee will be an independent non-executive Director appointed by the Board on the recommendation of the Board Nominations Committee.
- 3.1.2 In the absence of the Chairman of the Committee the remaining members present shall elect one of themselves to chair the meeting.

## **3.2 Membership**

- 3.2.1 The Committee (including the Chairman) will comprise at least three members, all of whom shall be independent non-executive Directors.
- 3.2.2 The Chairman of the Committee shall be appointed by the Board, normally the Vice Chairman, from among the independent non-executive Directors and shall have served for at least 12 months on a Remuneration Committee before taking up the role as required by the UK Governance Code.
- 3.2.3 The Committee shall include at least one member of the Board Risk Committee.
- 3.2.4 Members of the Committee will collectively have appropriate knowledge, expertise and professional experience concerning remuneration policies and practices, risk management and control activities.
- 3.2.5 Members of the Committee shall be appointed by the Board on the recommendation of the Board Nominations & Governance Committee and in consultation with the Chairman of the Committee.

## **3.3 Duration of Appointments**

Committee membership shall be reviewed annually and are normally for three years. Any extension of the term shall not be given without consultation with the Board Nominations & Governance Committee and any extension shall be for no more than two additional three-year terms.

## **3.4 Secretary**

- 3.4.1 The Secretary of the Committee shall be agreed with the Chair of the Committee.
- 3.4.2 The Secretary of the Committee shall record the proceedings and decisions of the Committee meetings, maintain an appropriate register of minutes to account for each meeting taking place.
- 3.4.3 Draft minutes are to be circulated promptly to all members of the Committee and once approved circulated to all other members of the Board as part of the next board meeting pack.

## **4. Responsibility of the Chairman**

The Chairman's role and responsibilities require:

- 4.1.1 Fostering an open, inclusive and where appropriate challenging discussion;
- 4.1.2 Ensuring the Committee and its members have the information necessary to perform its tasks and devote sufficient time and attention to the matters within the Committee's remit;
- 4.1.3 Facilitating the running of the Committee; and
- 4.1.4 Reporting to the Board on the Committee's activities regularly.

## **5. Role of Committee**

The Committee's role and responsibilities shall include:

- 5.1 Setting the principles, parameters and governance framework of the design of the Society's remuneration policy as applicable to all employees. This should include:
  - 5.1.1 The review and sanction of salary and incentive plans;
  - 5.1.2 Retirement benefits.
- 5.2 Making recommendations on the design of the remuneration package and amounts of remuneration to be paid in relation to the Chairman of the Board, the executive and other senior management of the Society. This should include:
  - 5.2.1 Remuneration terms contained in service contracts;

- 5.2.2 Overall market positioning of the remuneration package;
  - 5.2.3 Individual fixed pay;
  - 5.2.4 Structure of any variable remuneration including annual and long-term incentive arrangements and risk adjustment mechanisms;
  - 5.2.5 Methods for measuring performance including performance criteria;
  - 5.2.6 Benefit entitlements;
  - 5.2.7 Procedures relating to expenses for non-executive Directors;
  - 5.2.8 Termination arrangements and compensation for loss of office.
- 5.3 Setting the remuneration policy and remuneration for senior management in accordance with prevailing regulatory requirements as detailed in the applicable Remuneration Code.
  - 5.4 Providing support in overseeing appropriate practices and processes and compliance with the Remuneration Policy.
  - 5.5 Reviewing the selection process and appointment of external consultants for recruitment or remuneration assessment, the Society may decide to engage for advice and support.
  - 5.6 Having oversight of the mechanisms and systems adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels and that the overall remuneration policy is consistent with and promotes sound and effective risk management.
  - 5.7 Assessing the achievement of performance targets and the need for ex post risk adjustment. Including the application of clawback arrangements.
  - 5.8 Directly overseeing the total remuneration of Senior Management in independent control functions including the Risk and Compliance functions.
  - 5.9 Ensuring that no Director or Senior Manager, or any of their associates, is involved in deciding their own remuneration.
  - 5.10 Annually reviewing the effectiveness of the Society's/Group's reward strategy and approach and methodology for setting any variable pay pool, to ensure remuneration policies and practices continue to react appropriately to external and internal events and allow the Committee to test the criteria used for determining remuneration awards and risk adjustment.
  - 5.11 Ensuring that the remuneration policy and structures are subject to internal review at least annually to ensure that:
    - 5.11.1 Remuneration practices do not expose the Society to excessive current or future risk nor put at risk the ability to strengthen capital, if required or considered prudent
    - 5.11.2 Remuneration practices will promote effective risk management and will not encourage staff to take excessive risks.
    - 5.11.3 Any risks which are created by remuneration practices are reflected in the ICAAP.
    - 5.11.4 Compensation for staff in the Risk and Compliance functions are determined independently of their business areas, with emphasis being placed upon their own objectives.
    - 5.11.5 The Society will not judge performance simply on the basis of the financial results and will drive these from a scorecard approach covering areas of Customer, People, Excellence, and Financial, supported by Risk Culture and personal conduct and Behaviours.
  - 5.12 The Committee shall have regard to the individual job performances of directors and senior management. To do this, the Remuneration Committee will ensure that a performance appraisal is undertaken for all members of staff.
  - 5.13 The Chairman and Chief Executive will recommend to the Board the fees payable to non-executive directors. In arriving at their recommendations, they shall have regard to fees payable at comparable organisations, principally building societies with a similar level of complexity and diversity.
  - 5.14 The Committee may delegate any matters pertaining to the Executive to the Chief Executive as it considers appropriate.

## **6. Proceedings of Meetings**

### **6.1 Frequency of Meetings**

- 6.1.1 The Committee shall meet at least three times a year and as otherwise required to consider any matters falling within these Terms of Reference.
- 6.1.2 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members.

### **6.2 Notice and Quorum**

- 6.2.1 The Chairman shall ensure that the Committee meets with sufficient notice and frequency. The quorum necessary for the transaction of business shall be any two independent non-executive Directors, including the Chairman of the Committee
- 6.2.2 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.
- 6.2.3 Notice of each meeting confirming the venue, time and dates together with an agenda and supporting papers shall be forwarded to each member of the Committee no later than five days in advance of the date of the meeting. This may be sent in electronic form or paper form in line with the Society's protocols and procedures.

### **6.3 Attendees**

- 6.3.1 Only the members of the Committee and the Chairman of the Board, if they were deemed independent on appointment, have the right to attend Committee meetings.
- 6.3.2 The Chief Executive will be expected to attend Committee meetings on a regular basis.
- 6.3.3 The Director of People and Culture, if appointed, will be expected to attend Committee meetings on a regular basis.
- 6.3.4 Any Director, Officer or Employee of the Society may attend at the invitation of the Chairman of the Committee and they may collectively or individually be requested to withdraw from meetings of the Committee if required to do so by the Chairman of the Committee.

## **7. Responsibilities**

The Committee will undertake the following functions:

### **7.1 Remuneration Policy**

The Committee shall:

- 7.1.1 Set and recommend the over-arching objectives, principles and parameters of remuneration policy across the Society ensuring that it is adopting a coherent approach to remuneration in respect of all employees.
- 7.1.2 Set the remuneration policy for executive and non-executive Directors and Senior Management.
- 7.1.3 Ensure that the policy assesses the impact of pay arrangements on culture and all elements of risk management.
- 7.1.4 Seek advice from the Board Risk & Compliance Committee and the Board Audit Committee on the management of remuneration risk including advice on the measurement of performance in the context of incentives, the vesting of long-term incentives and the application of risk adjustments, malus or clawback, to facilitate the decision-making process.
- 7.1.5 Ensure there are measures included in the remuneration approach to avoid potential conflict of interest in the design of incentive arrangements.

- 7.1.6 At least annually review the adequacy and effectiveness of the Directors' remuneration policy to ensure it supports sound and effective risk management and the appropriateness of any variable remuneration included in overall compensation.
- 7.1.7 Oversee the policy for pension arrangements for executive and Senior Management, including which elements of remuneration should be pensionable and which should not;
- 7.1.8 Ensure that the remuneration policy and practices of the Society are subject to independent internal review at least annually which may be complemented and supported by qualified independent external consultants;
- 7.1.9 At least annually, review all material matters of retirement benefit design and governance;
- 7.1.10 Periodically review reports on other remuneration-related and employee issues as necessary.

## **7.2 Specific Remuneration Arrangements**

The Committee's responsibilities include the following remuneration arrangements:

- 7.2.1 Review and set the remuneration for Executive Directors and Senior Management, including:
  - 7.2.2 Overall market positioning of remuneration package;
  - 7.2.3 Individual fixed pay and increases;
  - 7.2.4 Annual and long-term incentive arrangements and adjustments;
  - 7.2.5 Benefit entitlements (including pension arrangements);
  - 7.2.6 Service contracts;
  - 7.2.7 Malus and/or clawback;
  - 7.2.8 Procedures relating to expenses; and
  - 7.2.9 Termination arrangements and compensation for loss of office.
- 7.2.10 For any employee of the Society, the Committee shall approve new hire remuneration packages and severance arrangements that exceeds [insert amount];
- 7.2.11 For any employee of the Society, the Committee shall approve the total remuneration (aggregate fixed pay, annual and long-term incentive/onus arrangements) for any performance year that exceeds [insert amount];
- 7.2.12 Ensure that the remuneration for employees in the Risk and Compliance function is determined independently of other business areas;
- 7.2.13 Ensure that no executive and non-executive Directors, Senior Management are involved in deciding their own remuneration;
- 7.2.14 Consider what compensation commitments (including pension contributions and all other elements) directors' terms of appointment would entail in the event of early termination.

## **7.3 Regulatory, risk and audit**

- 7.3.1 Review any matters relating to remuneration that needs to be reported to the Board and regulators and assessing that there are effective safeguards in place to ensure that remuneration policies are clearly aligned with the Society's risk appetite and the regulatory and legislative requirements that the Society is required to comply with.

This includes the review and approval of:

- 7.3.1.1 The content of the Directors' Remuneration Report in the Annual Report and Accounts for approval by the Board;
- 7.3.1.2 The Society's regulatory submissions and other filings for each financial year;
- 7.3.1.3 Any statement required by the Society's Regulators from the Committee about the Society's remuneration policy;

7.3.1.4 The adequacy and effectiveness of the remuneration policy of the Society in the context of consistent and effective risk management; and

7.3.1.5 Variable pay adjustments, including application of malus and/or clawback, for conduct breaches.

## **8. Reporting**

8.1 The Committee Chairman shall formally report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

8.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

## **9. Committee Governance and Resources**

The Committee shall:

9.1 Conduct an annual self-assessment and report any conclusions and recommendations to the Board and, as part of this assessment, consider whether or not it receives adequate and appropriate support in fulfilment of its role and whether or not its current workload is manageable;

9.2 Have access to sufficient resources in order to carry out its duties, including access to external advisers and Secretariat team for assistance as required; and

9.3 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.

9.4 Give due consideration to laws and regulations impacting the Society's business.

## **10. Terms of Reference Review**

10.1 These Terms of Reference shall be reviewed by the Committee at least once a year and any proposed amendments will be recommended to the Board for approval. Changes to the Terms of Reference must be approved by the Society's Board.

**July 2020**