

## **Remuneration committee – Terms of Reference**

The Terms of Reference set out below are common to each of UK Asset Resolution Ltd ("UKAR"), Bradford & Bingley plc ("B&B") and Northern Rock (Asset Management) plc ("NRAM") (each, a "Company" and together, the "Group Companies" or the "Group"). Each of the Group Companies has separately resolved to adopt these Terms of Reference at a Board meeting held on 26 January 2011. Wherever any item is not applicable to any one of the Group Companies this is highlighted in the Terms of Reference.

### **1. Constitution**

The Board of Directors (the "Board") of the Company has established a committee of the Board to be known as the Remuneration Committee (the "Committee"), with Terms of Reference as set out below.

### **2. Purpose and duties**

The primary objective of the UKAR Remuneration Committee is to have an oversight role in the remuneration policy of the Group Companies; however, the Committee recognises that both B&B and NRAM will each monitor their own remuneration policies. The UKAR Remuneration Committee is responsible for recommending to the Boards of NRAM and B&B all aspects of the remuneration arrangements for the FSA Code employees and senior management across the Group regardless of whether such appointments are on a permanent or on an interim basis. The UKAR Remuneration Committee shall monitor targets for any performance related pay schemes operated by members of the Group. The Committee will also be responsible for reviewing proposals as to the remuneration policies of the Group for staff in general and shall monitor and advise on any major changes in employee benefit structures throughout the Group.

For the purposes of these Terms of Reference:

- 'remuneration' shall be interpreted in its broadest sense and shall include but not be limited to basic salaries, all incentive schemes, pensions, all other employment benefits and contractual entitlements; and
- 'FSA Code employees' shall be determined by the Committee in accordance with the FSA's Code of Practice on Remuneration.

The B&B and NRAM Remuneration Committees shall have regard to recommendations from the UKAR Remuneration Committee. All Committees shall operate according to the requirements of the relationship framework document detailing the relationship between UKAR and UK Financial Investments Limited ("UKFI") (acting on behalf of HM Treasury), the FSA's Code of Practice on Remuneration and, where practicable, the UK Corporate Governance Code and any other relevant corporate governance codes and/or best practice guidelines applying to companies admitted to the Official List. Subject to these requirements the Committee shall:

- determine and agree with the Board the framework or broad policy for the remuneration of the FSA Code employees. No Director or manager shall be involved in any decisions as to their own remuneration;
- in determining such policy, take into account all factors which it deems necessary including relevant legal and regulatory requirements, the FSA's Code of Practice on Remuneration and any other guidance, the provisions and recommendations of the UK Corporate Governance Code and associated guidance. The objective of such policy shall be to ensure that FSA Code employees 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 Company;
- when setting remuneration policy for FSA Code employees, review and have regard to the remuneration trends across the Company and Group;
- review the ongoing appropriateness and relevance of the Remuneration Policy;
- within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive, as appropriate, determine the total individual remuneration package of the FSA Code employees including bonuses, incentive payments and performance related pay schemes;
- approve the design of, and determine targets for, any performance related pay schemes operated by the Company for FSA Code employees and approve the total annual payments made under such schemes;
- review the design of all incentive plans for approval by the Board and the Shareholder. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to FSA Code employees and the performance targets to be used;
- determine the policy for, and scope of, pension arrangements for each FSA Code employee;
- ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- determine and agree with the Board the framework or broad policy for the remuneration of staff and for any staff performance related pay schemes;
- ensure that sound risk management practices are considered as part of any discussions on remuneration matters;
- provide UKFI with assistance as required, in relation to the remuneration of the Chairman of the Board in accordance with the UKAR and UKFI Relationship Framework Document;

- oversee any major changes in employee benefits structures throughout the Company; and
- agree the policy for authorising claims for expenses from the Directors.

### **3. Membership**

All members of the Committee and its Chairman shall be appointed by the Board on the recommendation of the Nomination Committee and in consultation with the Chairman of the Remuneration Committee. The Committee shall be made up of at least three independent Non-Executive Directors. A quorum shall comprise two members of the Committee. 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. The Chairman of the Board may sit on the Committee provided he or she was considered independent upon his or her appointment as Chairman. Each member shall abstain from voting on any resolution and from participating in any discussions of the Committee on any matter in relation to which a personal interest exists. The Company Secretary or such other nominated individual as may be appointed by the Board from time to time will serve as secretary to the Committee, and references in these Terms of Reference to the “Secretary” shall be construed as including any and all of the aforementioned persons.

The Chairman of the Committee (the “Chairman”) will be appointed by the Board. He or she must be an independent Non-Executive Director. In addition to his or her duties in chairing the Committee, the Chairman must be available and prepared to answer remuneration-related questions raised by the Board and may be required on occasion to meet with representatives of HM Treasury and/or UKFI to discuss remuneration issues.

In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting from those who would qualify under these terms of reference to be appointed to that position by the Board. The Chairman of the Board shall not be Chairman of the Committee.

Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive, the HR Director, the Risk Director, the Operations Director and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary.

Appointments to the Committee are made by the Board and shall be for a period of up to three years which may be extended for further periods of up to three years, provided the Director still meets the criteria for membership of the Committee.

#### **4. Authority**

The Committee is authorised by the Board to investigate any matter within its Terms of Reference. It is authorised to seek any information it requires in connection with the performance of its duties from any employee of NRAM and B&B, and all employees of NRAM and B&B are directed to co-operate with any requests made by the Committee. The Committee is authorised to agree interim appointments of EXCO members and approved persons subject to the approval of the Chairman of the Committee and the Chief Executive.

Approval of HM Treasury and/or UKFI is required for any material changes to the remuneration packages and/or incentivisation arrangements for Directors of UKAR, NRAM and/or B&B.

#### **5. Advice**

The Committee shall:

- obtain reliable, up-to-date information about remuneration in other companies. To help it fulfil its obligations the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary, within any budgetary restraints imposed by the Board; and
- be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee.

#### **6. Meetings**

The Committee will meet as often as deemed necessary to carry out its duties, but in any case not less than twice a year. Dates will normally be set well in advance, coinciding with key decision points in the calendar, with the agenda and relevant papers being sent out at least seven calendar days in advance. The agenda will be sent to each member of the Committee, any other person required to attend and all other Non Executive Directors. Supporting papers will be sent to Committee members and other attendees at the same time as appropriate.

The Chairman of the Committee may call additional meetings to consider such matters related to its responsibilities as the Committee may consider desirable. Any member of the Committee may request a meeting if they consider it necessary.

The Secretary shall minute the proceedings and resolutions of all Committee meetings including the names of those present and in attendance.

Meetings of the Committee may be held by telephone conference or similar arrangement.

## **7. Other**

The Committee may form sub-committees from its membership to address specific aspects of its duties, and may delegate such of its powers as it thinks necessary to designated individuals to assist them in carrying out work required by the Committee.

The Committee shall consider any other matters requested by the Board from time to time.

The Committee Chairman should attend the Annual General Meeting to answer any shareholder questions on the Committee's activities.

## **8. Review**

The Committee will conduct an annual review of its performance, and ensure that it is provided with sufficient resources to undertake its duties, including access to the Company Secretariat for assistance, and that appropriate and timely training is provided to members on appointment and on an ongoing basis, and recommend any changes it considers necessary to the Board for approval. These Terms of Reference will be reviewed and, where necessary, updated, at least once a year.

## **9. Reporting procedures**

The Chairman of the Committee shall be responsible for reporting to the Board. The minutes of all meetings and resolutions of the Committee shall be circulated to the members of the Committee and to the Board unless it would be inappropriate to do so. The Secretary will retain copies of the minutes and papers.

The Committee shall produce a report of the Company's remuneration policy and practices to be included in the Company's Annual Report and ensure each year that it is put to the shareholder for approval at the AGM.