

XPS PENSIONS GROUP PLC

TERMS OF REFERENCE FOR THE REMUNERATION COMMITTEE

1. CONSTITUTION

- 1.1 The remuneration committee (the “**Committee**”) was constituted as a committee of the board of directors (the “**Board**”) of XPS Pensions Group plc (the “**Company**”) at a full meeting of the Board held on 24 January 2017 in accordance with the articles of association of the Company.
- 1.2 The Committee has the delegated authority of the Board in respect of the functions and powers set out in these terms of reference.
- 1.3 The Committee may sub-delegate any or all of its powers and authority as it thinks fit to one or more of its members or the appointed secretary of the Committee, including, without limitation, the establishment of sub-committees which are to report back to the Committee.

2. ROLE

- 2.1 The role of the Committee is to assist the Board to fulfil its responsibility to shareholders to ensure that remuneration policy and practices of the Company reward fairly and responsibly, with a clear link to corporate and individual performance, having regard to statutory and regulatory requirements.
- 2.2 In particular the Committee shall consider:
- (a) the directors’ remuneration policy;
 - (b) remuneration practice across the Company and its cost;
 - (c) recruitment, service contracts and severance policies;
 - (d) pension and superannuation arrangements and other benefits; and
 - (e) the engagement and independence of external remuneration advisers.

3. DUTIES AND TERMS OF REFERENCE

The Committee shall carry out the duties set out below for the Company and its subsidiaries (the “**Group**”) as appropriate.

3.1 Remuneration policy

The Committee shall:

- (a) determine and agree with the Board the policy for the remuneration and benefits of:
 - (i) the chairperson of the Company;
 - (ii) executive directors; and
 - (iii) designated senior management (“**Senior Executives**”) including the Company Secretary.

The remuneration of the senior independent director and non-executive directors of the Board will be a matter for the chairperson and the executive directors to be decided at a meeting of the Board to be determined within the limits set in the Company’s articles of association. No director or senior manager shall be involved in any decisions as to their own remuneration;

- (b) in determining the directors’ remuneration policy, and particularly when

implementing the directors' remuneration policy, consider:

- (i) all relevant legal and regulatory requirements;
 - (ii) the provisions and recommendations of the UK Corporate Governance Code (the "**Code**") and associated guidance;
 - (iii) an appropriate balance between fixed and performance-related remuneration, immediate and deferred remuneration;
 - (iv) the need to promote the long-term sustainable success of the Company and to attract, retain and motivate executive management of the quality required to run the company successfully, without paying more than is necessary;
 - (v) the views of shareholders and other stakeholders and ensuring that executive directors and Senior Executives are rewarded in a fair and responsible manner and are provided with appropriate incentives to encourage enhanced performance and are rewarded for their individual contribution;
 - (vi) alignment to company purpose and values;
 - (vii) the business strategy of the Company and the Group and how the policy reflects and supports the business strategy;
 - (viii) the Company's risk appetite and risk management strategy ensuring that the Company's remuneration policy is aligned to the risk policies and systems and long-term strategic goals;
 - (ix) the remuneration and remuneration-related policies of all employees within the Company and the alignment of incentives and rewards with culture;
 - (x) a formal policy in respect of whether executive directors should be required to hold a minimum number of shares for a further period after vesting or exercise, including a period after leaving the Company; and
 - (xi) the transparency of the performance-related elements, ensuring they are stretching and rigorously applied;
- (c) review the on-going appropriateness and relevance of the directors' remuneration policy and to engage with employees and consult with significant shareholders as appropriate;
- (d) determine, within the terms of the agreed and approved directors' remuneration policy, the total remuneration package for the Company chairperson and each element of the total individual remuneration package for each executive director and Senior Executives including:
- (i) base salary;
 - (ii) profit sharing and specific incentive remuneration schemes/arrangements and approve the total annual payments thereof;
 - (iii) participation in share option schemes and share ownership plans;
 - (iv) pension arrangements, including the level of contributions by the Company; and
 - (v) other discretionary payments, bonuses and benefits in cash or in kind.

- (e) determine, within the terms of the agreed and approved directors' remuneration policy, that all remuneration schemes and policies enable the use of the Remuneration Committee's discretion to override formulaic outcomes;
- (f) address a range of factors when making remuneration decisions including but not limited to clarity, simplicity, risk, predictability, proportionality and alignment to culture;
- (g) ensure, where relevant, that any payments made are permitted under the latest shareholder approved directors' remuneration policy and, if not, that either a revised directors' remuneration policy or the proposed payment is submitted for shareholder approval; and
- (h) engage in appropriate discussions as necessary with institutional investors on policy or any other aspects of remuneration.

3.2 Incentive arrangements

The Committee shall:

- (a) recommend for approval by the Board the design of, and determine the targets for, the operation of all incentive schemes and plans, including cash bonus plans and all schemes involving the award of shares, securities or the grant of options, in which executive directors and Senior Executives participate. For any such plans, determine each year whether the awards will be made, and if so, approve the levels of participation in such schemes by those individuals;
- (b) monitor and assess any performance conditions applicable to any incentive awards granted under any schemes or plans adopted by the Company. Ensure that the performance conditions are fully explained and clearly linked to the enhancement of shareholder value;
- (c) design and invoke agreed safeguards, for example clawback, to protect against rewards for failure through appropriate risk management of incentive arrangements to ensure that any performance-related payments reflect actual achievements;
- (d) ensure that all incentive arrangements are aligned to the Company's risk policies and systems; in relation to any bonus scheme operated by the Company, determine annual targets and key performance indicators for, and assess performance against targets and key performance indicators, by the Company, individual executive directors and other Senior Executives;
- (e) determine, in conjunction with the Company's advisers, whether applicable performance targets have been satisfied;
- (f) approve any amendments to the schemes or plans prior to obtaining any necessary shareholder approval;
- (g) exercise any discretion specified in the rules of the schemes or plans and generally oversee the administration of schemes or plans offered to executive directors and/or other Senior Executives;
- (h) determine each year whether any awards will be made under the plans and, if so, the overall amount of such awards, the individual awards to executive directors and other Senior Executives and the performance targets to be used; and
- (i) administer all aspects of any all-employee share schemes operated by or to be established by the Company in accordance with the rules of that scheme and any applicable legal and stock exchange requirements and with any requirements of Her Majesty's Revenue and Customs.

3.3 Pensions

The Committee shall review the pension arrangements for the executive directors and Senior Executives and in particular the pension consequences and associated costs to the Company of basic salary increases and any other changes in pension remuneration and the alignment with pension arrangements for all employees.

3.4 Remuneration consultants

The Committee shall:

- (a) to help it fulfil its obligations and to enable it to judge where to position the Company relative to other companies, have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary, at the expense of the Company but within any budgetary restraints imposed by the Board;
- (b) avoid designing pay structures based solely on benchmarking to the market or on the advice of the remuneration consultants; and
- (c) be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee.

3.5 Service contracts and severance

The Committee shall:

- (a) approve the terms of the service contracts, the duration of which shall not normally exceed one year's notice period, for executive directors and Senior Executives and any material amendments to those contracts;
- (b) determine the policy for, and scope of, termination payments and compensation commitments for each executive director and Senior Executive. Ensure that there is a clear policy to link non-contractual payments to performance; and
- (c) ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company and in accordance with the most recent director's remuneration policy and all legal and regulatory requirements, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

3.6 Shareholder approval

The Committee shall:

- (a) report annually to shareholders on matters relating to executive remuneration. In preparing the report, the Committee shall include:
 - (i) an annual statement by the Committee's chairperson;
 - (ii) the directors' remuneration policy; and
 - (iii) an annual report on directors' remuneration.

The directors' remuneration policy and the annual report on directors' remuneration should include the information required to be disclosed by the Companies Act 2006 (including any regulations made under that Act), the Code, the Listing Rules (as published by the Financial Conduct Authority) (the "**Listing Rules**") and any other relevant statutory, regulatory or governance codes.

- (b) submit the directors' remuneration policy for approval by the Board and shareholders:
 - (i) every three years;
 - (ii) in any year in which there is a change to the policy;
 - (iii) if shareholder approval was not obtained when last submitted; and
 - (iv) if majority shareholder approval was not achieved on the last submitted annual remuneration report; and
- (c) submit the annual report on directors' remuneration for approval by the Board and shareholders annually.

3.7 Other matters

The Committee shall:

- (a) monitor and review the level and structure of remuneration of senior management in the context of the pay policy of the Group as a whole, pay and conditions elsewhere in the Group, and the overall cost to shareholders;
- (b) consider what engagement should take place with all employees to explain how executive remuneration aligns with wider company pay policy;
- (c) keep abreast of external remuneration trends and market conditions including receiving an annual presentation from its external remuneration consultants;
- (d) oversee any major changes in remuneration and employee benefits structures throughout the Company and the Group;
- (e) agree the policy for authorising claims for expenses from the directors;
- (f) subject to delegation of authority by the Board, determine whether the disclosure of any information on performance conditions would be commercially sensitive;
- (g) exercise any discretion or judgment on remuneration issues in accordance with the remuneration policy;
- (h) consider such other matters as are referred to the Committee by the Board; and
- (i) work and liaise as necessary with all other Board committees.

4. MEMBERSHIP

- 4.1 The Committee shall comprise a minimum of three members. Each Committee member shall be an independent non-executive director as determined by the Board (in accordance with the principles of the Code). If any member of the Committee is deemed not to be independent, then the Board shall provide an explanation as to why they consider it appropriate for such director to be a member of the Committee.
- 4.2 The Board shall appoint members of the Committee, on the recommendation of the Nomination Committee, in consultation with the Committee chairperson. It is recognised that the number of members may fall below three for temporary periods due to departures pending new appointments.
- 4.3 The chairperson of the Board may be a member of the Committee if he or she was considered to be independent on appointment as chairperson. The chairperson of the Board shall not chair the Committee.
- 4.4 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to be

independent.

- 4.5 The Board shall appoint the chairperson of the Committee from among the independent non-executive directors who have served on a remuneration committee for at least 12 months. In the absence of the Committee chairperson and/or an appointed deputy, the remaining members present at a meeting shall elect one of their number present to chair the meeting who would qualify under these terms of reference to be appointed to that position by the board.
- 4.6 The Committee chairperson shall review membership of the Committee annually, as part of the annual performance evaluation of the Committee.
- 4.7 The company secretary or such other officer, employer or adviser of the Company as may be nominated from time to time by the Committee, shall act as the secretary of the Committee and provide all necessary support to the Committee, including the recording of Committee minutes and ensuring that the Committee receives information and papers in a timely manner to enable full and proper consideration of the relevant issues.

5. ATTENDANCE AT MEETINGS

- 5.1 The Committee shall meet at least two times a year and such other time as may be required.
- 5.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the chief executive, the head of human resources and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary and with the agreement of the Committee chairperson.
- 5.3 No person (including directors and the chairperson) of the Company shall participate at a meeting of the Committee (or during a relevant part) at which any part of their remuneration is being directly discussed or participate in any recommendation or decision specifically concerning their remuneration.
- 5.4 Through the chairperson of the Board, the Committee shall ensure that the Company (whether through the Committee or otherwise) maintains contact as required with its principal shareholders about remuneration.
- 5.5 The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 5.6 Meetings of the Committee may be conducted when the members are physically present together or in the form of either video or audio conferences.

6. NOTICE OF MEETINGS

- 6.1 Meetings of the Committee shall be called by the Committee chairperson or any member of the Committee or the secretary of the Committee at the request of any of its members.
- 6.2 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 and any other person required to attend, no later than five working days before the date of the meeting. Supporting papers shall, where practicable, be sent to Committee members and to other attendees as appropriate, at the same time, but Committee papers may be forwarded at shorter notice with the approval of the Committee chairperson.
- 6.3 Supporting papers may be circulated electronically or in hard copy as circumstances permit.

7. QUORUM

- 7.1 The quorum necessary for the transaction of business at a Committee meeting shall be two members present in person or by audio or video conference.
- 7.2 A duly convened Committee meeting 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.

8. VOTING ARRANGEMENTS

- 8.1 Each Committee member shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a Committee meeting (whether in person or by audio or video conference).
- 8.2 If a matter that is considered by the Committee is one where a Committee member, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.
- 8.3 Except where he has a personal interest, the Committee chairperson shall have a casting vote.
- 8.4 The Committee chairperson may ask any attendees of a Committee meeting to leave the meeting to allow discussions of matters relating to them.

9. MINUTES OF MEETINGS

- 9.1 The secretary of the Committee shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 9.2 Draft minutes of Committee meetings shall be circulated promptly to all Committee members. Once approved, minutes shall be circulated to all other Board members unless a conflict exists or in the opinion of the Committee chairperson it would be inappropriate to do so.
- 9.3 A resolution in writing and signed by all Committee members will be as effective as a resolution passed at a Committee meeting. Any written resolution shall be tabled and noted at the next meeting of the Committee.
- 9.4 Final signed copied of the minutes of the meeting of the Company should be maintained for the Company's records, in hard and soft copy where possible.

10. ANNUAL GENERAL MEETING

The Committee chairperson shall attend the annual general meeting to answer shareholder questions on the Committee's activities. In addition, the committee chair should seek engagement with shareholders on significant matters related to the committee's areas of responsibility.

11. REPORTING RESPONSIBILITIES

- 11.1 The Committee shall:
 - (a) report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and the minutes of all meetings shall be included in the Board papers for a subsequent Board meeting;
 - (b) make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;
 - (c) ensure that provisions regarding the public disclosure of information, including pensions, as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Code, are fulfilled;

- (d) prepare a formal report for shareholders (as referred to in paragraph 3.7(a) above) to be included in the Company's annual report, which shall include:
 - (i) a statement from the Committee chairperson providing a summary of the Company's remuneration policy and the annual report on remuneration;
 - (ii) a report of the Company's remuneration policy and practices and the Committee shall ensure that it is put to shareholders for approval at each annual general meeting; and
 - (iii) the Company's remuneration policy and the Committee shall ensure that it is put to shareholders for approval every three years (or such shorter period as may be required by the applicable legislation);
- (e) if the Committee has appointed remuneration consultants, identify in the annual report of the Company's remuneration policy, the name of the consultants and state whether they have any connection with the Company or individual directors;
- (f) ensure, through the chairperson of the Board, that the Company maintains contact as required with its principal shareholders about remuneration; and
- (g) make available to shareholders these terms of reference by placing them on the Company's website.

11.2 All decisions on recommendations referred to the Board shall take effect only upon approval thereof by resolution of the Board, at a meeting which is properly convened and constituted and in accordance with the Company's articles of association.

12. GENERAL MATTERS

12.1 The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;
- (b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- (c) give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of directors of listed/non-listed companies and formation and operation of share schemes including but not limited to the provisions of the UK Corporate Governance Code, the requirements of the Listing Rules and the Financial Conduct Authority's Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook as well as guidelines published by the Investment Association, the Pensions and Lifetime Savings Association, the GC100 and any other applicable rules, as appropriate;
- (d) work and liaise as necessary with all other Board committees; and
- (e) 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.

13. AUTHORITY

13.1 The Board authorises the Committee to:

- (a) carry out all duties set out in these terms of reference, to have unrestricted access to the Company's documents and information and to obtain, at the Company's expense, appropriate professional advice on any matter within its terms of reference as it considers necessary;
- (b) seek any information it requires from any employee of the Group to perform its duties;
- (c) secure the attendance of external advisers at its meetings if it considers this necessary, at the Company's expense;
- (d) call any employee to be questioned at a Committee meeting as and when required and all employees are directed to co-operate with any request made by the Committee; and
- (e) have the right to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.

Adopted at the Board meeting of the Company on 24 January 2017.

Reviewed and amended at a Board meeting of the Company on 27 February 2020.