The co-operative bank

Directors' Remuneration Policy

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Contents

Version: 3
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Section 1: Introduction

The Remuneration Committee oversees the development and implementation of the Group's remuneration policy and practices. The Committee is committed to ensuring that our reward framework continues to align Executive performance with shareholder expectations, as well as with the customer experience, while ensuring that pay remains competitive to retain the right talent and aligned to the strategy of the Group over the short and long term.

Section 2: Executive Directors

Base salary	
Purpose and link to strategy	Externally competitive base pay allows us to attract and retain high-calibre Executives with the skill to develop, lead and deliver the business strategy.
Operation	Reflects the role of the individual within the Bank, taking account of responsibilities and experience.
	Base pay may be reviewed from time to time, but at no greater frequency than once annually. Any increase to base pay is subject to approval by the Remuneration Committee and would normally be applicable from 1 April. In addition, changes to Executive Director remuneration would also require approval from the sole shareholder and ultimately, by a majority of the B shareholders of The Co-operative Bank Holdings Limited.
	The Bank considers the levels of base pay by reference to independent advice on appropriate external market comparators. Objective job sizing against equivalent roles in comparable financial services companies is applied.
	The Committee is not obliged to adopt such data in determining levels of base pay, but will use it as a reference point to establish an appropriate level of pay overall, having regard to other relevant factors including corporate and individual performance, the individual's experience, regulatory developments and/or any significant changes in an individual's role and responsibilities.
Maximum opportunity	Base pay is not capped. Increases to base pay for Directors may be considered taking into account practice for employees generally across the Bank, regulatory requirements, consultation feedback and any relevant market information.
Performance measures	N/A

Role based allowances (RBAs)	
Purpose and link to strategy	To ensure that total fixed remuneration is commensurate with the prevailing requirements of the role and to provide a competitive reward package for key skills and capabilities. RBAs would only be used in exceptional circumstances and individual arrangements would need prior approval from the Remuneration Committee.
Operation	Although RBAs have previously been utilised by the bank as part of its reward approach for senior roles, these were discontinued and phased out by 2020. There are no current recipients of RBAs.
	N/A

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	N/A
Maximum opportunity	N/A
Performance measures	N/A

Pension	
Purpose and link to strategy	The pension policy provides an important and competitive benefit within the overall remuneration package for Executive Directors.
Operation	Executive Directors are eligible to participate in the defined contribution pension arrangement or alternatively may choose to receive a cash allowance in lieu of pension. This cash allowance is set as a percentage of salary and is subject to taxation in accordance with other such benefits in the UK.
Maximum opportunity	The maximum pension contribution or cash allowance for Executive Directors is 10 % of salary.
Performance measures	N/A

Benefits	
Purpose and link to strategy	Benefits are provided to attract and retain executives with the appropriate skills to drive the business and to ensure that the overall package is competitive in the market.
Operation	Executive Directors receive a benefits package generally set by reference to market practice in companies of a similar size and complexity and/or business scope.
	Benefits provided include a car allowance, private medical insurance, life insurance, health screening and income protection. Relocation support may be provided if required upon the appointment of a new Executive Director.
	The Committee may periodically amend the benefits available to all employees. The Executive Directors are eligible to receive such benefits on similar terms to other Senior Executives.
	In line with our approach to all employees, certain Bank products may be offered to all employees at a discount. All benefits are fully disclosed and are subject to taxation as required.
Maximum opportunity	Benefits are set taking into account affordability and market practice for comparable roles. Costs may vary by provider from year to year. The Committee keeps the benefit policy and levels under review. It may remove benefits that Executive Directors receive or introduce other benefits if it considers it is appropriate to do so.
Performance measures	N/A

Annual Incentive Plan (AIP) and Deferred Bonus Plan (DBP)	
Purpose and link to strategy	To motivate Executive Directors to achieve and exceed the business plan, rewarding annual financial and strategic targets and adherence to Co-operative Bank Values, within the Bank's risk appetite.

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	Deferral of part of the annual bonus is applied in accordance with the requirements of the Remuneration Code.
Operation	Annual bonus awards are discretionary and are determined by reference to the Bank's performance against a scorecard of financial and strategic goals.
	Awards may be made in cash and shares/share-like instruments. A minimum of 50 % of the Award will be made in shares/share-like instruments.
	The level of deferral for the Executive Directors is as per the Remuneration Code. All share-based awards will also be subject to a minimum of twelve months retention period following the relevant vesting date in line with regulatory requirements.
	At the Committee's discretion, Executive Directors may receive an amount (in cash or shares) equal to the dividends which would have been paid on vested shares subject to a compulsory holding period, prior to release. No dividends will be payable on shares continuing to be held following the end of the compulsory holding period.
	Malus and clawback provisions apply to both the cash and share/share-like instrument awards, including the deferred elements. Malus and clawback provisions are explained in the Bank's separate Remuneration Policy.
	All deferral terms are kept under review to ensure that these continue to be applied in line with regulatory requirements and best practice guidance. The Committee retains the flexibility to alter these terms for successive awards to reflect changes in such requirements or guidance. The Committee will not alter terms for awards already conferred except for regulatory compliance.
Maximum opportunity	The maximum award opportunity under the AIP will normally be no more than 130 % of salary in respect of any financial year, including any deferred element.
	The Bank ensures an appropriate balance of fixed to variable pay, inclusive of Annual bonus awards.
Performance measures	An annual corporate scorecard based on targets for financial and strategic measures is developed for review and agreement at the start of each year by the Remuneration Committee. This forms the basis of the bonus pool. The allocation of that pool depends upon the level of achievement of the individual against their own scorecard or objectives.
	These measures include a combination of financial and strategic goals aligned to the Bank's strategic plan. Financial measures may include, but are not restricted to, such measures as underlying income, operating expenses, CET 1 ratio and Non-core RWAs. An underpin linked to a liquidity metric may also be introduced.
	Each year, the Committee will consider the appropriate mix of financial and strategic measures. These measures will be determined by the Committee.
	Any bonus is discretionary and may range from zero to the maximum value. The main determining factor for an individual's performance rating will determine the final bonus outcome (as well as affordability). In particular, before any bonus is awarded, the Committee will use its judgement to assess whether the amount of any bonus is appropriate by reference to business performance, and will include a mechanism to adjust for risk and conduct factors.

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Long Term Incentive Plan	
Purpose and link to strategy	To incentivize senior management to deliver a sustainable Bank, by providing over the longer term value to shareholders, regulatory stability and, for customers, employees and other stakeholders, promoting the principles enshrined in the Bank's Values and Ethics Policy.
Operation	The Committee will determine the award levels to be granted in respect of any financial year, in compliance with regulatory requirements.
	Awards will be made in the form of share/share-like instruments.
	Following grant, the award is subject to a five year vesting period throughout which the overall value will fluctuate dependent on performance conditions and/or the value of the notional Bank share price. Upon completion of the vesting period awards are subject to final performance conditions assessed by the Remuneration Committee.
	At the Committee's discretion, Executive Directors may receive an amount (in cash or shares) equal to the dividends which would have been paid on vested shares prior to release. No such payments will be made for shares that are no longer subject to deferral or in respect of shares forfeited for malus/clawback.
	Malus and clawback provisions apply to awards in full and are explained in more detail in the notes to the policy below.
	All terms of any long term incentive plan will be kept under review to ensure that these are in line with regulatory requirements, circumstance and best practice, and the Committee retains the flexibility to change the terms to take account of these pressures for future, and existing, awards.
Maximum opportunity	The maximum award opportunity under the LTIP will normally be 100 % of base salary in respect of any financial year.
	The Bank ensures an appropriate balance of fixed to variable pay, inclusive of LTIP awards.
Performance measures	Performance measures for the LTIP are detailed on a Bank-wide scorecard and agreed by the Committee in line with the Bank's long term priority of delivering sustainable returns to shareholders.
	The Committee will consider granting awards based on an appropriate mix of financial and strategic measures. The split between these measures, for each grant, will be set annually by the Committee.
	Before any part of any LTIP award may vest, the Committee must be satisfied that the Company's underlying financial performance justifies such vesting. This will be assessed by the Remuneration Committee.
	Performance measures for LTIP awards may be subject to change to ensure continued alignment with the business strategy and any future regulatory review or requirements.

Notes on the policy

Malus and Clawback
Malus (being the reduction or forfeiture of unvested awards) and clawback (being the ability of the Bank to claim repayment of remuneration already paid) provisions apply to all variable remuneration provided by the Bank.

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Any AIP awarded will reflect appropriate reductions made to incentive payments in relation to risk events. Individual bonus decisions may also reflect appropriate reductions in relation to specific risk and conduct events.

All variable remuneration may be reduced or cancelled in circumstances including the following:

- participant misbehaviour or material error;
- a material downturn in financial performance of the Bank or relevant business unit (malus only);
- a material failure of risk management of the relevant business unit or the Bank; and
- the Committee determines that the basis on which a participant was a 'good leaver' was incorrect.

Amounts in respect of AIP, DBP and LTIP awards may be subject to clawback for up to ten years following award, if required, or such longer period as may be determined by regulatory requirements.

Section 2: Remuneration Policy for Non-Executive Directors

Chairman	
Purpose and link to strategy	Provide a fee that is sufficiently market competitive to attract and retain a highly skilled Chairman to oversee and direct the execution of the business strategy.
Operation	The Chairman's fee is reviewed and approved by the Remuneration Committee upon appointment or if term of office is extended. It may be reviewed on an ad hoc basis in exceptional circumstances. Increases to fees are not guaranteed and may not necessarily occur each year. Any amendments to the fee level will require B Shareholder approval and will normally be effective from 1 April in any given year.
	Expenses incurred in the performance of the Chairman's Non-Executive duties for the Bank may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on benefits.
Maximum opportunity	There is no maximum fee level. Fees are set in accordance with the individual's skills and experience and by reference to external market indicators for comparable roles in comparable institutions.
	Fee increases may be determined at any point in line with market movements and to take account of changes to the time commitment and duties involved.

Non-Executive Directors

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Purpose and link to strategy	Provide a fee that is sufficiently market competitive to attract and retain highly skilled Non-Executive Directors contributing expertise to the Board to oversee and drive the execution of the business strategy.
Operation	Non-Executive Director fees (excluding those of the Chairman) are reviewed by the Chief People Officer on an annual basis and considered and approved by the Chairman of the Board, the CEO and the CFO, being members of the Board who have no personal interest in that fee structure. Non-Executive members of the Remuneration Committee do not participate in the process for evaluating and determining Non-Executive fees. Overall fees must stay within the INED fee cap approved by the sole shareholder and ultimately, by a majority of the B shareholders of The Co-operative Bank Holdings Limited.
	Non-Executive Directors are paid a basic annual fee, with an additional fee paid for the role of Senior Independent Director and for Board Committee Chairmanship. A fixed annual fee will be paid for membership of each Committee. . Any amendments to the fee level will normally be effective from 1 April in any given year.
	Non-Executive Directors do not take part in any performance pay, incentive plans or in any pension arrangement. However, expenses incurred in the performance of Non-Executive duties for the Bank may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on benefits.
Maximum opportunity	An overall INED fee cap is set by the B shareholders. There is no maximum level for individual fees, which are set by reference to external market indicators for comparable roles in comparable institutions, and taking into account anticipated time commitments.
	Fee increases may be determined at any point in line with market movements and to take into account the time commitment and duties involved.

Section 3: Approaches to Recruitment

Principles for recruitment remuneration
In determining remuneration arrangements for new executive appointments to the Board (including internal promotions), the Committee will take into consideration all relevant factors, including the calibre of the individual, the nature of the role, relevant comparable market practice, the individual's current remuneration package, current Bank remuneration policy and internal relativities, including existing arrangements for other Executive Directors.
The Committee may make transitional arrangements to facilitate the recruitment of individuals of the required calibre from overseas, which might include relocation expenses and accommodation for a specific period of time. The Bank will not meet any personal tax or social security liabilities that may be due in the country of departure. All such benefits and payments will be made in accordance with UK taxation requirements, where applicable, and the Bank will not meet any tax liabilities arising in the country of departure.
In exceptional circumstances, the initial notice period may extend beyond the maximum 12 month period applicable to Executive Director recruitment. Such notice obligations will be strictly time limited, and will apply on both sides. These will expire upon completion of the first year of appointment and notice will then revert to the standard 12 months required on either side, in line with the Company's policy.

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The Committee retains discretion to make appropriate remuneration decisions outside the standard policy to meet the individual circumstances when an interim Executive Director is required to fill a role on a short term basis or if exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short term basis. At all times however, the Committee will pay regard to the policy and supporting principles in order to determine the appropriate package required.
Where a Senior Executive is promoted to the Board, his or her existing contractual commitments agreed prior to appointment may continue, at the discretion of the Committee, in accordance with the original terms. These arrangements may include any pre-existing deferred bonus or LTIP awards and will preserve all regulatory obligations.
Maximum variable pay limits
The maximum level of variable pay (as expressed as a multiple of base salary) which may be awarded to new Executive Directors in respect of their appointment shall not ordinarily exceed the overall maximum limits expressed in the remuneration policy tables above, as the bank ensures an appropriate balance of fixed to variable pay.
The value of any buy-out award which relates to forfeited awards from a previous employer is not included within the maximum limit above.
Buy-out awards
Where it is necessary to make a recruitment-related pay award to an external candidate, the Bank will limit such payments to the amount necessary to reflect the value of the forfeited remuneration.
The Committee may buy-out bonus opportunities or incentive awards that the new Executive Director has forfeited as a result of accepting the appointment with the Bank, subject to proof of forfeiture where applicable. In all cases, the Committee will seek, in the first instance, to deliver any such awards under the terms of the Bank's existing incentive pay structure.
All such awards for external appointments, whether under the AIP, DBP and LTIP or otherwise, to compensate for awards forfeited on leaving their previous employer will be determined after taking into account all relevant factors, including any performance conditions attached to the forfeited awards, the likelihood of these conditions being met, the proportion of the vesting/performance period remaining and the form of the award (for example cash or shares).
All such awards will be made subject to the provisions of the Remuneration Code and any additional regulatory requirements that may be in place. In particular, awards will also be subject to malus and clawback provisions as required.
Recruitment of Non-Executive Directors
In the event of the appointment of a new Chairman or Non-Executive Director, remuneration arrangements will normally be in line with those detailed in the relevant table above. No payment will be agreed for the forfeiture of awards made for prior executive appointments given up on acceptance of the Bank's Non-Executive or Chair appointments.

Section 4: Service contracts/loss of office

Key terms relating to the Bank's policy in the event of the voluntary or involuntary termination of the service of an Executive Director are set out in the table below.

The Bank's approach to any payments in the event of termination is to take account of the individual circumstances, including the reason for termination,

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any contractual obligations, outstanding incentives and pension scheme rules. Executive Directors' contracts do not include any specific compensation for severance as a result of a change of control.

Service contracts/loss of office	
Notice period	It is the Bank's policy that the notice period in Executive Directors' service contracts should not exceed one year. This may be varied on an exceptional basis upon recruitment but will not exceed 12 months after completion of the first year of service.
	The contracts of both Executive Directors provide that these undertakings will not apply in the event of material misconduct, neglect or other circumstances when summary dismissal by written notice may apply.
Termination payment	In the event of termination, payments due to an Executive Director would be based on the value of base salary, role based allowance and contractual benefits.
	Executive Directors may be required to work some or all of the notice period or may be placed on garden leave. Alternatively, the individual may be provided a payment in lieu of notice (subject to mitigation where relevant).
	The Bank may contribute a sum towards the individual's legal fees incurred in relation to the termination of employment. All such payments will be subject to the approval of the Remuneration Committee or Chair of the Board as appropriate.
Incentive plans	Participation in all incentive plans is non-contractual and at the Committee's discretion.
AIP	An Executive Director must normally be in the active employment of the Bank, and not be serving any notice period, on the date on which annual incentive plan awards are paid. The Committee would not normally authorize pro-rating of awards for part-year service, except in circumstances involving ill health or other exceptional events. Satisfaction of notice obligations while on garden leave will be excluded from the calculation of any awards due.
	In determining whether to award a bonus, the Committee will assess performance during the financial year. The Committee reserves the right to make any such payment fully in cash, subject to the satisfaction of regulatory requirements.
Deferred bonus and LTIP	In the event an Executive Director leaves for reasons of death, ill health, injury, disability, the Company or division for which they work being transferred out of the Group or any other reason which the Committee in its absolute discretion determines, they may be treated as a good leaver.
	In good leaver scenarios, and in accordance with the terms of the Deferred Bonus Plan, awards may be released at the original vesting date, subject to malus/clawback provisions, and may be pro-rated to take into account the period of active employment relating to such awards at the Committee's discretion.
	Under the terms of the LTIP, awards for good leavers may vest and be released in accordance with the terms of that award and will not ordinarily be brought forward, except in cases of death or serious ill health.

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	In such cases the Committee may authorise release of the awards, subject to consideration of any adjustments due to reflect pro-rata performance and time and subject to malus/clawback provisions. Such decisions will be made at the Committee's absolute discretion, with due regard to the circumstances.
	For all other leavers, unvested DBP and LTIP awards will lapse.
Change in control	In the event of a change in control, all outstanding awards granted under the DBP and LTIP will vest on the date of that event, to the extent that the Remuneration Committee determines that the performance conditions have been met at that time, and after applying time pro-rating to the award, providing that the Remuneration Committee may use its discretion to waive the performance conditions and time pro-rating.
Notice period	It is the Bank's policy that the notice period in Executive Directors' service contracts should not exceed one year. This may be varied on an exceptional basis upon recruitment but will not exceed 12 months after completion of the first year of service.
	The contracts of both Executive Directors provide that these undertakings will not apply in the event of material misconduct, neglect or other circumstances when summary dismissal by written notice may apply.
Termination payment	In the event of termination, payments due to an Executive Director would be based on the value of base salary, role based allowance and contractual benefits.

The Committee reserves the right to make any remuneration payments and payments for loss of office (including, where relevant, exercising any discretions available to it in connection with such payments) in satisfaction of existing contractual agreements.

The Chairman and the Non-Executive Directors do not have service contracts or contracts for services. Their appointment letters provide for no entitlement to compensation or other benefits on ceasing to be a Director.

Section 5: Differences in remuneration policy from wider employee population

The Bank has one remuneration policy that is openly communicated and applied broadly consistently throughout the organisation. Our policy has been designed to support recruitment, motivation and retention as well as to reward high performance provided it is achieved within the Bank's risk appetite, and is aligned with the principles of the Bank's Values and Ethics Policy.

The principles set out in the policy table inform remuneration decisions for all employees, not only Executive Directors, and the Committee takes into

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account pay levels and benefit arrangements throughout the Bank to ensure the arrangements provided to Executive Directors remain appropriate.

Remuneration packages may vary to take into account role-specific factors in different areas of the Bank and will be determined by reference to market levels, skills requirements and internal relativities:

- Annual Incentive Plan (AIP) – all employees are eligible to participate in the AIP. Corporate performance measures are consistent for AIP Executive Directors and other employees, although the level of bonus will differ by role to reflect levels of accountability and contribution to results. Bonus awards payable to employees classified as material risk takers for regulatory purposes will be subject to deferral and part-payment in shares/share-like instruments in accordance with regulatory requirements.
- LTIP – a limited number of Senior Executives may be invited to participate in the Bank's LTIP, and this is determined by role, having regard to accountability for delivery of the business plan and strategy. The terms of such LTIP apply equally to all participants, including Executive Directors.

The Remuneration Committee receives and considers internal and external information as appropriate to guide decisions on remuneration including, but not limited to, the results of employee satisfaction surveys and feedback sought from internal stakeholders (such as the CRO and Values and Ethics Committee) and external stakeholders.

Section 6: Consideration of shareholder views

The Committee is committed to ongoing dialogue with shareholders and seeks the views of B shareholders when any major changes are being contemplated.

The Committee takes into account the views of significant shareholders when formulating and implementing the policy.

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