

## **Palace Capital plc**

### **Remuneration committee terms of reference**

#### **1. CONSTITUTION**

- 1.1. The Committee was constituted in accordance with the articles of association of the Company.

#### **2. ROLE**

- 2.1. The role of the Committee is to assist the board to fulfil its responsibility to shareholders to ensure that:
- a) the remuneration policy and practices of the Company are designed to support the strategy, reward fairly and responsibly, with a clear link to corporate and individual performance, having regard to statutory and regulatory requirements; and
  - b) executive remuneration is aligned to company purpose and values and linked to delivery of the company's strategy.
- 2.2. The remuneration of non-executive directors shall be a matter for the board. No director or manager shall be involved in any decisions as to their own remuneration.

#### **3. DUTIES AND TERMS OF REFERENCE**

The Committee shall carry out the following duties for the Company and advise the board appropriately:

##### **3.1. Remuneration policy and practices**

- a) determine and agree with the board the policy for the remuneration and benefits, including pension rights and compensation payments, of the executive directors and set the remuneration for:
  - i. the Executive Chairman of the Company;
  - ii. any executive directors;
  - iii. the company secretary; and
  - iv. such other members of the senior management team as it determines including the next level of management below board level.
- b) in determining the remuneration policy, consider:
  - i. all factors which it deems necessary, including relevant legal and regulatory requirements and the provisions and recommendations of relevant guidance;
  - ii. the need to promote the sustainable success of the Company and the alignment to the Company purpose and values, without paying more than is necessary, having regard to the views of shareholders and other stakeholders, and ensuring that executive directors, the company secretary and senior executives are rewarded in a fair and responsible manner, provided with appropriate incentives to encourage enhanced performance and are rewarded for their individual contributions;
  - iii. the strategy of the Company and how the policy reflects and supports the strategy;

- iv. the Company's risk appetite and risk management strategy ensuring that the remuneration policy is aligned to the Company's risk policies and systems and long-term strategic goals; and
  - v. any shareholding requirements, including vesting and holding periods, and any post-employment shareholding requirements for executive directors, the company secretary and senior executives that encompass both unvested and vested shares.
- c) when determining executive director remuneration policy and practices, address the following factors set out in the UK Corporate Governance Code (the Code):
- i. clarity;
  - ii. simplicity;
  - iii. risk;
  - iv. predictability;
  - v. proportionality; and
  - vi. alignment to culture.
- d) when determining remuneration schemes and the remuneration policy, consider the use of discretion by the Committee including to override formulaic outcomes;
- e) review the on-going appropriateness and relevance of the remuneration policy and consult with significant shareholders, as appropriate, on the policy or any other aspects of remuneration;
- f) within the terms of the agreed remuneration policy, determine the total remuneration package for the Executive Chairman and each element of the total individual remuneration package for each executive director, the company secretary and senior executives including (to the extent applicable) base salary, profit sharing and specific incentive remuneration schemes or arrangements, participation in share option schemes and share ownership plans, pension arrangements, including the level of contributions by the Company and other bonuses and benefits in cash or in kind;
- g) ensure, where relevant, that any payments made in respect of any remuneration package are permitted under the latest shareholder approved remuneration policy and, if not, that either a revised remuneration policy or the proposed payment is submitted for shareholder approval; and
- h) agree the policy for authorising claims for expenses from the directors and for the repayment of tax by the Company as appropriate, in line with the remuneration policy.

### **3.2. Share based remuneration and bonus arrangements**

- a) recommend for approval by the board the design of, and determine the targets for, the operation of all long-term and short-term incentive schemes, including all schemes involving the award of shares or the grant of options, in which the Executive Chairman, executive directors, the company secretary and senior executives may participate. For any such schemes or plans, determine each year whether the awards will be made, and if so, approve the levels of participation in such schemes or plans by those individuals;

- b) monitor and assess any performance conditions applicable to any long-term incentive awards granted under any schemes or plans adopted by the Company. Ensure that the performance conditions are fully explained, aligned to the Company purpose and values, and clearly linked to the successful delivery of the Company's strategy and enhancement of shareholder value;
- c) consider whether the executive directors, the company secretary and senior executives should be eligible for and receive annual bonuses;
- d) recommend for approval by the board the design of, and determine annual targets and key performance indicators for, any bonus scheme operated by the Company. Assess the performance against targets and key performance indicators by i) the Company and ii) individual executive directors, the company secretary and senior executives;
- e) exercise independent judgement and discretion when authorising outcomes under all incentive arrangements, taking account of company and individual performance, and wider circumstances; and
- f) design and invoke agreed safeguards, for example, clawback or withholding the payment of any sum or share award, to protect against rewards for failure and to ensure that any performance-related payments reflect actual achievements.

### **3.3. Pensions**

The Committee shall review the pension arrangements for the executive directors and consider:

- a) the alignment of pension contribution rates, or payments in lieu, for executive directors, the company secretary and senior executives with those available to the workforce; and
- b) the pension consequences and associated costs to the Company of basic salary increases and any other changes in pensionable remuneration or contribution rates, particularly for directors close to retirement, when compared with workforce arrangements.

### **3.4. Service contracts and severance**

The Committee shall:

- a) determine the policy for, and scope of, termination payments and compensation commitments for each executive director, and ensure that poor performance is not rewarded; and
- b) ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company and in accordance with legal and regulatory requirements, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

### **3.5. Workforce remuneration and related policies**

- a) review workforce remuneration and related policies and the alignment of incentives and rewards with culture and take these into consideration when setting the policy for executive director remuneration;
- b) engage with the workforce to explain how decisions on executive pay reflect wider company pay policy; and

- c) oversee any major changes in remuneration and employee benefits structures throughout the Company.

### **3.6. Remuneration consultants**

- a) to help it to fulfil its obligations and 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; and
- b) be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference and fees for any remuneration consultants who advise the Committee.

### **3.7. Shareholder approval**

- a) produce a report to shareholders annually on matters relating to executive remuneration that shall include the information required to be disclosed by the Companies Act 2006, the Code, the Listing Rules (as published by the Financial Conduct Authority) (Listing Rules) and any other relevant statutory, regulatory or governance codes and incorporate:
  - i. an annual statement by the Committee's chair and annual report on directors' remuneration (together, annual remuneration report); and
  - ii. the directors' remuneration policy when it must be submitted for approval in accordance with Paragraph 3.7(b) (directors' remuneration policy) and, in any other case, either the directors' remuneration policy, a summary of such policy or details of when the directors' remuneration policy was approved and where it can be found on the Company's website;
- b) submit the directors' remuneration policy for approval on a binding basis 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;
- c) submit the annual remuneration report for approval on an advisory basis by the board and shareholders at the annual general meeting each year; and
- d) subject to delegation of authority by the board, engage in appropriate discussions as necessary with shareholders if, 20 per cent. or more of votes have been cast by shareholders against a resolution to approve the annual remuneration report or directors' remuneration policy at any annual general meeting or general meeting, as the case may be, and agree with the board any appropriate disclosure, including in the annual report.

## **4. MEMBERSHIP**

- 4.1. The members of the Committee shall be appointed by the board of directors. All of the members of the Committee should be independent non-executive directors but the Executive chairman may be a member.

- 4.2. Appointments to the Committee shall be for periods of up to three years, which may be extended for further three-year periods provided the director still meets the criteria for membership of the Committee.
- 4.3. The Committee shall have at least one member.
- 4.4. The board shall appoint the Committee chair who shall be an independent non-executive director, and before such appointment, the appointee should have served on a remuneration committee for at least 12 months.
- 4.5. The company secretary, or his or her nominee, 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 will meet at least two times a year. The Committee may meet at other times during the year as agreed between the members of the Committee or as otherwise requested.
- 5.2. Only members of the Committee have the right to attend Committee meetings but other directors and persons and external advisers may be invited to attend all or part of any meeting as and when appropriate.
- 5.3. No person (including directors, the Executive Chairman or senior executives 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. The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

## **6. NOTICE OF MEETINGS**

- 6.1. Meetings of the Committee shall be called by the secretary of the Committee at the request of any of its members.
- 6.2. Unless the Committee otherwise agrees, 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, any other person required to attend and all other non-executive directors, no later than three working days before the date of the meeting. Supporting papers shall 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 chair.

## **7. QUORUM**

- 7.1. The quorum necessary for the transaction of business at a Committee meeting shall be one member. If there is difficulty in achieving a quorum, directors, who are not members of the Committee and are not conflicted, may be co-opted as members for individual meetings.
- 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.** 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.
- 8.2.** Except where he or she has a personal interest, the Committee chair shall have a casting vote.
- 8.3.** The Committee chair may ask any attendees of a Committee meeting to leave the meeting to allow discussions of matters relating to them.

## **9. ANNUAL GENERAL MEETING**

- 9.1.** The Committee chair shall attend the annual general meeting to answer shareholder questions on the Committee's activities and shall make a statement on the Committee's activities and achievements over the year (including details on engagement with shareholders on significant matters).

## **10. AUTHORITY**

- 10.1.** The board authorises the Committee to 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 independent legal or professional advice on any matter within its terms of reference as it considers necessary and seek any information it requires from the Company to perform its duties and secure the attendance of external advisers at its meetings if it considers this necessary, at the Company's expense.

## **11. REPORTING RESPONSIBILITIES**

The Committee shall:

- 11.1.** Report to the board on its proceedings after each meeting on all matters within its duties and responsibilities and the minutes of all Committee meetings shall be included in the board papers for a subsequent board meeting.
- 11.2.** Make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed;
- 11.3.** Ensure that provisions regarding the disclosure of information, including pensions, as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the Code, are fulfilled;
- 11.4.** Prepare a formal report for shareholders to be incorporated in the Company's annual report that shall include the matters referred to in Paragraph 3.7(a) and ensure that it is submitted for approval in accordance with Paragraph 3.7(b) above;
- 11.5.** If the Committee has appointed remuneration consultants, identify in the annual report, the name of the consultants and state whether they have any connection with the Company or individual directors;
- 11.6.** Ensure, through the chair of the board, that the Company maintains contact, and the Committee chair seeks engagement, as required, with the Company's major shareholders on significant matters related to the Committee's areas of responsibility;
- 11.7.** Prepare and adopt a report on the Committee's work and activities for inclusion in the Company's annual report setting out:

- a) the number of meetings of the Committee and individual attendance by the members; and
- b) an explanation of the strategic rationale for executive directors' remuneration policies, structures and any performance metrics;
- c) reasons why the remuneration is appropriate using internal and external measures, including pay ratios and pay gaps;
- d) a description, with examples, of how the remuneration committee has addressed the factors in Paragraph 3.1(c) above;
- e) whether the remuneration policy operated as intended in terms of company performance and quantum, and, if not, what changes are necessary;
- f) what engagement has taken place with shareholders and the impact this has had on remuneration policy and outcomes;
- g) what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company pay policy; and
- h) to what extent discretion has been applied to remuneration outcomes and the reasons why.

## **12. GENERAL MATTERS**

The Committee shall:

- 12.1.** Have access to sufficient resources to carry out its duties, including access to the company secretary for assistance, as required.
- 12.2.** 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. Any individual training to be discussed and agreed with the company secretary.
- 12.3.** Give due consideration to all applicable laws and regulations, in particular the directors duties contained in the Companies Act 2006, the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules published by the Financial Conduct Authority and any other applicable rules, as appropriate.
- 12.4.** Arrange for periodic reviews of its own performance and, at least annually review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.