

TERMS OF REFERENCE AND MATTERS RESERVED FOR THE BOARD

1. OBJECTIVES

The purpose of the Board is to set the Bank's aims and objectives and it is the Board's responsibility to ensure that the necessary financial and human resources are in place to enable the Bank to meet those objectives and also review management performance. The Board is also responsible for ensuring the Bank's continuing commitment to carrying out its business fairly, honestly and openly, with a commitment to zero tolerance towards bribery.

The Articles set out the Objects of the Bank in Article 157, and while generally unrestricted, they do specifically require that while KPRS remains a shareholder, that membership of the Society is offered to all qualifying customers of the Bank.

2. CONSTITUTION, MEMBERSHIP & QUORUM

- 2.1. The Board is chaired by the Chairman, who is appointed by the Board;
- 2.2. The Board shall consist of a minimum of two directors, with at least two Directors (in addition to the Chairman) being considered independent. Should the Bank enter the FTSE 350 or above, the Board shall consist of a majority of independent directors. The maximum number of directors shall be 15.
- 2.3. One of the independent Directors shall be appointed as Senior Independent Director.
- 2.4. Two Directors shall constitute a quorum and the holders of a majority of shares may give notice to the Company in writing that one or more named Directors is required to be present for there to be a valid quorum.

3. VOTING RIGHTS

Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

4. SECRETARY

- 4.1. The Company Secretary shall act as the secretary to the Board.
- 4.2. The appointment and removal of the Company Secretary shall be a matter for the Board.

5. FREQUENCY OF MEETINGS

The Board shall meet at least ten times a year, normally monthly or more frequently if otherwise required.

6. NOTICE AND MINUTES

- 6.1. The Secretary will normally circulate the agenda and papers for meetings at least seven days before the meeting.

7. AUTHORITY

- 7.1. The Board has the delegated authority from the Shareholders to manage all matters relating to the business.

8. DUTIES

Regulatory Matters

- High level monitoring and responsibility for legal and regulatory governance of the Bank and its subsidiaries;
- Annual review of compliance with PRA and FCA Threshold Conditions;

- Annual review of compliance with all the High Level Standards requirements of the PRA and FCA as set out in their respective Handbooks, including the Principles for Businesses (PRIN), and Senior Management Arrangements, Systems and Controls (SYSC)
- On-going review of whether all Approved Persons undertaking Significant Influence Controlled Functions (including all Non-Executive Directors) for the Bank and its subsidiaries remain fit and proper to do so
- Appointment of an individual to act as the Approved Person responsible for the Apportionment and Oversight Controlled Function (CF8) for the Bank
- Annual review of arrangements for ensuring compliance with regulatory and legal requirements of the Bank and its subsidiaries
- Annual review of a report by the Money Laundering Reporting Officer on the Bank's and its subsidiaries' compliance with Anti-Money Laundering requirements
- Approval of any material change to the Lending Policy, on the basis of recommendations from the Risk Committee
- Approval of Treasury counterparty exposures in excess of Treasury Policy on the basis of recommendations from the Risk Committee
- Approval of any changes and at least annual review and reaffirmation of all Board level Policies
- Ensuring maintenance of a sound system of internal control and risk management through receiving reports on, and reviewing the effectiveness of, the Bank's risk and control processes to support its strategy and objectives and undertaking an annual assessment of these processes
- Approving an appropriate statement for inclusion in the annual report
- Approval of any significant changes in accounting policies or practice upon the recommendation of the Audit Committee
- Approval of Board Treasury Policy
- Approval of the Board Credit Risk Appetite
- Approval of any changes to the Bank's regulatory permissions
- Semi-annual review on the operation of the complaints administration within the Bank and its subsidiaries to meet the FCA requirements
- Approval of the Internal Capital Adequacy Assessment Process (ICAAP) prior to submission to the PRA.
- Approval of the initiation of, and response to, any litigation or proceedings in respect of the Bank and its subsidiaries in relation to potential claims of over £25,000, subject to Shareholder consent, or where there is reasonable expectation of significant reputational or financial impact, which is beyond the delegated authority of the Executive Committee.
- Approval of the overall levels of insurance for the Bank and Group, including Directors' and Officers' liability insurance

Performance Management

- Responsibility for the overall management of the Bank and its subsidiaries
- Approval of the long term objectives and strategy of the Bank, including the legal status of the Bank
- Approval of changes to structure, size and composition of the Board, following recommendations from the Nominations Committee and subject to provisions of the Shareholders Agreement.
- Ensure adequate succession planning for the Board and senior management

- Selection of the Chairman of the Board and the Group Chief Executive
- Selection of Membership and Chairmanship of Board committees
- Continuation in office of any director at any time, including the suspension or termination of service of an Executive Director as an employee of the Bank, subject to the law and their service contract
- Appointment or removal of the Secretary
- Appointments to the boards of Subsidiaries
- High level monitoring of the performance of the Bank and its subsidiaries, through written reports from executive management and other management information, including key performance indicators

Corporate Governance Matters

- Undertaking a formal and rigorous review of its own performance, that of its committees and individual Directors
- Determining the independence of Directors
- Reviewing the Bank's overall corporate governance arrangements, including compliance with the UK Code on Corporate Governance
- Reviewing at least annually the Terms of reference, including the Matters Reserved by the Board that are appended to these terms of reference

Human Resources

- Appointment of the Chairman of the Board
- Consideration of recommendations for the appointment or removal of any Non-Executive Directors of the Bank made by the Nominations Committee and approval as appropriate. Any formal appointment will be subject to the prior approval of the PRA.
- Receipt and approval of a report from the Nominations Committee on succession planning for the Board and senior management of the Bank.
- Appointment of any individual to act as the Approved Person for the Bank for its Apportionment and Oversight and regarding his or her fulfilment of the requirements for that controlled function
- Approval of the recommendation for the appointment or removal of individuals either as Executive Directors of the Bank or to any of its Significant Influence Controlled Functions made by the Bank's Chief Executive acting in his role as the Apportionment and Oversight Controlled Function. Any formal appointment will be subject to the prior approval of the PRA or FCA
- Approval of the recommendation for the appointment or removal of the Secretary of the Bank made by the Bank's Chief Executive acting in his role as the Apportionment and Oversight Controlled Function
- Approval of the recommendations of the Remuneration Committee in relation to the remuneration and other benefits of the Executive and Non-Executive Directors and Code Staff of the Bank
- Approval of the recommendation of the Boards of subsidiary companies that are regulated of the appointment of an individual to act as the Approved Person responsible for the

Apportionment and Oversight Controlled Function. Any formal appointment will be subject to the prior approval of the PRA or FCA.

Strategy and Planning

- Approval of the long term strategy of the Bank and its subsidiaries
- Approval of any major changes to the Bank's and Group corporate structure
- Approval of any changes to the Bank's and Group management and control structure
- Approval of the proposed corporate plan and budgets put forward by the Bank
- The overall approval and review of the major risks facing the Bank, and establish the appropriate controls to mitigate those risks
- Approval of the annual operating and capital expenditure budgets and any material changes to them
- Oversight of the Bank's operations
 - Competent and prudent management;
 - Sound planning;
 - Adequate system of internal controls;
 - Adequate accounting and other records; and
 - Compliance with statutory and regulatory obligations.
- Review of performance in light of the Bank's strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken
- Extension of the Bank's or its subsidiaries' activities into new business or geographic areas
- Any decision to cease to operate all or any material part of the Bank's business
- The acquisition or disposal of interests of any business or the making of any takeover, transfer or merger offer, unless otherwise delegated, as set out in the Delegated Authority Schedule.

Procedures

- Annual review of the approval of the Governance Manual, including any proposed amendments to the Governance Manual
- Annual review and approval of the delegation of authorities
- Approval of the establishment of any new or disbanding of Board Sub-Committees
- Approval of the appointments of individuals to Board Sub-Committees
- Approval of the Terms of References of the Board Sub-Committees
- Approval of changes to the capital structure of the Bank
- Agreement and recommendation to the Shareholders of any changes to the Articles of the Bank
- Agreement and recommendation to the Shareholders of any proposed change to the name of the Bank.

- Approval of resolutions to be put forward to the Shareholders at a general meeting

Expenditure

- Approval of capital expenditure over certain designated limits.

Delegated Authorities

- Approval of the range of delegation of authorities and responsibilities to individuals and Board Sub Committees.
- Approval of project expenditure or single expenditure of the Bank as set out in the Delegated Authority Schedule
- Approval of the division of responsibilities between the Chairman, Chief Executive and other Executive Directors, which should be in writing
- Receiving reports from Board committees on their activities

External Auditors

- Appointment, reappointment or removal of the external auditors to the Bank to be put to the shareholders for approval.
- Approval of the remuneration of the external auditors.

Other Matters

- Discussion of any proposed new business initiatives, including the formation of or disposal of a subsidiary undertaking
- Approval of any programme for or single issuance of long term debt by the Bank
- Approval of the initiation and response to any litigation or proceedings in respect of the Bank outside of the normal course of business.
- Receipt of declarations of interest by Directors in relation to the Companies Act.
- Approval of preliminary announcements of interim and final results
- Approval of the annual report and accounts, including the Chairman's Statement, Directors' Report, corporate governance statement and remuneration report.
- Approval of the half year financial results and any formal announcement in respect of those results or reporting announcements
- Approval of any other formal announcement by the Bank in relation to its responsibilities as an entity listed on the London Stock Exchange

OTHER

The Board shall review these terms annually.

Schedule of Matters Reserved for the Board

Matter No.	Description	Rules and Committee recommendation	Shareholder Reserved Matter
1	Strategy and management		
1.1.	Responsibility for the overall management of the group	CC A.1	
1.2	Approval of the group's long-term objectives and commercial strategy.	CC A.1	
1.3	Approval of the annual operating and capital expenditure budgets and any material changes to them.		Article 158
1.4	Oversight of the group's operations ensuring: <ul style="list-style-type: none"> • competent and prudent management • sound planning • an adequate system of internal control • adequate accounting and other records • compliance with statutory and regulatory obligations. 		
1.5	Review of performance in the light of the group's strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken.	CC A.1	
1.6	Extension of the group's activities into new business or geographic areas.		Article 158
1.7	Any decision to cease to operate all or any material part of the group's business		Article 158
2.	Structure and capital		
2.1	Changes relating to the group's capital structure including reduction of capital, share issues (except under employee share plans), share buybacks.		Article 158
2.2	Major changes to the group's corporate structure.		Article 158
2.3	Changes to the group's management and control structure.		Article 158
2.4	Any changes to the company's listing or its status as a plc.		Article 158
3.	Financial reporting and controls		
3.1	* Approval of the half-yearly report, interim management statements and any preliminary announcement of the final results.	CC C.1 DTR 4 Audit	
3.2	* Approval of the annual report and	CA06 s414, s419,	

Matter No.	Description	Rules and Committee recommendation	Shareholder Reserved Matter
	accounts, including the corporate governance statement and remuneration report.	s422 s433,s,436, s444 -s447,s450 DTR 4, LR 9.8 CC C.1 Audit	
3.3	* Approval of the dividend policy.		Article 158
3.4	* Declaration of the interim dividend and recommendation of the final dividend.	LR 9.7A.2 DTR 6.1.13	Article 158
3.5	* Approval of any significant changes in accounting policies or practices.	Audit	
3.6	Approval of treasury policies including the use of financial derivatives.		Article 158
4.	Internal controls		
4.1	Ensuring maintenance of a sound system of internal control and risk management including: <ul style="list-style-type: none"> • receiving reports on, and reviewing the effectiveness of, the group's risk and control processes to support its strategy and objectives • undertaking an annual assessment of these processes • approving an appropriate statement for inclusion in the annual report. 	Risk	
5.	Contracts		
5.1	Major capital projects in excess of £10,000,000 in any single or connected series of transactions.		Article 158
5.2	Any off balance-sheet or derivative exposure except in accordance with counterparty limits or the ordinary course of liquidity and risk management activities in accordance with board approved policies.		Article 158
5.3	any capital investment in excess of £2,500,000		Article 158
5.4	Enter into any commercial borrowing or bond issue agreement		Article 158
5.5	Merger with any business or third party		Article 158
5.6	Enter into any lending or underwriting transaction in excess of £2 million for a single borrower or connected transaction		Article 158
5.7	Make any amendments to the Commercial Loans portfolio		Article 158
5.8	Enter into any partnership or joint venture agreement or agreement restricting the Group's freedom to do business		Article 158

Matter No.	Description	Rules and Committee recommendation	Shareholder Reserved Matter
6.	Communication		
6.1	Approval of resolutions and corresponding documentation to be put forward to shareholders at a general meeting.	LR 13	
6.2	* Approval of all circulars, prospectuses and listing particulars.	LR 13 PR 5.5	
6.3	* Approval of press releases concerning matters decided by the board.		
6.4	Approve all RNS announcements	Disclosure Committee	
7.	Board membership and other appointments		
7.1	* Changes to the structure, size and composition of the board, following recommendations from the nomination committee.	Nomination	Article 158
7.2	* Ensuring adequate succession planning for the board and senior management.	CC B.2, B.7	
7.3	* Appointments to the board, following recommendations by the nomination committee.	Nomination	Article 158 (delegated to Nomsco)
7.4	* Selection of the chairman of the board and the chief executive.	Nomination	
7.5	* Appointment of the senior independent director.	CC A.4.1 Nomination	
7.6	* Membership and chairmanship of board committees.	Nomination	
7.7	* Continuation in office of directors at the end of their term of office, when they are due to be re-elected by shareholders at the AGM and otherwise as appropriate.		
7.8	* Continuation in office of any director at any time, including the suspension or termination of service of an executive director as an employee of the company, subject to the law and their service contract.	Nomination	Article 158
7.9	* Appointment or removal of the Company Secretary.	CA06 ss 271, 270, s 274 CC B.5.2	
7.10	* Appointment, reappointment or removal of the external auditor to be put to shareholders for approval, following the	CA06 ss 485, 489 CC C.3.2 Audit	Article 158

Matter No.	Description	Rules and Committee recommendation	Shareholder Reserved Matter
	recommendation of the audit committee.		
7.11	Appointments to boards of subsidiaries.		
8.	Remuneration		
8.1	* Determining the remuneration policy for the directors, Company Secretary and other senior executives.	Remuneration	Article 158
8.2	Determining the remuneration of the non-executive directors, subject to the articles of association and shareholder approval as appropriate.	CC D.2.3	Article 158
8.3	* The introduction of new share incentive plans or major changes to existing plans, to be put to shareholders for approval.	Remuneration	Article 158
9.	Delegation of authority		
9.1	* The division of responsibilities between the chairman, the chief executive and other executive directors, which should be in writing.	CC A.2.1	
9.2	* Approval of terms of reference of board committees.	CC B.2.1, C.3.2 D.2.1	
9.3	Receiving reports from board committees on their activities.	Remuneration	
10.	Corporate governance matters		
10.1	* Undertaking a formal and rigorous review annually of its own performance, that of its committees and individual directors.	CC B.6	
10.2	* Determining the independence of directors.	CC B.1.1	
10.3	* Considering the balance of interests between shareholders, employees, customers and the community.	CA06, s172	
10.4	Review of the group's overall corporate governance arrangements.		
10.5	* Receiving reports on the views of the company's shareholders.	CC E.1.1	
11.	Policies		
11.1	Approval of policies, including: <ul style="list-style-type: none"> • Lending Policies 	CC A.1	Article 158

Matter No.	Description	Rules and Committee recommendation	Shareholder Reserved Matter
	<ul style="list-style-type: none"> • Code of Conduct • Health and safety policy • Environmental policy • Communications policy including procedures for the release of price sensitive information • Corporate social responsibility policy • Charitable donations policy 		
12.	Other		
12.1	The making of political donations.		
12.2	Approval of the appointment of the group's principal professional advisers.		
12.3	Commence or settle litigation or arbitration or any similar conflict resolution procedure (other than routine debt collection in amounts not exceeding £25,000 or action in relation to recovery of mortgage arrears in accordance with the Group's policy.)		Article 158
12.4	Approval of the overall levels of insurance for the group including directors' & officers' liability insurance and indemnification of directors.		
12.5	This schedule of matters reserved for board decisions.		

CA06 refers to the Companies Act 2006

CC refers to the UK Corporate Governance Code

DTR refers to the UKLA's Disclosure and Transparency Rules

FCA refers to the FCA Handbook

LR refers to the UKLA's Listing Rules

References to Audit, Risk, Nomination or Remuneration refer to the board committee which will consider the item and make recommendations to the board for its final decision.

Items marked * are not considered suitable for delegation to a committee of the board, for example because of Companies Act requirements or because, under the recommendations of the UK Corporate Governance Code, they are the responsibility of an audit, risk, nomination or remuneration committee, with the final decision required to be taken by the board as a whole.

In addition, the board will receive reports and recommendations from time to time on any matter which it considers significant to the group.

Approved by the Board on 19 May 2014