

Report of the directors on remuneration

For the year ended 4 April 2020

Extract from the Annual Report and
Accounts 2020, pages 108 to 129



Building Society

Report of the directors on remuneration

For the year ended 4 April 2020

Dear fellow member,

I am pleased to present my first Remuneration Committee report since taking on the role of Committee Chair in September 2019. I would like to personally thank Lynne Peacock for her contribution as the previous Committee Chair. This report includes details of our directors' pay for the year to 4 April 2020, together with our new forward-looking directors' remuneration policy, on which an advisory vote will be sought at the 2020 AGM.

As set out by the Chairman, David Roberts, we are in unprecedented times as we witness the impact of the Covid-19 global pandemic. This is an incredibly challenging time for people and businesses, including the Society. Our primary priority is the safety of our employees and members, and we continue to put our members' needs at the heart of our decision making.

The onset of Covid-19 has presented a unique set of challenges for the Committee. Although the virus emerged in the UK towards the end of our 2019/20 financial year, it has significantly impacted our 2019/20 results and meant that we must think differently about the year ahead. The difficult decisions we have already taken, and may need to take in the future, continue to be firmly guided by our social purpose – *building society, nationwide*.

In this report we have set out how we performed against the measures we set ourselves at the start of the year under the Directors' Performance Award (DPA), our performance pay plan. The CEO and CFO and broader Nationwide Leadership Team asked the Remuneration Committee to consider not awarding any performance pay which they may have otherwise been due for 2019/20. Taking into account this request, together with the impact of the pandemic on member saving rates, the Committee determined that no performance pay awards would be made for this population and that a flat variable pay award of £1,200 should be given to all other employees. In March we also agreed with the Prudential Regulatory Authority's request for the Society not to pay any performance pay in cash to senior employees during 2020, including all Material Risk Takers.

We believe it is important to provide certainty for our people, and we have made a commitment that we will not make any compulsory redundancies for permanent employees in 2020. However, in our current economic circumstances, this will impact decisions both for 2019/20 and looking ahead to next year.



I would therefore like to thank Joe Garner, the CEO, for voluntarily requesting that his combined base salary and pension be reduced by 20% for 2020/21, a reduction of £227,560 from the current position. We were the first UK financial services firm to announce such a reduction. I also note that for 2019/20 Joe made a significant personal contribution to the cost of his taxable benefits, which would otherwise have been borne by the Society. More details on Joe's remuneration for 2020/21 are set out in this report. Chris Rhodes, the CFO, has voluntarily reduced his pension allowance to 16% of salary from 2020/21 to align with the maximum benefit available to the wider employee population. In addition, the non-executive directors have volunteered to donate 20% of their net fees from June to December of this year to Shelter, to help support vulnerable people impacted by Covid-19. We also decided that there will be no general pay increases for directors or senior employees across the Society in 2020/21, nor any increases for the Chairman and non-executive directors.

Report of the directors on remuneration (continued)

As we look ahead to 2020/21, while we remain financially strong enough to weather challenging economic times, our pay approach must echo our responsibility to ensure the long-term sustainability of the Society and protect our culture and values. Reflecting the current challenging environment, performance pay will be scaled back for 2020/21 across the Society. Awards for executive directors for the coming year will be set at around one-third of the normal performance pay opportunities, in line with the approach for all employees. These awards will continue to be aligned to measures which are important to our members, which for 2020/21 will be customer service satisfaction, committed members and total costs, and in determining any awards under the plan, the Committee will consider the overall performance of the Society over the year and our economic circumstances at that time.

Combining the change to base salary, pension and performance pay results in a very significant reduction in the CEO's overall maximum pay opportunity for 2020/21, a reduction of over 40%. More details on our approach are set out in this report.

Our core principles

Our heritage and our unique position as a member-owned organisation means our approach to remuneration is aligned to the needs of our members and is designed to drive the behaviours consistent with our wider purpose, values and strategy. Our remuneration framework for all employees is simple, comprising fixed pay and a single performance related pay plan with performance assessed based on three measures that apply for everyone.

A single set of goals helps ensure all our people work together and are focused to deliver sustainable success and good outcomes for members. For our senior leaders, performance pay also reflects their individual contribution, where we measure not only what they have delivered but also have an equal focus on their conduct and behaviours. The Board will only pay any performance related pay if it is sure that the Society is financially secure.

Performance payments for senior leaders are paid in instalments, over seven years in the case of our executive directors. This way, if one of our leaders leaves the Society, then some of the

performance payments already awarded may be forfeited. The Committee also has the discretion to cancel all, or part of, previously awarded performance pay in the event of misconduct or if the Society's performance deteriorates significantly. A substantial proportion therefore remains 'money at risk' which may be reduced or cancelled at the Committee's discretion, taking into account the Society's and the individual's performance over the seven-year period.

We aim to be transparent with our members and voluntarily disclose details of our executive pay arrangements, including as required under the UK Corporate Governance Code, where it is relevant for us to do so as a mutual.

Our policy

Our remuneration policy was last approved by members at the 2017 AGM, receiving strong support. We are committed to continue demonstrating best practice in corporate governance and alignment with legislation on executive pay which applies to listed companies, so we are submitting our policy report to an advisory vote of our members this year.

During the year the Committee undertook a detailed review of our approach to remuneration across the Society, including executive directors. The Committee engaged with and listened to the views of our key stakeholders, as well as reflecting on feedback received from members in previous years and the evolving external environment.

The Committee also paid close attention to the relationship between pay policies and practices for executive directors and other employees. We believe the principles and approach to pay should be consistent for everyone, including the executive directors, and we have taken steps to address any key areas of difference, for example on pensions. We also think it is vital the Committee understands the wider employee perspective when considering pay decisions and therefore the Committee regularly invites the General Secretary of the Nationwide Group Staff Union to attend our meetings to provide valuable insight on the views of their members and to allow a two-way dialogue on broader employee pay matters. In addition, in my capacity as director responsible for Voice of the Employee, this year I hosted

a podcast for the Society, providing an opportunity to engage with colleagues on remuneration.

Taking all these factors into account, the Committee concluded the current approach remains appropriate to continue delivering the Society's ambitions. I am therefore pleased to confirm that no material changes to the policy are proposed, other than a reduction in pension benefit for existing and new executive directors to 16% of salary, aligning with the maximum benefit available to the wider employee population, and a change to the operation of our leaver provisions for the DPA to align with market practice. Our approach to scaling back performance pay opportunities for 2020/21 has also been reflected in the policy.

The full directors' remuneration policy is detailed in this report. We would like to invite members to vote on our proposed policy.

Board changes

As previously announced, the former Chief Financial Officer, Mark Rennison stepped down from the Board in September 2019 and Chris Rhodes was appointed to this role. Mark Rennison's leaving arrangements and the changes to Chris Rhodes' package are set out in this report together with the details for Tony Prestedge, who resigned as Deputy Chief Executive and Board member in March 2020. All arrangements are in accordance with policy.

Member voting on remuneration

A core principle of our approach is that members' views and interests are considered when we design remuneration policies and determine pay outcomes. There will therefore be two separate advisory votes from members on remuneration this year. The first will be on our Policy report and the second vote will be the annual advisory vote on our Annual report on remuneration outlining our approach during 2019/20 and how the Committee propose to implement the new policy during 2020/21.

On behalf of the Remuneration Committee, I recommend that you endorse our Policy report and Annual report on remuneration.

Mai Fyfield

Chair – Remuneration Committee

Report of the directors on remuneration (continued)

Report on the year

Composition of the Committee

The members of the Remuneration Committee are all independent non-executive directors of the Society and include a member of the Audit Committee and the Chairman who is an attendee of the Board Risk Committee.



Mai Fyfield
(Chair from September 2019)



Lynne Peacock
(Chair to September 2019)



David Roberts



Rita Clifton



Usha Prashar

Committee members

Number of meetings attended (eligible to attend)

12 / (12)

6 / (7)

12 / (12)

12 / (12)

12 / (12)

Regular attendees of the Committee include: the Chief Executive, the Leader of People and Culture, the Chief Risk Officer and the Director of Reward and Pensions. In no case is any person present when their own remuneration is discussed. Deloitte LLP, our independent external consultants also attend. Deloitte also provided tax, financial advisory, risk, internal audit and consulting services to the Society during 2019/20. Deloitte were reappointed by the Committee

following a tender process during the year. The Committee assesses the performance of Deloitte annually, including the quality of advice provided, and reviews annually all other services provided by Deloitte to ensure they continue to be independent and objective. Their fees for advice provided to the Committee during 2019/20 were £220,100, typically charged on a time-and-materials basis.

The Remuneration Committee is supported by the Board Risk Committee on risk-related matters including performance pay plan design, the assessment of specific performance measures, and wider issues relating to risk and controls. The Remuneration Committee is also supported by and receives input from the Audit Committee.

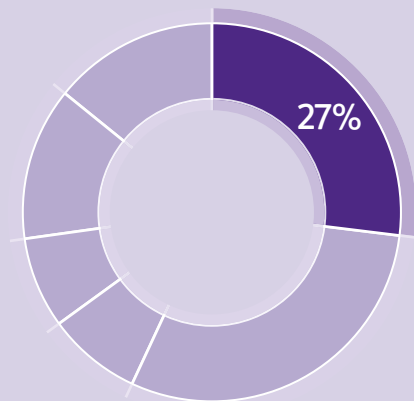
How the Committee works

The Remuneration Committee is responsible for determining and agreeing with the Board the remuneration strategy, how the strategy is reflected in remuneration policy and the specific remuneration packages for the Chairman, the executive directors and other members of the Nationwide Leadership Team, as well as any other employees who are deemed to fall within scope of

the PRA / FCA Remuneration Codes. This includes approving the design of, and determining the performance targets for, any discretionary performance pay plan operated by the Society for the benefit of these employees. The Committee also approves the outcomes of any performance pay plan and reviews the year-end pay outcomes for all these employees.

The Committee reviewed and updated its terms of reference during the year. It also reviewed its activities over the previous year as part of an annual update to confirm that they were in line with its remit and the duties and responsibilities which can be found within its terms of reference at [nationwide.co.uk](https://www.nationwide.co.uk)

How the Committee spent its time in the year



Pay strategy and approach

April - May 2019

Agreed Nationwide Leadership Team and wider pay review for 2019/20.

November 2019

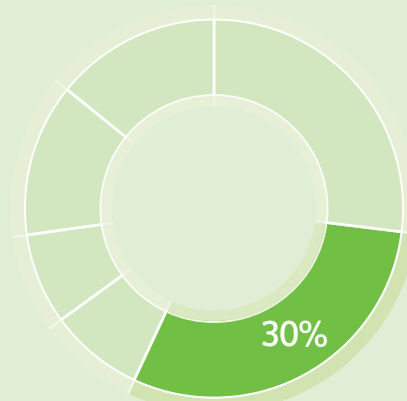
Strategic review of remuneration across the Society including the appropriateness of current practice and directors' remuneration policy, including alignment of executive and wider employee pension contribution rates.

March 2020

Set performance measures and targets for 2020/21 year. Agreed approach for Nationwide Leadership Team pay review and Chairman's fee for 2020/21.

April 2020

Approved approach to executive director pay for 2020/21 in response to Covid-19.



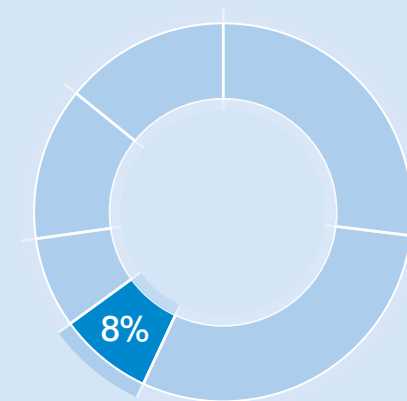
Performance award outcomes

April 2019

Taking into account input from the Board Risk and Audit committees, the Committee reviewed and approved the outcome of the DPA to be paid in respect of the year.

April and November 2019

Approved deferred payments in respect of prior years due for payment.



Oversight of remuneration across the Society

May 2019

Reviewed reward governance across the Society.

September 2019

Reviewed the Society's gender and ethnicity pay reporting.

November 2019

Reviewed pay policies and practices and reward governance across the Society.

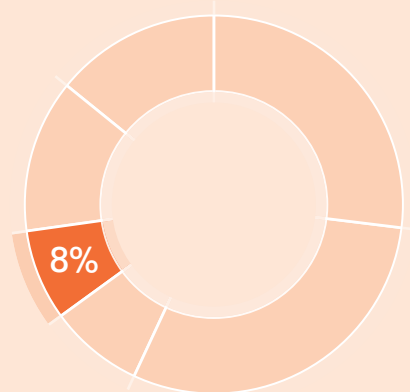
January 2020

Met with the Nationwide Group Staff Union.

March 2020

Considered changes to the defined benefits pension scheme.

How the Committee spent its time in the year (continued)



Regulatory reporting

Throughout the year the Committee receives updates on key regulatory matters.

September 2019 and February 2020

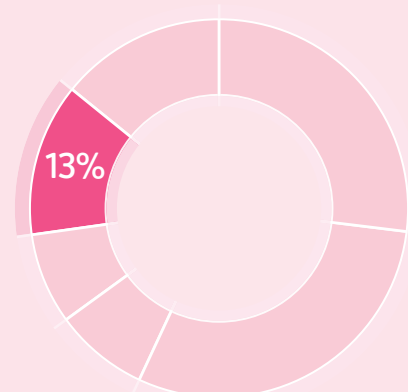
Reviewed and approved the identification approach and list of employees who fall within the scope of the PRA/FCA Remuneration Codes.

November 2019

Agreed the Society's annual Remuneration Statement and provided this to the PRA/FCA.

March 2020

Agreed the approach to pay for impacted individuals in response to the PRA's letter regarding the restriction on the payment of cash bonuses for 2020.



Procedural matters

The Committee agrees remuneration arrangements for all employees within the scope of the PRA/FCA Remuneration Codes.

April 2019

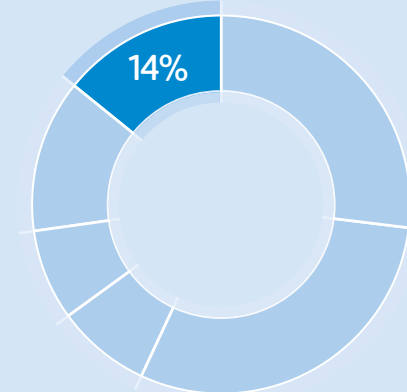
Reviewed adviser's consultancy arrangements and confirmed continued independence.

July 2019

Agreed leaving arrangements for the Chief Financial Officer and remuneration arrangements for his successor.

March 2020

Agreed leaving arrangements for the Deputy Chief Executive.



Governance

March - May 2019

Reviewed and approved the Report of the directors on remuneration for 2018/19.

April and September 2019

Reviewed the Committee's effectiveness against Terms of Reference for 2018/19.

September 2019

Approved updated Terms of Reference.

September 2019 and February 2020

Reviewed market trends in executive pay.

January 2020

Re-appointed Deloitte as Committee advisers following tender process.

Report of the directors on remuneration (continued)

How our approach to remuneration aligns with our strategic cornerstones for 2020/21



Building thriving membership

Number of committed members built into the DPA for 2020/21



Built to last

Total costs built into the DPA for 2020/21



Building legendary service

Customer service satisfaction rating built into the DPA for 2020/21



Building PRIDE

Nationwide values and behaviours recognised and rewarded through individual element of reward for senior roles



Building a national treasure

Approach to remuneration remains cognisant of external debate and public sentiment on pay and equality

Policy report

The following tables set out our proposed remuneration policy for our executive directors and non-executive directors. We will seek member approval at the AGM in July 2020, and if approved, the policy is intended to apply for three years to the end of the AGM in 2023. It is intended that no payments to directors will be made outside of this policy unless as a result of regulatory change.

Remuneration policy for executive directors

It is proposed that the policy remains broadly unchanged from the previous policy approved in 2017, other than to reflect the reduction to the level of pension benefit for existing and new executive directors to 16% of salary to align with the maximum level of benefit available to the wider employee population. We have also made a change to the operation of our leaver provisions for the DPA to align with market practice.

As described in the Committee Chair's statement, reflecting the current challenging environment, performance pay opportunities across the Society will be scaled back for 2020/21, with the most significant impact for our senior employees. Awards for executive directors for the coming year will be set at around one-third of normal performance pay opportunities, in line with the approach for all employees. This has been reflected in policy set out below. In line with our policy, these awards will continue to be aligned to measures which are important to our members.

Other minor changes have also been made to improve the operation and effectiveness of the policy.

Report of the directors on remuneration (continued)

Remuneration policy for executive directors – Fixed pay

Element	Operation	Opportunity	Performance metrics
Base salary Provides base salary that is market competitive and reflects the size and complexity of the role	Base salary is normally reviewed on an annual basis. Any changes are normally effective from 1 April.	Whilst there is no maximum, base salaries are set taking into account market data for similar roles in comparable organisations. Other factors considered include the individual's skills, experience and performance and the approach being taken on salaries in the wider organisation.	Not applicable
Benefits Provides a market competitive and cost-effective benefits package as part of fixed remuneration	Benefits may include a car allowance, access to drivers when required, healthcare and insurance benefits. Other benefits may be provided to enable recruitment/retention or relocation.	Whilst there is no maximum value to the benefits provided, benefits are reviewed regularly to ensure they remain appropriate to role and location to assist individuals in carrying out their duties effectively. The value of benefits may vary depending on service providers, cost and market conditions.	Not applicable
Pension Provides post-retirement benefits for participants in a cost-efficient manner	Executive directors receive a cash allowance in lieu of pension.	Cash allowances are set as a percentage of base salary. The maximum pension allowance payable is set at a level in line with the wider employee population (currently 16% of base salary). This approach will apply to current executive directors from April 2020 (a reduction from the previous level of 24% of salary for the CEO and 20% for the CFO).	Not applicable

Remuneration policy for executive directors – Variable pay

Element	Operation	Opportunity	Performance metrics
Directors' Performance Award (DPA) Rewards achievement of stretching Society, team and individual targets for a single financial year, with payment spread over the longer term Comprises two elements: (i) an all-employee element (ii) an element in which the most senior leaders participate subject to deferral provisions	<i>All-employee element</i> Awards are normally paid in cash following the end of the financial year based on Society performance achieved in the year. This element operates on the same basis for all employees. <i>Senior leaders' element</i> At the end of the one-year performance period an award is made to reflect achievement against performance measures. The award is normally paid in cash across six payment dates. No more than 40% of the total performance pay award is paid after the end of the performance period and at least 60% is deferred for between three and seven years in line with regulatory requirements.	The targets reflected in the Society's Plan need to be achieved to generate a 'target' award against the Society measures, and considerably exceeded to generate the maximum award. Under the all-employee element, all employees, including our executive directors, receive the same percentage of salary award. The overall maximum opportunity including both elements varies by role (see below). The actual amount awarded in respect of any year is subject to the limit laid down by regulatory standards (note ii).	The gateway and Society performance measures selected for both elements of the DPA are set on an annual basis by the Committee. These will normally reflect a mix of financial measures, measures relating to the strategic performance of the Society as well as regulatory obligations. Individual performance (including conduct and behaviours) will also be assessed.

Report of the directors on remuneration (continued)

Remuneration policy for executive directors – Variable pay (continued)

Element	Operation	Opportunity	Performance metrics
<p>Directors' Performance Award (DPA)</p> <p>Rewards achievement of stretching Society, team and individual targets for a single financial year, with payment spread over the longer term</p> <p>Comprises two elements: (i) an all-employee element (ii) an element in which the most senior leaders participate subject to deferral provisions</p>	<p>A minimum of 50% of both the upfront and deferred elements is delivered in or linked to the value of the Society's core capital deferred shares (CCDS) and subject to a twelve-month retention period in line with regulatory requirements. Participants will be entitled to CCDS distributions during the retention period.</p> <p>The Remuneration Committee may reduce or cancel payments under the DPA if it believes that the plan outcomes are not representative of the overall performance of the Society (note i).</p>	<p><i>Normal policy (for performance years other than 2020/21)</i></p> <p>The normal maximum variable pay opportunities (i.e. including both elements) are:</p> <ul style="list-style-type: none"> • 152% of base salary for the Chief Executive • 112% of base salary for other executive directors <p>Normally, 98% and 78% of base salary is payable for target performance for the Chief Executive and other executive directors respectively.</p> <p><i>Policy for 2020/21</i></p> <p>For awards made in respect of 2020/21, the maximum variable pay opportunities (including both elements) have been reduced to:</p> <ul style="list-style-type: none"> • 51% of base salary for the Chief Executive • 37% of base salary for other executive directors <p>For these awards, 37% and 29% of base salary is payable for target performance for the Chief Executive and other executive directors respectively.</p> <p>In the event that the Society's financial performance in 2020/21 materially exceeds expectations, the Committee retains the discretion to make an award above these levels (subject to the overall limits within this policy).</p>	

Notes to the policy table:

- i. **Discretion, risk adjustment and malus and clawback:** In determining variable pay awards, the Committee has the ability to apply independent judgement to ensure that the outcome is a fair reflection of the performance of the Society and the individual over the relevant period. In applying this judgement, the Committee has scope to consider any such factors it deems relevant. The Committee takes into account performance against a broad set of financial and non-financial performance measures and considers performance on a risk-adjusted basis, evaluating progress against defined measures within the context of our risk appetite. This is a formalised process, which also includes input and feedback from the Audit and Board Risk committees. In this manner, the Committee has discretion to reduce an employee's performance pay in relation to risk-related matters. In certain circumstances, the Committee has the discretion to operate malus and clawback provisions under the DPA. Such circumstances may include, but are not limited to: participation in, or responsibility for, conduct that results in significant losses; failure to meet appropriate standards of fitness and propriety; employee misbehaviour or material error; a material downturn in financial performance; a material failure of risk management; and other circumstances required by regulatory obligations. Clawback can be applied for a period of seven years from the date of award. This may be extended to 10 years in the event of ongoing internal/regulatory investigation at the end of the seven-year period.
- ii. **Regulatory maximum limit on variable pay:** Any payments under the DPA are subject to an overall maximum limit such that the ratio between the variable and fixed components of remuneration for any year does not exceed the applicable regulatory individual maximum at the time of payment. This limit is currently set such that variable remuneration does not exceed 100% of fixed remuneration. For the purpose of calculating the value of variable pay for this ratio, a discount can be applied to up to 25% of the variable pay element to take account of the payment timescale, provided it is awarded in instruments (for example, the Society's CCDS) that are deferred for at least five years. Details of how the discount factor may be calculated can be found at www.eba.europa.eu
- iii. **Regulatory changes:** In the event that regulatory standards change, the Remuneration Committee has discretion to make such changes as to ensure regulatory compliance, even if a revised policy has not been put to members for an advisory vote. Any such changes would be included in the policy report at the next AGM.
- iv. **Prior arrangements:** The Committee reserves the right to honour remuneration payments (including payments for loss of office), notwithstanding that they are not in line with the policy set out in this report, where the terms of the payment were agreed in accordance with any previous member-approved policy, before the Society's first member-approved policy came into effect, or at a time when the relevant individual was not a director of Nationwide and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of Nationwide.
- v. **Decision-making process:** In determining the new remuneration policy, the Remuneration Committee followed a robust process. The Committee discussed the detail of the policy over a series of meetings in 2019 and early 2020. The Committee considered the strategic priorities of the business and evolving market practice. Input was sought from management, while ensuring that conflicts of interests were suitably mitigated. An external perspective was provided by our independent advisers. The Committee also assessed the policy against the principles of clarity, simplicity, risk management, predictability, proportionality and alignment to culture.

Report of the directors on remuneration (continued)

Choice of performance measures and targets

The gateway and performance measures for the Society element of both parts of the DPA are set on an annual basis by the Remuneration Committee to reflect the priorities of the Society, providing a clear link with members' interests, our financial and strategic aims, as well as our regulatory obligations. The weighting of performance measures will be reviewed annually, with the Committee having the ability to adjust the weighting

from year to year to recognise particular financial and strategic priorities. However, no less than 60% of the element in which our senior leaders participate will be based on Society performance measures.

The Committee sets targets based on those measures at a level which it considers appropriately stretching in relation to the Society's Plan and overall risk appetite, taking into account a

number of wider factors, including our strategic priorities, the economic environment, and market conditions and expectations. Maximum performance will only be achieved for exceptional performance across all measures including individual performance. The Remuneration Committee has discretion to adjust performance targets to reflect significant one-off items which occur during the performance period.

What our executive directors could earn based on performance

The charts below illustrate the amounts that each of the executive directors would be paid under different performance scenarios. For the purposes of these charts, given the voluntary reduction in the CEO's base salary and pension for 2020/21, in addition to the scale back of performance pay opportunities for 2020/21, two illustrations are provided for each scenario:

- One reflecting our normal ongoing policy, showing base salary and pension contribution levels from 1 April 2020, prior to the voluntary reduction in the CEO's base salary for 2020/21, and using normal maximum and target performance pay opportunities under the policy as set out above; and

- One reflecting the actual amounts our executive directors could earn in 2020/21, taking into account the voluntary reduction in the CEO's base salary, and using scaled back maximum and target performance pay opportunities for the year under the policy as set out above.

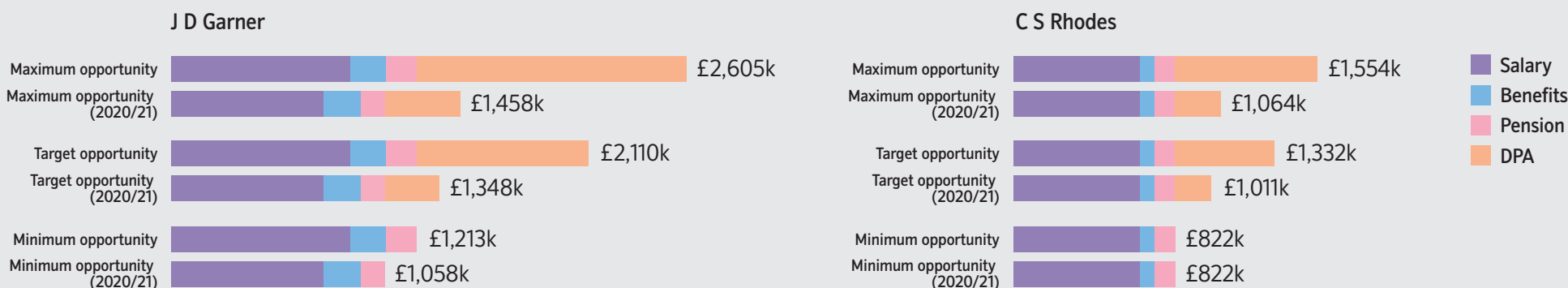
As set out above, the actual amount awarded in respect of any year would be subject to the limit laid down by regulatory

standards, which is currently set such that variable remuneration does not exceed 100% of fixed remuneration.

In both scenarios, the value of benefits is based on the benefits paid in respect of 2019/20, as set out in the single total figure of remuneration table.

The charts are based on the following assumptions:

Pay scenario	Basis of calculation
Maximum opportunity	At this level fixed pay elements and maximum variable pay levels are payable
Target opportunity	At this level fixed pay elements and target variable pay levels are payable
Minimum opportunity	At this level only the fixed pay elements are payable (base salary, pension and benefits)



Report of the directors on remuneration (continued)

Remuneration arrangements throughout the Society

The remuneration policy for our executive directors is designed to align with the remuneration philosophy and principles that underpin remuneration for the wider Society. Within this framework, whilst there are differences in reward opportunity depending on level of seniority, everyone is focused towards achievement of the same business goals and objectives. The all-employee element of the DPA operates with the same performance measures and same opportunity levels (as a percentage of salary) for all employees, including executive directors.

Recruitment policy

On the appointment of a new executive director, the Committee will as far as possible determine the ongoing remuneration package in accordance with the policy described in the policy table above. It would aim not to pay more than necessary to secure the right candidate.

As part of any new recruitment, the Committee would consider whether it was necessary to offer a higher maximum award level under our performance pay plan in order to secure the desired candidate. Any such increase would remain within the overall limit laid down by regulatory standards and would only be applicable for the period of twelve months following appointment.

The Committee may also consider whether it is necessary to offer any one-off arrangements on the recruitment of a new executive director to 'buy out' performance pay and any other remuneration arrangements forfeited on leaving a previous employer. In making any such offer, the Committee will seek to ensure that the 'buy-out' is on materially similar terms to the arrangements being forfeited in terms of their value and vesting dates and take into account the extent to which performance conditions applied to the original awards. Where possible, any 'buy-out' will be structured within the parameters of our existing performance pay plan. If there is not sufficient scope to compensate the individual through our existing performance plan, an individual tailored plan would be put in place. In line

with regulatory requirements, 'buy-out' awards may continue to be subject to malus and clawback provisions at the discretion of the individual's previous employer.

Although our intention would be to offer any new director benefits in line with the policy set out in the policy table, if individual circumstances required this, the Committee would consider offering a new recruit such additional benefits as might be required to secure their services. This may include travel allowances or relocation expenses for a limited period following appointment.

On the appointment of a new non-executive director, fees will be as far as possible on similar terms to those of the existing non-executive directors and in accordance with the policy table set out in this report.

Service contracts and policy on payments to departing directors

Executive director	J D Garner	C S Rhodes
Service contract effective from	5 April 2016	20 April 2009
Date first appointed to the Board	5 April 2016	20 April 2009

Executive directors' terms and conditions of employment are detailed in their individual contracts which include a notice period of 12 months from the Society to the individual and a notice period of six months from the individual to the Society, which will increase to nine months for any new executive directors. The terms set out in the service contracts for the current executive directors do not provide for any payments that are not in line with this policy. Service contracts include a provision for a termination payment in lieu of notice, which will normally be subject to mitigation, up to a maximum of 12 months' base salary.

The Chairman and non-executive directors are appointed for fixed terms not exceeding three years, which may be renewed subject to their re-election by members at AGMs. There are no obligations in the non-executive directors' letters of appointment that could give rise to remuneration payments or payments for loss of office. The dates of appointment to the Board for the Chairman and non-executive directors are set out in the Governance report.

Leaver provisions for executive directors

If an executive director leaves in 'good leaver' circumstances (defined as redundancy, retirement, ill health, death or by mutual consent, e.g. for redundancy/succession planning purposes), they would, subject to approval by the Committee on an individual basis, normally be offered a payment in lieu of notice covering 12 months' base salary. Such a payment might also cover benefits and pension allowance. All such payments will be subject to mitigation, as described below.

For awards under the DPA from 2020/21:

- Where an executive director leaves during the performance year in good leaver circumstances they may, at the Committee's discretion, receive a pro-rata performance award for the period of time served during the current performance period in accordance with the plan rules. Such awards would be subject to deferral, malus and clawback as normal.

Report of the directors on remuneration (continued)

- Where an executive director leaves in certain defined good leaver circumstances (retirement, redundancy, ill health or death), they will normally be eligible to receive the deferred portion of any outstanding award in full.
- In other good leaver circumstances, the treatment of outstanding deferred payments will normally be subject to time-prorating for months served in continued employment over the first four years of the plan cycle, including the initial performance period.
- The Remuneration Committee retains the discretion to adjust the proportion of the deferred payments that are retained by a leaver based on the facts and circumstances of the departure. Furthermore, following departure, the Remuneration Committee may still also reduce or cancel payments if it believes that the plan outcomes are not representative of the overall performance of the Society.
- Retained awards and deferred plan payments are paid at the usual payment date although the Remuneration Committee will have discretion to accelerate any payments to the leaving date in exceptional circumstances.

The treatment of good leavers for DPA awards in respect of performance years prior to 2020/21 will be in accordance with the relevant policy.

Individuals who leave in other circumstances (e.g. resignation) would receive only contractual payments to which they are entitled and would not receive any payment in respect of performance pay plans, unless the Remuneration Committee determines there is a due case for discretion.

Depending on individual circumstances, the Committee may also make a payment in respect of outplacement costs, legal fees and costs of settling any potential claim where appropriate.

Mitigation

The Remuneration Committee's policy is that payments in lieu of notice should be made in monthly instalments and subject to mitigation (where contractually enforceable), although the

Committee has discretion to waive this if this is considered appropriate in individual circumstances. All of the current executive director contracts allow for mitigation. This means that after leaving Nationwide, should they start employment elsewhere, any outstanding payments in lieu of notice due from Nationwide may be reduced or lapse altogether.

Consideration of employment conditions elsewhere in the Society

The pay and conditions of all employees are taken into account when determining executive remuneration and the Committee appreciates the importance of this relationship. The Committee reviews base salary levels, other elements of fixed remuneration and details of performance pay plans offered to all employees each year and is always mindful of ensuring that the pay policy for senior roles is consistent with the culture and values of the Society as a whole. Our policy is to offer packages which are competitive with the financial services market in which we operate and to reward individuals for delivering value to members. The individual elements of remuneration, for example, benefits provision, offered may vary between the different roles, reflecting typical market practice.

Whilst there was no formal consultation, a copy of the policy was shared with the Nationwide Group Staff Union in advance of publication. Those employees who are also members of the Society will be able to vote on the Policy report and the Annual report on remuneration.

Consideration of member views

At recent AGMs we have received a significant majority vote in favour of our remuneration reports. We are also mindful of views expressed by individual members regarding specific aspects of the policy. When taking decisions on remuneration policy, the Remuneration Committee is also always conscious of the need to ensure executives are motivated and rewarded to deliver value for our members.

Report of the directors on remuneration (continued)

Remuneration policy for non-executive directors

Remuneration policy for non-executive directors		
Element	Operation	Opportunity
Chairman and non-executive director fees Provide a market competitive fee level for the role at Nationwide	<p>The Chairman's fee is normally reviewed and approved by the Remuneration Committee on an annual basis.</p> <p>Non-executive director fees are normally reviewed and approved by the executive directors and the Chairman on an annual basis.</p> <p>Any changes are typically effective from 1 April.</p> <p>Non-executive directors are paid a basic fee, with an additional supplement paid for additional roles or responsibilities, including in respect of the Senior Independent Director or Voice of the Employee role, or for serving on or chairing a Board Committee.</p> <p>The Chairman and non-executive directors do not take part in any performance pay plans or in any pension arrangements. Benefits may be provided if considered appropriate including reimbursement of any reasonable expenses (together with any tax thereon where these are deemed to be taxable benefits).</p>	<p>Whilst there is no maximum level, fees are set taking into account practice at other organisations as well as the time commitment for the role at Nationwide.</p>

Annual report on remuneration for 2019/20**Base salary**

As disclosed in last year's report, base salaries were increased with effect from 1 April 2019. J D Garner received an increase of 3.5%, T P Prestedge 7.63%, M M Rennison 2.99% and C S Rhodes 2.54%.

C S Rhodes replaced M M Rennison as CFO in September 2019. On appointment, C Rhodes' base salary was increased to £654,000 to reflect his additional responsibilities, in line with

the level paid to M M Rennison. At the same time, his pension allowance was reduced from 24% to 20% of salary, in line with the commitment made last year to reduce pension allowances for executive directors to maximum benefit available to the wider employee population level by 2021/22. As set out in the Committee Chair's letter, the pension levels for both executive directors have been further reduced on a voluntary basis to 16% of salary from 1 April 2020.

Report of the directors on remuneration (continued)

Directors' Performance Award (DPA) 2019/20

A significant proportion of the overall remuneration for executive directors is dependent on the performance achieved in the year against a number of key measures. Details of the operation of the plan, together with the targets set and performance achieved are included in this section; however, as set out in the Committee's Chair's letter, the Committee decided not to make

any DPA awards to executive directors in respect of 2019/20.

The DPA has two elements: an all-employee element and an element for our most senior leaders. Performance under both elements of the DPA reward the attainment of challenging strategic and financial measures drawn from the Society's Plan

and for 2019/20 reflected three of the five strategic cornerstones, as set out below. These measures ensure that we are focused on delivering benefits to our members. The senior element also incorporates an amount based on individual performance and behaviours.



The maximum potential award level for 2019/20 was 152% of salary for the Chief Executive and 112% of salary for other executive directors, which was unchanged from 2018/19. For the Chief Executive, 28% of the maximum award was based on individual performance. For the other executive directors, this was 36% of the maximum award for 2019/20.

Payments under the plan are made at the discretion of the Remuneration Committee and delivered in instalments over the next seven years. Payments due over the next seven years remain "at risk" and may be reduced or cancelled if the Committee believes the plan outcomes are not representative of the overall performance of the Society, the individual or by reference to

wider circumstances as appropriate. The Society also has the ability to claw back performance pay awards for up to ten years after they were awarded in certain circumstances.

The illustration below shows how any awards under the plan would be released to executive directors over the long-term:

Performance year (PY)	Following the PY	PY + 1	PY + 2	PY + 3	PY + 4	PY + 5	PY + 6	PY + 7
Award determined based on the value delivered for members in the year	Upfront element		Deferred element – delivered in instalments over three to seven years					
	20%	20%		12%		12%	12%	24%

Payments remain "at risk" and may be reduced or cancelled during the seven year deferral period (clawback provisions may apply for up to ten years in certain circumstances)

Report of the directors on remuneration (continued)


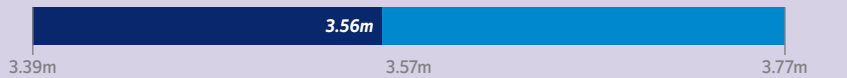




Outcomes for DPA 2019/20

Three 'gateways' must be passed before any payment is made under the plan, based on measures of statutory profit, leverage ratio and conduct risk. These gateways were passed in 2019/20, although the outcome for the statutory profit gateway resulted

in the amounts payable under the plan being scaled back. In reviewing performance under the DPA during 2019/20, the Committee assessed the Society's performance against three equally weighted measures.

The Committee must also be satisfied that there are no significant

conduct, risk, reputational, financial, operational or other reasons why awards should not be made, taking into account input from the Board Risk and Audit committees. Overall, as set out below, the Committee exercised its discretion to reduce 2019/20 performance pay outcomes to zero.

Cornerstone	Measure	Performance target range: threshold, target and maximum and actual performance achieved	Performance pay achieved (% of salary)		
			J D Garner	C S Rhodes	M M Rennison
 Building thriving membership	Number of committed members		23%	16%	16%
 Building legendary service	Customer service satisfaction rating (note i)		32%	22%	22%
 Built to last	Sustainable cost savings (note ii)		20%	14%	14%
Individual performance element (see further detail below)			34%	33%	28%
Total performance pay achieved based on Society and individual performance			109%	85%	80%
Total performance pay following application of profit gateway scale back			17%	14%	13%
Remuneration Committee discretionary performance and risk assessment – In addition to the measures above, in determining overall award levels, the Committee considered a broad range of factors. The Committee decided to apply a downward adjustment in relation to risk events arising during the period, equivalent to the value of 5% of DPA awards in respect of 2018/19. The Committee also considered the impact of Covid-19 on underlying business performance and, acknowledging the request from the CEO and CFO not to be considered for any performance pay which they may have been due in respect of 2019/20, subsequently decided to reduce the total value of performance pay outcomes to zero.					
Total performance pay due for the year			0%	0%	0%
Out of a maximum opportunity (as a % of salary) of:			152%	112%	112%

Notes:

- © Ipsos MORI 2020, Financial Research Survey (FRS), 12 months ending 31 March 2020. c.51,000 adults (aged 16+) surveyed across Great Britain from a total representative sample of c.60,000 adults (aged 16+) per annum. Interviews were conducted face to face and online, and weighted to reflect the overall profile of the adult population. Proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across main current account, mortgage and savings. Peer group defined as providers with main current account market share >4% as of April 2019 (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).
- Subject to remaining within an adjusted cost position of £2,258 million after excluding costs of incremental investment relating to our efficiency programme.
- T P Prestedge resigned from the Board as Deputy Chief Executive on 10 March 2020 and is therefore not included in the above table.

Report of the directors on remuneration (continued)

For the element based on individual performance, performance was assessed against both the delivery of the collective performance scorecard for the leadership team as well as individual goals, conduct and behaviours. The table below provides an overview of the individual performance 2019/20 achieved by each executive director based on their objectives.

J D Garner

- The Society delivered strong performance under Joe's leadership with good progress made, despite increasingly difficult external trading conditions.
- Continued leadership through Covid-19 to prioritise the health and wellbeing of employees, continued support for members in financial difficulties and maintained essential services.
- Underlying profits have been impacted by planned investment as well as competitive factors, with further impacts as a result of the change in the external environment towards the year end.
- Achieved both customer service key performance indicators (KPIs), ranking 4th in the all-sector UK Customer Satisfaction Index¹, and remained in first position for customer satisfaction amongst our peer group (note i).
- Members benefited from £715 million in member financial benefit. £5.5 million has also been invested into wider communities.
- Strong employee engagement scores which reflect the Society's distinctive culture.
- Disappointingly, the Society halted plans to launch a business banking service. The rate and economic outlook meant the business case for launching an account was no longer commercially viable.
- Good risk and compliance management in the context of Board Risk Appetite.
- Improved operational resilience with good progress being made to simplify the technology estate.

C S Rhodes

- Despite increasingly difficult external trading conditions, made a significant contribution to the overall outcome.
- Made a fast start into the role of CFO, quickly taking hold of matters at hand.
- Held a strong capital position, reflected in the Society's UK leverage ratio of 4.7% which has exceeded our target for the last three years.
- Led the Society's development of new propositions including the launch of later life mortgages.
- While in previous role, significantly contributed to a strong trading performance including growth in retail deposits and mortgages balances, and achieved a 10% share of all current accounts.
- Strong performance in the latest Bank of England stress testing.
- Excellent contribution to the Society's leadership team, balancing the complexities of member value, profitability and conduct priorities.

M M Rennison

- Despite increasingly difficult external trading conditions, on target outcomes against many measures and good focus on risk and conduct management.
- Underlying profits have been impacted by planned investment as well as competitive factors, with further impacts as a result of the change in the external environment towards the year end.
- Held a strong capital position, reflected in the Society's UK leverage ratio of 4.7% which has exceeded our target for the last three years.
- Built a strong team in the Finance and Efficiency community and helped build a strong cost focus.
- Oversaw a good contribution from Society's Treasury function.

Note:

i. © Ipsos MORI 2020, Financial Research Survey (FRS), 12 months ending 31 March 2020 and 12 months ending 31 March 2019. c.51,000 adults (aged 16+) surveyed across Great Britain from a total representative sample of c.60,000 adults (aged 16+) per annum. Interviews were conducted face to face and online, and weighted to reflect the overall profile of the adult population. Proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across main current account, mortgage and savings. Peer group defined as providers with main current account market share >4% as of April 2019 (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).

¹Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January 2020.

Report of the directors on remuneration (continued)

Executive directors' remuneration

These disclosures are included in compliance with the Building Societies Act 1986 and other mandatory reporting regulations, as well as the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which the Society has voluntarily adopted. The table below shows the total remuneration for each executive director for the years ended 4 April 2020 and 4 April 2019.

Single total figure of remuneration for each executive director					
	Fixed remuneration		Variable remuneration	Taxable benefits	Total pay package
Executive directors 2020	Salary £'000	Pension allowance £'000	Directors' Performance Award (note iii) £'000	Travel and other taxable benefits (note iv) £'000	£'000
J D Garner	916	220	-	150	1,286
T P Prestedge (note i)	601	144	-	144	889
M M Rennison (note ii)	306	73	-	59	438
C S Rhodes	634	137	-	63	834
Total	2,457	574	-	416	3,447

	Fixed remuneration		Variable remuneration	Taxable benefits	Total pay package
Executive directors 2019	Salary £'000	Pension allowance £'000	Directors' Performance Award (note iii) £'000	Travel and other taxable benefits (note iv) £'000	£'000
J D Garner	885	292	1,010	185	2,372
T P Prestedge	590	195	522	141	1,448
M M Rennison	635	210	511	141	1,497
C S Rhodes	590	195	499	67	1,351
Total	2,700	892	2,542	534	6,668

Notes:

- i. T P Prestedge resigned from the Board on 10 March 2020.
- ii. M M Rennison stepped down from the Board on 13 September 2019. Details of his departure terms are set out in the payments for loss of office section.
- iii. Variable remuneration consists of the awards under the DPA. A substantial proportion of any awards under this plan are subject to deferral with payments spread over the following seven years.
- iv. This value is included as fixed remuneration for the calculation of the bonus cap in meeting our regulatory requirements. A full description of the taxable benefits is set out below.

Our directors receive a number of benefits and, where appropriate, we pay tax associated with those benefits. In the single figure table above, 'taxable benefits' includes certain

essential travel costs met by the Society, including any tax due under HMRC regulations, provided to enable the executive directors to work whilst travelling and undertake their

responsibilities most effectively. Other benefits include medical insurance, car allowance and security.

Report of the directors on remuneration (continued)

Executive directors' pensions

M M Rennison is a deferred member of the Society's defined benefit scheme. He did not accrue any additional pension entitlement during the year. The change in accrued pension shown in the table below is as a result of inflationary increases that are required by legislation. For his benefit accrued prior to 1 April 2011, the Normal Retirement Age is 60 and for his benefit accrued between 1 April 2011 and 30 June 2011, the Normal Retirement Age is 65.

Table of the value of pension benefits for executive directors (£'000)								
Executive directors	Accrued pension at 13 September 2019 (a)	Accrued pension at 4 April 2019 (b)	Transfer value at 13 September 2019 (c)	Transfer value at 4 April 2019 (d)	Change in transfer value (note i) (c)-(d)	Additional pensions earned in period (e)	Transfer value of the increase	Directors' contributions in period
M M Rennison	65	62	2,230	1,965	265	-	-	-

Notes:

- The transfer value basis is set by the Nationwide Pension Fund Trustee and is based on financial market conditions at the calculation date. The differences in transfer values reflects these financial market changes in addition to the fact that the executive directors are older and thus closer to normal retirement age.
- No additional pension benefits have been accrued during the year other than inflationary increases required by legislation for deferred pensions.
- M M Rennison stepped down from the Board on 13 September 2019. Columns (a) and (c) are therefore effective at this date.

Explanations:

(a) and (b) show deferred pension entitlement at 13 September 2019 and 4 April 2019 respectively.

(c) is the transfer value of the deferred pension in (a) calculated at 13 September 2019.

(d) is the transfer value of the deferred pension in (b) calculated at 4 April 2019.

(e) is the increase in pension built up during the year. A zero figure means that, after allowing for inflation, no additional pension was built up.

Chairman and non-executive directors

The fees for the Chairman and non-executive directors were reviewed in March 2020 at which point no changes were made.

Fee Policy		
	Annual fees for 2020/21	Annual fees for 2019/20
	£'000	£'000
Chairman	405	405
Basic fee (note i)	69	69
Senior Independent Director (note ii)	40	40
Chairman of the Audit, Board Risk or Remuneration Committee	35	35
Member of the Audit, Board Risk or Remuneration Committee	15	15
Member of the Nomination and Governance Committee	6	6
Chairman of the IT Strategy and Resilience Committee	25	25
Member of the IT Strategy and Resilience Committee	10	10
Voice of the Employee	10	10

Notes:

i. The basic fee is £68,500.

ii. The Senior Independent Director fee is inclusive of committee membership fees. Committee Chair fees will continue to be paid.

Additional fees may be paid for other committee responsibilities during the year.

Report of the directors on remuneration (continued)

The total fees paid to each non-executive director are shown below.

Single total figure of remuneration for non-executive directors						
	2020			2019		
	Society and Group fees	Travel and other taxable benefits (note vi)	Total fees and taxable benefits	Society and Group fees	Travel and other taxable benefits (note vi)	Total fees and taxable benefits
	£'000	£'000	£'000	£'000	£'000	£'000
D L Roberts (Chairman)	405	2	407	395	2	397
R Clifton	98	7	105	97	8	105
M Fyfield	119	4	123	92	9	101
A Hitchcock (note i)	94	7	101	28	5	33
M A Lenson (note ii)	28	1	29	106	4	110
K A H Parry	129	6	135	123	6	129
L M Peacock (Senior Independent Director) (note iii)	96	3	99	142	4	146
U K Prashar	83	5	88	82	11	93
T Tookey	134	3	137	131	6	137
G Waersted	94	7	101	78	10	88
P Rivett (note iv)	63	1	64	-	-	-
Total	1,343	46	1,389	1,274	65	1,339
Pension payments to past non-executive directors (note v)			248			243

Notes:

i. A Hitchcock joined the Board on 2 December 2018.

ii. M Lenson stepped down from the Board on 18 July 2019.

iii. L Peacock stepped down from the Board on 31 December 2019.

iv. P Rivett joined the Board on 1 September 2019.

v. The Society stopped granting pension rights to non-executive directors who joined the Board after January 1990.

vi. Taxable benefits for non-executive directors relate to expenses incurred in connection with travel and attendance at Board meetings. HMRC deem these expenses to be taxable where the meetings take place at the Society's main offices and the Society settles the tax on behalf of the non-executive directors.

Report of the directors on remuneration (continued)

Additional disclosures

Chief Executive remuneration for the past ten years

The table shows details of the Chief Executive's remuneration for the previous ten years.

Financial year	Total remuneration £'000	Annual performance pay earned as % of maximum available %	Medium term performance pay earned as % of maximum available (note i) %
2019/20	1,286	0.0	-
2018/19	2,372	75.1	-
2017/18	2,317	69.5	-
2016/17	3,386 (note ii)	71.9	-
2015/16	3,413 (note iii)	75.8	80.8
2014/15	3,397 (note iii)	74.4	84.5
2013/14	2,571	83.3	74.9
2012/13	2,258	60.6	41.7
2011/12	2,251	60.6	40.7
2010/11	1,961	75.4	76.9

Notes:

- Medium term performance pay ceased at the end of 2015/16.
- J D Garner commenced his role as Chief Executive on 5 April 2016. His total remuneration for 2016/17 included the value of buy-out awards on joining (2017: £1,070,752). These awards do not form part of ongoing remuneration. If this amount is excluded, the figure for 2016/17 would be £2,315,047.
- The Chief Executive in 2015/16 and all previous financial years shown in the table above was G J Beale. His total remuneration for 2015/16 and 2014/15 includes awards under the DPA as well as legacy payouts under the directors' previous medium term pay plan as a result of the transition period between plans.

Change in remuneration of Chief Executive

The change in remuneration (base salary, benefits (including pension) and annual performance pay) for the Chief Executive from 2018/19 to 2019/20 compared to the average for all other employees is shown in the table.

	Salary	Benefits	Annual performance pay
Chief Executive	3.50%	-22.45%	-100%
Average employee	3.60%	1.79%	-62.44%

Report of the directors on remuneration (continued)

Relative importance of spend on pay

The chart below illustrates the amount spent on remuneration paid to all employees of Nationwide Building Society, compared with retained earnings.

	2019/20	2018/19
	£m	£m
All-employee remuneration	662	826
Retained earnings	215	460

Payroll costs represent 28.63% (2019: 36.65%) of total administrative expenses. Nationwide's profit after tax for the year was £365 million, of which £150 million was paid as distributions and the remaining £215 million is held as retained earnings.

Other directorships

Executive directors and members of senior management may be invited to become non-executive directors of other companies, subject to the agreement of the Society. These appointments provide an opportunity to gain broader experience outside Nationwide and therefore benefit the Society, providing that appointments are not likely to lead to a conflict of interest. Any fees earned may be retained by the executive director concerned. No executive director earned any fees during the year. With effect from 1 July 2014, the number of external appointments that executive and non-executive directors can hold is limited as required under CRD IV.

Payments for loss of office

As previously announced, M M Rennison stepped down from the Board as Chief Financial Officer on 13 September 2019.

The Committee agreed that he was a good leaver for the purposes of the performance pay plan. As such, he was eligible for an award under the DPA in respect of his service during 2019/20, although in line with other senior leaders, no award was made.

He will remain entitled to receive a portion of the retained and deferred element of his unvested awards made in respect of previous years' service. In accordance with our current remuneration policy, such awards will be reduced to reflect his period of service. Payments will be paid on the normal payment dates and will remain subject to risk adjustment, malus and clawback terms in the same way as if M M Rennison had remained in employment. The full value of these awards has been disclosed in the single total figure of remuneration for prior years, although, as set out above, the value he will actually receive will be lower as a result of not meeting the full service requirement for these awards.

In addition to the above, he will receive a payment of £838,452 in respect of his contractual notice period, which includes twelve months' salary (£654,000), benefits (£27,492), and pension (£156,960). Such payments will be phased over his notice period and may be subject to mitigation. M M Rennison received a contribution towards legal fees of £6,800 in connection with his departure.

T P Prestedge resigned from the Board as Deputy Chief Executive on 10 March 2020. He will remain an employee of the Society until 28 August 2020 during which time he will receive salary, pension and contractual benefits. His pension will be reduced for the portion of 2020/21 he will serve, to 16% of base salary. He did not receive an award under the DPA for 2019/20 and all of his outstanding deferred awards from prior years lapsed.

Payments to past directors

No payments were made to former directors in the year in excess of the minimum threshold for disclosure of £20,000.

Pay gap reporting

The Society is fully committed to promoting a diverse and inclusive workplace. The gender pay gap measures the difference in earnings between women and men across all roles. Our latest report was published in December 2019 and can be found at

[nationwide.co.uk](https://www.nationwide.co.uk), together with an update of progress on our Women in Finance Charter commitments. We have also voluntarily published our first ethnicity pay gap, comparing the pay of individuals who have self-declared as BAME (black, Asian and minority ethnic) with those who are non-BAME.

As at 5 April 2019, our mean average gender pay gap was 28% (unchanged on the previous year) and our mean ethnicity pay gap was 17%.

Pay gaps are not the same as equal pay. We carry out regular equal pay audits, checking the pay of people with different characteristics (such as gender and ethnicity) doing the same or similar roles. Our audits continue to show that our pay policies are operating fairly.

Report of the directors on remuneration (continued)

CEO pay ratio reporting

The table below compares the total remuneration of the Chief Executive against the total remuneration of the median employee and those who sit at the 25th and 75th percentiles (lower and upper quartiles). This reporting will build annually to cover a rolling 10-year period.

Year	Method	25 th percentile pay ratio	Median pay ratio	75 th percentile pay ratio
2019/20	Option A	53:1	41:1	26:1
2018/19	Option A	99:1	77:1	48:1

The total remuneration and salary values for the 25th, median and 75th percentile employees for 2019/20 are:

	25 th percentile	Median	75 th percentile
Total remuneration	£24,095	£31,488	£49,925
Salary	£20,010	£23,665	£40,871

Notes:

- i. The calculation is based on Option A as set out in the regulations which is considered to be the most statistically accurate methodology.
- ii. Employee data includes full time equivalent total remuneration for all UK employees as at 1 March 2020. For each employee, remuneration was calculated based on all components of pay including base pay, performance pay for 2019/20, core benefits and pension payments.
- iii. Whilst most employees participate in a defined contribution scheme with a fixed maximum employer contribution, there are other pension arrangements in place for some employees, including a defined benefit pension scheme which has been closed to new participants since 2007. Although it would be possible to recognise a higher value under the defined benefit scheme, in order to ensure accurate year on year comparative data going forward, a fixed value equal to the maximum employer contribution available to the defined contribution scheme members is included for all defined benefit scheme members.
- iv. The Committee has considered the pay data for the three individuals identified for 2019/20 and confirms that the ratios reasonably represent the Society's approach to pay and reward for employees taken as a whole.

Voting at AGM

A resolution to approve the 2018/19 'Report of the directors on remuneration' was passed at the 2019 AGM. The Remuneration Policy was last approved by members at the 2017 AGM. In each case votes were cast as follows:

	Report of the directors on remuneration	Remuneration Policy
Votes in favour	511,752 (91.06%)	550,109 (92.04%)
Votes against	50,240 (8.94%)	47,552 (7.96%)
Votes withheld	9,544	10,261

Report of the directors on remuneration (continued)

The year ahead

In applying the proposed policy, the Committee is guided by the need to ensure executives are appropriately motivated and rewarded to deliver demonstrable value for our members.

As set out in the Committee Chair's letter, J D Garner voluntarily requested that his combined base salary and pension be reduced by 20% for 2020/21, and C S Rhodes voluntarily reduced his pension allowance to 16% of salary from 2020/21 to align with the maximum benefit available to the wider employee population. Reflecting the current challenging environment, performance pay opportunities across the Society will be scaled back for 2020/21. Awards for executive directors for the coming year will be set at around one-third of the normal performance pay opportunities in line with the approach for all employees. Details for our executive directors are set out opposite.

Awards under the DPA will continue to be aligned to measures which are most important to our members. For 2020/21, we have updated the *Built to last* cornerstone measure to one based on total costs. Targets are commercially sensitive and so will be disclosed, along with performance achieved, in next year's report. Gateway measures will continue to have to be met before any payments are made under the plan. For 2020/21 these gateways will be based on profit before tax, leverage ratio and conduct.

Remuneration policy implementation for 2020/21

Element	Implementation in 2020/21 for executive directors
Base salary	The executive directors will not receive any base salary increase for 2020/21. J D Garner requested to reduce his salary. Base salaries for 2020/21 are therefore as follows: <ul style="list-style-type: none"> • J D Garner £783,000 (includes voluntary reduction for 2020/21) • C S Rhodes £654,000
Benefits	No change for 2020/21.
Pension	Cash allowance of 16% of salary to align with the maximum benefit available to the wider employee population.
Directors' Performance Award (DPA) Comprises two elements: (i) an all-employee element (ii) an element in which the most senior leaders participate subject to deferral provisions	<p>For awards made in respect of 2020/21, the maximum variable pay opportunities including both elements are as follows:</p> <ul style="list-style-type: none"> • 51% of base salary for the Chief Executive • 37% of base salary for other executive directors <p>For these awards, 37% and 29% of base salary is payable for target performance for the Chief Executive and other executive directors respectively.</p> <p>In the event that the Society's financial performance in 2020/21 materially exceeds expectations, the Committee retains the discretion to make an award above the levels above (subject to the overall limits within the policy).</p> <p>Performance measures:</p> <ul style="list-style-type: none"> • Gateway measures based on profit before tax, leverage ratio and conduct matters • Society performance, subject to minimum performance thresholds, assessed against the following cornerstones: <ul style="list-style-type: none"> – Building thriving membership – Number of committed members – Building legendary service – Customer service satisfaction rating – Built to last – Total costs <p>A portion of the award assessed is based on individual contribution and behaviours including in relation to conduct matters (28%/27% of the award for the Chief Executive and Chief Financial Officer respectively).</p>
Chairman and non-executive director fees	No change in the fees for the Chairman or non-executive directors for 2020/21.

