

Report of the directors on remuneration

Extract from the Annual Report
and Accounts 2019, pages 81 to 93



Building Society



“We believe it is vital that all of our employees share in the collective success of the Society, which is why our culture is supported by a common set of goals directly linked to members’ interests”

Dear fellow member,

I am pleased to present the Remuneration Committee’s report, including details of our directors’ pay for the year to 4 April 2019. This report includes a summary of our remuneration policy, together with the key decisions made in the year.

How we decide how much to pay our people

Our approach to pay takes into account our mutual status and our commitment to create a remuneration policy that is aligned with our members’ interests. We want to be fair to our members who rightly expect us to use their money wisely and fair to our people who work hard to deliver for our members.

Across the Society in addition to salary, what people earn takes into account how well we perform for our members each year. We do not reward people for maximising profit, instead we focus on sharing in success in our reward scheme whereby all employees, including executive directors, are rewarded on delivering what we know matters most to members, delivering the highest quality service, attracting more business from members and sustainable cost savings. Moreover, the Board will only pay any variable award if it is sure that the Society is financially secure.

The targets we set ourselves are challenging. For example, we have to be at least first for customer service against our peer group for any part of the ‘building legendary service’ element of the variable award to pay out.

For our directors, a significant proportion of pay is performance-related and is based on the same assessment of the Society’s performance, together with team and personal goals. The way we manage performance pay for our most senior people has to be different because there are regulations in place that mean that a significant part of their pay has to be held back for up to seven years, and may not be paid in part or at all if misconduct is found. 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.

Who sits on the Committee

The members of the Remuneration Committee are all independent non executive directors of the Society and include a member of the Board Risk Committee and two members of the Audit Committee.



Committee members	Lynne Peacock (Chair)	David Roberts	Rita Clifton	Mai Fyfield	Usha Prashar
Meetings attended (eligible to attend)	9 / (9)	9 / (9)	9 / (9)	6 / (6)	9 / (9)

Regular attendees of the Committee include: the Chief Executive, the Leader of People and Culture and the Director of Reward and Pensions. In no case is any person present when their own remuneration is discussed. In addition, Deloitte LLP, our independent external consultants, who were appointed by the Committee following a tender process, also attend. Deloitte also provided tax, financial advisory, risk, internal audit and consulting services to the Society during the year. The Committee is satisfied that the advice received is objective and independent, and reviews annually all other services provided by Deloitte to ensure this continues to be the case. Their fees for advice provided to the Committee during 2018/19 were £217,450, typically charged based on a time-and-material 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.

Report of the directors on remuneration (continued)

Our people join the Society for a number of reasons beyond the financial, and in overall terms we pay less than the market for our executive team, relative to their peers in large financial services businesses and other organisations of similar scale and complexity. We are also not out of step with the building society sector when you consider the size and scale of the organisation. However, we must accept that we operate in a competitive market. It is in the interest of the Society and members to recruit the most competent people which means that we have to be able to compete for talent. We do that by looking at a pay package which reflects these market realities.

We voluntarily disclose details of our executive pay arrangements to the extent it is appropriate for us to do so as a mutual.

Activities during the year

During the year, the revised UK Corporate Governance Code was published which sets out a number of changes in the way in which remuneration committees are expected to operate and approach the structure of executive remuneration. Nationwide has, to date, applied the principles of the UK Corporate Governance Code and will continue to do so, whenever practicable.

The revised Code applies to accounting periods beginning on or after 1 January 2019 and I am pleased to say that we are already well placed in a number of areas from a remuneration perspective. For example, the Committee is already responsible for determining the pay of senior management roles below the Board and has oversight of the pay policies and practices for the broader workforce. The Committee also has wide discretionary powers to adjust variable remuneration outcomes to take account of broader performance considerations.

As with our entire workforce, our directors receive pension contributions. Over the next two to three years, we will reduce these contributions from 33% to 16% of salary in line with the contributions we make for employees in the Nationwide Group Personal Pension. As a first step, the pension allowance for executive directors will reduce from 33% to 24% of salary with effect from 1 April 2019. The Committee undertook a review of our remuneration policies and approaches across the Society during the year.

Report on the year

How the Committee spent its time in the year



- Performance award outcomes
- Pay strategy and approach for the year
- Oversight of remuneration across the Society
- Regulatory reporting
- Procedural issues

The Committee concluded that no other material changes be made to the structure of pay for our directors in 2019/20.

Broader context

The Committee pays close attention to the relationship between pay policies and practices for executive directors and all other employees. The Board and Committee directly engages with the Nationwide Group Staff Union and one member of the Committee has accountability for the 'Voice of the Employee' to ensure that the Board considers this broader perspective in its decision making.

This year, the Society has decided to publish the ratio of the Chief Executive's pay to the wider employee population, ahead of the formal disclosure requirement coming into force next year. This ratio reflects the nature of our business with a high proportion of our employees working in branches and contact centres.

How the directors have performed

Our results for the year to 4 April 2019 demonstrate that the Society has continued to deliver strong performance against our purpose of building society, nationwide, and the strategic cornerstones that underpin it. We have retained our position of first amongst our peer group on customer satisfaction¹ and have increased our committed members to 3.4 million. We have also achieved sustainable cost savings of £103 million and passed all performance gateway measures based on statutory profit, leverage ratio and conduct matters.

The impact on directors' performance pay

In considering directors' pay for the year, the Committee took into account the Society's results together with an assessment of the underlying performance of the Society with input from the Board Risk and Audit committees. Based on this assessment, payments have been awarded under the Directors' Performance Award (DPA) in respect of the year. Details of these payments, including the measures set and factors considered, are set out in this report. The Committee believes that our directors have continued to deliver real benefits for the Society and all our members.

The year ahead

Our remuneration policy was approved by our members in 2017 and sets the framework for our directors' remuneration. A summary of the remuneration policy is set out in this report and this will continue to apply in 2019/20. We will be presenting a new policy for approval at the 2020 AGM and accordingly during the forthcoming year the Committee will continue to review the Society's approach to executive remuneration taking into account the Society's strategy, together with developments in the external environment and feedback from members.

On behalf of the Remuneration Committee, I recommend that you support our Annual Report on Remuneration.

Lynne Peacock

Chair – Remuneration Committee



¹ © Ipsos MORI 2019, Financial Research Survey (FRS), 12 months ending 31 March 2019 and 12 months ending 31 March 2018, c60,000 adults surveyed per annum, 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% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).

Report of the directors on remuneration (continued)

How the Committee works

The Remuneration Committee is responsible for determining and agreeing with the Board the remuneration strategy, policy and the specific remuneration packages for the Chairman, the executive directors and other members of the Executive Committee of the Society as well as any other employees who are deemed to fall within scope of the PRA/FCA Remuneration Codes. This includes reviewing the year-end pay outcomes for the Society's Material Risk Taker population as well as the outcome for the Society-wide element of our variable pay. The Committee approves the design of, and determines the performance targets for, the discretionary performance pay plan operated by the Society for the benefit of employees within the Committee's remit and approving the total annual payments under such plan.

The Committee also oversees the remuneration policy throughout the Society, with a specific focus on the risks posed by remuneration policies and practices. As part of its oversight role, the Committee receives an update on the pay policies for the wider workforce at least annually. In addition, this year the Committee has received direct feedback from both the Nationwide Group Staff Union and also from members.

The Committee reviews its terms of reference and its activities over the previous year as part of an annual update to confirm that they were in line with its remit. More detail on the Committee's duties and responsibilities can be found within its terms of reference at nationwide.co.uk

Key areas/matters considered by the Committee during the year

Area of focus	Committee's response
Remuneration Review	The Committee undertook a strategic review of remuneration during the year and agreed that no material changes were required to the structure of pay for directors prior to the full policy review in 2020
Performance Targets	The Committee agreed the performance targets for awards to be made under the Directors' Performance Award (DPA) taking into account the Society's plan
Outcome of DPA	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
Base Pay Review	Agreed base salary increases for executive directors as outlined in the year ahead section
Evolving Regulation	Ongoing work in relation to the PRA/FCA Remuneration Codes and other corporate governance matters, including the updated UK Corporate Governance Code, and how they apply to Nationwide as a mutual
Directors' Remuneration Report	Approved the Directors' Remuneration Report including the implementation of the remuneration policy for 2019/20
Material Risk Taker (MRT) Identification	Reviewed and approved the identification approach and list of employees who fall within the scope of the PRA/FCA Remuneration Codes
Broader Context	The Committee reviewed information on the pay policies and practices across the Society and met with the Nationwide Staff Group Union

Annual Report on Remuneration – Directors' Performance Award (DPA)

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. The DPA was the only performance award in which executive directors participated in 2018/19. The DPA is aligned to the key objectives for the Society and the measures reflect three of the five strategic cornerstones, which help us to deliver value to members.

The maximum potential award level for 2018/19 was 152% of salary for the Chief Executive and 112% of salary for other executive directors, which is unchanged from 2017/18.

The all-employee element of the performance pay plan rewards the attainment of challenging strategic and financial metrics drawn from the Society's plan. The senior element also incorporates an amount based on individual performance and behaviours. The Society measures fall within the following broad areas and ensure focus on delivering benefits for our members.

Society measures – Three strategic cornerstones

- Building thriving membership – Number of committed members
- Building legendary service – Customer service satisfaction rating
- Built to last – Sustainable cost savings



Individual performance

Objectives reflecting each individual's contribution towards the delivery of the Society's plan as well as individual conduct and behaviours

For the Chief Executive, 28% of the maximum award is based on individual performance. For the other executive directors, this is 27% of the maximum award. 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 that 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.

Report of the directors on remuneration (continued)

The table shows that for awards in respect of 2018/19, 20% of the award is payable in June 2019 with 20% retained until June 2020. The remaining 60% is deferred, payable between years three and seven following the date of award. 50% of the upfront portion and 60% of the deferred portion is linked to the performance of the Society's core capital deferred shares (CCDS). These CCDS linked elements are payable in cash subject to a 12 month retention period.

Illustration of the years when performance pay is paid to our executive directors								
Performance year	2019	2020	2021	2022	2023	2024	2025	2026
Award determined based on value delivered for members in the year	→	→	→	→	→	→	→	→
	20% of award	20% of award		60% of award				
	At least 50% of awards are linked to the value of the Society's core capital deferred shares (CCDS) and subject to a 12 month retention period							
	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) →							

Outcomes for DPA 2018/19

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 achieved in 2018/19. The Board 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. In reviewing performance under the DPA during 2018/19, the Committee then assessed the Society's performance against three equally weighted measures.

Cornerstone/Measure	Performance target range: threshold – maximum	Performance relative to targets	Outcome	Performance pay achieved (% of salary)	
				Chief Executive	Executive directors
Building thriving membership – Number of committed members	3.23 million – 3.57 million	Above target	3.4 million committed members	24.6	19.6
Building legendary service – Customer service satisfaction rating (note i)	1 st – 1 st + 6%	Above target	1 st in our peer group with a 4.8% lead	28.9	22.3
Built to last – Sustainable cost savings (note ii)	£80 million – £140 million	Above target	£103 million	24.6	19.6
Total performance pay achieved based on Society performance				78.1	61.5
Individual performance element (see further detail below)				36	19 – 27
Total performance pay achieved based on Society and individual performance				114.1	80.5 – 88.5
Out of a maximum opportunity (as a % of salary) of:				152	112

Notes:

i. © Ipsos MORI 2019, Financial Research Survey (FRS), 12 months ending 31 March 2019, c60,000 adults surveyed per annum, 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% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).

ii. Subject to remaining within an adjusted cost position of £2,198 million after excluding costs of incremental investment relating to our efficiency programme.

For the element based on individual performance, performance has been assessed against both the delivery of the Society performance scorecard as well as individual goals, conduct and behaviours.

Report of the directors on remuneration (continued)

The table below provides an overview of the individual performance 2018/19 achieved by each executive director based on their objectives.

Executive director	Performance pay achieved (% of salary) / maximum available	Comments
J D Garner	36/42	<p>The Society delivered strong performance under Joe's leadership, together with good progress across a range of objectives, including:</p> <ul style="list-style-type: none"> • Maintenance of customer service with continued leading position amongst our peer group¹. • Extremely strong and improved brand metrics and strengthened external relationships. • Successful progress in key strategic opportunities including technology investment and Nationwide for Business. • Strong trading performance, capital ratios and delivery of cost plan. • Sustained strong employee engagement in period of change and mobilised changes to people strategy. • Good risk and compliance management in context of Board risk appetite. Improved operational resilience with further planned enhancements. • Strong cultural leadership.
T P Prestedge	27/30	<ul style="list-style-type: none"> • A very strong year where Tony resumed accountability for technology and operations plus leading strategy, and undertook additional responsibilities in his role of Deputy Chief Executive. • Significant elements of above target performance contributed to significant improvement in operational resilience evidenced by reduced unplanned outages, with further enhancements being planned. • Strong contribution to delivery of agreed technology strategy plus building capabilities in cyber security. • Contributed to development of strategy including venturing and partnering opportunities. • Strong focus on people strategy including building talent pipeline.
M M Rennison	19/30	<ul style="list-style-type: none"> • Notwithstanding the continued uncertainty in the external environment, and competitive market conditions, a good year with predominantly on target outcomes and good focus on risk and conduct management. • Strong focus on efficiency agenda with second year of £100 million sustainable savings delivered. • Good contribution to development of technology strategy, specifically in relation to financial outcomes. • Successful completion of stress testing, including IFRS 9 outcomes for the first time, with further improvements now being planned. • Led Society activity in Operational Continuity in Resolution (OCR) work, with further evolution planned. • Has overseen good contribution from Society's Treasury function including successful MREL issuance. • Has overseen procurement team with significant focus on third party management and work in relation to outsourcing.
C S Rhodes	23/30	<ul style="list-style-type: none"> • Notwithstanding the continued uncertainty in the external environment, and competitive market conditions, a good year with predominantly on target outcomes. • Good progress made on growing broader and deeper member relationships evidenced by number of committed members without any evidence of increased conduct risk. • Led the Society's development of new propositions including launch of Later Life proposition with learning through initial pilot activity with further planned enhancements. • Achieved objectives in terms of member journeys, simplification of savings range. • Strong contribution to leadership team through approach to balancing complexities of member benefits, profitability and conduct priorities.

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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 shows the total remuneration for each executive director for the years ended 4 April 2019 and 4 April 2018.

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

Single total figure of remuneration for each executive director (£'000)					
Executive directors 2019	Fixed remuneration		Variable remuneration	Taxable benefits	Total pay package
	Salary (note i)	Pension allowance	Directors' Performance Award (note ii)	Travel and other taxable benefits (note iii)	
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

Executive directors 2018	Fixed remuneration		Variable remuneration	Taxable benefits	Total pay package
	Salary	Pension allowance	Directors' Performance Award (note ii)	Travel and other taxable benefits (note iii)	
J D Garner	855	342	903	217	2,317
T P Prestedge	580	191	493	146	1,410
M M Rennison	625	206	511	189	1,531
C S Rhodes	580	191	480	68	1,319
Total	2,640	930	2,387	620	6,577

Notes:

- i. As disclosed in last year's report, salaries were increased with effect from 1 April 2018. J D Garner received an increase of 3.5%, T P Prestedge 1.7%, M M Rennison 1.6% and C S Rhodes 1.7%.
- ii. Variable remuneration consists of the awards under the DPA. A substantial proportion of this award is subject to deferral with payments spread over the following seven years. Details of this plan and associated performance measures are set out earlier in this report.
- iii. 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 above.

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 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, his Normal Retirement Age is 65.

Table of the value of pension benefits for executive directors (£'000)								
Executive directors	Accrued pension at 4 April 2019 (a)	Accrued pension at 4 April 2018 (b)	Transfer value at 4 April 2019 (c)	Transfer value at 4 April 2018 (d)	Change in transfer value (note i) (c)-(d)	Additional pensions earned in year (e)	Transfer value of the increase	Directors' contributions in year
M M Rennison	62	60	1,965	1,764	201	-	-	-

Notes:

- i. The transfer value basis is set by the Nationwide Pension Fund Trustee and is based on financial market conditions at the calculation date. The increases in transfer values over the year reflect these financial market changes (which have increased the transfer value for all members of the Fund including executive directors) in addition to the fact that the executive directors are one year older and thus one year closer to normal retirement age.

Explanations:

(a) and (b) show deferred pension entitlement at 4 April 2019 and 2018 respectively.

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

(d) is the transfer value of the deferred pension in (b) calculated at 4 April 2018.

(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 last reviewed in March 2019. Inflationary increases have been made to both the Chairman's fee of 2.5% and the basic fee for non executive directors of 2.2%.

M Fyfield was appointed the director with specific responsibility for the 'Voice of the Employee' during 2018 as an extension of her Board responsibilities. This role provides a two-way process to enhance existing employee engagement mechanisms for employees across the Society, to ensure that a broad range of views are reflected in Board discussions. On creation of the role, in recognition of the additional time commitment required, an annual fee of £10,000 was set, payable from 1 September 2018 which is equivalent to the fees for membership of the IT, Strategy and Resilience Committee.

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

Fee Policy		
	Annual fees for 2019/20	Annual fees for 2018/19
	(£'000)	(£'000)
Chairman	405	395
Basic fee (note i)	69	67
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 (note iii)	10	10

Notes:

i. The actual basic fee for 2019/20 is £68,500.

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

iii. New role from 1 September 2018.

Report of the directors on remuneration (continued)

Single total figure of remuneration for non executive directors

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

Single total figure of remuneration for each non executive director (£'000)						
	2019			2018		
	Society and Group fees	Travel and other taxable benefits (note iv)	Total fees and taxable benefits	Society and Group fees	Travel and other taxable benefits (note iv)	Total fees and taxable benefits
D L Roberts (Chairman)	395	2	397	389	2	391
R Clifton	97	8	105	96	15	111
M Fyfield	92	9	101	76	7	83
A Hitchcock (note i)	28	5	33	-	-	-
M A Lenson	106	4	110	106	3	109
K A H Parry	123	6	129	121	10	131
L M Peacock (Senior Independent Director)	142	4	146	141	6	147
U K Prashar	82	11	93	81	13	94
T Tookey	131	6	137	125	7	132
G Waersted (note ii)	78	10	88	63	8	71
Total	1,274	65	1,339	1,198	71	1,269
Pension payments to past non executive directors (note iii)			243			251

Notes:

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

ii. G Waersted joined the Board on 1 June 2017.

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

iv. 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
2018/19	2,372	75.1	- (note i)
2017/18	2,317	69.5	-(note i)
2016/17	3,386 (note ii)	71.9	-(note i)
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
2009/10	1,539	33.8	61.7

Notes:

- i. Medium term performance pay ceased at the end of 2015/16.
- ii. Joe 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.
- iii. The Chief Executive in 2015/16 and all previous financial years shown in the table above was Graham 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 only) for the Chief Executive from 2017/18 to 2018/19 compared to the average for all other employees is shown in the table.

	Salary	Benefits	Annual performance pay
Chief Executive	3.51%	-14.65%	11.80%
Average employee	2.73%	7.22%	-8.93%

Note:

- i. The difference in annual performance pay for the CEO compared with the average employee is due to a number of contributing factors. Society performance for 2018/19, whilst still above target, is lower than in 2017/18 for all employees. In addition, 2017/18 performance pay for the CEO was reduced by 7.5% to the total value of his performance pay achieved. Both of these factors contribute to the year on year changes. Finally, in 2018/19 the CEO has also received a higher individual performance rating compared with 2017/18.

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.

Relative importance of spend on pay (£ million)

■ 2018/19 ■ 2017/18



Payroll costs represent 36.65% (2018: 40.71%) of total administrative expenses. Nationwide's profit after tax for the year was £618 million, of which £158 million was paid as distributions and the remaining £460 million is held as retained earnings.

Total remuneration bandings

Total remuneration includes base salary, performance awards for 2018/19, pension and benefits/allowances. The total number is based on employees of the Society as at 4 April 2019 and 4 April 2018.

Total remuneration bandings	Total employees 2018/19	Total employees 2017/18
£0 - £50,000	13,693	13,966
£50,001 - £100,000	3,806	3,592
£100,001 - £250,000	586	517
£250,001 - £500,000	65	57
£500,001 - £1,000,000	11	12
Over £1,000,000	6	4

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

No payments for loss of office were made during the year.

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.

Gender 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. We published our second gender pay gap report in November 2018, which can be found at nationwide.co.uk, together with an update of progress on our Women in Finance charter commitments. Our mean average gender pay gap, as at 5 April 2018, was 28%, compared with 29% in 2017.

Gender pay is not the same as equal pay and our regular audits show that our pay policies operate fairly. Equal pay measures the pay of men and women who are carrying out the same or equivalent roles.

Report of the directors on remuneration (continued)

CEO pay ratio reporting

The Society has decided to publish the ratio of the Chief Executive's pay to the wider employee population, ahead of the formal disclosure requirement coming into force next year. This ratio will build annually to cover a rolling ten year period. The ratio 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).

Year	Method	25 th percentile pay ratio	Median pay ratio	75 th percentile pay ratio
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 2018/19 are:

	25 th percentile	Median	75 th percentile
Total remuneration	£23,969	£30,939	£49,466
Salary	£19,059	£24,773	£35,968

Notes:

- The calculation is based on Option A as set out in the regulations which is considered to be the most statistically accurate methodology.
- Employee data includes full time equivalent total remuneration for all UK employees as at 1 March 2019. For each employee, remuneration was calculated based on all components of pay including base pay, performance pay for 2018/19, core benefits and pension payments.
- Whilst the majority of 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.
- The Committee has considered the pay data for the three individuals identified for 2018/19 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 2017/18 'Report of the directors on remuneration' was passed at the 2018 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	534,342 (90.75%)	550,109 (92.04%)
Votes against	54,448 (9.25%)	47,552 (7.96%)
Votes withheld	9,743	10,261

The year ahead

A summary of the remuneration policy approved by our members in 2017 is set out below together with an overview of how it will be applied in 2019/20. In applying this policy, the Committee is guided by the need to ensure executives are appropriately motivated and rewarded to deliver demonstrable value for our members. This summary does not replace or override the full approved policy, which is available at nationwide.co.uk

The Committee will continue to focus on ensuring that our remuneration structure supports the right culture and behaviours as well as our values as a mutual. Key priorities for 2019/20 include preparation of a new policy for approval at the 2020 AGM and accordingly during the forthcoming year the Committee will continue to review the Society's approach to executive remuneration taking into account the Society's strategy, together with developments in the external environment.

The Committee agreed base salary increases with effect from 1 April 2019, in line with the all-employee pay settlement. The exception is T P Prestedge where the increase reflects his additional responsibilities in his role of Deputy Chief Executive. In addition, with effect from 1 April 2019, the pension allowance for all executive directors has been reduced from 33% to 24% of base salary as part of a wider three-year strategy to align contributions to those made for employees in the Nationwide Group Personal Pension.

Report of the directors on remuneration (continued)

Remuneration policy	Operation	Implementation in 2019/20 for executive directors
Base salary	<ul style="list-style-type: none"> Reviewed annually, taking into account market levels of pay, individual skills, performance and experience, and the approach to salaries throughout Nationwide. 	<p>An overall aggregate increase of 4.1% applies across the executive directors which is in line with the pay review for the wider employee population except for T P Prestedge where the increase also reflects his additional responsibilities as Deputy Chief Executive:</p> <ul style="list-style-type: none"> J D Garner £916,000 (3.50%) T P Prestedge £635,000 (7.63%) M M Rennison £654,000 (2.99%) C S Rhodes £605,000 (2.54%)
Benefits	<ul style="list-style-type: none"> Include car benefits, healthcare and insurance benefits. 	No change for 2019/20.
Pension	<ul style="list-style-type: none"> Executive directors receive a cash allowance in lieu of pension Maximum allowance is 40% of salary. 	<p>From 2019/20 executive directors will receive a pension allowance of 24% of salary (reduced from 33%).</p> <p>The maximum pension allowance for new appointments is capped at 25% of salary. This limit will be reviewed as part of the wider policy review during the year. In practice for 2019/20, in the event of new appointments at this level, it is not anticipated that any pension allowance would be above that for the current executive directors.</p>
<p>Our performance pay plan, the Directors' Performance Award (DPA), comprises two elements:</p> <p>(i) an all-employee element; and</p> <p>(ii) an element in which the most senior team participate subject to deferral provisions</p>	<ul style="list-style-type: none"> Rewards annual performance against stretching Society, team and individual measures and objectives Performance measures reflect the priorities of the Society and are drawn from the Society's plan Deferral periods are such that no more than 40% of total performance pay is paid after the performance period and 60% is deferred for between three and seven years At least 50% of awards are linked to the value of the Society's core capital deferred shares (CCDS) and subject to a 12 month retention period Awards are subject to clawback for up to ten years The all-employee element operates on the same basis for all employees. 	<p>No change in maximum award opportunity for 2019/20:</p> <ul style="list-style-type: none"> 152% of base salary for the Chief Executive 112% of base salary for other executive directors <p>Performance measures:</p> <ul style="list-style-type: none"> Gateway measures based on statutory profit, 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 – Sustainable cost savings. <p>For the CEO, 28% of the maximum award assessed is based on individual contribution and behaviours including in relation to conduct matters. For the other executive directors, this is 36% of the maximum award.</p>
Chairman and non executive director fees	<ul style="list-style-type: none"> Chairman fees normally reviewed and approved by the Remuneration Committee on an annual basis Non executive director fees normally reviewed and approved by the executive directors and the Chairman on an annual basis Non executive directors receive a basic fee and an additional supplement is paid for serving on or chairing a Board Committee The Chairman and non executive directors do not participate in any performance pay plans or pension arrangements. Benefits may be provided if considered appropriate. 	As set out in this report, inflationary increases of 2.5% have been made to the Chairman and 2.2% to the non executive director basic fee for 2019/20.

Report of the directors on remuneration (continued)

What our executive directors could earn in 2019/20 based on performance

The table below illustrates the amounts that executive directors would be paid under three different scenarios.

Breakdown of total remuneration for 2019/20 (£'000)				
	J D Garner	T P Prestedge	M M Rennison	C S Rhodes
Fixed Pay				
Salary	916	635	654	605
Pension as a % of salary	24%	24%	24%	24%
Performance pay				
Target as a % of salary	98%	78%	78%	78%
Maximum as a % of salary	152%	112%	112%	112%
Total remuneration				
Fixed pay – base salary, pension and benefits (note i)	1,321	928	952	817
Target – assuming we deliver target levels of performance against the measures set out in the DPA	2,219	1,424	1,462	1,289
Maximum – assuming DPA arrangements pay out in full. This would only occur where performance has been truly exceptional across all the measures set	2,713	1,640	1,684	1,495

Note:

- i. Includes benefits based on 2018/19 actuals.



Building Society