Our 2019 remuneration report

Remuneration has an important part to play in realigning our culture and ensuring best practice.

146 Annual statement by the Chairman of the Remuneration Committee
149 Annual report on remuneration
162 Directors' remuneration policy

Annual statement by the Chairman of the Remuneration Committee

Engaging positively with our investors

Members

Andrea Blance (Chairman)
Angela Knight
Graham Lindsay (member from 1 April 2019)

"I am pleased to present the report of the Group Remuneration Committee which explains how we have engaged positively with our investors during 2019. As a result, we have enhanced our reward framework to strengthen the links with performance, our strategic agenda, underlying Blueprint behaviours and cultural transformation. We have also introduced a post-employment Share Ownership Requirement policy. This enhanced framework will continue to be applied in 2020 and beyond.

Andrea Blance
Chairman of the Remuneration Committee

The report complies with the provisions of the Companies Act and the Listing Rules of the Financial Conduct Authority (FCA). The Company also follows the requirements of the UK Corporate Governance Code (the Code) updated in July 2018.

This has been a complex year including the unsolicited offer for the Group made by NSF and the 79.63% vote in favour of the Directors' Remuneration Report (DRR) at the AGM. Following this vote, we consulted with investors, to understand and address their concerns. Throughout this period, the Board remained focused on meeting shareholder expectations on financial performance and the wider strategic outcomes.

I want to thank all investors (and their representative bodies) who provided me with feedback as part of the 2019 DRR consultation. Investor views have been incorporated into the Committee's year-end decision making and will inform our approach in 2020 and beyond.

This report explains our approach to colleague and executive pay and provides information on how we reward our people. This year we have sought to use a more constant lens to ensure a joined-up approach to colleague and executive performance assessment and pay outcomes.

Changes and developments in 2019

As a result of the feedback from the shareholders following the AGM, we made the following commitments and have now delivered them all:

Annual bonus – structure

- a change in the split between financial and non-financial metrics for annual bonus, increasing the financial metrics from 50% to 60% and reducing the non-financial metrics from 50% to 40%;
- non-financial objectives are now based upon five qualitative categories: strategy, regulatory risk and conduct, Investor Relations, customers and employees;
- within each non-financial category corporate (strategic) measures of success and KPIs will be clearly distinguished from personal objective measures of success and KPIs. The weightings, assessments and outcomes of corporate (strategic) elements and personal objective elements (set out separately) can be found in the main body of the DRR;
- Group adjusted PBT (prior to exceptional items and amortisation of acquisitions and intangibles) – is now the sole financial metric used for financial performance, accounting for 60% of annual bonus scorecard weighting; and
- the Common Equity Tier 1 (CET1) metric was removed as a financial metric in the annual bonus, and was repositioned as a threshold or 'gating' requirement since the maintenance of capital is a core requirement for the business and not an objective.

Annual bonus – risk assessment

- in addition to the assessment of the regulatory risk and conduct category of the scorecard, the Committee considered overall risk adjustments for annual bonus outcomes, based on the Risk Committee overlay report, which provides further flexibility to reduce bonus in respect of materialised and non-materialised risks, deficiencies in risk culture and risk conduct behaviours as well as consideration of audit findings.

Long Term Incentive Scheme (LTIS)

- as part of the wider review on grant levels the Committee used the risk overlay and also took into consideration the impact on the share price arising from the trading statement issued in January 2019 when determining the appropriate grant level.

Share Ownership Requirement (SOR) policy

- a post-employment SOR policy has been adopted. Executive directors will have a contractual requirement to retain the in-employment SOR of 200% of base salary or, if lower, the shareholding position reached at termination for a period of two years. This covers shareholdings from share grants from 2020 in the Deferred Bonus Plan (DBP, previously PSP) and the LTIS. Shares purchased by the executive directors are not included in the post-employment SOR.

We believe that these changes clearly set out our commitment to improving our processes and provide greater alignment with the shareholders.

Performance in 2019

Adjusted PBT of £162.6m (2018: £160.1m – restated) and a CET1 ratio in excess of 25.5%. In addition, we successfully defended the unsolicited, hostile bid from NSF and consequently preserved shareholder value. Further details can be found in the DRR.

The roll-out, and ongoing embedding, of our Cultural Blueprint (see page 12) has been another successful milestone and demonstrates our commitment to long term sustainable shareholder value.

Executive director pay

Salary

The workforce average salary range increase is 2.5%–3.0%.

For 2020, we have decided to award a salary increase of 2.0% (nil in 2018) with effect from 1 January 2020 to the CEO. This approach reflects restraint and is within market levels of salary increases for executive directors. This has the effect of increasing the CEO's base salary from £700k per annum to £714k per annum.

There is no change to Simon Thomas' salary and he will be stepping down from the Board as set out below. Details about his successor, Neeraj Kapur, can also be found below.

Annual bonus outcomes in respect of 2019

As approved at the AGM, the CEO bonus opportunity increased from 120% to 175% of base salary and we have been sensitive to the need to demonstrate restraint in the quantum uplift (which consequently means that the bonus awarded for 2019 is a smaller percentage of the maximum than that awarded in 2018). An important element of the transition was to increase the importance of the financials in determining the bonus outcome and the realignment of those financials around a single measure, adjusted PBT. Further details on the results can be found below and in the main body of the DRR.

The adjusted PBT outcome of £162.6m (2018: £160.1m – restated) is 93.7% of target, hence qualifying for a payment of 45.2% of maximum payment. With a CET1 ratio in excess of 25.5% the CET1 hurdle has also been met. Finally, the non-financial element is assessed at 65% achievement (further details in the DRR). Overall the non-financial assessment was: (i) CEO – 65.2% of maximum target; and (ii) CFO – 63% of maximum target.

The CRO, and the Chairman of the Risk Committee, advised that, during 2019, material progress was made in mitigating a number of the major risks – despite significant uncertainty in the external environment and regulatory challenges facing the Group. As a result, the Committee determined that no risk overlay adjustment was necessary. Therefore, the Committee made an award of: (i) CEO – 53.2% of maximum award (£651,900) – this equates to 93% of base annual salary; and (ii) CFO – 52.3% of maximum award (£300,150) – this equates to 59% of base annual salary (pro-rated).

To ensure improved shareholder alignment 40% of the value of executive directors' annual bonus awards are granted in shares and deferred for 3 years in the Deferred Bonus Plan. These shares will contribute towards the SOR from date of grant.

Annual statement by the Chairman of the Remuneration Committee continued

LTIS matters in 2019

Vesting of 2017 LTIS

Neither the current CEO, nor CFO, were in role at the grant for the LTIS 2017 Award.

Grants of LTIS in 2019

As set out in the 2018 DRR, an LTIS grant of 200% of base salary was made to Malcolm Le May in 2019. This will vest in 2022 subject to three performance metrics: (i) relative total shareholder return (TSR) – 30%; (ii) earning per share (EPS) – 60%; and (iii) risk indicators – 10%. A two-year post-vesting holding period applies to his LTIS award (net of tax).

Simon Thomas received a grant of 175% of base salary with the same terms as Malcolm Le May.

Grants of LTIS in 2020

Further to the commitment made as a result of the shareholder consultation, in making this year's award we have considered the share price movement over the year and have decided to make a reduction in the 2020 LTIS grant value. A 15% reduction has been approved by the Committee. As a result, Malcolm Le May's LTIS grant in 2020 will be reduced from 200% to 170% of salary this year.

Board changes

Simon Thomas' illness and departure

Simon Thomas, the Chief Finance Officer, took three months medical leave, starting on 5 April 2019. Upon his return, he decided to leave the business for health reasons in March 2020, after the 2019 preliminary results announcement. Simon Thomas is being treated as a 'good leaver'. No special departure terms have been agreed and his bonus has been pro-rated for medical leave of absence. Departure terms are within the Directors' Remuneration Policy (DRP) and in accordance with the plan rules; his 2019 annual bonus has been pro-rated for medical leave of absence and he will be considered post year end for a pro rated 2020 bonus for the period worked. He will be covered by the new post-employment SOR policy when he steps down from the Board.

Appointment of Chief Finance Officer

Neeraj Kapur will be appointed to the Board on 1 April 2020 as Chief Finance Officer. The terms of his appointment are in accordance with the DRP approved by shareholders in 2019.

His base salary will be £525,000. This represents a 2.9% increase to the salary of the departing CFO, Simon Thomas, and is broadly aligned to the workforce salary increase this year. He will be entitled to a maximum annual bonus and maximum LTIS opportunity of 125% and 150% of salary per annum respectively which is less than the current office holder. Following appointment, Neeraj will be granted a 2020 LTIS award subject to performance measured over a three-year period. His bonus for 2020 will be pro-rated to reflect actual service during the year. He will be entitled to participate in pensions arrangements in the same manner as other UK-based employees with an employer contribution of 10% of base salary. To secure his appointment in accordance with the DRP approved in 2019, it was necessary to compensate him for certain cash and share-based incentive awards that he will forfeit on leaving his previous employer, Secure Trust Bank.

The buyout award, which has been designed to mirror the time horizon and value of the remuneration forfeited, will be delivered in cash (to the extent that this aligns to forfeited awards at the time of joining) and shares to provide alignment with the Group and its shareholders. Further details on his package are set out on page 156.

Full details of the Board changes are set out on page 168.

Details of the remuneration earned by the non-executive directors, and Malcolm Le May and Simon Thomas as executive directors, during the year ended 31 December 2019, have been included in the DRR.

Conclusion

We have made a great number of changes in 2019 to further align our compensation with shareholder expectations. We are confident that we now have in place a much improved 'pay for performance' commitment and rigour. No discretion was exercised by the Committee to override performance outcomes.

I would like to thank shareholders for the support they have given this year, and I hope you will recognise and approve of the substantive changes that have been made and support our 2019 DRR at the 2020 AGM.

Andrea Blance
Chairman of the Remuneration Committee
27 February 2020

Annual report on remuneration

This Annual Report on Remuneration provides an overview of the workings of the Remuneration Committee (the Committee) during the year, sets out details of how the approved Directors' Remuneration Policy (DRP) was applied in 2019, and explains the total remuneration earned by the directors during the year.

This report, together with the Committee Chairman's annual statement, will be subject to an advisory vote at the 2020 AGM.

1. Implementation of the approved DRP in 2019

1.1 Directors' remuneration

The table shows the directors' emoluments for the 2019 financial year and the 2018 financial year for comparison.

Executive directors' remuneration

	Fixed pay								Variable pay										Total	
											Share incentive schemes									
	Salary		Benefits in kind[3]		Pension		Total fixed pay		Annual bonus[4]		Vesting of LTIS[5]		Vesting of PSP Matching Awards[6]		PSP dividends		Total variable pay			
Director's name	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Executive directors																				
Malcolm Le May[1]	700	692	42	29	105	93	847	814	651	573	—	—	—	—	9	—	660	573	1,507	1,387
Simon Thomas[2]	510	43	10	1	77	6	597	50	300	—	—	—	—	—	—	—	300	—	897	50
Total	1,210	735	52	30	182	99	1,444	864	951	573	—	—	—	—	9	—	960	573	2,404	1,437

1 Malcolm Le May received an annual salary of £600,000 for the period from 1 January 2018 to 31 January 2018, as the Executive Chairman. His annual salary as the Chief Executive Officer is £700,000, effective from 1 February 2018.
2 Simon Thomas was appointed the Chief Finance Officer on 3 December 2018.
3 This figure includes amounts in respect of a company car benefit or car cash allowance, and private medical insurance.
4 The annual bonus represents the gross bonus payable to the directors in respect of 2018 and 2019.
5 Amount calculated based on no vesting of the 2017 LTIS.
6 Amount calculated based on no vesting of the 2017 PSP Matching Awards.

Non-executive directors' fees and benefits

	Fees		Benefits in kind		Total	
Director's name	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Chairman						
Patrick Snowball[1]	320	88	—	1	320	89
Non-executive directors						
Andrea Blance	116	116	2	3	117	119
Elizabeth Chambers[2]	103	43	16	5	119	48
Paul Hewitt[2]	102	41	1	1	103	42
Angela Knight[2]	104	41	—	—	104	41
John Straw[3]	30	78	1	3	31	81
Graham Lindsay[4]	64	—	—	—	64	—
Robert East[5]	39	—	—	—	39	—
Total	877	407	21	13	898	420

Note: The non-executive directors did not receive a pension benefit nor did they receive any bonus or share incentive entitlements.
1 Patrick Snowball was appointed Chairman and joined the Board on 21 September 2018.
2 Angela Knight, Elizabeth Chambers and Paul Hewitt were appointed as directors effective 31 July 2018.
3 John Straw stepped down from the Board on 20 May 2019.
4 Graham Lindsay joined the Board on 1 April 2019.
5 Robert East joined the Board on 26 June 2019. Robert East received an additional fee of £102,500 in respect of his chairmanship of Vanquis Bank Ltd.

Further details on the non-executive directors can be found on page 161.

Annual report on remuneration continued

1. Implementation of the approved DRP in 2019 continued

1.2 Executive directors' fixed pay and non-executive directors' fees in 2019

Executive directors' salaries

Malcolm Le May received an annual salary of £700,000 for the period between 1 January and 31 December 2019 as the Chief Executive Officer. This did not change from 2018 based on his CEO role.

Simon Thomas received an annual salary of £510,000 for the period between 1 January and 31 December 2019 as the Chief Finance Officer.

Executive directors' pension arrangements

The executive directors receive a cash allowance in lieu of pension as do eligible employees affected by the HRMC limits. For new executive directors appointments, including Neeraj Kapur, under the DRP the pension allowance is capped at 10% of base salary, in line with the level available to the wider workforce. The Committee carried out a detailed review last year, and it determined that the maximum pension level of 30% under the previous DRP should be reduced to 15% of salary for incumbents to bring it in line with market practice at that time and closer in line with employees below executive director level. This will be reviewed again at the next DRP review in 2022.

Chairman

The fees for the Chairman are set by the Committee. Full details of the Chairman's fees are set out on page 161.

Other non-executive directors' fees

Non-executive directors' fees are designed both to recognise the context of responsibilities, time commitment and the market of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the strategy and future growth of the Company. Full details of the fees are set out on page 161. Non-executive directors' remuneration is set by the Board, except for the Board Chairman whose fee is set by the Committee. The fees do not include share options or other performance-related elements for which they are not eligible.

Fees from other directorships

Malcolm Le May has been a non-executive director of IG Group plc since September 2015. He retains the fees from this appointment. During 2019, the fees amounted to £103,000 (£113,235 for 2018).

Simon Thomas did not hold any external directorship for the period from 1 January to 31 December 2019.

1.3 Annual bonus scheme

1.3.1 Annual bonus opportunities and targets for 2019

A number of changes to the annual bonus plan have been made in 2019. The changes sought to strengthen further our commitment to stronger pay and performance alignment. As approved at the AGM, the CEO bonus opportunity increased from 120% to 175% of base salary (with the CFO maximum being 150%) and we have been sensitive to the need to demonstrate restraint in the quantum uplift (which consequently means that the amount awarded is a smaller percentage of the maximum). An important element of the transition was to increase the importance of the financials in determining the bonus outcome and the realignment of those financials around a single measure – Group adjusted profit before tax (prior to exceptional items and amortisation of acquisitions and intangibles) – or adjusted PBT – set out on page 224.

A new balanced scorecard of non-financial measures was also introduced for the 2019 annual bonus with the aim of increasing focus on key objectives and the continuing transformation of the business. The scorecard considered performance within five categories: (i) strategy; (ii) customer; (iii) regulatory risk and conduct (see page 151); (iv) investor relations; and (v) employee. Within each of these headings the targets were split into corporate/strategic objectives and personal objectives.

The overall weighting was 60% financial (adjusted PBT), 24% non-financial (corporate/strategic) and 16% non-financial (personal). It should be noted that both non-financial categories were aggregated into a single percentage of achievement. Further details on the targets and their assessment can be found below.

The maximum bonus opportunity, in respect of 2019, was 175% of salary for the CEO and 150% of salary for the CFO, and was split as follows:

	Malcolm Le May		Simon Thomas[1]	
Performance metric weightings	% of max bonus	Max as % of salary	% of max bonus	Max as % of salary
Adjusted PBT	60%	105%	60%	90%
Non-financial objectives	40%	70%	40%	60%
Total		175%		150%

1 For 2019, the bonus of Simon Thomas was pro-rated to take account of his leave of absence.

1.3.2 Assessment of performance and pay-outs for 2019 annual bonus

The bonus assessment was as follows:

Financial

The Group achieved adjusted PBT of £162.6m, which is 93.7% of target and hence qualifies for a payment of 45.2% of maximum payment. The Group achieved a CET1 ratio in excess of 25.5%; thus, the CET1 hurdle has also been met and a bonus is potentially payable.

	Performance range					
	Threshold 85%	Target 100%	Maximum 110%	Actual	Weighting	Outcome
Adjusted PBT	£147.6m	£173.6m	£191.0m	£162.6m	60%	45.2%

Non-financial

The non-financial element was assessed at 65% achievement with this broken down as follows:

Category	Weighting	Type	Description	Individual weighting	Rating	CEO	CEO bonus %	CFO	CFO bonus %
Strategy	20%	Corporate	(i) Roll-out of Blueprint across the Group and embedding Blueprint principles into PFG customer culture and the employee appraisal process; and (ii) Conceptualisation and initiation of the CPC strategic initiatives programme	15%	On target	63.3%	9.5%	63.3%	9.5%
		CEO	Employee feedback action plan developed with target dates against all actions	5%	Exceeds target-	75%	3.75%	—	—
		CFO	Group strategic cost review and financial strategy execution	5%	On target+	—	—	65%	3.25%
Regulatory risk and conduct	40%	Corporate	(i) Regulator (PRA, FCA, CBI) understanding of Group approach to affordability, forbearance and complaints; and (ii) Improving the dialogue with the regulator and changing the economic and political perception of the business	25%	On target	58.75%	14.7%	58.75%	14.7%
		CEO	(i) Quarterly FCA all-Group forum, and (ii) Expansion of cross-business forums for collaboration on areas including FOS, complaints, risk, HR and financial crime	15%	Exceeds target	78.3%	11.75%	—	—
		CFO	Plan for PRA risk capital add on reduction	15%	On target+	—	—	65%	9.75%

Annual report on remuneration continued

1. Implementation of the approved DRP in 2019 continued
1.3 Annual bonus scheme continued
1.3.2 Assessment of performance and pay-outs for 2019 annual bonus continued
Non-financial continued

Category	Weighting	Type	Description	Individual weighting	Rating	CEO	CEO bonus %	CFO	CFO bonus %
Investor Relations	10%	CEO	(i) Positive investor feedback; and (ii) Investor perceptions and feedback improved from 2018	10%	On target+	70%	7%	—	—
		CFO	(i) Renegotiation and completion of Risk Control Framework; and (ii) Investor perceptions and feedback improved from 2018	10%	On target+	—	—	67.5%	6.75%
Customer	20%	Corporate	(i) Customer, product and funding strategy defined; (ii) Proactive price management; (iii) Optimal legal structure defined; and (iv) Project plan for delivery complete	20%	On target+	65%	13%	65%	13%
Employee	10%	CEO	Board and Executive Committee succession planning in place	10%	On target-	55%	5.5%	—	—
		CFO	Equality, Diversity and Inclusion Policy taken into account for all succession planning	10%	On target+	—	—	60%	6%
Total							65.2%		63.0%

Risk overlay

A risk overlay approach was used for potential risk adjustment with a range of factual criteria for assessment agreed with the Committee. This allowed for a more flexible and holistic approach to be adopted which considers not only the business outcomes (quantitative), but also how these have been achieved (qualitative).

For 2019, the conclusion was that material progress was made in mitigating a number of the major risks – despite significant uncertainty in the external environment and regulatory challenges facing the Group. There was evidence of renewed focus and direction from the Group Board and the Executive Committee (ExCo) through much improved understanding of our Group risk profile, attitude towards managing risk, and closure of material risk and audit issues. This enabled the organisation to start planning for the future and shifting the balance away from the historical issues which have severely hamstrung the Group's performance over the last three years. On this basis, and with reference to the 'risk overlay', the Committee has determined that no further risk adjustment is required at a Group level which has not already been considered as part of the existing financial and non-financial objectives.

It should be further noted that the Chief Risk Officer (CRO), and the Chairman of the Risk Committee, have also been materially involved in the process and its advice was sought by the Committee prior to its final deliberations.

Conclusion

The CRO and the Chairman of the Risk Committee advised that, during 2019, material progress was made in mitigating a number of the major risks – despite significant uncertainty in the external environment and regulatory challenges facing the Group. As a result, the Committee determined that no risk overlay adjustment was necessary.

40% of the value of executive director annual bonus awards will be granted as deferred bonus share awards. These are subject to continuing employment but not subject to performance criteria and are deferred for 3 years. Deferred bonus share awards are contributing towards the minimum SOR from date of grant.

	Malcolm Le May		Simon Thomas	
Financial	45.2% of max £332,420		45.2% of max £155,650	
Non-financial	65.2% of max £319,480		63.0% of max £144,500	
Total	53.22% of max 93% of salary £651,900		52.31% of max 59% of salary[1] £300,150	
	Cash	Deferral	Cash	Deferral
	£391,140	£260,760	£180,090	£120,060

1 Pro-rated to take account of Simon Thomas' three-month medical absence.

1.4 Long-term incentive schemes

In 2019 the Committee granted awards under the LTIS, which have a three-year performance period covering the years from 2019 to 2021. Details of the LTIS grants are provided below.

1.4.1 LTIS – 2020 grant and performance targets

It is intended that LTIS awards of 170% of base salary will be granted to Malcolm Le May. This award level incorporates an adjustment to acknowledge the reduction in the share price during 2019. A grant will also be made to Neeraj Kapur (see page 156) but no grant will be made to Simon Thomas. The grants are due to vest in 2023 subject to performance conditions, continued service and a further two-year holding period.

The performance conditions will be as follows:

		Threshold		Maximum		
Performance metrics	Weighting	Performance requirement	% of max vesting	Performance requirement	% of max vesting	Between threshold and max
Cumulative EPS	60%	162.5p	20%	198.6p	100%	
Relative TSR	30%	Median	20%	Upper quartile	100%	Straight-line vesting
Risk indicators	10%	Based on Committee assessment	20%	Based on Committee assessment	100%	

1.4.2 LTIS – 2019 grant and performance targets

LTIS awards of 200% of base salary were granted to Malcolm Le May and 175% of base salary to Simon Thomas in 2019. The grants are due to vest in 2022 subject to performance conditions, continued service and a further two-year holding period.

For the 2019 LTIS grant, the absolute TSR metric was replaced with relative TSR compared with the constituents of FTSE 250 excluding investment trusts. The performance targets for 2019 LTIS and the corresponding vesting schedule are provided in the table below.

		Threshold		Maximum		
Performance metrics	Weighting	Performance requirement	% of max vesting	Performance requirement	% of max vesting	Between threshold and max
Cumulative EPS	60%	153.0	20%	187.0	100%	
Relative TSR	30%	Median	20%	Upper quartile	100%	Straight-line vesting
Risk indicators[1]	10%	Based on Committee assessment	20%	Based on Committee assessment	100%	

1 Risk indicators include: (i) relationship with the Company's regulators; (ii) successful completion of the ICAAP and the ILAAP; (iii) credit risk; (iv) reduction in operational risk through the divisions working together more productively and the Company being managed more efficiently; and (v) culture, conduct, governance and adherence to the FCA Handbook, its principles of business and treating customers fairly outcomes.

Dividend waiver

To the extent an award vests at the end of the performance period, either additional ordinary shares in the Company or a cash amount equivalent to the dividends that would have been paid on the vested awards from the date of grant would be provided to the executive directors on vesting. As the awards did not vest during 2019, no dividends were paid.

1. Implementation of the approved DRP in 2019 continued

1.4 Long-term incentive schemes continued

1.4.2 LTIS – 2019 grant and performance targets continued

LTIS – 2019 award

Details of the LTIS awards granted to the executive directors during 2019 are summarised below:

Director's name	Date of award	Number of shares	Face value[1]	Percentage of salary	Performance condition	Performance period	% vesting at threshold
Malcolm Le May	01.04.2019	273,544	£1,400,000	200%	See table above	Three consecutive financial years ending 31 December 2021	20%
Simon Thomas	01.04.2019	174,384	£892,500	175%			20%

1 Face value calculation is based on the share price of £5.1180 on 29 March 2019. Actual value at vesting may be greater or lesser depending on actual share price at vesting and as a result of any dividend equivalent payable on vested shares.

Awards held by the executive directors under the LTIS at 31 December 2019 were as follows:

Director's name	Date of award	Awards held at 01.01.2019	Awards granted during the year	Awards vested during the year	Awards lapsed during the year	Awards held at 31.12.2019	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Malcolm Le May	16.04.2018[1]	204,498	—	—	—	204,498	684.60	—	16.04.2021
	01.04.2019[2]	—	273,544	—	—	273,544	511.80	—	01.04.2022
Simon Thomas	01.04.2019[2]	—	174,384	—	—	174,384	511.80	—	01.04.2022

1 Details of the performance targets for the 2018 awards were included in the Annual Report on Remuneration in 2018.
2 Details of the performance targets for the 2019 awards are provided in the table '2019 grant and performance targets'.

LTIS 2017 and 2018 awards

Neither executive director received a 2017 LTIS award.

1.4.3 DBP – Deferred Bonus Plan (formerly known as the Performance Share Plan)

The DBP was originally a bonus deferral and matching plan. Deferred bonuses vest after three years. As reported previously, to align with best practice, the facility to grant Matching Awards was discontinued in 2018. There is a mandatory deferral of bonus for executive directors which is a minimum of one-third of any bonus awarded.

DBP 2019 awards

Details of the awards granted to the executive directors during 2019 are summarised below:

Director's name	Date of award	Type of award	Number of shares	Face value[1]	Percentage of bonus	Vesting date
Malcolm Le May	01.04.2019	Basic – forfeitable shares	44,781	£229,190	40%	01.04.2022

1 Face value is calculated based on the share price of £5.1180 on 29 March 2019. The actual value may be greater or lesser depending on the actual share price at vesting and as a result of any dividend equivalent payable on vesting shares.

Awards held by the executive directors under the DBP as at 31 December 2019 are summarised below:

Director's name	Date of grant	Basic Awards (number of shares) held at 01.01.2019	Basic Awards (number of shares) granted during the year	Total Basic Awards (number of shares) vested during the year	Total Basic Awards (number of shares) held at 31.12.2019	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Malcolm Le May	01.04.2019	—	44,781	—	44,781	511.80	—	01.04.2022

Vesting of DBP 2017 awards

There was no grant in 2017.

DBP dividends

For awards granted under the DBP, the dividends payable on the Basic Award are paid to participants on the normal dividend payment date. Any dividend payable on the shares comprising the DBP Matching Awards are paid to participants as a dividend equivalent on the normal vesting date and to the extent of vesting.

No executive directors received any dividends during 2019 in respect of DBP Matching Awards granted in 2017.

1.4.4 Other relevant share incentive scheme information

The mid-market closing price of the Company's shares on 31 December 2019 was £4.57. The range during 2019 was £6.58 to £3.56.

No consideration is payable on the award of conditional shares.

1.4.5 Offshore Employee Benefit Trust

The rules of the LTIS and DBP allow these schemes to be operated in conjunction with any employee trust established by the Company. The Company established the Provident Financial plc 2007 Employee Benefit Trust (EBT) in Jersey with SG Kleinwort Hambros Trust (CI) Limited (KB Trustees) acting as the trustee of the trust.

The EBT, together with any other trust established by the Company for the benefit of employees cannot, at any time, hold more than 5% of the issued share capital of the Company.

Previously lapsed shares were used to satisfy the 2019 awards made under LTIS. The trustee transferred the beneficial ownership (subject to achievement of performance conditions) in 447,928 of the shares for no consideration to the executive directors on 1 April 2019.

1.5 Savings-related share option schemes

The executive directors may also participate in the Provident Financial Savings-Related Share Option Scheme 2013 (the SAYE Scheme) after six months of service.

The SAYE Scheme does not contain performance conditions, but the employee must remain employed by the Company, as it is an HMRC-approved scheme designed for employees at all levels. Invitations to join the scheme were issued to eligible employees in September 2019. No consideration is payable on the grant of an option.

During the year, neither executive director exercised any options.

Options held by the executive directors under the SAYE Scheme at 31 December 2019 were as follows:

Director's name	Options held at 01.01.2019	Granted in 2019	Exercised in 2019	Lapsed in 2019	Options held at 31.12.2019	Exercise price for options granted (£)	Market value at date of exercise (£)	Range of normal exercisable dates of options held at 31.12.2019
Malcolm Le May	5,576	5,572	—	5,576	5,572	3.23	—	08.10.2022 to 07.04.2023
Simon Thomas	—	—	—	—	—	—	—	—
Total	5,576	5,572	—	5,576	5,572	—	—	—

1.6 Malus and clawback

In accordance with the recommendations within the Code and other best practice guidance, the Committee introduced malus and clawback provisions into all awards under the annual bonus scheme, the LTIS and the DBP (previously the PSP) from December 2010. This enabled the Committee, at its discretion, to reduce awards before vesting (malus) or to claw back value overpaid for a period of three years from the date of vesting/payment in the event of: (i) a material prior period error requiring restatement of the Group financial statements; or (ii) an error in assessing the extent to which a performance target (and/or any other condition) has been met.

The mechanisms open to the Committee when undertaking a clawback include the withholding of variable pay to offset the value to be clawed back and/or seeking repayment from the individual of the value overpaid.

Annual report on remuneration continued

1. Implementation of the approved DRP in 2019 continued

1.7 Dilution and use of equity

Since 2008, the Company had, with shareholder approval, disapplied the 5% anti-dilution limit on the use of newly issued shares for the LTIS and DBP and only applied the 10% anti-dilution limit that covers all of the Company's share plans. The disapplication of the limit related back to the demerger of the international business in 2007 and the subsequent share consolidation which made it impossible to operate the LTIS and DBP within the 5% limit if the plans were to act as a motivational tool and reward performance. In 2018, the Committee undertook to reintroduce the 5% limit when the LTIS and DBP could be effectively operated within that limit and is pleased to confirm that the 5% limit continues to be applied.

The table below sets out the headroom available for all share schemes (10% in 10 years limit) and shares held in trust, and discretionary share schemes (LTIS and DBP) (5% in 10 years limit) as at 31 December 2019:

Headroom	2019	2018
All share schemes	**4.9%**	5.6%
Shares held in trust	**3.8%**	3.8%
Executive share schemes	**1.5%**	2.2%

1.8 Simon Thomas' leaving arrangements

Simon Thomas, the Chief Finance Officer, took three months' medical leave. Upon his return, he decided to leave the business for health reasons in March 2020, after the 2019 preliminary results announcement. Simon Thomas is being treated as a 'good leaver'. Departure terms are within the DRP and in accordance with the plan rules; his 2019 annual bonus has been pro-rated for medical leave of absence and he will be considered for a 2020 bonus pro-rated for the period worked during the year assessed following the year-end outcome on performance. He will be covered by the new post-employment SOR policy when he steps down from the Board.

1.9 Neeraj Kapur's appointment

Neeraj will be appointed to the Board on 1 April 2020 as Chief Finance Officer. The terms of his service contract have been set in accordance with the policy approved by shareholders in 2019. On appointment, he will receive a salary of £525,000, with an annual bonus and LTIS opportunity for 2020 of 125% and 150% of salary respectively which is below that of the current office holder. His bonus for 2020 will be pro-rated to reflect actual service during the year and he will receive an LTIS award in the grant window following the date of his joining.

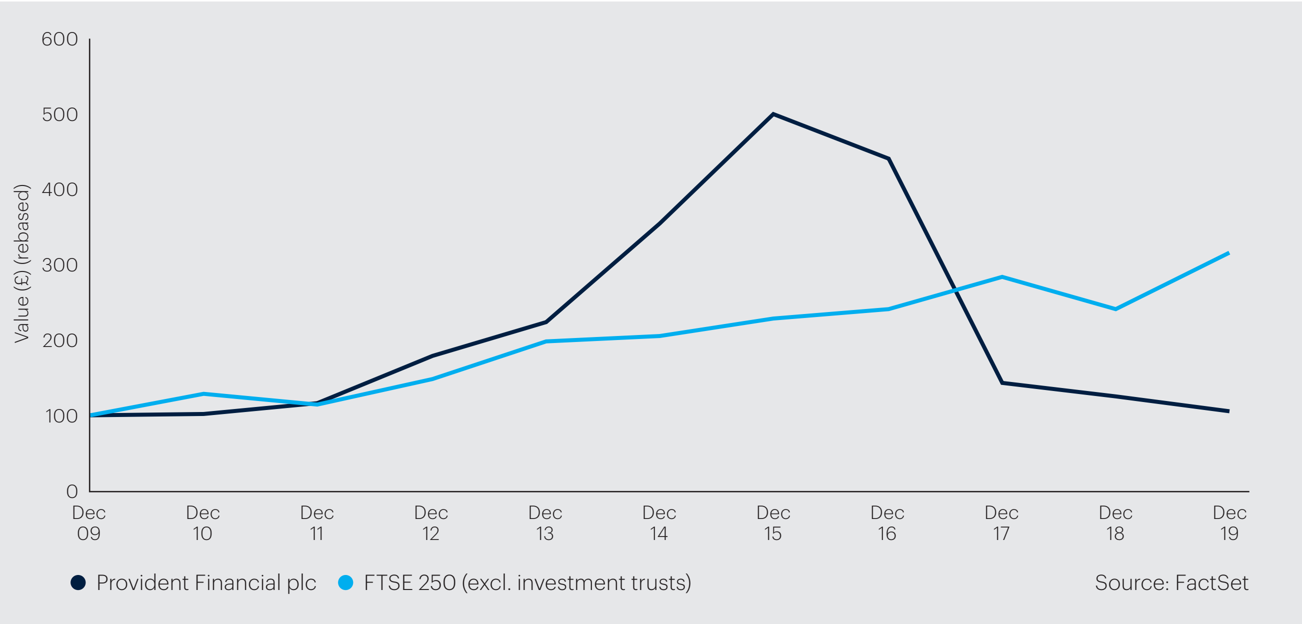
He will also receive a buyout award in compensation for cash and share-based awards forfeited on leaving Secure Trust Bank, his previous employer. The buyout award, which was designed to mirror the time horizon and value of remuneration forfeited, will be delivered in cash (to the extent that this aligns to forfeited awards at the time of joining) and shares to provide alignment with the Group and its shareholders. The grant value of the buyout award will be approximately £776,000.

A pension provision or, where at HMRC limits, a cash equivalent of 10% of basic salary will be provided. This is in line with the structure in place for the UK employees. Neeraj will receive standard benefits set out in the policy including life cover, permanent health insurance, private medical insurance, car benefit and participation in all-employee share plans.

1.10 Total shareholder return: Provident Financial plc vs FTSE 250 (excluding investment trusts)

The graph below shows the total shareholder return for Provident Financial plc against the constituents of the FTSE 250 (excl. investment trusts) for the past ten years. The FTSE 250 has been selected as the Committee considers it the index most relevant to the Company.

Total shareholder return: Provident Financial plc vs FTSE 250 (excl. investment trusts) – 31.12.2009–31.12.2019



1.11 Chief Executive Officer pay

The table below shows the total remuneration figure for the Chief Executive Officer over the ten-year period. Peter Crook's figure is shown up to the date his employment terminated in August 2017 (Chief Executive Officer data for Peter Crook's predecessors are also used). Malcolm Le May's figure is shown from January 2018, including the period he was in the role of the Executive Chairman. The total remuneration figure includes the annual bonus paid together with LTIS and PSP Matching Awards which vested based on the relevant performance targets in those years. The annual bonus, LTIS and PSP Matching Awards percentages show the pay-out for each year as a percentage of the maximum opportunity.

Chief Executive Officer remuneration 2010 to 2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single total figure of remuneration (£'000)	2,727	3,443	4,326	4,985	6,594	7,500	6,315	962	1,387	**1,507**
Annual bonus (%)	81	100	98	89	100	98	100	—	69	**53**
LTIS vesting (%)	66	49	100	100	100	100	100	—	—	**—**
PSP Matching Awards vesting (%)	100	79	—	100	100	100	100	—	—	**—**

Chief Executive Officer relative pay

The table below shows the percentage year-on-year change in salary, benefits and annual bonus earned between the years ended 31 December 2018 and 31 December 2019 for the Chief Executive Officer, compared to the average for the corporate office employees during the same period. A comparison with the corporate office employees is considered to be more suitable due to the range and composition of employees across the Group and the wide range of different remuneration structures and practices which operate in the divisions, making any meaningful comparison difficult.

	2018/2019		
%	**Salary**	**Benefits**	**Annual bonus**
Chief Executive Officer	**(8)%**	**(46.3)%**	**n/a**
Average corporate office employee	**4.2%**	**1.3%**	**n/a**

It should be noted that the 8% reduction in salary (and 46% in benefits) is based on the change between the current and prior Chief Executive Officer (Peter Crook).

1.12 Relative importance of spend on pay

The table below shows the total pay (including bonuses) for all the Group's employees in the 2017, 2018 and 2019 financial years compared to the distributions made to shareholders in the same periods.

	Year ended 31 December			% change	% change
Relative importance of spend on pay	**2019**	2018	2017	2018/2019	2017/2018
Total employee remuneration (£m)	**184.5**	205.6	177.5	(10.3)	15.8
Total shareholder distributions (£m)	**47.6**	—	133.4	n/a	(100.0)

Chief Executive Officer to employee pay ratio

For the purposes of the above, we have decided to use Option B for the purposes of calculation. This decision reflects that the hourly pay metric used in the Group's gender pay gap reporting continues to provide an accurate comparison of workforce pay to Chief Executive Officer pay. This is due to the components of remuneration that are not captured in hourly pay being either highly standardised (benefits) or where more variable (such as bonus awards), being of a relatively low absolute and relative value, as evidenced in the table below.

There are three approved methodologies for reporting:

- Option A – all employees in the organisation listed by descending compensation;
- Option B – leveraging gender pay gap reporting data (hourly pay metric); and
- Option C – other approach – to be defined and explained by the Company.

The current Chief Executive Officer to employee pay ratio is as follows:

PFG Chief Executive Officer pay ratio reporting – 2019 (£'000)

2019 Chief Executive Officer single figure total remuneration:

Year	Method	P25 pay ratio	Median pay ratio	P75 pay ratio
2019	Option B	62.3:1	53.3:1	44.4:1

Year	Pay measure	P25 pay	Median pay	P75 pay
2019	Fixed pay	£23,700	£27,400	£31,600
	Total pay	£24,200	£28,000	£32,300

Option B reflects the decentralised nature of multiple payroll systems across the Group, and a short turnaround time to capture and analyse bonus and total pay data.

1. Implementation of the approved DRP in 2019 continued

1.13 Remuneration policy for employees

We provide employees across the Group with a competitive reward package. We provide a competitive package which includes:

- salary;
- benefits;
- annual bonus – eligibility is dependent upon market comparisons; and
- Share Purchase Plan.

The purpose of each element is the same for all employees, which creates a consistent approach throughout the organisation. Each element is based on market comparisons and supports the recruitment and retention of colleagues of the calibre, capability and experience needed to perform their role.

- **Base salary** – provides fixed remuneration and reflects the size, scope and complexity of individual role responsibilities. The annual salary review takes place for all employees at the same time.
- **Benefits** – a market-competitive level of benefits for colleagues, which enhance the reward package and provide other reasons to work at the Company, i.e. life assurance.
- **Pension** – the opportunity to save for retirement, with the employing company providing a match to employee contributions.
- **Annual bonus** – the opportunity (where appropriate) for employees to receive an annual bonus for the delivery of business and personal goals (including Blueprint behaviours). It is also a function of a standard scorecard across the business which provides a consistent lens for all employees. Annual bonus opportunity provides colleagues with a balance between fixed and variable pay related to market practice based on role. At senior levels a proportion of any bonus is deferred into our shares to provide additional alignment with shareholders' experience.
- **Share Purchase Plan** – an opportunity for all employees to acquire shares through regular savings for alignment with shareholders.

The balance between the different elements of remuneration depends largely on the role and seniority of employees. In more junior roles remuneration is principally fixed pay, reflecting our principle of helping to support a decent standard of living, where regular pay levels help with personal budgeting and planning. For more senior employees, remuneration is weighted more towards variable pay, which can increase or decrease based on the performance achieved against our goals. This approach to pay design also reflects each individual's ability to influence our performance and also takes into account behaviour which incorporates the impact on risk – (to the degree appropriate for each role). We also take account of the requirements of the UK Corporate Governance Code and the views of our investors and other external bodies.

We have a consistent overall principle that all employees should be paid competitively against the relevant pay benchmark.

1.14 Shareholding requirements

The Company has a SOR policy for executive directors which in 2019 required them to acquire and maintain shares in the Company with a total value of 200% of basic salary normally within five years from appointment. Executive directors are required to retain 50% of shares obtained from any share plan, net of tax, until this requirement has been reached.

The Committee reviews the shareholdings of the executive directors in light of these guidelines once a year, based on the market value of the Company's shares at the date of assessment. When performing the calculation to assess progress against the guidelines during employment, shares held by a spouse or dependant, or in an ISA or pension scheme are included or whilst unvested LTIS awards are not.

The current shareholdings of the executive directors under the SOR policy as at 31 December 2019 are as follows:

Share ownership guideline holdings

Director's name	Share ownership as a percentage of salary	Share ownership (number of shares)[1,4]
Malcolm Le May[2]	29.2%	44,781
Simon Thomas[3]	—	—

1 Net of notional tax.
2 Malcolm Le May was appointed CEO on 1 February 2018.
3 Simon Thomas was appointed CFO on 3 December 2018.
4 Includes shares owned outright, unvested DBP and vested LTIP in the holding period.

Effective for 2020, the Committee reviewed the approach and updated it with a formal policy as follows:

- a post-employment SOR policy has been adopted. Executive directors will have a contractual requirement to retain the in-employment SOR of 200% of salary or, if lower, the shareholding position reached at termination of office for a period of two years. This covers shareholdings from share grants made from 2020 onwards in the Deferred Bonus Plan (DBP, previously PSP) and the LTIS. Shares purchased by the executive directors (including through all-employee share plans) are not included in the post-employment SOR; and
- in the in-employment SOR policy, it has been updated to include the DBP, for consistency across the policy.

It should be noted that Simon Thomas will be covered by the post-employment SOR policy when he steps down from the Board for his 2020 DBP award.

1.15 Directors' share ownership

Details of shares held by the executive directors and their connected persons, are shown in the table below:

		Unvested			
Director	Type	Owned outright	Subject to performance conditions	Not subject to performance conditions	Total as at 31.12.19
Malcolm Le May	Own name	—	—	—	—
	Held in YBS Trustees (SIP)	—	—	—	—
	LTIS	—	478,042	—	478,042
	DBP	—	—	44,781	44,781
Total		—	478,042	44,781	522,823
Simon Thomas	Own name	—	—	—	—
	Held in YBS Trustees (SIP)	—	—	—	—
	LTIS	—	174,384	—	174,384
	DBP	—	—	—	—
Total		—	174,384	—	174,384

Details of shares held by the non-executive directors and their connected persons are shown in the table below:

Director	Owned outright	Total as at 31.12.19
Andrea Blance	—	—
Elizabeth Chambers	12,000	12,000
Robert East	5,000	5,000
Paul Hewitt	34,205	34,205
Angela Knight	—	—
Graham Lindsay	9,771	9,771
Patrick Snowball	96,477	96,477
Total	157,453	157,453

There have been no changes in the beneficial or non-beneficial interests of the executive directors and non-executive directors between 1 January and 27 February 2020.

1.16 Audit

The elements of the Directors' Remuneration Report (including pension entitlements and share options set out on pages 149 to 159 of this report) which are required to be audited have been audited in accordance with the Companies Act 2006.

This Annual Report on Remuneration has been approved by the Remuneration Committee and the Board and signed on its behalf.

Andrea Blance
Chairman of the Remuneration Committee
27 February 2020

Annual report on remuneration continued

2. Committee effectiveness and governance

2.1 Committee role

The role of the Committee is set out in its terms of reference which are reviewed annually and were last updated in December 2018. These can be found on the Group's website at www.providentfinancial.com. The Committee meets at least three times a year and thereafter as circumstances dictate.

The Committee regularly reviews the approved DRP in the context of the Group's strategy and the Group's risk management framework to ensure it does not inadvertently promote irresponsible behaviour. It has coordinated its work with both the Audit Committee and the Group Risk Committee, which assist with the monitoring and assessment of risk management specifically in relation to the incentives provided under the approved DRP.

The Committee considers remuneration policy across the Company seeking to ensure that policy is fair and equitable and supports the Company's culture and values. When determining policy, care is taken to ensure that solutions meet the objectives and are: clear, proportionate, aligned to the culture (and the policy on risk) and as simple to explain as possible. Recent evidence of this approach can be found in the evolution of the annual bonus arrangements in 2019. When we review the DRP in 2022, we will incorporate these principles further.

This year the Committee has pursued active engagement with shareholders on policy and the approach to its implementation. This will be ongoing in future years.

2.2 Membership

The members of the Committee, all of whom are considered to be independent, are shown in the table below. Their attendance at meetings during the year on page 118.

Details of the work undertaken by the Committee during the year are set out below.

Committee members

Name	Notes	Date appointed
Andrea Blance	Chairman	27 November 2017
Andrea Blance	Member	1 March 2017
Angela Knight	Member	31 July 2018
Graham Lindsay	Member	1 April 2019

2.3 Effectiveness

This year the Board undertook an externally facilitated evaluation of the effectiveness of the Board and its Committees. You can read about this process on pages 122 to 124.

2.4 External advisors

In 2019, independent advice on executive remuneration and share schemes is received from the Executive Compensation practice of Aon plc. Aon is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct, which requires its advice to be objective and impartial. The total fees paid to Aon in respect of the provision of advice to the Committee during the year were £96,591 (excluding VAT). Aon has also provided support to the HR team on remuneration implementation, and pension consultancy and investment advice to the Company. The Committee is satisfied that these additional services provided by other parts of Aon in no way compromised the independence of the advice received from Aon's Executive Compensation practice.

The terms of engagement for Aon are available from the Company Secretary on request.

The Company Secretary is secretary to the Committee.

In selecting advisors, the Committee considers a range of factors, such as independence and objectivity, experience, technical ability and market knowledge.

Priorities for 2020

Continue to monitor upcoming changes relating to remuneration and assess the potential impact on the Group's remuneration structure and framework.

Continue to engage with shareholders and shareholder advisory bodies, as appropriate, in relation to further alignment between shareholder interests and the executive directors' remuneration.

2.5 Statement of shareholder voting at the AGM

At the 2019 AGM the directors' Annual Report on Remuneration received the following votes from shareholders:

	Total number of votes[1,2]	% of votes cast
For	122,617,524	79.63
Against	31,366,266	20.37
Total votes cast (for and against)	153,983,790	100.00

1 The total number of votes withheld was 1,716,728.
2 A total of 73,005 shares were voted at proxy's discretion, which have been added to the votes cast for.

At the 2019 AGM, the DRP received the following votes from shareholders:

	Total number of votes[1,2]	% of votes cast
For	152,767,368	98.12
Against	2,921,610	1.88
Total votes cast (for and against)	153,988,978	100.00

1 The total number of votes withheld was 11,541.
2 A total of 66,739 shares were voted at proxy's discretion, which have been added to the votes cast for.

Following the 2019 AGM, the Committee engaged with the shareholders. The outcomes of this engagement are set out in the Annual Statement on pages 146 to 148.

2.6 Remuneration Committee key items in 2019

The following sets out the key considerations of the Committee by meeting:

	Governance		Annual bonus		Share plans				
	General	DRR	Design	Review	Grant	Review	Risk	All employee matters	Shareholder
January	●	●		●	●	●	●	●	●
February	●	●	●	●	●		●	●	
June	●			●			●		●
October	●			●					●
December	●		●	●		●	●	●	●

Note: There were several additional meetings in connection with the NSF bid.

3. Implementation of Remuneration Policy

3.1 Executive directors

3.1.1 Developments in 2019

As a result of the feedback from the shareholders post the AGM, and our improved ability to implement changes due to progress on the strategic agenda, we made a number of changes in 2019 which are highlighted in the Chairman's letter – see page 147.

3.1.2 Implementation of Policy for 2020

Annual bonus

Developments in 2020 include the ongoing evolution of the scorecard for the annual bonus plan. For 2020, the Committee has agreed the following:

- hurdle: minimum level of CET1;
- financial objective: adjusted PBT (60%); and
- non-financial objective: scorecard measures (40%):
  - strategy (20%);
  - regulatory risk and conduct (40%);
  - investor relations (10%);
  - customer (20%); and
  - employee (10%).

These non-financial measures are the same as 2019 as this approach was supported by shareholders. The Committee has measures of success for each approved objective. These measures of success have a clear metric and/or narrative-based system, to enable the accurate tracking and monitoring of each objective so that an accurate and unambiguous outcome is determined. This will enable scorecard performance to be tracked and assessed during 2020. They are all linked to the strategy set by the Board.

The maximum bonus opportunity in respect of 2020 is as per the policy at 175% of salary for the CEO and 125% of salary for the new CFO, and will be split as follows:

	Malcolm Le May		Neeraj Kapur	
Performance metric weightings	% of max bonus	Max as % of salary	% of max bonus	Max as % of salary
Adjusted PBT	60%	105%	60%	75%
Company non-financial objectives	40%	70%	40%	50%
Total		175%		125%

Post-employment SOR

In addition, a post-employment SOR policy has been adopted. Executive directors will have a contractual requirement to retain the in-employment SOR of 200% of base salary or, if lower, the shareholding position reached at termination of office for a period of two years. This covers shareholdings from share grants from 2020 in the Deferred Bonus Plan (DBP, previously PSP) and the LTIS. Shares purchased by the executive directors are not included in the post-employment SOR.

3.2 Non-executive directors

3.2.1 Non-executive directors' fees

During the year the Board reviewed Committee membership to enhance the focus and efficiency of the Board Committees. As part of this review, the Board approved the non-executive directors' fees as set out below with effect from 1 July 2019. At its meeting in December 2019, the Board further reviewed the non-executive directors' fees in the context of responsibilities, time commitment and the market taking due account of the need to use such benchmarking exercises with caution. After taking into account the circumstances facing the Company, the Board determined the fee levels with effect from 1 January 2020 as follows:

- non-executive director base fee: £68,000 (no change);
- supplementary fee for chairing the Group Audit, Remuneration, Risk and Customer, Culture and Ethics Committee: £20,000 (no change);
- supplementary fee for Committee membership (except the Disclosure Committee): £15,000 (previously a supplementary fee of £5,000 per Committee for membership of the Audit, Remuneration, Risk and Customer, Culture and Ethics Committees was paid). This fee is not paid to the chairman of these Committees. Additional fee information is as follows:
  - Angela Knight receives a further supplementary fee of £5,000 to reflect additional Board Committee responsibilities, since she sits on more Committees;
  - Robert East receives a fee of £10,000 for Committee membership due to sitting on fewer Board Committees. He sits on fewer Board Committees due to his additional time commitment as Non-Executive Chairman of Vanquis Bank Ltd. He also received an additional fee of £102,500 in respect of his chairmanship of Vanquis Bank Ltd; and
  - supplementary fee for the role of Senior Independent Director (SID): £15,000 (no change).

3.2.2 Chairman's fee

The Committee reviewed the Chairman's fee in the context of responsibilities, time commitment and the market taking due account of the need to use such benchmarking exercises with caution. Following review, the Committee determined that the Chairman's fee for 2020 should remain at £320,000.

Andrea Blance
Chairman of the Remuneration Committee
27 February 2020

Directors' remuneration policy

The Committee is responsible for the remuneration of the Chairman, the executive directors and the Company Secretary. The remuneration and terms of appointment of the non-executive directors are determined by the Board as a whole. The Committee also reviews and sets the remuneration of the senior management teams within the three divisions and the corporate office.

The Chief Executive Officer is consulted on proposals relating to the remuneration of the other executive directors and the senior management teams. The Chairman is consulted on proposals relating to the Chief Executive Officer's remuneration. When appropriate, both are invited by the Committee to attend meetings but are not present when their own remuneration is considered.

The Committee recognises and manages any conflict of interest when consulting the Chief Executive Officer and Chairman about its proposals.

The current DRP was approved by shareholders at the 2019 AGM on 21 May 2019. During 2019, the Committee carried out a consultation process with the shareholders taking into account the new circumstances facing the Company, the latest shareholder feedback and the 2018 UK Corporate Governance Code. Following the review, the Committee decided to propose a number of amendments to the current DRP. The proposed amendments will bring the DRP in line with best practice and ensure the overall remuneration of executive directors is at a market-competitive level.

Considerations when setting policy

In setting the remuneration policy for the executive directors and senior management, the Committee takes into account the following:

- the need to maintain a clear link between the overall reward policy and the specific performance of the Group;
- the need to achieve alignment to the business strategy both in the short and long term;
- the requirement for remuneration to be competitive, with a significant proportion dependent on risk-assessed performance targets;
- the responsibilities of each individual's role and their individual experience and performance;
- the need to attract, retain and motivate executive directors and senior management when determining remuneration packages, including an appropriate proportion of fixed and variable pay;
- pay and benefits practice and employment conditions both within the Group as a whole and within the sector in which it operates; and
- periodic external comparisons to examine current market trends and practices and equivalent roles in companies of similar size, business complexity and geographical scope.

How employees' pay is taken into account

Pay and conditions elsewhere in the Group were considered when finalising the policy for executive directors and the senior management teams. The same principles apply throughout the Group but are proportionate relative to an individual's influence at Group level. The base salary increases awarded to the executive directors are consistent with the average percentage increases awarded elsewhere in the Group and reflect the financial performance of the Group and each individual director's personal performance. The Committee does not formally consult directly with employees on executive pay but does receive periodic updates from the divisions on remuneration issues in general and specifically in relation to remuneration structures throughout the Group.

How the executive directors' remuneration policy relates to the senior management teams

Remuneration for the level below executive director (including share incentives, bonus, benefits and pension entitlement) is set primarily by reference to market comparatives.

Long-term incentives are typically only provided to the most senior executives and are reserved for those identified as having the greatest potential to influence Group-level performance.

How shareholders' views are taken into account

We remain committed to taking into account shareholder views on any proposed changes to our remuneration policy. The Committee Chairman maintains contact, as required, with the Company's principal shareholders about all relevant remuneration issues and the Company consulted with its principal shareholders, as well as the shareholder advisory bodies, in relation to the renewal of its remuneration policy. Ongoing and transparent dialogue with our shareholders on the topic of executive remuneration is very important to us and the feedback received on the proposed remuneration policy was carefully considered and discussed by the Committee.

Executive director remuneration policy

Element	Purpose and link to strategy	Operation including maximum levels	Performance targets and provisions for recovery of sums paid
Salary	To reflect the responsibilities of the individual role. To reflect the individual's skills and experience and their performance over time. To provide an appropriate level of basic fixed income and avoid excessive risk taking arising from over reliance on variable income.	Reviewed annually and effective from 1 January. Typically set following review of the budget for the forthcoming year, taking into account salary levels in companies of a similar size and complexity. Typically targeted at or around median. Annual increases typically linked to those of the wider workforce. Increases beyond those granted to the wider workforce may be awarded in certain circumstances such as where there is a change in responsibility, progression in the role, or a significant increase in the scale of the role and/or size, value and/or complexity of the Group.	Broad assessment of Group and individual performance as part of the review process. Malus and clawback provisions do not apply.
Retirement benefits	Provision of market-competitive pension benefits.	Provide either a cash allowance or a contribution to the defined contribution plan or a combination of the two. Pension allowance of up to 15% of salary per annum is given to all existing executive directors. For any future executive director appointments from the 2019 AGM onwards, pension allowance will be capped at 10% of salary, in line with the allowance available to the workforce.	Not applicable.
Annual bonus	Incentivises annual delivery of agreed financial and operational goals. Rewards the achievement of an agreed set of annual financial and operational goals.	Financial and operational goals set annually. Maximum opportunity of 175% of salary. 40% of the bonus is subject to compulsory deferral in which case an award is made under the Deferred Bonus Plan (formerly PSP). Remainder of bonus paid in cash. At the discretion of the Committee, participants may also be entitled to receive dividend or dividend equivalent for the period between grant and vesting on vested deferred bonus shares.	A minimum of 60% of any bonus opportunity will be subject to financial targets, e.g. adjusted PBT with up to 20% linked to personal objectives. A graduated scale operates from threshold performance through to the maximum performance level. For financial targets, 25% of the maximum bonus becomes payable for achieving the threshold performance target. 60% of the maximum bonus becomes payable for achieving on-target performance. 100% of the maximum bonus becomes payable for achieving stretch performance. A straight-line pay-out is operated between threshold and on-target performance and between on-target and stretch performance. In relation to non-financial and personal objectives, it is not always practicable to set a sliding scale for each objective. Where it is, a similar proportion of the bonus becomes payable for exceeding the threshold performance level as for financial targets. Malus and clawback provisions apply in accordance with the strengthened Group Malus and Clawback policy. The period of clawback is three years from the date of payment. Details of the bonus measures operating each year will be included in the relevant Annual Report on Remuneration. The Committee reserves the power to make changes over the life of the policy to achieve alignment with the Group's annual strategy.

Directors' remuneration policy continued

Executive director remuneration policy continued

Element	Purpose and link to strategy	Operation including maximum levels	Performance targets and provisions for recovery of sums paid
Long Term Incentive Scheme (LTIS)	Alignment of management's long-term strategic interests with long-term interests of shareholders. Rewards strong financial performance and sustained increase in shareholder value. Encourages an increased shareholding in the Group.	Annual grant of share awards (structured as conditional share awards or nil-cost options). Executive directors are eligible for awards of up to 200% of salary which is the maximum opportunity contained within the scheme rules. Executive directors are required to retain vested LTIS shares, net of tax, for a further period of two years. Dividend equivalent provisions allow the Committee to pay dividends on vested shares at the time of vesting. Shareholders approved the renewal of the LTIS at the 2015 AGM.	Awards vest based on a three-year performance period against a challenging range of EPS, relative TSR targets, and risk metrics set and assessed by the Committee. The relative TSR will be measured against a suitable comparator group. 20% of the award vests at the threshold performance level with full vesting taking place on a graduated scale for achieving the maximum performance level. The performance conditions are reviewed annually by the Committee prior to grant (in terms of the range of targets and the choice of metrics) and may be refined to ensure that the targets remain aligned with the Group's strategy and KPIs. Any substantive reworking of the current performance metrics would be accompanied by appropriate dialogue with the Company's shareholders and/or approval sought for a revised remuneration policy depending on the nature of the change. The Group Malus and Clawback policy applies. The period of clawback is three years from the date of vesting.
Other benefits	Provision of a range of insured and non-insured benefits commensurate with the role.	Market-competitive benefits, which may include: • life cover; • permanent health insurance; • private medical insurance; • car benefits; • participation in any all-employee share plans operated by the Company on the same basis as other eligible employees; or • other benefits that the Committee may consider appropriate.	Not applicable.

Element	Purpose and link to strategy	Operation including maximum levels	Performance targets and provisions for recovery of sums paid
Share Ownership Requirement (SOR)	To ensure alignment of the long-term interests of executive directors and shareholders.	Executive directors are required to build a holding of 200% of salary in the form of shares in the Company normally within a period of five years from the date of appointment. Executive directors are required to retain half of any shares vesting (net of tax) under the DBP and LTIS until the guideline is met. Unvested shares held under the LTIS are not taken into account. From 2020 this is a contractual requirement together with a new post-employment requirement for executive directors to retain the in-employment SOR of 200% of salary or, if lower, the shareholding position reached at termination for a period of two years. Post-employment this includes shareholdings from share grants from 2020 in the Deferred Bonus Plan (DBP, previously PSP) and the LTIS (net of tax). Shares purchased by the executive directors (including from the all-employee SAYE plan) are not included in the post-employment SOR. The SOR ceases to apply in cases of death. Remuneration Committee discretion can be applied in implementing the SOR post-employment.	Not applicable.

The Committee will operate the incentive schemes within the policy detailed above and in accordance with their respective rules. In relation to the discretions included within the scheme rules, these include, but are not limited to: (i) who participates in the schemes; (ii) testing of the relevant performance targets; (iii) undertaking an annual review of performance targets and weightings; (iv) the determination of the treatment of leavers in line with the scheme rules; (v) adjustments to existing performance targets and/or share awards under the incentive scheme if certain relevant events take place (e.g. a capital restructuring, a material acquisition/divestment, etc.) with any such adjustments to result in the revised targets being no more or less challenging to achieve; and (vi) dealing with a change of control. For the purposes of incentive pay, adjusted PBT is calculated on an adjusted basis prior to inclusion of exceptional items.

Remuneration Committee discretion

In addition to the performance metrics set by the Committee annually for the incentive plans, the Committee will also assess the overall, or underlying, performance of the company and its divisions. In light of this assessment, the Committee may make a downward adjustment, including to zero, to the vesting outcome on all or any of the performance metrics.

The Committee will also assess the Company's and its divisions' performance against the risk metrics, and may make a downward adjustment, including to zero, to the vesting outcome on all or any of the performance metrics, to take account of any material failures of risk management or regulatory compliance in the Company and its divisions.

Additionally, Committee discretion can be applied in implementing the post-employment SOR including in cases of significant financial hardship, material ill health and conflict of interest.

Directors' remuneration policy continued

Illustrations of application of the DRP

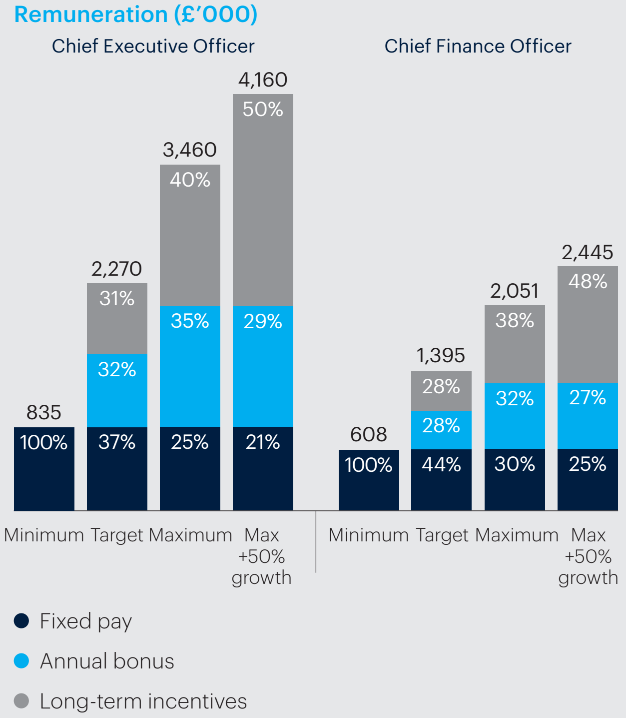
Under the Company's DRP, a large proportion of the remuneration received by executive directors depends on performance. The charts below show how total pay for the CEO and CFO varies under three different performance scenarios: minimum, target and maximum.

Minimum: this comprises the fixed elements of pay, being base salary, benefits and pension allowance. Base salary and pension are effective as at 1 January 2019 and the benefits value is an estimate value for the 2019 financial year.

Target: this comprises fixed pay and the target value of 2019 annual bonus (105% of salary for the CEO and 90% of salary for the CFO) and LTIS (100% of salary for CEO and 87.5% for CFO).

Maximum: this comprises fixed pay and the maximum value of 2019 annual bonus (175% of salary for the CEO and 150% of salary for the CFO) and LTIS (200% of salary for CEO and 175% for CFO).

Maximum plus 50% share price growth: includes the effect of a share price growth of the LTIS of 50% between grant and vesting.



Arrangements from prior years

All variable remuneration arrangements previously disclosed in prior years' directors' remuneration reports will remain eligible to vest or become payable on their original terms and vesting dates, subject to any related clawback provisions.

Regulatory changes

The Committee is mindful that regulatory changes in the financial services sector may result in a need to rebalance the executive directors' pay and, accordingly, the Committee retains discretion to adjust the current proportions of fixed and variable pay within the current total remuneration package if new legislation were to impact the executive directors in due course. Should this be the case, the Company would enter into appropriate dialogue with its major shareholders and, depending on the nature of any changes, may be required to seek shareholder approval for a revised remuneration policy.

Policy for new directors

Base salary levels will be set in accordance with the approved remuneration policy, taking into account the experience and calibre of the individual. Benefits will also be provided in line with the approved DRP and relocation expenses/arrangements may be provided if necessary.

The maximum level of variable pay that may be offered on an ongoing basis and the structure of remuneration will be in accordance with the approved DRP. This limit does not include the value of any buyout arrangements.

Any incentive offered above these limits would be contingent on the Company receiving shareholder approval for an amendment to the approved DRP at its next AGM.

Different performance measures may be set initially for the annual bonus, taking into account the responsibilities of the individual and the point in the financial year that they join the Company.

The above policy applies to both an internal promotion to the Board or an external hire.

In the case of an external hire, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving a previous employer), then the form (cash or shares), timing and expected value, i.e. likelihood of meeting any existing performance criteria, of the remuneration or benefit being forfeited will be taken into account. The Company will not pay any more than necessary and will not pay more than the expected value of the remuneration or benefit being forfeited. The approved DRP will apply to the balance of the remuneration package. The Company will also not make a golden hello payment.

In the case of an internal promotion, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant (adjusted as relevant to take into account the Board appointment), even if inconsistent with the policy prevailing when the commitment is fulfilled.

On the appointment of a new Chairman or non-executive director, the fees will be set taking into account the experience and calibre of the individual. Where specific cash or share arrangements are delivered to non-executive directors, these will not include share options or other performance-related elements.

Choice of performance metrics

The performance metrics used for the annual bonus scheme and the LTIS have been selected to reflect the key indicators of the Group's financial performance.

After a discussion with shareholders, adjusted PBT is now the sole financial metric used for financial performance, accounting for 60% of annual bonus scorecard weighting and the balance related to non-financial metrics, as set out above.

EPS continues to be considered by the Committee as one of the broadest and most well understood measures of the Group's long-term financial performance and therefore it remains appropriate to maintain the option to use it as a key metric in our long-term incentive plans.

Furthermore, EPS is fully aligned with the Group's objective of continuing to deliver a high dividend yield and thus is aligned with the shareholder base which is weighted towards longer-term income investors.

In 2012, the link to RPI was removed from the performance targets for the LTIS following consideration by the Committee of various factors prevailing at the time. This approach has been retained in relation to awards under the LTIS since 2012. Performance targets will, however, be assessed annually when setting targets for future awards to take account of prevailing rates of inflation.

In addition, relative TSR in relation to a suitable comparator group is used to provide an appropriate external balance to the internal EPS measure used under the LTIS and is consistent with delivering superior returns to shareholders which remains the Group's key, over-arching, long-term objective.

Each year, a number of risk indicators may be used in the areas of risk management, regulatory performance/compliance, risk profile and conduct.

No performance targets are set for options granted under the Company's Save As You Earn Scheme (SAYE) or for awards under the Company's Share Incentive Plan (SIP) as they form part of the all-employee arrangements which are designed to encourage employee share ownership across the Group.

Service contracts and exit policy

The Committee ensures that the contractual terms for the executive directors take due account of best practice.

Service contracts normally continue until the director's agreed retirement date or such other date as the parties agree. All service contracts contain provisions for early termination. The contracts of the executive directors are dated 1 February 2018 for the Chief Executive Officer and 3 December 2018 for the Chief Finance Officer. All contracts operate on a rolling basis with 12 months' notice required to be served by either the executive director or the Company.

An executive director's contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. No director has a service contract providing liquidated damages on termination.

In the event of the termination of a service contract, it is the current policy to seek mitigation of loss by the executive director concerned and to aim to ensure that any payment made is the minimum which is commensurate with the Company's legal obligations. Payments in lieu of notice are not pensionable.

In the event of a change of control of the Company, there is no enhancement to contractual terms.

Notice periods are limited to 12 months. If the Company terminates the employment of an executive director without giving the period of notice required under the contract, then the executive director may be entitled to receive up to 12 months' compensation. Compensation is limited to: base salary due for any unexpired notice period; any amount assessed by the Committee as representing the value of contractual benefits and pension which would have been received during the period; and any annual bonus which the executive director might otherwise have been eligible to receive on a pro rata basis, subject to the Committee's assessment of financial and personal performance.

To the extent that an executive director seeks to bring a claim against the Company in relation to the termination of their employment (e.g. for breach of contract or unfair dismissal), the Committee retains the right to make an appropriate payment in settlement of such claims.

In the case of a termination by the Company of the contract of any new executive director who has been appointed where a payment in lieu of notice is made, the Committee would normally seek to limit this to base salary, pension and benefits for up to 12 months. An amount in respect of loss of annual bonus for the period of notice served (pro rata) would only be included in exceptional circumstances and would not apply in circumstances of poor performance. For the avoidance of doubt, in such exceptional circumstances, the director would be eligible to be considered in the normal way for an annual bonus for any period they have served as a director, subject to the normal assessment by the Committee of financial and personal performance.

Any share-based entitlements granted to an executive director under the Company's share incentive schemes will be determined by reference to the relevant scheme rules. In the case of a 'bad leaver' (e.g. resignation) awards will typically lapse and in certain 'good leaver' circumstances (e.g. ill health) awards will remain eligible to vest subject to assessment of the relevant performance target and a pro rata reduction (unless the Committee determines otherwise).

Any buyout arrangements agreed between the Company and the relevant directors would be treated in accordance with the terms agreed on finalisation of the buyout arrangement.

Policy on other appointments

Executive directors are permitted to hold non-executive directorships but may only hold one non-executive directorship in a FTSE 250 company (or unlisted company) – and may retain the fees from their appointment – provided that the Board considers that this will not adversely affect their executive responsibilities.

Copies of directors' service contracts and/or letters of appointment are available from the Company Secretary on request.

Directors' remuneration policy continued

Non-executive directors

Non-executive directors are not employed under service contracts and do not receive compensation for loss of office. They are appointed for fixed terms of three years, renewable for a further three-year term and, in exceptional circumstances, further extended if both parties agree. Any such extension will be subject to annual reappointment by shareholders.

The table below shows details of the terms of appointment for the non-executive directors. All directors will seek reappointment at the forthcoming AGM.

Non-executive director remuneration policy

Element	Purpose and link to strategy	Operation including maximum levels
Fees	To attract and retain a high-calibre Chairman and non-executive directors by offering market-competitive fees which reflect the individual's skills, experience and responsibilities.	The Chairman and non-executive directors receive annual fees (paid in monthly instalments). The fee for the Chairman is set by the Remuneration Committee and the fees for the non-executive directors are approved by the Board. The Chairman is paid an all-inclusive fee for all Board responsibilities. The other non-executive directors receive a basic non-executive director fee, with supplementary fees payable for additional responsibilities, including a fee for chairing a Committee and for membership of the Group Risk, Remuneration, Audit and Customer, Culture and Ethics Committees (but not if performing a Chairman role). The non-executive directors do not participate in any of the Company's incentive arrangements. Relevant expenses and/or benefits may be provided to the non-executive directors. The fee levels are reviewed on a regular basis and may be increased taking into account factors such as the time commitment of the role and market levels in companies of comparable size and complexity. Flexibility is retained to go above the current fee levels and/or to provide the fees in a form other than cash (but not as share options or other performance-related incentives) if necessary to appoint a new Chairman or non-executive director of an appropriate calibre.

Terms of appointment of the non-executive directors

Name	Appointment	Date of most recent term	Expected and actual date of expiry
John Straw[1]	1 January 2017	1 January 2017	20 May 2019
Elizabeth Chambers	31 July 2018	31 July 2018	31 July 2021
Paul Hewitt	31 July 2018	31 July 2018	31 July 2021
Angela Knight	31 July 2018	31 July 2018	31 July 2021
Patrick Snowball	21 September 2018	21 September 2018	20 May 2022
Graham Lindsay	1 April 2019	1 April 2019	1 April 2022
Robert East	26 June 2019	26 June 2019	26 June 2022
Andrea Blance	1 March 2017	1 March 2020	1 March 2023

1 John Straw's term was expected to expire on 31 December 2020 prior to him announcing his intention to step down from the Board on 20 May 2019.

Remuneration payments and payments for loss of office will only be made if consistent with this approved remuneration policy or otherwise approved by an ordinary resolution of shareholders.

Andrea Blance
Chairman of the Remuneration Committee
27 February 2020