



# GOVERNANCE REPORT

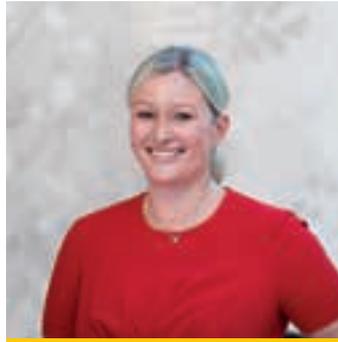
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# SENIOR LEADERSHIP TEAM



**MARIO MAZZOCCHI**  
Group Chief Executive Officer



**GILLIAN CASS**  
Chief Financial Officer



**ANDREW D'ARCY**  
Chief Executive, Wesleyan Bank



**ROGER DIX**  
Chief Risk Officer



**RICHARD HARRISON**  
Chief Distribution Officer



**MARTIN LAWRENCE**  
Director of Investments



**JAMES NEEDHAM**  
Chief Actuary



**LISA PERKINS**  
Head of HR



**DAVID STEWART**  
Chief Operating Officer



**NATHAN WALLIS**  
Chief of Staff



**SELENA PRITCHARD**  
Company Secretary

# OUR BOARD OF DIRECTORS



## NATHAN MOSS

Society Chair and Chair of People, Culture and Governance

**B D F**

- ▶ Nathan was appointed Chair in January 2018, having joined the Society's Board in July 2017.
- ▶ He has more than 40 years' experience in the wealth management, bank and insurance sectors, including with HSBC, Scottish Widows, Lloyds TSB and Friends Life.
- ▶ Nathan also currently serves as non executive director at Canada Life Group where he chairs the group's board risk committee and also serves as a non executive director of Canada Life Platform Ltd and Chair of Canada Life Home Finance in the UK. He was previously a non executive director at One Savings Bank plc, and Homeserve Membership Ltd.

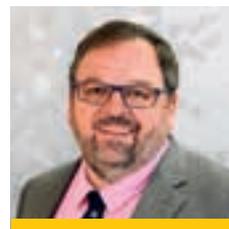


## MARTIN BRYANT

Senior Independent Director and Chair of Wesleyan Bank Limited

**A D**

- ▶ Martin was appointed to the Board in June 2011 and became Senior Independent Director in 2019 and Chair of Wesleyan Bank in 2013.
- ▶ He has more than 30 years of sales, marketing and strategy experience, having worked for The Boots Group in various roles, including Group Director of Business Development. Previous roles include Chief Executive at The Shareholder Executive, Strategy Director at the Home Office and Chief Operating Officer of BP Retail.
- ▶ He is Deputy Chair of Nuffield Health.



## ANDREW NEDEN

Chair of the Audit Committee

**A C**

- ▶ Andrew was appointed to the Board in November 2014. He joined the Board of Wesleyan Unit Trust Managers in 2019. He worked for 30 years at KPMG, the global accountancy firm, including 18 years as a partner. His roles included Head of Financial Sector Transaction Services in the UK and Global Chief Operating Officer for Financial Services.
- ▶ Andrew also chairs the Nottingham Building Society and Aetna Insurance Company Limited, and is chair of the audit, board compliance and remuneration committees as a Non-Executive Director at ABC International Bank PLC. He is also a director/trustee of a number of charities.



## PHILIP MOORE

Chair of the Risk Committee

**A C E**

- ▶ Philip joined the Board in October 2020 and has almost 40 years' experience within financial services.
- ▶ Until his retirement in 2017, Philip was Group Finance Director for LV=. Prior to this, Philip held a number of roles, including Chief Finance Officer and then Chief Executive Officer at Friends Provident plc. Philip also spent nine years with PwC, where he developed its life actuarial business in the UK.
- ▶ Philip serves on the Boards of Scandinavia's third largest non-life insurance company Codan A/S, where he chairs the Audit and Risk Committee. He is also a Non-Executive Director at Skipton Building Society and Bank of Ireland (UK) plc.



## ANNE TORRY

Chair of the With Profits Committee

**B D E**

- ▶ Anne joined the Board in January 2019. She is Chair of Wesleyan's With Profits Committee and also on the Remuneration and Nominations Committees.
- ▶ She has more than 30 years' experience of insurance, strategic leadership and change, working internationally in the general insurance, life and savings sectors. Most recently she served as CEO of Zurich UK Life.
- ▶ Anne is a Non-Executive Director at Homeserve Membership Ltd and Aon UK Ltd.



## LINDA WILDING

Chair of the Remuneration Committee

**A B**

- ▶ Linda joined the Board on 1 June 2019 and was appointed Chair of the Remuneration Committee later in the year.
- ▶ She has extensive experience in the private equity investment and healthcare sectors and worked in the private equity division of Mercury Asset Management from 1989 to 2001.
- ▶ She is currently Chair of the Remuneration Committee with UDG Healthcare plc and a Non-Executive Director at Electra plc, BMO Commercial Property Trust plc and Skagen Conscience Capital.



**IAN McCAIG**  
Non-Executive Director

**C F**

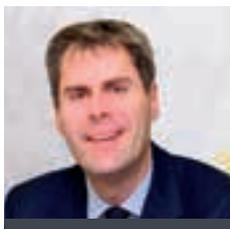
- ▶ Ian joined the Board on 30 September 2019 and was appointed to the Society's Risk Committee. He also serves on the Investment Committee and is Chair of Wesleyan Unit Trust Managers.
- ▶ He has worked across a number of sectors, most recently as CEO of First Utility Ltd. He led the company through several years of successful transformation and significant growth before its acquisition by Shell at the end of 2017. Prior to that Ian was CEO of lastminute.com
- ▶ Ian also serves on the Board of Seedrs Ltd and English Heritage (he serves as Chair of the Audit and Risk Committees at both organisations); the Board of M-Kopa Ltd where he is Chair of the Operating Committee, and Festicket, of which he is Chair of the Board.



**GILLIAN CASS**  
Chief Financial Officer

**F**

- ▶ Gillian joined Wesleyan as Chief Financial Officer in October 2020 and has over 20 years of financial services experience.
- ▶ Gillian is a member of the Investment Committee and an attendee of the Risk and Audit Committees.
- ▶ Most recently, Gillian was CFO of Customer Savings & Investments and Operations at M&G plc (previously Prudential plc). Gillian held a number of senior finance roles at Aviva, including Director of Global Finance Operations, Chief Accounting Officer of Aviva Investors and Chief Accounting Officer of the UK Life business.
- ▶ In addition to Finance, Gillian also has accountability for Wesleyan's Company Secretary, Strategy, Culture and Communications teams.



**MARIO MAZZOCCHI**  
Group Chief Executive

**F**

- ▶ Mario became Wesleyan Group CEO on 1 August 2019, having joined Wesleyan in December 2018 as Chief Operating Officer.
- ▶ Mario is a member of the Investment Committee and an attendee of the Risk, Audit, Remuneration and People, Culture and Governance Committees.
- ▶ He moved from Lloyds Banking Group where he was Chief Operating Officer for the Insurance & Wealth Division having held a number of other senior appointments in the Group.
- ▶ Before working at Lloyds, Mario gained extensive experience in different industries, markets and sectors including marketing, sales and strategy.

**Key**

**Membership of Board Committees**

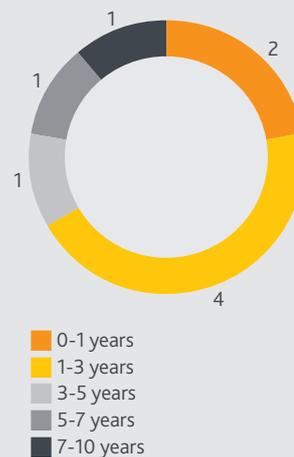
- A** Audit
- B** Remuneration
- C** Risk
- D** People, Culture and Governance
- E** With Profits
- F** Investment

**Directors**

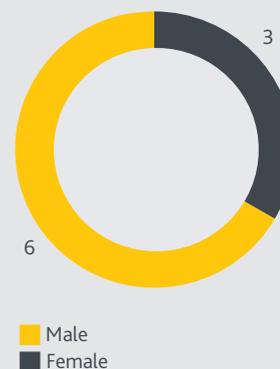
- Non-Executive Directors
- Executive directors

**BOARD DIVERSITY**

**TENURE**



**BOARD GENDER MIX**



**ETHNICITY DIVERSITY**



➔ Further information about the Diversity of our Board and what we are doing about it can be found on p59

# DIRECTORS' REMUNERATION REPORT

LINDA WILDING,  
CHAIR OF THE REMUNERATION COMMITTEE



## DEAR MEMBER

On behalf of the Remuneration Committee I am pleased to present the Directors' Remuneration Report. The report aims to set out simply and transparently how the Remuneration Committee addressed its responsibilities during the year and to explain the rationale for its decision making in 2020.

It has been an unprecedented year and the decisions of the Remuneration Committee were made against the backdrop of strong progress in the implementation of our strategy and the impact of Covid-19 on our customers, the industry we operate in and the wider economy. Whilst our profitability has been severely impacted this year, we have made good progress in implementing our transformation plan and our capital base remains strong. The Society has navigated this year without the use of any government support and remains committed to the continued wellbeing of all our employees and customers.

## SALARY INCREASES FOR 2021 AND VOLUNTARY PAY DONATIONS

The Non-Executive Directors were entitled to an increase of 7.25%, however, in light of the Covid-19 pandemic they declined the scheduled pay increase with effect from 1 May 2020.

In addition, each of the Non-Executive Directors pledged 10% of their fees for six months to charities and organisations supporting mental health and the needs of critical workers (with the Chairman pledging 20% of his fee). Our Group Chief Executive pledged his support with a personal donation of 10% of salary for six months.

In line with our wider workforce, the Remuneration Committee has determined that there will be no salary increases as part of the 2021 annual salary review for the Executive Directors. The scheduled increase of 7.25% for the Non-Executive Director fees, that was declined in 2020, will be implemented with effect from 1 April 2021.

## ANNUAL BONUS OUTCOMES AND SALARY FOR THE YEAR ENDED 31 DECEMBER 2020

The Remuneration Committee considers the reward package of all employees when determining the Directors' remuneration for the year. This includes annual base salary reviews, benefits and bonus schemes.

Under our annual bonus plan, performance is assessed using a balanced scorecard for both Society and individual performance measures including customer, financial, employee and strategic metrics underpinned by both conduct risk and individual behaviour considerations.

The maximum annual bonus possible in 2020 for the Directors was 78.75% of base salary. Despite the environment, good performance was delivered against some of the non-financial elements of the annual bonus scorecards and a bonus would have been achieved. However, against the backdrop of the Covid-19 pandemic, the Executive Directors and Group Executive Committee pledged to forgo their 2020 bonus payment.

## LONG-TERM INCENTIVE AWARD GRANTED IN 2020

In 2020 we introduced a new cash settled Long-Term Incentive Plan ("LTIP") aligned to the successful delivery of our business strategy. The maximum value of the LTIP award that can be earned is 100% of salary for the Chief Executive Officer and 75% of salary for the Chief Financial Officer. These awards will only be payable if stretching financial and non-financial performance targets are delivered over the three years starting on 1 January 2020.

Due to the ongoing market uncertainty the Remuneration Committee has faced considerable challenge in establishing meaningful and robust performance targets for the 2020 LTIP awards. Therefore, they determined that, for the 2020 LTIP only, three separate sets of performance

conditions that are aligned to the Company's key priorities for each of the three years in the performance period will be set and assessed over the relevant year.

The 2020 performance conditions are designed to deliver the Society's strategy and are detailed on page 15. Based on performance the first tranche of the 2020 LTIP is on track to vest in part. No proportion of the award will vest until the end of the full three year period and the whole award will be subject to an overriding conduct and risk assessment over the three year performance period.

In line with best practice, the LTIP awards will then be subject to a two year holding period such that participants are only entitled to be paid the value of vesting LTIP awards after a period of five years in total.

We believe that the new LTIP will strengthen the link between the rewards received for the performance delivered for our customers and the long-term financial stability of the business.

## BOARD CHANGES

Gillian Cass was appointed as the new Chief Financial Officer effective from 19 October 2020. Gillian will support our Group Chief Executive, Mario Mazzocchi, to execute our strategy to invest in propositions that support customers at every stage of their lives and make the most of our mutuality to enhance competitive advantage. On joining Wesleyan, the Remuneration Committee approved an amount of £98,000 in respect of variable pay arrangements forfeited by Gillian Cass upon joining the Society. 50% was paid in March 2021 and 50% deferred in three tranches (payable in 2022, 2023 and 2024). Details of her remuneration package for 2021 are summarised on page 58.



Ahmed Farooq, Chief Financial Officer, left the Society on 31 December 2020 and reflecting his years of service and contribution to the Society, the Remuneration Committee concluded that he should be treated as a good leaver. The amounts paid to Ahmed as compensation for loss of office are included in the single figure table on page 60.

**APPLICATION OF OUR REMUNERATION POLICY IN 2021**

We will continue to operate our Remuneration Policy in the same way, other than the performance conditions for the 2021 LTIP which will be set for the three-year performance period at the start of 2021.

**STRUCTURE OF THE REPORT**

This report has been structured broadly in line with the remuneration disclosure requirements which apply to UK companies listed on the main market of the London Stock Exchange. As a mutual we are not governed by these same regulations; we

have however chosen to follow them as we believe greater disclosure will help members to better understand how the reward strategy supports their interests and the Society's business objectives.

The Annual Report on Remuneration will be subject to an advisory vote at the forthcoming AGM so that we can take on board your views in setting and applying our policy for the future.

I hope that you will support this resolution.

Yours sincerely

**LINDA WILDING**  
Chair of the Remuneration Committee

“

It has been an unprecedented year and the decisions of the Remuneration Committee were made against the backdrop of strong progress in the implementation of our strategy and the impact of Covid-19 on our customers, the industry we operate in and the wider economy.

”

**LINDA WILDING**  
Chair of the Remuneration Committee

**KEY RESPONSIBILITIES**

The role of the Remuneration Committee is to ensure that the Board and Group Executive Committee are appropriately rewarded for their performance throughout the year, by setting and implementing the Society's Remuneration Policy, determining each Executive Director's total individual remuneration package and setting the performance measures for performance-related pay.

These decisions are carefully considered in the context of the Group's strategic goals, culture, external impacts, market practice and wider workforce remuneration.

The Remuneration Committee's aim is to ensure that remuneration and incentives adhere to the principles of good corporate governance, support good risk and conduct management practice, promote long-term sustainable Society performance and Environmental, Social and Corporate Governance.

The Remuneration Committee remains fully committed to ensuring that the Society's Remuneration Policy and out-turns are aligned to its culture and values.

# REMUNERATION POLICY

## 5 REMUNERATION PHILOSOPHY

The key principles of our approach to executive remuneration are:

| PRINCIPLE 1   | PRINCIPLE 2   | PRINCIPLE 3   | PRINCIPLE 4   |
|---|---|---|---|
| Competitive remuneration which is sufficient to recruit, motivate and retain senior leaders of the calibre required to run the business successfully. | Aligned with our financial performance, robust conduct risk management, good customer outcomes and desired employee behaviours. | Support our business strategy and the long-term interests of our customers, employees and other stakeholders. | From the perspective of our members, customers and employees our arrangements need to be transparent, understandable, fair, reasonable and proportionate. |

### DIRECTORS' REMUNERATION POLICY

#### Remuneration Policy Table

Details of the main elements of the Directors' remuneration are set out in the table below and would apply to existing and new appointments.

| Element     | Purpose and link to strategy   | Operation  | Opportunity  | Performance metrics  |
|-------------|--|--|--|--|
| Base salary | To attract and retain high performing individuals to lead the Society.   | <p>Base salary is reviewed annually, or more frequently if there is a significant change in an individual's role or responsibilities, or if another exception arises.</p> <p>Any decision on base salary is influenced by a range of factors including but not limited to:</p> <ul style="list-style-type: none"> <li>▶ level of experience;</li> <li>▶ Society affordability and performance;</li> <li>▶ ability to attract/retain/motivate;</li> <li>▶ pay awards for the wider workforce;</li> <li>▶ prevailing market conditions; and,</li> <li>▶ periodic external benchmark data.</li> </ul> | <p>There is no maximum base salary.</p> <p>Increases in base salary will normally be in line with those awarded to other Society employees but higher increases may be made, for example, to reflect:</p> <ul style="list-style-type: none"> <li>▶ increase in scope of role or responsibility; or</li> <li>▶ an Executive Director falling significantly behind the market rate for that role.</li> </ul> | Subject to annual review of individual contribution and Society performance. |
| Benefits    | To operate a competitive benefits and pension structure that provides appropriate protection to our employees. | <p>Benefits currently provided are:</p> <ul style="list-style-type: none"> <li>▶ a car allowance or the provision of a car (including all maintenance costs);</li> <li>▶ private medical cover for the individual and their family;</li> <li>▶ medical assessment;</li> <li>▶ Group product discounts (available to staff and directors on the same terms); and</li> <li>▶ death in service benefit of 8x pensionable base salary.</li> </ul>  | <p>There is no restriction on the benefits provided and other benefits may be added if considered appropriate. However, the cost of these benefits are taken into account in assessing affordability.</p>  | N/A  |

| Element      | Purpose and link to strategy   | Operation   | Opportunity   | Performance metrics   |
|--------------|--|---|---|---|
| Pensions     | To provide post-retirement benefits for participants in a cost-effective manner.   | All Executive Directors are either a member of the Society's pension scheme or receive a cash allowance.  | <p>Pension scheme: From 1 April 2020, the Society contributes up to 10% of base salary.</p> <p>If a cash allowance is paid the amount paid is reduced to allow for the cost of employer's National Insurance Contributions.</p> <p>The Society regularly reviews pension benefits for Directors taking account of tax and legislative changes</p>   | N/A   |
| Annual bonus | To ensure that there is an appropriate incentive for Executive Directors to meet the annual objectives of the business.                                  | <p>Individual performance evaluations for bonus are recommended by the Group Chief Executive following a similar procedure to the wider workforce but based on an individual Balanced Scorecard linked to delivery of the Society's overall strategy. The evaluation considers the individual's contribution towards the Society's desired behaviours and strategic goals, engendering good risk, conduct and compliance management and customer outcomes. Performance evaluation of the Group Chief Executive is recommended by the Society's Chair with input from other Non-Executive Directors.</p> <p>50% of any bonus earned is deferred for up to three years. Any deferred amounts will vest in three equal tranches after one, two and three years.</p> <p>Variable pay is subject to malus and clawback provisions.</p> | <p>Overall cash payment of:</p> <ul style="list-style-type: none"> <li>▶ 35% of base salary if both the Society and individual perform on target; and</li> <li>▶ a further 43.75% of base salary if both the Society and individual perform at stretch target</li> </ul> <p>During the deferral period any unvested amounts may be adjusted up or down to reflect the performance of the ISA With Profits Fund (or other such fund as the Remuneration Committee deems appropriate).</p> <p>All payments of annual bonus are subject to approval by the Remuneration Committee and are non-pensionable.</p> | <p>Balanced scorecard approach for both Society and individual performance based on financial, customer, employee and strategic metrics.</p> <p>The Remuneration Committee may adjust pay-outs based on the evaluation of personal behaviours and any risk, conduct, compliance or other concerns.</p>  |
| LTIP         | To strengthen the link between the rewards received for the performance delivered for our members and the long-term financial stability of the business. | <p>Any payment will be made in cash, net of relevant taxes. The awards will vest following the assessment of the relevant performance conditions which will, normally, be assessed at the end of a three year performance period and then will be subject to a further holding period of two years.</p> <p>The Remuneration Committee may adjust pay-outs based on the evaluation of personal behaviours and any conduct risk, compliance or other concerns.</p> <p>LTIP awards will be subject to malus and clawback provisions up to the end of the holding period.</p>   | <p>The maximum award is 100% of base salary.</p> <p>For awards granted in 2021, the maximum award for the Group Chief Executive will be 100% of salary and 75% of salary for the Chief Financial Officer.</p> <p>All LTIP payments are subject to approval by the Remuneration Committee and are non-pensionable.</p>   | <p>LTIP awards will be subject to financial and non-financial measures that are aligned to the Society's strategy. Vesting of any LTIP award will be subject to satisfactory overall conduct risk and performance.</p> <p>Awards will vest up to 25% of the maximum award for threshold performance rising to full vesting at stretch target.</p> |

# REMUNERATION POLICY CONTINUED

## DIRECTORS' REMUNERATION POLICY

Our Remuneration Policy, which was approved by members at the 2020 AGM with over 93% of votes cast in favour of it, was developed based on the key principles outlined on page 56. Our Remuneration Policy continues to be applied in a measured way to ensure that we reward the right performance contribution and behaviours and support the short-term and strategic goals of the Society. The table below summarises the implementation of the Directors' Remuneration Policy for 2021 and details any changes from 2020.

The Remuneration Committee is not considering any material changes to our Remuneration Policy during 2021. We will continue to monitor the effectiveness of our policies to ensure they support the business and the long-term interests of our customers and other stakeholders.

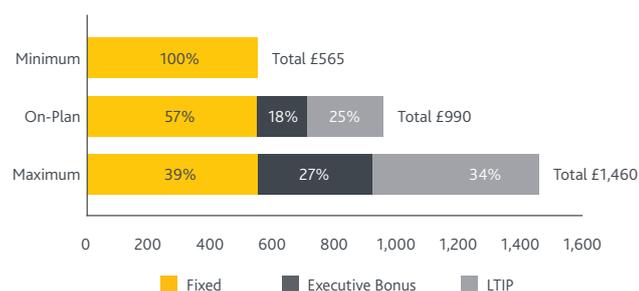
| Pay element               | Approach                | Mario Mazzocchi   | Gillian Cass  | Change from 2020  |
|---------------------------|-------------------------|---|---|---|
| Fixed pay                 | Base salary             | £500,000 (effective 1 April 2020). No increase proposed for 1 April 2021                        | £280,000 (set on appointment on 19 October 2020) No increase proposed for 1 April 2021          | No change   |
|                           | Pension                 | 10% of salary in line with wider workforce  | 10% of salary in line with wider workforce  | No change   |
|                           | Benefits                | Car allowance, private medical, medical assessment, group product discount and death in service | Car allowance, private medical, medical assessment, group product discount and death in service | No change   |
| Pay linked to performance | Annual bonus            | Maximum 78.75% of salary  | Maximum 78.75% of salary  | No change   |
|                           |                         | Balanced scorecard based on Society and individual performance                                  | Balanced scorecard based on Society and individual performance                                  | No change   |
|                           |                         | 50% deferred for three years paid in annual tranches  | 50% deferred for three years paid in annual tranches  | No change   |
|                           | LTIP                    | Maximum 100% of salary  | Maximum 75% of salary   | No change   |
|                           |                         | Three year performance period   | Three year performance period   | Previously set as three tranches over a three year period |
|                           | Conduct risk underpin   | Conduct risk underpin   | No change   |   |
|                           | Two year holding period | Two year holding period   | No change   |   |

## Illustration of Remuneration Policy for 2021

The charts below illustrate the amounts that Executive Directors would be paid in 2021 under three different performance scenarios:

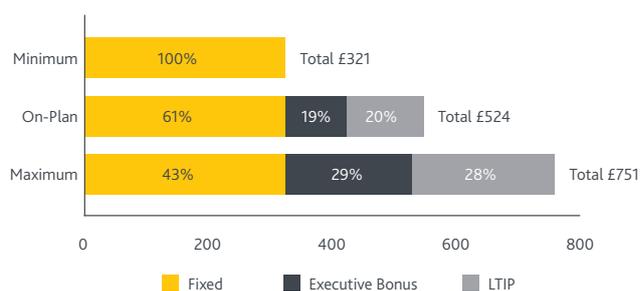
### Mario Mazzocchi

Percentages/Amounts (£000's)



### Gillian Cass

Percentages/Amounts (£000's)



|                            |  |
|----------------------------|--|
| <b>Minimum performance</b> | Fixed elements of remuneration only — base salary, benefits and pension  |
| <b>On plan performance</b> | <p>Annual Bonus: For illustrative purposes all Executive Directors have been assumed to be paid the same level of variable pay (35% of base salary), the actual amount payable to each Director would depend on the Remuneration Committee's evaluation of individual performance and would range from no bonus (unacceptable performance) to 52.5% of base salary (stretch performance).</p> <p>LTIP: 50% of maximum LTIP potential available to the Executive Directors is assumed (50% of salary for the Group Chief Executive and 37.5% of salary for the Chief Financial Officer)</p> |
| <b>Maximum performance</b> | <p>Annual bonus: For illustrative purposes all Executive Directors have been assumed to be paid the same level of bonus (78.75% of base salary) assuming both the Society and individual have performed at stretch performance.</p> <p>LTIP: 100% of the maximum LTIP opportunity has been shown (100% of salary for the Group Chief Executive and 75% of salary for the Chief Financial Officer)</p>  |

## Remuneration for the Chair and Non-Executive Directors

| Element                                      | Approach of the Society   |
|--|---|
| <b>Chair and Non-Executive Director fees</b> | The principles adopted in determining the fees of the Chair and other Non-Executive Directors are that they should be competitive, appropriate to attract and retain Directors of the necessary calibre, and reflect the responsibilities and time involved in Society matters. |
| <b>Non-Executive Director fees</b>           | Non-Executive Directors' remuneration comprises a base fee and additional amounts for Committee work, including a role of Chair and a specific fee for the role of Senior Independent Director.   |
| <b>Benefits</b>                              | No bonuses, pension or other benefits are provided to Non-Executive Directors other than Group product discounts which are available to staff and Directors on the same terms and reimbursement of travel and other expenses whilst on Society business.                        |

The remuneration of the Chair is determined by the Board and the remuneration of the other Non-Executive Directors is determined by the Chair and Group Chief Executive. Under the terms of their engagement, the notice period to be given by the Non-Executive Directors to the Society is six months for the Chair and Senior Independent Director and three months for other Non-Executive Directors.

Whilst the Non-Executive Directors were entitled to an increase of 7.25% with effect from 1 April 2020, in light of the Covid-19 pandemic the Non-Executive Directors declined the scheduled pay increase. As a consequence, this increase was deferred to be implemented with effect from 1 April 2021.

In 2020, the CEO and the Non-Executive Directors donated 10% of their salary for six months (and the Chair donated 20%) to charities and organisations supporting mental health needs of key workers.

### WIDER WORKFORCE REMUNERATION

In setting the Remuneration Policy, there is a strong degree of alignment between the Executive Directors and the wider workforce. Any general increase in salaries is applied to both Executive Directors and employees.

Employees are engaged through the Partnership Council, information cascades and the Employee Opinion Survey (EOS). The wider employee population have not been consulted on the content of the Remuneration Policy statement, but the overall pay review process has been communicated and feedback sought through staff cascades and communicated to the Executives and the Board. Feedback is gathered regularly on Reward through the EOS.

### PAY POLICY FOR OTHER EMPLOYEES

The principles underlying the pay policy for Executive Directors apply to all Society's employees. In particular:

- ▶ the Society's total employment package needs to be able to attract, retain and motivate high-calibre individuals. As part of this, remuneration needs to be competitive compared to the market, reflect the responsibilities of the role and be reflective of performance of the individual and the Society;
- ▶ annual bonus payments need to vary sufficiently to genuinely reflect performance fluctuations from year to year, taking into account not only financial performance, but also conduct management, customer outcomes and desired employee behaviours. A number of different annual bonus arrangements are in place reflecting the different nature and responsibilities of different business units and roles within the Society; and
- ▶ bonuses for employees should be based on Society and individual results, with quality measures to ensure alignment with good customer outcomes and desired employee behaviour.

# ANNUAL REPORT ON REMUNERATION

## REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2020

### Single Figure of Remuneration for Each Director

The remuneration of the Directors of Wesleyan Assurance Society for the year ended 31 December 2020 and the previous year is set out in the tables below. This is audited information.

| Director   | Base         | Benefits  | Pension       | Bonus      |            | Long-term incentives | Sub-total-ongoing | Other        | Total Remuneration |
|--|--------------|-----------|---------------|------------|------------|----------------------|-------------------|--------------|--------------------|
|  | salary/fees  |           | Contributions | Cash       | Deferred   |                      |                   |              |                    |
| <b>Year ended 31 December 2020, £'000</b>        |              |           |               |            |            |                      |                   |              |                    |
| <b>Executive</b>                                 |              |           |               |            |            |                      |                   |              |                    |
| Mario Mazzocchi                                  | 492          | 14        | 43            | 0          | 0          |                      | 549               |              | 549                |
| Ahmed Farooq (left 31 December 2020)             | 275          | 12        | 36            | 0          | 0          |                      | 323               | 523          | 846                |
| Gillian Cass (joined 19 October 2020)            | 57           | 2         | 5             | 0          | 0          |                      | 64                | 98           | 162                |
| <b>Non-Executive</b>                             |              |           |               |            |            |                      |                   |              |                    |
| Nathan Moss                                      | 128          |           |               |            |            |                      | 128               |              | 128                |
| Martin Bryant                                    | 80           |           |               |            |            |                      | 80                |              | 80                 |
| Nigel Masters                                    | 53           |           |               |            |            |                      | 53                |              | 53                 |
| Andrew Neden                                     | 53           |           |               |            |            |                      | 53                |              | 53                 |
| Anne Torry                                       | 53           |           |               |            |            |                      | 53                |              | 53                 |
| Linda Wilding                                    | 53           |           |               |            |            |                      | 53                |              | 53                 |
| Iain McCaig                                      | 53           |           |               |            |            |                      | 53                |              | 53                 |
| Phillip Moore (joined 1 November 2020)           | 9            |           |               |            |            |                      | 9                 |              | 9                  |
| <b>Total</b>                                     | <b>1,306</b> | <b>28</b> | <b>84</b>     | <b>0</b>   | <b>0</b>   |                      | <b>1,418</b>      | <b>621</b>   | <b>2,039</b>       |
| <b>Year ended 31 December 2019 £'000</b>         |              |           |               |            |            |                      |                   |              |                    |
| <b>Executive</b>                                 |              |           |               |            |            |                      |                   |              |                    |
| Mario Mazzocchi (joined the Board 1 August 2019) | 408          | 13        | 48            | 85         | 85         |                      | 639               |              | 639                |
| Craig Errington (left 31 December 2019)          | 502          | 14        | 71            | 110        | 110        |                      | 807               | 1,216        | 2,023              |
| Ahmed Farooq                                     | 250          | 12        | 33            | 45         | 45         |                      | 385               |              | 385                |
| <b>Non-Executive</b>                             |              |           |               |            |            |                      |                   |              |                    |
| Phil Green (left 30 November 2019)               | 80           |           |               |            |            |                      | 80                | 40           | 120                |
| Chris Brinsmead (left 31 May 2019)               | 22           |           |               |            |            |                      | 22                |              | 22                 |
| Nathan Moss                                      | 128          |           |               |            |            |                      | 128               |              | 128                |
| Martin Bryant                                    | 55           |           |               |            |            |                      | 55                |              | 55                 |
| Nigel Masters                                    | 53           |           |               |            |            |                      | 53                |              | 53                 |
| Andrew Neden                                     | 53           |           |               |            |            |                      | 53                |              | 53                 |
| Iain McCaig (joined 30 September 2019)           | 13           |           |               |            |            |                      | 13                |              | 13                 |
| Anne Torry (joined 1 January 2019)               | 53           |           |               |            |            |                      | 53                |              | 53                 |
| Linda Wilding (joined 1 June 2019)               | 35           |           |               |            |            |                      | 35                |              | 35                 |
| <b>Total</b>                                     | <b>1,652</b> | <b>39</b> | <b>152</b>    | <b>240</b> | <b>240</b> |                      | <b>2,323</b>      | <b>1,256</b> | <b>3,579</b>       |

#### Notes:

The 2019 figures for Mario Mazzocchi show his full year remuneration; on his appointment as Group Chief Executive Officer with effect from 1 August 2019 his base salary was increased from £366,000 to £466,135.

The Senior Independent Director role is inclusive of an additional fee of £26,561 per annum, this payment was paid to Martin Bryant who took up the role on 1 January 2020.

Ahmed Farooq stepped down from the Board with effect from 31 December 2020 after 10 years with Wesleyan and five years as the Chief Finance Officer. Reflecting on Ahmed's contribution to the Society in this time, the Remuneration Committee concluded that he should be treated as a 'good leaver'. In line with the member approved Remuneration Policy, all outstanding incentives will continue to be retained and will be paid at the normal time.

A payment of £523,550 was made to Ahmed Farooq in January 2021, as included in the single figure table above. This payment represented a payment in lieu of notice of £270,000 (representing twelve months' salary less negotiated outplacement fees), a payment of £99,050 (in respect of the facilitation of the smooth and successful handover to the incoming Chief Financial Officer and achievement of handover milestones set by the Remuneration Committee), an ex-gratia payment of £141,500 (reflecting 6 months' salary) and a payment of £13,000 for extending his restricted covenant.

For 2019 and 2020 the base salary for Ahmed Farooq excludes salary sacrifice of £1,488 for childcare vouchers.

### LTIP awards granted in 2020

Due to the ongoing market uncertainty the Remuneration Committee has faced considerable challenge in establishing meaningful and robust performance measures and targets for these LTIP awards. The Remuneration Committee therefore determined that, **for the 2020 LTIP only**, three separate sets of performance conditions aligned to the Society's key priorities for each of the three years in the performance period will be set and assessed over the relevant year.

| Tranche 1 | Tranche 2 | Tranche 3 | Holding Period 2 years |      | Payment year (March) |
|-----------|-----------|-----------|------------------------|------|----------------------|
| 2020      | 2021      | 2022      | 2023                   | 2024 | 2025                 |

The 2020 performance conditions which apply to tranche 1 of the 2020 LTIP (one third of the total award) are detailed below.

50% of tranche 1 of the 2020 LTIP is based on the following. The remaining 50% of tranche 1 of the 2020 LTIP is based on achievement of strategic objectives linked to our transformation strategy.

| Strategic Priority              | LTIP performance measure   | Weighting |
|---------------------------------|--|-----------|
| Life Long partner               | Customer numbers   | 7.5%      |
|                                 | Product Penetration  | 7.5%      |
| Brilliant to do business with   | Customer Attrition   | 5%        |
|                                 | Culture  | 10%       |
| Mutuality with Edge             | Cost Income Ratio  | 10%       |
|                                 | Return on Capital  | 10%       |
| Diversity and inclusion targets | To be assessed over the full three-year period ending 31 December 2022 |           |
| Transformation Strategy         | Key Transformation Milestones  | 50%       |

Based on the performance against the above Balanced Scorecard of measures designed to deliver the Society's strategy, the first tranche of the 2020 LTIP will vest in part. The 2020 tranche will continue to be subject to a conduct risk underpin for the next two years whereby the Remuneration Committee may adjust the extent of vesting based on the individual behaviours, conduct risk and compliance performance or any other reason such adjustment might be appropriate.

The performance conditions for the 2021 tranche will be same as the 2020 tranche with the exception of the Product Penetration measure which has been replaced with Assets under Management. The targets have been recalibrated to ensure they remain suitably stretching and achievable. An indication of performance against these targets will be disclosed in next year's Directors' Remuneration Report.

### LTIP Awards to be granted in 2021

An award will only be payable if stretching financial and non- financial performance targets are delivered over a three year performance period starting on 1 January 2021.

| Performance period | Holding Period 2 years |      | Payment year (March) |
|--------------------|------------------------|------|----------------------|
| 2021 to 2023       | 2024                   | 2025 | 2026                 |

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| Strategic Priority                                   | LTIP performance measure         | Weighting |
|--|----------------------------------|-----------|
| Lifelong partner                                     | Customer numbers                 | 15%       |
|  | Assets under Management          | 15%       |
| Brilliant to do business with                        | Customer Attrition               | 10%       |
|  | Culture                          | 10%       |
| Mutuality with Edge                                  | Cost Income Ratio                | 15%       |
|  | Return on Capital                | 15%       |
| Environmental, Social and Corporate Governance (ESG) | Diversity and Inclusion          | 10%       |
|  | Range of Sustainability Measures | 10%       |

## Explanation of Chosen Performance Measures and How Targets Are Set for Executive Directors

The performance measures and targets for variable pay are selected annually to align with the customer experience, the business strategy and the key drivers of performance. The weighting of the variable pay between the various metrics may vary depending on the key priorities of the business. Robust and demanding targets are set, taking into account the operating environment and priorities and the business plan.

The Remuneration Committee may vary or substitute any performance condition if an event occurs which causes it to determine that it would be appropriate to do so, provided that any such variation or substitution is fair and reasonable and (in the opinion of the Remuneration Committee), the change would not make the condition less demanding than the original condition would have been but for the event in question.

## Payments to Former Directors

In line with the disclosures made in prior Directors' Remuneration Reports:

- ▶ Liz McKenzie received a payment of £15,215 in respect of her 2017 Deferred Bonus following her departure from the Society on 31 October 2017.
- ▶ Craig Errington received a payment of £75,919 in respect of outstanding deferred bonus awards, following his departure from the Society on 31 December 2019.

No other payments have been made to former Directors in 2020 other than retirement benefits.

## PAY RATIOS

The following illustrates the pay ratio between the Group Chief Executive and the rest of the work force.

| YEAR  | METHOD                                  | PERCENTILE       |                  |                  |
|-------|---|------------------|------------------|------------------|
|       |   | 25th             | Median           | 75th             |
| 2020  | Mirroring approach to CEO single figure | 20.1:1           | 12.6:1           | 8.8:1            |
|       |   | £548,958:£27,284 | £548,958:£43,668 | £548,958:£62,624 |
| 2019* |   | 26.7:1           | 17.1:1           | 11.4:1           |
|       |   | £720,273:£26,953 | £720,273:£42,225 | £720,273:£63,101 |

\* During 2019, there has been a change in CEO. Mario Mazzocchi's remuneration (including bonus and pension) on becoming CEO has been pro-rated up as if he had been in the role for a full year

A new reward framework has been introduced across the Society to provide greater pay transparency and consistency. We have also been working to close the gender pay gap including more female representation at Senior Leader level, launching an 'inspiring Female Leaders' programme and ensuring diverse recruitment panels. This work will continue in 2021 with a continued focus on diversity across the Society to develop our talent pipeline for all employees. Inclusion and Diversity and Environmental, Social and Corporate Governance (ESG) targets have been added into various elements of Executive pay arrangements.

## RELATIVE IMPORTANCE OF SPEND ON PAY

Pay is a significant element of Society expenditure, representing 53% (2019: 54%) of operating expenses of the Society.

|                            | 2020<br>(£m) | 2019<br>(£m) | Change<br>(%) |
|----------------------------|--------------|--------------|---------------|
| Operating expenses         | 169.7        | 174.5        | (2.8)         |
| Overall expenditure on pay | 89.5         | 94.2         | (4.9)         |

### Remuneration Committee Members and Advisers

The members of the Remuneration Committee are all independent Non-Executive Directors of the Society. During the year the Remuneration Committee members were Linda Wilding (Chair), Nathan Moss (Society Chair) and Anne Torry.

The Remuneration Committee was supported during the year by the Head of HR and the Group Chief Executive. The Society's Chief Risk Officer provides input on the Executive Remuneration Framework design and application. The Risk Committee assesses Executive behaviours and Society performance, considers whether any inappropriate risks have been taken and makes recommendations to the Remuneration Committee accordingly. No individual takes part in the discussion on their own remuneration.

In performing its duties, the Remuneration Committee draws on the advice of independent external consultants. During the year, the Remuneration Committee received advice on market levels of pay and bonus, best practice and disclosure requirements from Deloitte LLP. Deloitte were appointed following the Society's standard procurement processes and subject to the agreement of the Remuneration Committee. Deloitte is a founder member of the Remuneration Consultants Group and as such voluntarily operates under its Code of Conduct in relation to executive remuneration in the UK. Deloitte also provided internal audit co-sourcing services and other professional services to the Society during the year.

The total cost of advice to the Remuneration Committee on Directors' remuneration matters during the year was £15,500 for Deloitte.

### Statement of Voting at 2020 Annual General Meeting

The following table sets out the number of votes for, against and abstentions for the advisory vote on the Directors' Remuneration Policy and Annual Report on Remuneration at the Society's AGM held in June 2020.

| Resolution text  | Votes for | Votes against | % For | Withheld |
|--|-----------|---------------|-------|----------|
| To approve the Directors' Remuneration Policy — advisory vote only | 2,942     | 196           | 93.7  | 83       |
| To receive the Directors' Remuneration Report — advisory vote only | 3,022     | 139           | 95.6  | 60       |



#### LINDA WILDING

Chair of the Remuneration Committee

25 March 2021