



**Annual Corporate Governance &  
Directors' Remuneration Reports  
2018**

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# Corporate Governance Report

## Committee of Management members, Executive Directors & Life Vice Presidents

### Committee of Management

#### President

Sir Hugh Orde OBE QPM, formerly President, Association of Chief Police Officers

#### Vice Presidents

Simon Cole QPM BA (Hons) MA DipCrim, Chief Constable, Leicestershire Police  
Andy Cooke QPM BA (Hons), Chief Constable, Merseyside Police  
Mike Cunningham QPM, Chief Executive, College of Policing  
Charlie Hall QPM MA (Cantab) MSc, Chief Constable, Hertfordshire Constabulary  
Gareth Morgan, Chief Constable, Staffordshire Police  
Sir Jon Murphy QPM DL LLB (Hons), formerly Chief Constable, Merseyside Police  
Fiona Taylor, Deputy Chief Constable, Police Scotland

#### Chair

Julie Spence OBE QPM BEd LLB MA MBA, formerly Chief Constable, Cambridgeshire Constabulary

Claire Beck, Cambridgeshire Constabulary  
Paul Bishop MA ACA  
David Campbell MSc, West Yorkshire Police  
John Edwards, Dyfed Powys Police Inspector  
Carwyn Evans, South Wales Police  
Detective Constable Martin Guest, Humberside Police  
Julie Hopes MBA ACIB  
John Lister BSc FIA  
Kirsty Norman, Derbyshire Constabulary  
Chief Superintendent Simon Ovens BSc (Hons) MSc FCMI, Metropolitan Police  
Barry Sanjana MA  
Graham Smillie, formerly Police Scotland  
Ieuan Watkins, formerly Gwent Police

### Interim Chief Executive

Mike Kirsch BA MBA

### Executive Directors on the Managing Board

Andrew Elkington BA (Hons) MBA, Group Sales & Marketing Director  
Kathryn Winup FCCA AMCT Finance Director

### Company Secretary

Rachel Kirwan BSc ACIS

### Life Vice Presidents

Mick Foster QPM, formerly Chair  
Peter Sharpe MBE FCII, formerly Chief Executive

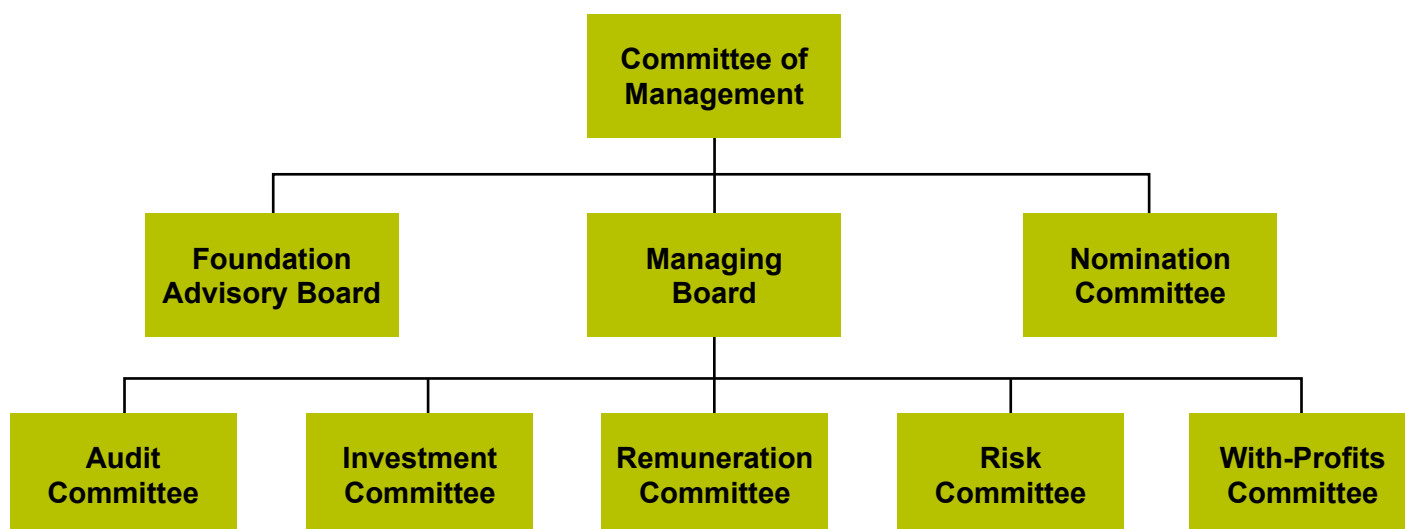
# Corporate Governance Report

Police Mutual is committed to maintaining high standards of corporate governance and has voluntarily chosen to use the UK Corporate Governance Code (the Code) for companies quoted on the London Stock Exchange as a guide for reporting on its Corporate Governance arrangements. In doing so we consider its requirements and put them into practice in a way that reflects our business, culture and values and which helps to support the following:

- Transparency; giving our members the information they need to judge whether the Executive team, Board and Committee of Management are doing a good job on their behalf
- Effective decision-making, risk management and control
- A proper balance between executive and non-executive directors
- Keeping the interests of Police Mutual's members aligned with, and at the front of the mind of, the people responsible for running the business

## Corporate Governance Framework

Police Mutual operates within a clear governance framework which is outlined below and set out in the report that follows:



Police Mutual is governed by two committees – the Committee of Management and the Managing Board (the Board). Both are chaired by Police Mutual's Chair, Julie Spence.

### Role of the Chair

The Chair's role is agreed by the Committee of Management. The main responsibility of the role is to lead and manage the work of the Committee of Management and Board and ensure they operate effectively and discharge their duties. The Chair is responsible for ensuring all directors are properly briefed and receive accurate, timely and clear information to enable effective challenge to management.

### Role of the Chief Executive

The roles of the Chair and Chief Executive are clearly defined and separate. The Committee of Management has delegated responsibility for the day-to-day management of the Police Mutual Group to the Chief Executive. The role of the Chief Executive is to lead the development and delivery of strategy for the Group and its implementation and leading and managing the Group, supported by the Executive team.

### Role of the Company Secretary

The Company Secretary provides dedicated support to the Committee of Management and its sub-committees. Her services are available to all directors, particularly the non-executive directors, in order to ensure they receive timely accurate information to fulfil their duties. The Company Secretary advises the Board through the Chair on governance matters and assists with inductions and development. The appointment and removal of the Company Secretary are matters for the Committee of Management.

Directors may also take independent professional advice on request at Police Mutual's expense where they judge it necessary to discharge their responsibilities.

### Non-executive directors

Police Mutual makes two types of non-executive appointment. The Committee of Management is made up of mainly unremunerated non-executives who are members of the Police Service and carry out their role on a voluntary basis. They are not financial services professionals but are there to ensure the Committee of Management fulfils its role, which is key to Police Mutual's mutual and affinity group status. However, in recognition of their "lay" status, additional remunerated non-executive directors are appointed for their financial services and management experience to serve on both the Committee of Management and the Board.

Based on their breadth of knowledge and experience, non-executive directors challenge, monitor and approve the strategy and policies recommended by the executive directors.

# Corporate Governance Report

## Appointment of directors

The process for appointing new members of the Committee of Management is determined by the Nomination Committee. All names submitted to delegates for election to the Committee of Management are accompanied by biographies to enable delegates to make informed decisions.

Committee of Management appointments operate in several ways. The President and Vice Presidents are senior figures within the Police Service appointed for their knowledge and influence and are approached and selected on an individual basis. For the appointment of Committee members representing members of Police Mutual, periodically an invitation to apply is made to all Force Authorised Officers. Those interested are then subject to a selection process involving interviews with and presentations to the Chair and Chief Executive. As far as possible, consideration is given to geographic and Force representation, although these are secondary considerations to the qualities and merits of the individual. Due to their lay status a formal evaluation of the balance of skills, knowledge and experience is not applicable to unremunerated non-executive Committee members on appointment. Unremunerated non-executive directors are appointed for three year terms which may be renewed or extended by mutual agreement.

The Nomination Committee does not believe that the use of external search consultants is appropriate in the selection of unremunerated Committee members.

Where remunerated non-executive director appointments are made, the criteria for the desired background and competencies a new non-executive director should have are agreed by the Nomination Committee. The Chair and Chief Executive and members of the Nomination Committee interview each potential new non-executive director, who may include individuals identified with the assistance of external search consultants, before the appointment is recommended to the Committee of Management.

Remunerated non-executive directors are appointed for three year terms, which may be renewed or extended by mutual agreement. Subject to the Committee of Management being satisfied with the director's performance, independence and commitment, there is no specified time limit regarding the number of terms a remunerated non-executive director may serve, but their continued appointment is subject to review by the Nomination Committee.

The standard terms and conditions and letters of appointment for remunerated and unremunerated non-executive directors can be obtained by writing to the Company Secretary.

In 2018 no new remunerated non-executive directors were appointed to the Board.

Board diversity and in particular the lack of women on boards has been subject to scrutiny in recent years. Police Mutual recognises that Board diversity is a key factor in encouraging constructive debate and continues to view diversity in its broadest sense, seeking to ensure that it is an integral part of Committee of Management and Board succession planning.

We believe that a diverse Board will include and make good use of differences in the skills, knowledge, experience, background, perspectives, race, gender and other qualities of directors. These differences are considered in determining the composition of the Board and when possible how they can be balanced appropriately with all appointments continuing to be based on merit, measured against objective criteria and the skills and expertise that a person can bring to the business.

The Nomination Committee reviews and assesses Board composition in accordance with its terms of reference and oversees the appointment of new Board directors. In so doing, the Nomination Committee evaluates the balance of diversity, including gender diversity, on the Board in order to maintain an appropriate range and balance of skills, experience and background on the Board. In light of this evaluation, the Nomination Committee will make recommendations to the Committee of Management with regard to any adjustments that it deems necessary.

The Committee does not currently set measurable objectives for achieving diversity on the Board but will keep this under review and if appropriate in the future, recommend them to the Committee of Management for adoption. At any given time, the Nomination Committee may seek to improve one or more aspects of its diversity and measure progress accordingly.

The Board currently has 33% female representation but hopes to increase the level of representation of females when refreshing and renewing Board membership over the coming years. However, this aspiration is subject to the imperative to ensure that appointments are made on merit and with regard to an appropriate balance of skills, independence and knowledge required on the Board.

Under Police Mutual's Rules, all members of the Committee of Management stand for re-election in a general meeting each year. The Chief Executive is the only executive director elected to the Committee of Management. The executive directors on the Board are not subject to yearly election in a general meeting as this is not required under the constitution.

Police Mutual is also allowed under its Rules to grant an indemnity to its directors, to the extent permitted by law, in respect of liabilities incurred as a result of their office. Police Mutual purchases a yearly directors' and officers' liability insurance policy in respect of these liabilities.

# Corporate Governance Report

## Senior independent director

Police Mutual has decided not to appoint a senior independent director as required by the Code. A senior independent director is required to provide a sounding board for the Chair and to serve as an intermediary for the other directors when necessary. A senior independent director also acts as an alternative point of contact to the Chair, Chief Executive and other executive directors for members who have concerns that cannot be addressed through normal channels and to lead the performance evaluation of the Chair. The Committee believes that members are able to contact any member of the Committee of Management and raise issues through Police Mutual's delegate system and that to introduce another role for this purpose would bring unnecessary complexity and the potential for division. For the Chair's appraisal, one of the non-executive directors on the Board is given responsibility for leading this process. Members who would like to communicate with a Committee of Management member can do so by writing to him or her at Police Mutual's registered office or by contacting the Company Secretary.

## External appointments and non-executive director time commitments

Police Mutual recognises that there are significant advantages to individuals and to the business as a whole of our directors serving on the Boards of other companies. Police Mutual allows its executive directors to hold non-executive directorships with other companies, with all external appointments being approved by the Chair.

Non-executive directors are not restricted on the number of external boards on which they may serve, provided that they continue to demonstrate the ability to discharge effectively their duties to Police Mutual and keep the Chair informed of changes to those commitments. Appointments to the boards of other financial services companies require the prior approval of the Chair and Chief Executive.

The letters of appointment set out the time commitment expected of non-executive directors in performing their duties.

## Non-executive director independence

The Code sets out the circumstances that should be relevant to Police Mutual in determining whether each non-executive director is independent. Non-executive director independence is considered by the Nomination Committee and in 2018 all the non-executive directors who had served during the year were considered to be independent in character and judgement based on the nature of their contributions with particular consideration having been given to Richard Coates and Ieuan Watkins who had each served for 10 years or more during 2018.

Under the Code it is generally accepted that it is not appropriate to include a board chair in the definition of independent non-executive directors. During 2018 the Board comprised (excluding the chair) a maximum of five and no fewer than four independent non-executive directors and three executive directors. This means that Police Mutual continued to meet the requirement that at least half of the board, excluding the chair should comprise independent non-executive directors.

## Director induction and training

The Chair is responsible for ensuring that on appointment to the Committee of Management individuals receive an induction tailored to their needs. Directors are given background information describing the Police Mutual Group and its activities. The induction covers the role of the Committee of Management and its sub-committees and includes meetings with senior management and, for Board members, it also includes meetings with key functional areas across the Police Mutual Group and key external advisers to help build a detailed understanding of how the Police Mutual Group works and current issues.

Updates given at Committee and Board meetings are used where possible as an opportunity to ensure members gain and develop the knowledge relevant to their role.

## Performance evaluation

An extensive formal external review to consider the effectiveness of our overall Corporate Governance arrangements was conducted in 2016 by Ernst & Young LLP. The overall conclusion of the 2016 review was that our governance structure is broadly appropriate for our current size and scope and there is a positive culture which promotes openness, transparency and customer-centricity and a high level of engagement. The level of challenge and debate is good, and overall Board members have a sufficiently good understanding to enable appropriate decisions to be made. In light of the growth of our business and the product and customer diversification that has taken place, there were several areas where enhancements could be made including the establishment of a Risk Committee, increasing Board training, adding further clarity to the roles of certain committees and individuals in the enlarged Police Mutual Group and reducing the amount of information provided to the Board. Because of the extent of the 2016 external review, no further reviews were conducted in 2017. However, the matters raised in the external review were addressed during 2017 and 2018: a Risk Committee was established in 2017; Board training has been provided either in face to face sessions or via web-based modules; the terms of reference for the Committee of Management and its sub-committees have been reviewed; scheduled meetings have been reviewed and where possible are now held over a smaller number of days. A further Board effectiveness review is planned following transition to new chairs of the Committee of Management and Managing Board in May 2019.

Performance evaluations of the Risk Committee and Investment Committee were undertaken in 2018. The evaluation of the Risk Committee found it to be operating at a reasonable level of effectiveness, although some actions were required, focusing primarily on evolving the content of reporting; ongoing education on risk management and industry-specific issues; the level of challenge to management, avoidance of group think and development of constructive tension; and the Chair's interaction with sub-committee Chairs. The evaluation of the Investment Committee found it to be generally effective, with appropriate focus on its terms of reference. However, it was recognised that specific consideration would need to be given to the impact of the forthcoming change in investment operating model.

# Corporate Governance Report

## Committee Membership and attendance at meetings

Details of the attendance of directors at committee meetings during 2018 are as follows:

Director	Committee of Management	Managing Board	Audit Committee	Foundation Advisory Board	Investment Committee	Nomination Committee	Remuneration Committee	Risk Committee	With-Profits Committee
<b>Number of meetings</b>	5	13	6	3	7	3	3	6	8
Sir Hugh Orde	2/5								
Simon Cole	2/5								
Mike Cunningham	2/5								
Charlie Hall	2/5								
Sir Jon Murphy <sup>1</sup>	5/5			1/1		1/1			
Julie Spence	4/5	11/13		3/3		3/3	3/3	5/6	8/8
Claire Beck	5/5						3/3		
Paul Bishop	5/5	12/13	6/6					5/6	
David Campbell	5/5								
Richard Coates <sup>2</sup>	4/4	5/5	3/3				1/1	2/2	
John Edwards	4/5								
Carwyn Evans	4/5								
Martin Guest	5/5								
Robin Hardiman	3/5								
Julie Hopes	5/5	13/13				1/3	3/3	5/6	8/8
John Lister <sup>3</sup>	5/5	12/13	6/6		7/7		2/2	6/6	8/8
Kirsty Norman	3/5								
Simon Ovens <sup>4</sup>	1/1								
Barry Sanjana	3/5	11/13	6/6		7/7			5/6	
Graham Smillie	5/5								
Ieuan Watkins	4/5			3/3		3/3			
Stephen Mann	5/5	10/13		3/3	7/7	3/3			
Andrew Elkington		11/13		2/3					
Kathryn Winup		13/13							

### Notes

(1) Appointed to Foundation Advisory Board and Nomination Committee May 2018

(2) Stepped down from Committee of Management May 2018

(3) Appointed to Remuneration Committee July 2018

(4) Appointed to Committee of Management May 2018

# Corporate Governance Report

## Committee of Management

The Committee of Management has clear terms of reference and as Police Mutual's ultimate governing body, is responsible for:

- Safeguarding on behalf of the Police Service, Police Mutual's constitutional purpose, its financial and long-term viability and acting in the best interest of its members
- Directing and advising the Managing Board and Chief Executive on the relationship with the Police Service and ensuring Police Mutual's reputation in the Police Service is upheld
- Expressing the aspirations of Police Mutual's membership and the Police Service for the strategic direction of the Police Mutual Group, the provision of products and services, its requirements of Police Mutual's conduct in its relationship with the Police Service and setting the overall values and principles of the Group
- Overseeing the development and implementation of the Group strategy in line with Police Mutual's constitutional purpose and its strategic Purpose, Vision and Values; and
- Overseeing the safeguarding and development of Police Mutual's investment in its Military affinity business

The Committee of Management currently comprises a President, 7 Vice Presidents, a Chair, the Chief Executive and 13 other members. In accordance with the Code, at least half of the Committee of Management, excluding the Chair, comprised independent non-executive directors.

During 2018 the Committee of Management met five times and members were given appropriate documentation in advance of each meeting. These papers included an update report from the Chief Executive and minutes of sub-committees, including the Board.

## Principal sub-committees

The Committee of Management has delegated certain responsibilities to the Board and other sub-committees. The principal sub-committees are set out below. All of these committees operate within clearly defined terms of reference and attendance at meetings is only by members or those invited by the Chair of the sub-committee. The terms of reference of the Committee of Management and its principal sub-committees are available on request from the Company Secretary and from our website at [policemutual.co.uk](http://policemutual.co.uk). A summary of the terms of reference for each committee, together with their membership is included in the committee summaries below.

### Managing Board (the Board)

During the year the Board comprised:

Julie Spence (Chair)  
Paul Bishop  
Richard Coates (to May 2018)  
Andy Elkington  
Julie Hopes  
John Lister  
Stephen Mann  
Barry Sanjana  
Kathryn Winup

### Secretary

Rachel Kirwan

During 2018 the Board met thirteen times and at least half of its members, excluding the Chair, comprised independent non-executive directors. Board members were given appropriate documentation in advance of each meeting. These papers included key performance indicators for the period and strategy implementation updates. In addition to formal Board meetings the Chair and Chief Executive maintained contact with Committee members and held informal meetings with the non-executive directors on the Board to discuss issues affecting Police Mutual.

Managing Board terms of reference – summary

- Acting as guardians of a Police Service asset set up by and for the Police and to safeguard, on behalf of the Police Service, Police Mutual's constitutional purpose, its financial and long term viability and to act in the best interests of members of the Society
- Having due regard and respect for, and nurturing and protecting, the relationship with Police forces as the employer of the Police Service and as a fundamental pillar of the Police Mutual affinity model
- Developing and implementing the strategic direction of the Police Mutual Group on behalf of the Committee of Management to deliver its constitutional purpose and its strategic Purpose, Vision and Values approved by the Committee of Management. In doing so, taking due account of the expectations of the Committee of Management regarding the overall standards and principles of the Group, relationships with the Police Service and objectives for product and service provision to the Police Family
- Safeguarding and developing Police Mutual's investment in its Military affinity business through the delivery of suitable products and services and in doing so providing added benefit to members through, inter alia, economies of scale and increased capital strength that demonstrably provide a net benefit to members and the Police Service. In doing so, ensuring the Military affinity business is run on mutual lines with the same strategic purpose, vision and values as the Police affinity and adopting the same standards of conduct relating to the provision of products and services, the delivery of fair customer outcomes, relationships with the Military and the reputation of the Police Mutual Group
- Having responsibility for the overall conduct and management of the business of the Police Mutual Group ensuring that it operates in accordance with its statutory and regulatory responsibilities
- Ensuring that Police Mutual's reputation in the Police Service is upheld in accordance with the expectations of the Committee of Management



# Corporate Governance Report

## Audit Committee

The Audit Committee is a sub-committee of the Managing Board, which in turn is a sub-committee of the Committee of Management. During the year the Audit Committee comprised:

Paul Bishop (Chair)  
Richard Coates (until May 2018)  
John Lister  
Barry Sanjana

## Secretary

Rachel Kirwan

The main role, responsibilities and authority of the Audit Committee, as delegated to it by the Managing Board, are set out in its terms of reference, which are available on the Police Mutual website and summarised below:

- Ensuring the adequacy and effectiveness of the Police Mutual Group's systems of internal control that impact on the strategic, financial and operational policies and plans of the Group or financial reporting
- Reviewing the integrity of financial statements
- Reviewing significant financial reporting issues and judgements
- Overseeing the relationship with and appointment of the external auditor, including their remuneration and terms of engagement
- Assessing the external auditor's independence and objectivity and the effectiveness of the external audit process
- Developing the policy on the engagement of the external auditor to supply non-audit services
- Considering the effectiveness of the external audit process
- Monitoring and assessing the role and effectiveness of the internal audit function
- Overseeing the appointment of the Chief Internal Auditor
- Reporting to the Managing Board on how it has discharged its responsibilities
- Making recommendations to the Managing Board where it considers action or improvement is needed

As part of the Audit Committee's reporting to the Managing Board, it considers whether the annual report and financial statements taken as a whole are fair, balanced and understandable and provide the information necessary for members to assess the Police Mutual's Group's position and performance, business model and strategy.

In 2018 the Audit Committee met six times and met the UK Corporate Governance Code requirement to have at least three independent non-executive directors. The Managing Board is satisfied that Paul Bishop brings recent and relevant financial expertise, augmented by the financial and actuarial expertise and experience of the other members of the Audit Committee.

The Audit Committee schedules time annually, without any executive directors or senior management present, to discuss issues with the Chief Internal Auditor and external auditors. The Chair of the Audit Committee meets the Chief Internal Auditor to review current issues before each Audit Committee meeting.

The independence, objectivity and appointment of the external auditor is subject to regular review. The Senior Statutory Auditor is rotated every five years. The year ended 31 December 2018 will be Gary Shaw's first year as the Senior Statutory Auditor.

A tender process took place during 2018 for the appointment of external auditors to undertake the audit for the year ending 31 December 2019. Deloitte LLP were successful in the tender process and will replace PwC who have been in post as external auditor since 2004.

The level of non-audit fees paid to the external auditor is subject to a formal policy to safeguard their independence and objectivity.

In addition to their statutory audit services, the external auditor was engaged in 2018 to provide additional assurance work in respect of the Group's defined contribution pension plan. There were no other non-audit services provided during the year. Before agreeing to the engagement the Audit Committee followed its formal policy and considered the external auditor's independence and safeguards in place to protect it based on written assurances from the external auditor. The Audit Committee concluded that to the extent that safeguards were required, these were adequate and therefore external auditor independence had not been impaired.

Total fees paid to PricewaterhouseCoopers LLP in 2018 were £408,000 (2017: £501,000) excluding VAT of which £8,000 (2017: £27,000) related to non-audit services.

In 2016 a review of the external auditor's effectiveness was conducted by means of a desk-based review undertaken by key stakeholders within Police Mutual as part of the year end planning process. Having considered the results of the review the Audit Committee concluded that the external auditor provided a satisfactory service. The Managing Board supported this conclusion. It was agreed that a review would not be undertaken in 2017 or 2018 in view of the forthcoming tender process for the appointment of external auditors referred to above.

# Corporate Governance Report

## Foundation Advisory Board

During the year the Foundation Advisory Board comprised:

Julie Spence (Chair)

Andy Elkington

Stephen Mann

Sir Jon Murphy (from May 2018)

Ieuan Watkins

John Apter, National Chair, Police Federation of England & Wales (from September 2018)

Steve Edwards, Chief Executive Officer National Association of Retired Police Officers

Matt Johnston, College of Policing, Police Health, Safety & Welfare

Calum McLeod, Chair, Police Federation of England & Wales (to July 2018)

Gavin Thomas, President, Superintendents' Association of England & Wales

## Secretary

Rachel Kirwan

The Foundation Advisory Board was established in 2011 with responsibility for allocating and overseeing funds allocated to the Police Mutual Foundation and related activity in line with the Committee of Management's requirements. In 2018 the Foundation Advisory Board met three times.

Foundation Advisory Board terms of reference – summary

- Considering annual funding themes and making a recommendation to the Committee of Management specifying conditions that will apply to awards made under each annual funding theme
- Periodically reviewing the Vision, Objectives and Funding Allocation policy
- Identifying and presenting proposals for Foundation Advisory Board initiated awards
- Considering and evaluating proposals for funding
- Considering quarterly reports from award recipients to ensure appropriate use of funds in line with award conditions

## Investment Committee

During the year the Investment Committee comprised:

Barry Sanjana (Chair)

Ian Cordwell

John Lister

Stephen Mann

## Secretary

David Bristow

In 2018 the Investment Committee met seven times. The Chair of the Investment Committee is an investment management expert and a non-executive director.

Investment Committee terms of reference – summary

- Monitoring and developing investment strategy
- Setting investment risk limits in line with overall investment risk appetite
- Reporting to the Managing Board on investment risks and issues
- Approving investment manager selection
- Monitoring compliance with mandates
- Implementing custody arrangements
- Overseeing investment performance

# Corporate Governance Report

## Nomination Committee

During the year the Nomination Committee comprised:

Julie Spence (Chair)  
Julie Hopes  
Stephen Mann  
Sir Jon Murphy (from May 2018)  
Ieuan Watkins

## Secretary

Rachel Kirwan

The Nomination Committee met three times during 2018. In line with the Code the majority of members were independent non-executive directors. The Committee of Management Chair is Chair of the Nomination Committee except where the Committee is considering their succession, in which case one of the remaining members is selected to chair the Committee.

Nomination Committee terms of reference – summary

- Reviewing the Committee of Management and Managing Board structure, size, composition, skills, knowledge, experience and diversity
- Identifying and nominating individuals for appointment to the Committee of Management and Managing Board
- Evaluating the balance of skills, knowledge, experience and diversity on the Committee of Management and Managing Board
- Putting in place plans for succession, in particular for the Committee of Management Chair, Managing Board Chair and the Chief Executive
- Reviewing the time required from non-executive directors and their other commitments

## Remuneration Committee

During the year the Remuneration Committee comprised:

Julie Hopes (Chair)  
Claire Beck  
Richard Coates (to May 2018)  
John Lister (from July 2018)  
Julie Spence

## Secretary

Rachel Kirwan

In 2018 the Remuneration Committee met three times and satisfied the Code's requirement to have at least three independent non-executive directors. The Chief Executive only attended meetings to provide advice and support at the invitation of the Committee and to recommend proposals for the remuneration of the Executive team. The Chair of the Committee ensures care is taken to recognise and avoid any conflicts of interest and no individual is present for discussions relating to their own remuneration.

Full details of directors' remuneration and a statement of our remuneration policy are included in the Remuneration Report. The remuneration of non-executive directors is determined by the Chief Executive together with the other executive directors and, where possible, is subject to final sign-off by the President.

Remuneration Committee terms of reference – summary

- Determining a policy and framework for the remuneration of the Chief Executive and Executive team
- Recommending and monitoring the level and structure of remuneration for senior management
- Approving the design, targets and payments for performance related pay schemes
- Determining the policy and scope of terms of service or employment contracts generally
- Ensuring contractual terms on termination and any payments made are fair to the individual and Police Mutual Group, do not reward failure and recognize the duty to mitigate loss
- Determining the total individual remuneration package of each Executive team member
- Reviewing and noting the remuneration trends across the Police Mutual Group
- Overseeing any major changes in employee benefit structures
- Ensuring that all relevant legal requirements and provisions regarding disclosure of remuneration, including pensions, are fulfilled
- Being exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee

# Corporate Governance Report

## Risk Committee

During the year the Risk Committee comprised:

John Lister (Chair)  
 Paul Bishop  
 Richard Coates (to May 2018)  
 Julie Hopes  
 Barry Sanjana  
 Julie Spence

## Secretary

Rachel Kirwan

In 2018 the Risk Committee met six times and is chaired by an individual with extensive risk experience.

Risk Committee terms of reference – summary

- Seeking assurance that the Group is managed in accordance with the Board's overall risk objectives and risk appetite
- Ensuring risks to the business plan and capital implications are adequately identified and assessed, with appropriate mitigants, management actions and contingency plans in place
- Ensuring that any material transactions are aligned with the Board's risk requirements and are appropriately assessed
- Recommending appropriate risk adjustments or criteria adopted by the Remuneration Committee for the purpose of framing remuneration policies and incentives
- Reviewing and recommending to the Board on the ongoing appropriateness of the Group's enterprise-wide risk management framework, the extent to which it is embedded and adhered to and initiatives for promoting and strengthening a risk aware culture
- Ensuring the risks inherent in the Group's strategy and business plans, including capital, liquidity, compliance and conduct implications are properly understood and mitigated in line with risk appetite
- Seeking assurance that the vulnerabilities identified through the Group's stress and scenario testing programmes are appropriately addressed
- Overseeing the arrangements for managing financial crime, including fraud risk and prevention of bribery
- Reviewing and providing challenge on the approach to determining solvency and regulatory risk-based capital requirements, the adequacy of capital plans, the appropriateness of the Standard Formula and material risk and capital reports
- Reviewing the adequacy and quality of the Risk and Compliance functions in line with the needs of the Group
- Reviewing the scope and coverage of the Risk and Compliance plans and any material findings arising from the activities of these functions
- Overseeing the mandate of the Chief Risk Officer, the Risk function and the Compliance function
- Overseeing the arrangements by which individuals may raise concerns, in confidence, about possible wrongdoing in financial reporting and other matters

## With-Profits Committee

During the year the With-Profits Committee comprised:

Jim Gallagher (Chair)  
 Julie Hopes  
 John Lister  
 Julie Spence

## Secretary

Rachel Kirwan

The With-Profits Committee met eight times during 2018. It was established in response to regulatory requirements and as such is not subject to any Code provisions.

With-Profits Committee terms of reference – summary

- Considering the way the Life Fund is managed and whether this is properly reflected in its Principles and Practices of Financial Management (PPFM)
- Considering Police Mutual's compliance with its PPFM
- Considering the way in which Police Mutual has exercised its discretion in the conduct of its with-profits business
- Considering the way in which Police Mutual has effectively addressed any conflicting rights, interests or expectations of its with-profits policyholders or groups of policyholders or stakeholders, including members, in a way that is consistent with treating customers fairly
- Advising on the suitability of candidates proposed for appointment as With-Profits Actuary (WPA)
- Assessing and reporting to the Managing Board on the performance of the WPA

# Corporate Governance Report

## Relations with members

Police Mutual is committed to ongoing communication across its entire member base whether Police Officer, Police Staff or family member.

The Annual General Meeting and conference held in May 2018, was attended by representatives of Police Mutual's delegate system who received a business presentation and the opportunity to ask questions of the Committee of Management and Board. The Chair arranges for the chairs of all sub-committees to be available to answer questions at the Annual General Meeting and for all directors to attend where possible.

Police Mutual's Committee of Management and Authorised Officer network are key to ensuring all directors develop an understanding of members' views. The Chair maintains good contact with the Police Family to ensure that she understands the issues and concerns of members and communicates these to the Board.

It is the Committee of Management's policy to propose separate resolutions at the Annual General Meeting on each substantially separate issue and in particular a resolution regarding the report and accounts. The Notice for the Annual General Meeting and related papers are normally sent 20 working days in advance of the meeting in accordance with the Code. The date of the Annual General Meeting is announced 12 months in advance and all delegates are contacted individually approximately four months before. In 2018 the Notice for the Annual General Meeting and related papers were sent 12 working days in advance of the meeting, although in doing so Police Mutual continued to meet its statutory and constitutional obligation to send any notice of general meeting to delegates at least 14 days (as opposed to 14 working days) in advance of that meeting.

The delegate system is a feature of Police Mutual's friendly society status and operates such that, for each Force in which there are members, Forces nominate delegates to represent the members from their Force, rather than all members being invited to attend. Police Mutual's delegate system Rules do not allow for proxy voting. If a Force Authorised Officer is unable to attend a general meeting the Rules allow the Force Authorised Officer to appoint a deputy to attend in his or her place.

Police Mutual's Annual Report and Accounts are designed to present a balanced and understandable view of the Police Mutual Group's activities and prospects and are supported by presentations to delegates at the Annual General Meeting.

## Risk Management and Internal Control

The Police Mutual Group is committed to encouraging high standards of risk management and internal control aimed at supporting the long term goals and success of the Group. The Board, under delegated authority from the Committee of Management, is responsible for ensuring that the Group's management maintains an effective system of risk management and internal control and for reviewing its effectiveness.

The Group's system of risk management and internal control covers the full spectrum of business activity and is designed to manage the Group's financial strength and organisational capability whilst ensuring the delivery of fair outcomes for members and customers commensurate with the Board's expectations, as informed by regulatory requirements.

The Group's governance and system of risk management and internal control includes independent risk, compliance and audit functions that report to management on the Group's operations and compliance with the Group's policies and standards. During the year, the Board supported by both Audit and Risk Committees has considered the effectiveness of the Police Mutual Group's system of internal control and risk management and engaged management in determining mitigation plans for the principal risks facing the Group. In 2017 the Board identified opportunities to improve the effectiveness of the Police Mutual Group's system of risk management and internal control with management making progress in improving risk management and control effectiveness during the intervening period.

Exacerbated by market volatility, a difficult trading environment and disappointing investment returns the Group's capital and liquidity positions came under pressure during 2018 which exposed vulnerabilities in aspects of the Group's current operating model. As a consequence, management has been requested to determine and execute appropriate risk mitigation plans with the intention of improving the Group's longer term financial strength.

The processes in place for identifying, assessing and managing on an ongoing basis the principal risks facing the Group include:

- Board discussion and approval of the Group's strategic direction, risk appetite and policies, goals and the risks to achieving them
- Board review and approval of business plans, budgets and forecasts
- Reviews of performance against budgets, strategic risk mitigation plans and forecasts by management and the Board
- Risk Committee review of the principal risk exposures facing the Group by reference to risk appetite and policies, and results of stress testing and their management
- Regular reviews by the Risk Committee of the effectiveness of the Group's risk management system and internal control systems, scope and results of risk assurance and compliance work across the Group
- Risk Committee review of any incidents of fraud or suspected fraud and the controls in place to protect the Police Mutual Group against this risk
- Audit Committee review of the scope and results of Internal Audit work across the Group and of the implementation of recommendations. The scope of internal audit work is risk-based to focus attention in appropriate activities across the Group
- Audit Committee reviews of the scope of work undertaken by the external auditors and any significant issues arising
- Audit Committee reviews of accounting policies

During 2018 the information received and considered by the Risk Committee and Board enabled a clear and consistent understanding of the principal risk exposures to be recognised and appropriate risk mitigation plans to be developed. The key features of the Police Mutual Group system of risk management and internal control that operated in the year are described in the next section of this report.

## Management and organisation

The executive management is responsible for ensuring that risks and controls are identified and assessed across the Group and for determining those of most significance requiring greater executive oversight. The Chief Executive has put in place an organisational structure with formally defined roles of responsibility and delegation of authority.

# Corporate Governance Report

Members of executive management are therefore accountable for the establishment of appropriate policies, procedures and operation of the systems of internal controls within the Police Mutual Group. The executive management also encourages a culture of continuous improvement with the aim of ensuring systems of internal control adapt to organisational changes and developments.

The key, established procedures include strategic and business planning, financial resources and expenditure management, risk management, information and reporting systems for monitoring the Group's businesses and their performances.

## Strategic and business planning

The Board reviews the strategic plans prepared by the Chief Executive and executive management and considers the Group's operating environment, its financial, risk and operational outlooks, the impact of economic factors on its members and customers, contagion risks and the results of stress testing on its business model.

This review provides the basis for developing the annual business plan targets as well as the five year strategic ambition. Progress against the business plan is monitored via an agreed set of performance indicators included in the regular reporting to the Board. The Board also receives and considers a report prepared by the Chief Risk Officer on the risks inherent within the strategic and business plans and those consequential risks associated with plan delivery.

## Financial resources and expenditure management

Each year the Board approves an operating budget and monitors expenditure on a regular basis in line with the Group's objective of appropriately balancing its income and expenses. Management monitors key performance indicators against plans for the year on a monthly basis, and reports the results to the Board.

The Board is also kept informed of management strategy for assessing the Group's financial resources including capital requirements as required by regulation as well as for delivering the strategic goals of the Group. The Board discusses and challenges the underlying assumptions and stress tests applied to the Group's financial resources requirements and any material change to these assessments.

## Risk Management

The Board supported by the Risk Committee has expressed its risk appetite which sets out the type and extent of principal risks it is willing to take in support of the Group's strategy. The risk appetite is reviewed by the Board at least annually. An established enterprise-wide risk management framework has operated during the year which provides reasonable assurance that risks are robustly identified, assessed, monitored and reported. This framework is underpinned by the three lines of defence model which ensures independent oversight, commentary and audit of risk management carried out by the business.

During 2018, periodic assessments of the Group's risk culture were undertaken and reported to the Board which concluded that the operating effectiveness of the enterprise-wide risk management framework whilst satisfactory could be further improved through strengthening overall levels of risk capability. Actions to address this have been developed and will be delivered during 2019.

The Board periodically reviews the principal risks to the Group as well as relevant stress tests and monitors the agreed mitigation plans.

## Investment strategy and management

The Board, supported by its Investment Committee, reviews and approves the Group's investment strategy as required by predetermined parameters. Management maintains a close watch on near-term market uncertainties and provides information to the Investment Committee necessary for controlling the risks in line with the Board's risk appetite.

## Performance Appraisal and Monitoring

The Board's Remuneration Committee reviews and approves the Group's remuneration policy that affects all employees of the Group. The remuneration of the Chair and non-executive directors as well as senior management is determined by the executive directors.

## Whistleblowing

The Group has established a formal policy and procedure for reporting and handling concerns raised in a confidential and appropriate manner. The policy and reporting of any incidents were reviewed by the Risk Committee in 2018.

## Anti-Financial Crime

The Group has established a formal policy and procedure for detecting, reporting and handling financial crime which includes money laundering.

## Internal Audit

Internal audit, operating as a third line of defence, plays an important role in the Group's internal control environment by providing independent assurance to its management and the Board via the Audit Committee. The Internal Audit function has a mandate and set of plans which are reviewed and approved formally each year by the Audit Committee. The internal audit plans are determined after appropriate risk assessments carried out in conjunction with management to ensure that assurance is sought in the most appropriate areas of the Group. Progress of management actions arising from internal audit findings as well as internal audit's progress against plans is followed up and monitored by management and the Audit Committee.

# Corporate Governance Report

## Statement of Compliance with the Corporate Governance Code for Mutual Insurers

Police Mutual is committed to a high standard of corporate governance. The directors consider that throughout the year ended 31 December 2018 Police Mutual has applied the relevant principles and complied with the relevant provisions of the Corporate Governance Code. The following are exceptions:

- The non-appointment of a Senior Independent Director
- Changes to the Chair's other significant commitments are included in the biographical details in the Delegate AGM pack rather than the annual governance report
- The arrangements by which individuals may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters are reviewed by the Risk Committee rather than the Audit Committee
- The remuneration of the Chair and remunerated non-executive directors is determined by the executive directors rather than the Remuneration Committee
- The Notice for the Annual General Meeting and related papers was sent less than 20 working days in advance of the meeting
- Police Mutual's delegate system Rules do not provide for proxy voting

The directors do not regard these exceptions as material at this time and reasons for departure from the Code are explained in the full report.

Readers are asked to note:

- A description of the principal risks facing the company, together with a description of those risks and an explanation of how they are being managed or mitigated can be found in the Risk Management Report within the 2018 Annual Report and Financial Statements
- Police Mutual's business viability statement, in which it states whether there is a reasonable expectation that it will be able to continue in operation and meet its liabilities as they fall due, can be found in the Report of the Committee of Management within the 2018 Annual Report and Financial Statements

# Directors' Remuneration Report

This Remuneration Report is split into the following sections

Purpose of the report	To explain why we prepare this report, who it is for and who determines its content so that you can understand the governance process for directors' remuneration.
The Remuneration Committee	To explain who is involved and what it does.
Chair's Statement	To give a summary for the financial year of the major decisions on and any major substantial changes to directors' remuneration and the context in which that occurred.
Annual Report on Remuneration	A summary of the remuneration awarded to all directors for the last financial year. This part of the report will be put to an advisory vote at the Annual General Meeting each year.
Remuneration Policy	A statement on remuneration policy for all directors for the period 2019 – 2022. This part of the report was last put to a binding vote at the Annual General Meeting on 29 April 2016. The revised policy set out in this year's report will be put to a binding vote in May 2019.

## Purpose of the Report

### Who determines what information is in this report?

This remuneration report has been prepared using Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013 (the 2013 Regulations) as a guide. The 2013 Regulations only apply to companies quoted on the London Stock Exchange but Police Mutual has voluntarily opted to use the Regulations as a guide for reporting on Directors' Remuneration.

### Who prepares the report and who is it for?

The remuneration report is prepared by the Remuneration Committee. It summarises remuneration policy and payments for all directors serving on the Managing Board. The final report is presented to the Committee of Management for approval at the same time as the Annual Report & Accounts. The Annual Report & Accounts and the Annual Governance & Remuneration Reports are part of the corporate governance process that involves the provision of information about how Police Mutual is managed to delegates at the Annual General Meeting and members of Police Mutual more widely, to enable them to ask questions and express views about that information as part of holding those who run the organisation for the benefit of members to account. Delegates at the Annual General Meeting are then required to vote on the report in two ways.

### How does the voting work?

There are two potential votes at the Annual General Meeting. Every year delegates will be asked to give an advisory vote on the Annual Report on Remuneration. Every 3 years delegates will be asked to give a binding vote on the Remuneration Policy Statement for the following 3 years.

An advisory vote does not have practical effect in that a vote against the report will not require directors' remuneration to be amended retrospectively but the result of an advisory vote sends a strong message to directors about the level of support for remuneration policy which in practice they will wish to take into account.

A binding vote means that the Remuneration Committee must operate within the terms of the policy set out in the report and must seek approval in a general meeting to change remuneration policy. In exceptional circumstances between general meetings where it is necessary to deviate from the policy, the Remuneration Committee will provide an explanation in the annual remuneration report in line with the principle of 'comply or explain'.

### What happened last time the Annual Report and Policy Statement were voted on?

The Annual Report on Remuneration put to delegates at the 2018 Annual General Meeting and subject to an advisory vote received a unanimous vote in its support.

The 2016-2019 Policy Statement put to delegates at the 2016 Annual General Meeting and subject to a binding vote received a unanimous vote in its support.



# Directors' Remuneration Report

## The Remuneration Committee

### Who sits on the Remuneration Committee?

During 2018 the Remuneration Committee was chaired by Julie Hopes. The other Committee members were Richard Coates (up to 4 May 2018), Julie Spence, and Claire Beck and John Lister (from 4 July 2018). Claire Beck was appointed to increase accountability to members of Police Mutual as Claire is a member of the Committee of Management and a retired Police Officer, now a member of Support Staff. The Chief Executive may, by invitation, attend Remuneration Committee meetings except where his own remuneration is discussed.

### What does the Remuneration Committee do?

The Remuneration Committee's principal responsibilities are:

- Determining a policy and framework for the remuneration of the Chief Executive and Executive team
- Approving the design, targets and payments for performance related pay schemes
- Determining the policy and scope of terms of service or employment contracts
- Determining contractual terms and payments in relation to termination of employment of executive directors and executive team members
- Determining the total individual remuneration package of each Executive team member
- Reviewing and noting the remuneration trends across the Police Mutual Group
- Overseeing any major changes in employee benefit structures
- Overseeing performance related pay schemes for employees across the Police Mutual Group
- Ensuring that all remuneration reporting requirements are fulfilled
- Being exclusively responsible for the selection, appointment and terms of reference for any remuneration consultants who advise the Committee

Full terms of reference for the Remuneration Committee are available at [policemutual.co.uk](http://policemutual.co.uk) and on request from the Company Secretary. Non-executive director remuneration is determined separately as described later in this report.

### Who advises the Remuneration Committee?

The Remuneration Committee keeps itself informed of market developments and best practice through the purchase of independent market data for jobs carrying similar responsibilities in comparable organisations in the private sector. The data is from specialist provider Hay Group which has no other dealings with Police Mutual. The principal comparator group consists of financial services companies providing similar services to Police Mutual. This data is not updated annually but from time to time at the Remuneration Committee's request and may be supplemented by comparable survey data from other specialist providers such as Willis Towers Watson. The selection of market data providers is entirely a matter for the Remuneration Committee.

Hay Group does not provide any advice to the Remuneration Committee on the application of the remuneration data. Advice and views on best practice, market practice and the application of market data is provided by the Head of Human Resources. The Head of Human Resources also reports to the Remuneration Committee on remuneration policy and practice across the rest of the Police Mutual Group. The Chief Executive, provides advice and input on the measures and objectives to be used in setting performance related pay and makes recommendations relating to the performance and remuneration of his direct reports. From time to time the Remuneration Committee may also use specialist remuneration advisers.

The Remuneration Committee did not receive advice from external advisers during 2018.

# Directors' Remuneration Report

## Remuneration Committee Chair's 2018 Annual Statement

I am pleased to present the 2018 Directors' Remuneration Report. I hope you find it clear and that it provides the information you need to see the link between Police Mutual's strategy, the delivery of benefits and services to members and the remuneration outcomes of the executive directors. We want remuneration arrangements that are transparent and straightforward to explain and understand. Ultimately we want all our stakeholders to support what we do because they can see clear evidence of our objectives to drive the best outcomes for Police Mutual and its members.

To this purpose, membership of the Remuneration Committee includes two Police members from the Committee of Management, Claire Beck and the Chair, Julie Spence. Claire and Julie's membership is an important part of ensuring that we embed the perspective of the Police service and our members in our decisions. The involvement of our members in decisions relating to pay remains unusual but is intended to demonstrate the highest levels of accountability. We value the opportunity to listen to the views of members and are committed to an open dialogue. This report is intended to assist this process.

### The context to the Remuneration Committee's decisions for the 2018 financial year

2018 has been another difficult year for the Group. Last year in our report we identified issues that required actions to be taken to reduce costs and write off historic projects that had not delivered the benefits expected. We also committed to continue to simplify the business throughout 2018 recognising that acquisitions and other investments have reduced our capital surplus over the past few years.

This focus on rightsizing the business has resulted in the Group reducing its in year operational loss (pre actuarial adjustments for investment and life fund experience and changes in future assumptions) to £2m. The losses have been reduced through lower staff costs, rationalisation of locations, supplier consolidation and retendering of commercial. However, more needs to be done to put the Group into a position that allows it to withstand any capital strains from market shocks and to invest to meet our Members' needs without requiring ongoing capital funding.

Whilst good progress has been made on costs, income growth has been more difficult and the Military affinity has had a significant reduction in sales in the year. A review has been undertaken and we are taking corrective actions to restructure the business to match the new environment. We will continue this focus into 2019 with further cost savings expected but also reviewing our Member proposition and products offered as part of a wider strategic review.

In 2018 the UK and Global macro-economic environment experienced significant volatility reflecting market nervousness on the outcome of Brexit and the threat of a global economic slowdown. As our Investment Fund is invested across Global equities (quoted on the US, UK, Japanese and European stockmarket indices), UK Property, Corporate Bonds and Cash it was impacted by the equity volatility in the last month of the year which resulted in most equity indices ending lower than at the start of the year. This impacted the 2018 investment returns on our Life fund with the Fund reporting a negative 3.8% return against 2017 positive return of 10.8%. This dampened the 5 year performance return to 4.5% p.a. for our with-profits policies but we have already seen markets bounce back from the year end low.

The drop in equity markets means that we have to hold higher cash reserves in the event that Guarantees are required to be paid and this has contributed £9.2m to the reduction in the Fund for Future Appropriations (the FFA) in 2018. The FFA has reduced to £113m and our Solvency Capital Ratio is 156% as at the end of 2018.

Notwithstanding all the changes experienced internally in the Group through the acquisitions, cost saving initiatives and changes in the Executive, our Net Promoter Score (a measure of customer loyalty based on the quality of their relationships) has remained very high at 44 (prior year 42). Additionally 83% of our Police members would recommend us which is incredibly high compared to other financial services companies and the industry average.

Organisationally there were some changes during the year which resulted in Andrew Elkington's role being extended to incorporate the Operations teams serving our members.

# Directors' Remuneration Report

## The Remuneration Committee's major decisions on directors' remuneration for 2018

It was agreed that during 2018 the Remuneration Committee would address the variable pay of the CEO. Although base pay for the role was broadly in line with the policy of market median, total remuneration (base pay and bonus) was below policy of lower quartile against the market. With the recruitment of a new CEO at the end of 2018, the Remuneration Committee sought to remove this historic misalignment with policy. As detailed in the policy table for the period 2019 onwards, the variable pay for the role of CEO has increased to a maximum of 135% of salary, from the previous maximum of 75%. Whilst this provides the opportunity for increased variable pay, the Remuneration Committee has looked to ensure that the associated performance measures are aligned to the consistent delivery of business objectives over a longer time horizon. Consequently 40% of the maximum bonus is now deferred for three years at which point the payment is subject to a further assessment of the sustained achievement of on target financial business performance measures over the deferral period. The remuneration policy has been updated to reflect these changes.

For 2018, the Remuneration Committee approved the introduction of a minimum financial performance measure to be achieved in order to trigger eligibility for any bonus payment. In 2018 this trigger was not achieved and therefore executive directors were not eligible to receive an award, as detailed in note (h) of the Directors' Total Remuneration table. Notwithstanding performance results, Stephen Mann was not eligible for bonus awards due to his resignation. On appointment in 2017, it was agreed that Andrew Elkington would receive a minimum award in 2018 of 20% in recognition of awards and other compensation that he forfeited by leaving his previous employer. The Remuneration Committee approved payment of this minimum payment which was in line with his contractual arrangements and agreed policy on recruitment remuneration and replacement awards.

In the wider Executive team the Remuneration Committee exercised discretion, on the grounds of affordability, and awarded no bonus to executives in Governance functions where bonus in respect of personal performance is payable irrespective of business performance, although deferred awards from 2017 were released.

In relation to deferred awards, the Remuneration Committee considered the tests set out in note (f) of the Directors' Total Remuneration table and concluded that they had not been triggered by any 2018 events. In terms of deferred payments, as limited bonus awards were made in 2017, the only deferred payments requiring consideration were for the two executive directors appointed in 2017 who had been made awards in 2017 in line with their employment offers.

In addition to these decisions, and in keeping with decisions made in relation to all employees of the Police Mutual Group, the Remuneration Committee agreed that no increases in base salary would be awarded to the executive directors in 2019.

## Substantial changes to Directors' Remuneration during 2018

Following the resignation of the Chief Operating Officer in July 2018, the role of Sales & Marketing Director assumed responsibility for Operations and therefore the Remuneration Committee approved a salary increase of 8% for Andrew Elkington. This was in recognition that the role was already below the market benchmark without consideration of this wider span of control.

The Remuneration Committee has operated within the Directors' Remuneration Policy agreed for 2016 – 2019 and has considered trends and external perspectives in setting the policy position for the period 2019 – 2022.

A resolution on the annual remuneration report will be put to members for an advisory vote at the AGM. On behalf of the Remuneration Committee I thank Authorised Officers for their support on this subject. Should any member of Police Mutual, the Police Service or the Military Service wish to contact me in connection with director remuneration, please email me at [julie.hopes@pmas.co.uk](mailto:julie.hopes@pmas.co.uk)

**Julie Hopes**

Non-executive Director & Chair of the Remuneration Committee

19 March 2019

# Directors' Remuneration Report

## Annual Report on remuneration for the year ended 31 December 2018

This part of the report tells you about directors' remuneration in 2018. It outlines the various elements of their remuneration and the amounts received or payable in relation to Police Mutual's performance in 2018.

Delegates attending the Annual General Meeting on 3 May 2019 will be invited to take an advisory vote to approve this part of the report.

This means they will be asked to vote on how remuneration policy was implemented in the past year, including actual sums paid.

An **advisory vote** does not have practical effect in that a vote against the report will not require directors' remuneration to be amended retrospectively but the result of an advisory vote sends a strong message to directors about the level of support for remuneration policy which in practice they will wish to take into account.

### Directors' Total Remuneration

	Year	Salary & fees £000s	Taxable benefits <sup>(g)</sup> £000s	Bonus <sup>(h)(i)(j)</sup> £000s	Pension related benefits <sup>(k)</sup> £000s	Total £000s
<b>Executive directors</b>						
Stephen Mann <sup>(a)(b)(c)</sup>	2018	371	26	-	82	478
	2017	370	25	0	81	476
Andrew Elkington <sup>(d)(e)</sup>	2018	195	13	38	35	281
	2017	40	2	2	5	49
Kathryn Winup <sup>(f)</sup>	2018	240	16	-	42	298
	2017	25	1	1	5	32
<b>Chair &amp; Non-executive directors</b>						
Julie Spence	2018	62	-	-	-	62
	2017	60	-	-	-	60
Paul Bishop <sup>(m)</sup>	2018	52	-	-	-	52
	2017	32	-	-	-	32
Richard Coates <sup>(l)</sup>	2018	14	-	-	-	14
	2017	51	-	-	-	51
Julie Hopes	2018	47	-	-	-	47
	2017	46	-	-	-	46
John Lister <sup>(n)</sup>	2018	54	-	-	-	54
	2017	43	-	-	-	43
Barry Sanjana	2018	49	-	-	-	49
	2017	48	-	-	-	48

### Notes

(a) Stephen Mann was a member of the Audit & Risk Committee for the College of Policing until January 2019. Whilst he was a member, Stephen requested that the College of Policing retain the daily fee of £460 for this role for donation to a Police related charity.

(b) In May 2018, Stephen Mann drew a sum of £70k in respect of bonus payments previously waived which were retained in the business to support the delivery of Police Mutual's strategic objectives but remained unspent. The amounts waived were: 2016 £42k of the annual bonus award\* (\*excluding the deferred element) of £126k; 2015 £60k of the annual bonus award\* of £123K; 2014 £25k of the annual bonus award\* of £117k; 2013 half of annual bonus award\* of £104k; 2011 full annual bonus award\* of £90k; 2010 half of annual bonus award\* of £91k; 2009 full annual bonus award\* of £80k.

(c) Stephen Mann resigned as Chief Executive Officer with effect from 23 April 2019.

(d) The Remuneration Committee approved the payment of a minimum guaranteed bonus of 20% to Andrew Elkington which formed part of his contractual arrangement upon appointment.

(e) Andrew Elkington was appointed an executive director 16 October 2017.

(f) Kathryn Winup was appointed an executive director 24 November 2017.

(g) For 2017 and 2018 benefits for each of the executive directors included the provision of a company car allowance or a company vehicle, private medical cover, life assurance and permanent health insurance.

(h) One third of the bonus award made in any one year is deferred for 12 months from date of payment of the corresponding two thirds. Release of deferred annual bonus payments is subject to there being no event that constitutes: both Malus in year and deferred and Clawback tests for deferred.

1. A material regulatory censure of Police Mutual or of its operations, management or any individual executives
2. A capital adequacy failure or other failure within Police Mutual which incurs material or disproportionate losses for members
3. A material breach of Police Mutual's risk appetite
4. Gross negligence by the executive or any other material error by the executive resulting in material loss for Police Mutual and/or its members
5. Misconduct or inappropriate behavior by the executive which resulted or could result in material loss for Police Mutual and/or its members
6. Any breach by the executive of the provisions of their service agreement entitling Police Mutual to terminate their employment without notice
7. Any other serious breach or other serious failing by the executive in the performance of their obligations to Police Mutual.
8. Overstatement of business results for the Financial Year to which the bonus relates.

(i) All bonus figures are provisional and subject to final review in April 2019.

(j) For the 2018 performance year the Remuneration Committee reviewed performance against the key target areas as follows:

# Directors' Remuneration Report

- **Delivery of the business plan financial target and the business transformation targets** (weighting 50% - on target 25%) This measure included a minimum financial target to be met in order for any bonus to be payable. This minimum financial target was not achieved and therefore it was judged that performance did not trigger a payment (0% out of 50%).
- **Create value for affinities through an assessment of "improving lives"** (weighting 20%, on target 10%) It was judged that three out of five member satisfaction measures had been achieved and that good progress had been made to increase member numbers in the Police and increase brand awareness in the Military. Overall performance was judged to be on target (Judged to have achieved 10% out of 20%)
- **Achieve colleague engagement targets** (weighting 10%, on target 5%) The annual engagement survey results dropped slightly for 2018, which provided a below on target result. Performance was therefore judged to be below target (Judged to have achieved 2.5% out of 10%)
- **Successful delivery of a new target operating model and management of risk and regulatory agenda** (weighting 20%, on target 10%) It was judged that overall performance to be below target (Judged to have achieved 5% out of 20%).

The above weightings were set to reflect the relative impact of the key target areas on members. Overall, the Remuneration Committee agreed that although achievement of some individual objectives had been assessed as partially achieved, the minimum financial target had not been met and this provided for nil bonus to be awarded. The Remuneration Committee did not exercise its discretion to not make awards to Andrew Elkington on the basis that it wished to honor the remuneration arrangements agreed as part of the employment offer.

(k) Pension related benefits are either contributions to a personal pension plan of the director's choosing or a cash alternative.

(l) Richard Coates resigned as a non-executive director on 4 May 2018

(m) Paul Bishop was appointed a non-executive director on 1 April 2017

(n) John Lister was appointed a non-executive director on 22 March 2017

# Directors' Remuneration Report

## Payments to past directors

During 2018 Ian Cordwell received additional remuneration after he stood down from the Managing Board on 23rd November 2017 in salary and taxable benefits including pension totalling £314k in his new role of Chief Investment Officer. In accordance with the assessment of performance against key target measures set out in note (h) to the Directors' Total Remuneration Table for performance years 2017 and 2018, there were no further bonus awards payable.

## Payments for loss of office

Ian Cordwell was made redundant from his role of Chief Investment Officer on 31st December 2018. Upon termination, he received payment of £71k redundancy pay and the transfer of ownership, without charge, of his company car.

## Remuneration of the Chief Executive

The table below shows the total remuneration figure for the highest paid executive director, the Chief Executive, during each of the last eight years. The total remuneration figure includes annual bonus and is calculated on the same basis as the Directors' Total Remuneration table. The annual bonus percentages show the amount awarded for each year as a percentage of the maximum that could have been achieved.

	2011	2012	2013	2014	2015	2016	2017	2018
Total remuneration (£000s) <sup>(a)</sup>	442	477	502	548	583	584	476	478
Annual bonus <sup>(b)</sup>	60%	70%	76%	79%	79%	47%	0%	0%

### Notes

(a) The total remuneration figures include amounts waived by the Chief Executive details of which are set out in note (b) to the Directors' Total Remuneration table.

(b) The annual bonus percentage reflects what proportion of the maximum amount (75% of salary) that could have been achieved was actually awarded.

## Relative importance of spend on pay

The table below illustrates Police Mutual's expenditure on pay in comparison to earned premiums.

	2018 £'000	2017 £'000	% change
Earned Premiums <sup>(a)</sup>	132,273	155,164	-14.8%
Total employee pay <sup>(b)</sup>	21,678	22,543	-3.8%
Total number of employees <sup>(c)</sup>	718	720	-0.3%

### Notes

(a) Earned premiums (and other technical income) has been chosen as a comparison because it is a good measure of the income activities of the Police Mutual Group. It reflects the premiums that have been paid by members and income from general insurance and other financial services activities across the group.

(b) Total employee pay is the total pay plus the value of taxable benefits for all Police Mutual Group employees including pension but excluding National Insurance costs.

(c) Total number of employees reflects the total number of employees employed during the year.

# Directors' Remuneration Report

## Directors' Remuneration Policy for 2019 – 2022

This part of the report sets out the remuneration policy for Police Mutual's remunerated directors for 2019 – 2022.

This section sets out the remuneration policy for Police Mutual's remunerated directors for 2019 – 2022 for approval by Delegates attending the Annual General Meeting on 3 May 2019.

The policy is subject to a binding vote every 3 years, or less if the Remuneration Committee wishes to change the policy within the 3 year period. Whilst the policy will be binding on the Remuneration Committee there may be exceptional circumstances between Annual General Meetings in which it is necessary to deviate from the policy. In these circumstances the Remuneration Committee will provide an explanation in its annual report adopting the principle of 'comply or explain'.

### Executive Directors

#### The principles underpinning executive director remuneration policy

- remuneration should reflect performance and support the delivery of benefits and services to members and the Police service by being demonstrably linked to the delivery of the 3 year strategy
- remuneration should be fair and competitive to enable Police Mutual to attract, retain and motivate executives of the quality required to run the organisation successfully whilst avoiding paying more than is necessary for the purpose
- the total of basic salary and performance related elements (total compensation) to be benchmarked within the lower quartile range for on target performance, and median for exceptional performance

#### Approach to recruitment remuneration

The Remuneration Committee believes it is vital to be able to attract, retain and motivate good quality executive directors who are aligned to the purpose and values of Police Mutual and the delivery of its strategic plans to meet its strategic vision and act in the best interests of Police Mutual's members. Integral to that alignment is a strong commitment to appropriate risk management. Aligning performance rewards to the delivery of strategic plans in the context of sound risk management is critical to building a strong performance culture and strong business.

The Remuneration Committee's approach when considering the overall remuneration arrangements in the recruitment of a new executive director is to take account of their remuneration package in their prior role, the market data from the comparator group set out in the remuneration policy for the new role and not to pay more than is necessary to facilitate their recruitment. The remuneration package for a new executive director will be set in accordance with Police Mutual's approved remuneration policy in force at the time of appointment made up of the following components:

Salary	The salary level shall be determined as set out in the policy using the relevant market data. The Remuneration Committee has the flexibility to set the salary of a new executive director at a discount to the market level initially, with a view to bringing the salary to the desired positioning over an appropriate period. Similarly, in exceptional circumstances, the Remuneration Committee has the ability to set the salary of a new executive director at a rate higher than the market level to reflect the criticality of the role and the experience and performance of the individual.
Benefits	The Remuneration Committee may award additional benefits and allowances to assist with relocation support.
Pension benefits	Pension benefits will be provided in line with current policy.
Annual bonus	The maximum bonus opportunity shall be in line with current policy i.e. 135% of base salary for the Chief Executive and 60% of base salary for executive directors.
Replacement awards	<p>The Remuneration Committee shall consider what cash or replacement awards, if any, are reasonably necessary to facilitate the recruitment of a new executive director in all circumstances. This includes an assessment of the awards and any other compensation or benefits item that would be forfeited on leaving their current employer. These payments would not be made as a matter of course.</p> <p>The payments would not exceed what the Remuneration Committee considers to be a fair estimate of remuneration lost when leaving the former employer and would reflect, as far as possible, the nature of time horizons attaching to that remuneration and the impact of any performance conditions.</p> <p>If the executive director's former employer pays a portion of the remuneration that was deemed foregone, any replacement payments considered would be reduced by an equivalent amount.</p>
Notice periods	The Remuneration Committee will set notice periods in line with current policy i.e. 6 months for executive directors and 12 months for the Chief Executive with fixed term contracts subject to 3 months' notice.

# Directors' Remuneration Report

## Service agreements

The executive directors' service agreements, including arrangements for early termination, are carefully considered by the Remuneration Committee and are designed to recruit, retain and motivate good quality executive directors whilst protecting the interests of Police Mutual both in and post employment. Directors' service agreements are available for inspection by members at Police Mutual's registered office. The obligations on Police Mutual arising from the service agreements which impact termination payments are summarised below. There are no further obligations giving rise to or impacting a form of remuneration that is not set out in the Future Policy Table in this report.

## Payments for loss of office

The Remuneration Committee's policy is to provide executive directors with service agreements that are normally terminable by either party giving 6 months' notice (12 months' notice in the case of the Chief Executive).

Executive director	Date of appointment	Date of current service agreement	Notice period
John Perks	1 April 2019	1 April 2019	12 months
Andrew Elkington	16 October 2017	16 October 2017	6 months
Kathryn Winup	24 November 2017	18 September 2017	6 months

The service agreements are continuous and Police Mutual operates a flexible retirement policy. Where an executive director is employed on a fixed term contract, the contract will ordinarily terminate automatically at the end of the fixed term unless it is terminated by either party giving not less than 3 months' notice.

Executive directors' service agreements contain provisions for payment in lieu of notice. The Remuneration Committee's approach when considering payments in the event of termination is to take account of the individual circumstances including the reason for termination, individual performance, employment law, contractual obligations and the director's duty to mitigate loss. Service agreements may be terminated without notice and without payment in lieu of notice in certain circumstances, such as gross misconduct.

Police Mutual may require the executive director to work during their notice period or may choose to place the individual on garden leave, for example to ensure the protection of Police Mutual's interests where the executive director has access to commercially sensitive information or poses a particular risk to the business by leaving.

The table below summarises each component of termination payment and how it would be calculated:

Notice period and compensation for loss of office	<ul style="list-style-type: none"> <li>Up to 12 months' base salary (for the Chief Executive) or 6 months' base salary (for executive directors) in line with the notice period. Notice period payments will either be made as normal (if the executive continues to work during the notice period or is on garden leave) or they will be made as monthly payments in lieu of notice (subject to mitigation if alternative employment is obtained)</li> </ul>
Annual Bonus	<ul style="list-style-type: none"> <li>There is no entitlement to any unpaid annual bonus on termination. The Remuneration Committee has the discretion to pay an annual bonus where an individual is considered to be a good leaver (for reason of redundancy, retirement, ill-health, disability, injury or death). The annual bonus would be calculated by reference to the bonus performance metrics in place for the period in question and performance against them, complete months' service up to the date of termination and the circumstances and timing of the executive's departure, at the discretion of the Remuneration Committee.</li> <li>The Remuneration Committee may at its discretion serve a claw back notice in certain circumstances set out in note (d) of the Directors' Total Remuneration table to recover any annual Bonus payment made for 3 years from the date of payment.</li> </ul>
Deferred Annual Bonus	<ul style="list-style-type: none"> <li>There is no entitlement to any unpaid deferred annual bonus on termination. The Remuneration Committee has the discretion to pay deferred annual bonus where an individual is considered to be a good leaver (for reason of redundancy, retirement, ill-health, disability, injury or death). The deferred bonus would be calculated by reference to the bonus performance metrics in place for the period in question and performance against them, complete months' service up to the date of termination and the circumstances and timing of the executive's departure, at the discretion of the Remuneration Committee.</li> <li>The Remuneration Committee may at its discretion change the amount held in deferral post-termination in certain circumstances set out in note (f) of the Directors' Total Remuneration table.</li> <li>Any amount held in deferral post-termination is potentially subject to forfeit at the discretion of the Remuneration Committee if certain breaches of the service agreement occur between deferral and payment.</li> <li>The Remuneration Committee may at its discretion serve a claw back notice in certain circumstances set out in note (d) of the Directors' Total Remuneration table to recover any deferred annual bonus payments made for 3 years from the date of payment.</li> </ul>
Pension and benefits	<ul style="list-style-type: none"> <li>Pension and benefit provisions continue to apply until the termination date. Any payments for loss of pension and benefit on early termination are calculated by reference to what the executive director would have received had they remained in office for the duration of their notice period (subject to mitigation if alternative employment is obtained).</li> <li>At the discretion of the Remuneration Committee other benefits may be receivable, such as (but not limited to) reimbursement of legal fees relating to the termination and outplacement support.</li> </ul>
Other termination payments	<ul style="list-style-type: none"> <li>Executive directors' service agreements do not provide for any termination payments (such as liquidated damages or golden parachutes) other than in relation to their notice periods. The Remuneration Committee will take into account an executive director's entitlement to payments in respect of statutory employment rights and will exercise discretion in determining the value of these based on the likely litigation risk.</li> </ul>



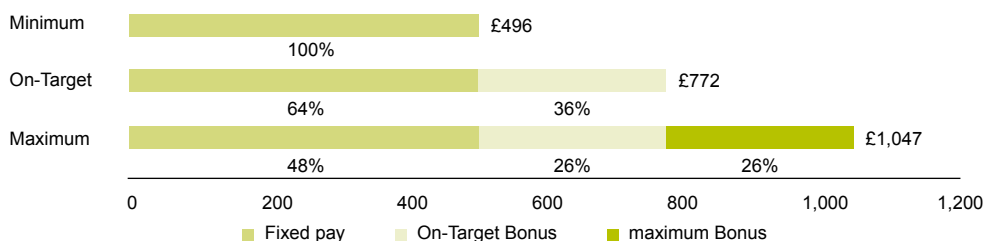
# Directors' Remuneration Report

## Illustrations of application of remuneration policy – reward scenarios

The graphs below provide an indication of the reward opportunity for each of the executive directors based on their roles as at 1 March 2019. The opportunity for the Chief Executive is illustrated based on the remuneration arrangements applicable for John Perks appointed as Chief Executive with effect from 1 April 2019.

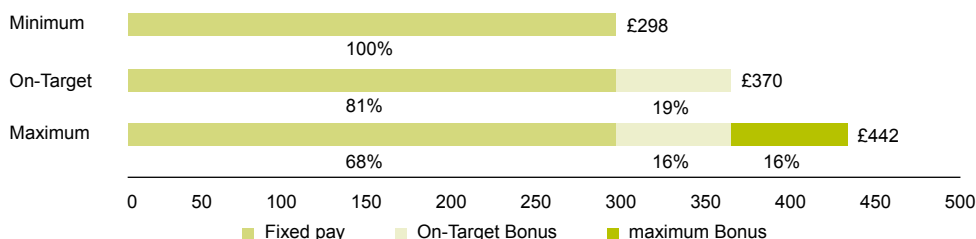
### Chief Executive

Total remuneration (£'000s)



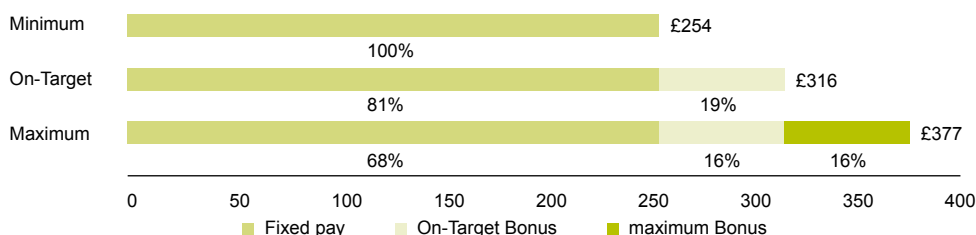
### Finance Director

Total remuneration (£'000s)



### Marketing & Sales Director

Total remuneration (£'000s)



The basis of calculation for the charts above is:

**Minimum** Only fixed pay is payable i.e. base salary, benefits and pension or cash in lieu of pension. No bonus is payable i.e. performance is below threshold levels. Base salary levels (on which other elements of the remuneration package are calculated) are based on those applying for 2019/20 and benefits are based on the cash cost to Police Mutual or the taxable value to the executive director.

**On-Target** Fixed pay plus 50% of maximum bonus

**Maximum** Fixed pay plus 100% of maximum bonus

## The difference between executive director remuneration policy and the policy on remuneration of employees generally

The key difference between the executive director remuneration policy and the policy on remuneration for employees generally is that, overall, the remuneration policy for executive directors is more heavily weighted towards variable pay linked to business performance than for other employees, so that remuneration will increase or decrease in line with business performance and align the interest of executive directors and members.

## Consideration of employment conditions elsewhere in Police Mutual

When determining directors' remuneration for the year the Remuneration Committee takes into account the pay and conditions of employees in the wider Police Mutual Group by considering the details of the annual remuneration review including average, minimum and maximum pay increases across the group together with the objectives and performance of group wide performance related pay schemes. All employees, including executive directors, are paid by reference to market data and base salaries are reviewed regularly. The Remuneration Committee would generally expect directors' increases to be in line with other employees' increases unless there are promotions, significant changes in scope or responsibilities or misalignment to the benchmark market data in which case the Remuneration Committee has the discretion to recognise these appropriately.

The Remuneration Committee does not formally consult with employees on drawing up the executive director remuneration policy.

## Statement of Consideration of Member views

The Remuneration Committee values any feedback from or dialogue with members and delegates. Any feedback received in relation to the Annual General Meeting, as well as any feedback received during the year, would be considered by the Remuneration Committee as it continues to develop its remuneration framework and practices. To date whilst there has been interest shown in terms of questions at the Annual General Meeting, the nature of those questions has not been such that it could be taken into account in formulating policy.

# FUTURE POLICY TABLE

## Key Elements of Executive Directors' Remuneration

Purpose & link to strategy	Operation	Opportunity	Performance metrics	Changes in period
<p>To recruit and retain executive directors with the attributes, skills and experience required to shape and deliver the Police Mutual Group's strategy.</p> <p><b>Base salary</b></p>	<p>Reviewed annually &amp; fixed for 12 months commencing 1 March. Increases may be awarded outside the normal review cycle at the discretion of the Remuneration Committee if individual circumstances merit it such as a change in responsibilities. Discretion in setting base salaries influenced by:</p> <ul style="list-style-type: none"> <li>• Role, experience and performance</li> <li>• Comparator salaries within Police Mutual</li> <li>• Average change in broader employee salaries</li> <li>• Total salary budgets</li> <li>• Market survey data</li> <li>• External indicators such as inflation and market conditions</li> <li>• Affordability taking into account overall financial performance of Police Mutual</li> </ul> <p><b>Recovery or withholding</b> No recovery or withholding applies</p>	<p>Whilst there is no maximum annual increase, salary increases will be determined by the policy of benchmarking base salary for a role against the market median informed by individual value and performance.</p> <p>The Remuneration Committee has the flexibility to set salary within a reasonable range around the median for example to take account of affordability, to reflect the level of experience in a new role or to attract a candidate into a specific role with significant experience.</p>	None	None

# FUTURE POLICY TABLE (continued)

## Key Elements of Executive Directors' Remuneration

	Purpose & link to strategy	Operation	Opportunity	Performance metrics	Changes in period													
Annual bonus	Rewards achievement of annual financial and strategic business targets and delivery of executive team and personal objectives which, whilst set on an annual basis, are aimed at delivering benefits and services for members and the police service in the short and long term as annual targets are set based on the overall delivery of a three year strategy.	Objectives are set and reviewed annually for both the executive team and individuals and relate to initiatives which the executive team as a whole need to deliver and to areas of the business over which the individual has particular control.	<table><tr><th colspan="3">Personal objectives</th></tr><tr><th>%</th><th>On target</th><th>Stretch</th></tr><tr><td>CEO</td><td>7.5</td><td>12.5</td></tr><tr><td>Director</td><td>5</td><td>10</td></tr></table>	Personal objectives			%	On target	Stretch	CEO	7.5	12.5	Director	5	10	In order for any bonus to be payable, the financial business performance measure must be met.	The variable pay for the role of CEO has increased to a maximum of 135% of salary from 75%. To ensure the associated performance measures are more closely aligned to the consistent delivery of business objectives over a longer time horizon 40% of the maximum bonus is now deferred for three years and at which point the payment is subject to a further assessment of the sustained achievement of on target financial business performance measures over the deferral period.	
	Personal objectives																	
	%	On target	Stretch															
	CEO	7.5	12.5															
	Director	5	10															
	Deferred element discourages excessive risk taking as amounts are subject to forfeit if particular events occur between award and payment.	For executive directors, one third of each annual bonus award is deferred for a period of 12 months from the date on which the corresponding two thirds is paid. For the CEO, 30% of each annual bonus award is payable in year, 30% is deferred for a period of 12 months from the date the in year payment is made and the final 40% is deferred for a period of 3 years from the date the in year payment is made.	<table><tr><th colspan="3">Team objectives</th></tr><tr><th>%</th><th>On target</th><th>Stretch</th></tr><tr><td>CEO</td><td>60</td><td>60</td></tr><tr><td>Director</td><td>25</td><td>25</td></tr></table>	Team objectives			%	On target	Stretch	CEO	60	60	Director	25	25	<b>Team objectives</b> The bonus is based on a balance of objectives relating to the delivery of financial (including overall business plan, income and capital), long term strategy, customer, people & culture, and regulatory & risk objectives. The precise weightings will depend on the strategic focus from year to year.		
	Team objectives																	
	%	On target	Stretch															
	CEO	60	60															
	Director	25	25															
Retention mechanism as bonus (including any deferred amounts) is forfeited at the Remuneration Committee's discretion if an individual resigns.	Policy on bonus is to set opportunity within the lower quartile of the market survey data and for exceptional performance the mid-quartile. The opportunity may be varied up or down during the three year period that the remuneration policy operates to ensure it continues to remain in line with policy.	<table><tr><th colspan="3">Maximum bonus opportunity</th></tr><tr><th>%</th><th>Personal</th><th>Team Max</th></tr><tr><td>CEO</td><td>15</td><td>120</td></tr><tr><td>Director</td><td>10</td><td>50</td></tr><tr><td></td><td></td><td>60</td></tr></table>	Maximum bonus opportunity			%	Personal	Team Max	CEO	15	120	Director	10	50			60	The measures and weightings used are selected annually to reflect the Police Mutual Group's strategic initiatives and financial and non-financial measures.
Maximum bonus opportunity																		
%	Personal	Team Max																
CEO	15	120																
Director	10	50																
		60																
	All bonus arrangements are subject to continued employment. Remuneration Committee has the discretion over good leaver provisions.		Bonus awards are determined by the Remuneration Committee after the year end based on performance against the objectives															
	<b>Recovery or withholding</b> The scheme rules contain malus and claw back provisions to take account of exceptional and adverse circumstances as set out in note (f) to the Directors' Total Remuneration table occurring between deferral and payment or within 3 years of the date of payment.		<b>Personal objectives</b> 100% of the personal bonus relates to areas of the business over which the individual has particular control and accountability in that year and are aligned to delivery of the 3 year strategy.															
			For the CEO, the payment of the 40% 3 year deferral will be paid where achievement of the agreed annual on target business performance measures have been sustained for the 2 subsequent years.															

# FUTURE POLICY TABLE (continued)

## Key Elements of Executive Directors' Remuneration

	Purpose & link to strategy	Operation	Opportunity	Performance metrics	Changes in period
Benefits	To provide market competitive benefits to assist in attracting and retaining executive directors	A range of benefits may be provided including, but not limited to, private healthcare, a car or car allowance, permanent health insurance, life cover and relocation assistance on appointment. <b>Recovery or withholding</b> No recovery or withholding applies	The cost of benefits is not pre-determined reflecting the need to allow for normal increases associated with the provision of benefits.	None	Private fuel payment or allowance removed.
Pension	Rewards sustained contribution and provides competitive post-retirement benefits or cash alternative ensuring the total remuneration package is competitive and aids retention	Payments may be made into a pension scheme of their choosing or paid as a cash allowance, offset for the cost of National Insurance. Bonus and other benefits are excluded from the calculation. <b>Recovery or withholding</b> No recovery or withholding applies	Prior to 1 July 2012, employer contribution levels were set in bands and dependant on age with employer contributions up to a maximum of 25%. For directors employed after 1 July 2012 the employer contribution is 20%. In the event of changes to the pension tax regime adversely affecting pension arrangements the Remuneration Committee may amend the pension benefits available on a basis that would not cost materially more than the existing arrangements.	None	None

# Directors' Remuneration Report

## Chair & Non-Executive Directors

The policy on non-executive directors' fees is:

### Purpose and link to strategy

Fees are designed to recognise the responsibilities and time commitment of non-executive directors and to attract individuals with necessary skills and experience to contribute to the future growth of the Police Mutual Group and to a high performing board.

### Operation

Fees for non-executives are determined annually by the executive directors with any changes normally effective from 1 July. They are benchmarked against comparable organisations in the private and mutual sectors. The principal comparator group consists of financial services companies and data is obtained from surveys and publicly available information. Specific independent reports may be obtained from time to time. Fees are benchmarked to the median with some discretion around that point to allow for the need to attract different skills, experience and knowledge in non-executive directors

Fees are neither performance related nor pensionable and non-executive directors do not participate in any incentive plans. Reasonable expenses relating to travel, accommodation and meals for business purposes are reimbursed.

Fees are made up of a basic annual fee together with additional fees for the Chairship or membership of any committees or subsidiary companies. Fees are paid monthly in cash and are calculated on an annual rather than daily basis. The following table sets out the fees effective from 1 July 2018:

Base fees			
Chair	£57,000		
Non-executive director	£39,000		
Additional fees			
Audit Chair	£10,000	Audit member	£2,000
Remuneration Chair	£4,000	Remuneration member	£1,000
Investment Chair	£6,000	Investment member	£1,000
Risk Chair	£10,000	Risk Member	£2,000
With Profits Chair*	£25,000	With Profits member	£2,000

### Notes

\* The independent Chair of the With Profits Committee is not a non-executive director.

### Approach to recruitment remuneration

For the appointment of a new Chair or non-executive director, the fee arrangement and notice period shall be set in accordance with the approved remuneration policy in force at that time.

### Chair and other non-executive directors' letters of appointment

Non-executive directors, including the Chair, do not have service agreements, but each has a letter of appointment which sets out their duties and responsibilities. The appointment of remunerated non-executive directors is generally for an initial period of three years, subject to annual re-election, and may be renewed by mutual consent. These appointments can be terminated at any time by either party, without the payment of compensation, upon giving three months' written notice. The current chair and non-executive director appointments commenced on:

Julie Spence*	4 May 2011
Paul Bishop	1 April 2017
Julie Hopes	6 May 2014
John Lister	1 March 2017
Barry Sanjana	20 October 2010

### Notes

Julie Spence was appointed as a non-executive director on 5 May 2010 and Chair on 4 May 2011.

The above fee levels may be varied (up or down) during the three year period that the remuneration policy operates to ensure that they continue to appropriately recognise the time commitment and responsibilities of the role, increases or decreases to the fee levels for non-executive directors in general and fee levels in comparable organisations.

Non-executive directors' letters of appointment are available for inspection by members at Police Mutual's registered office.

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