

# Tesco Personal Finance plc

Pillar 3 Disclosure - Remuneration

21<sup>st</sup> December 2011

## Tesco Personal Finance Remuneration Disclosure

For the year ended 28<sup>th</sup> February 2011

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Following publication of the FSA Remuneration Code in December 2010 ('The Code') this document displays the remuneration for the employees of TPF plc whose actions have a material impact on the risk profile of the bank ('Code Staff') in respect of the 2010/11 financial year. Further information on the bank's remuneration policies and governance is also outlined.

### Approach to remuneration

TPF plc structures its approach to reward based on that used across the wider Tesco Group, maintaining consistency where appropriate, but tailored to fit the financial services industry in line with both industry specific commercial need and external regulatory requirements. Reward is structured to incentivise people to meet business goals, whilst ensuring actual awards are based on the success of both business and individual performance, promoting an environment of sound risk taking.

The bank externally benchmarks its reward annually to ensure it is aligned to the market and is adequate to recruit and retain qualified and experienced staff. Variable reward is split between short and long-term incentives, both of which involve deferral periods, performance adjustments and the use of Tesco plc shares to create alignment with the wider Tesco Group. In addition, subject to a transition period of 5 years, all senior directors are required to maintain a shareholding equivalent to 1 x fixed salary in order to secure a continuous focus on the long-term performance of the Group. The use of several specific measures to assess performance for short-term schemes means that importance is placed on growing profits sustainably in line with the risk appetite of the bank, focussing on how capital investment can deliver long-term success and create shareholder value. The bank's balanced scorecard, referred to as the Steering Wheel, includes measures designed to reflect the values of Tesco, particularly around operational efficiency and the focus on customer and staff loyalty.

TPF plc has adopted a five tier 'work levels' grading structure which is used across most of the Tesco Group. This structure ranges from junior staff at Work Level 1 through to directors at Work Level 4 and senior directors at Work Level 5. Roles are allocated to a work level using seven key indicators which include role complexity, level of decision making and budgetary management. The reward structure used is aligned to this work level structure. This five level approach creates a flat, broad organisational structure with few layers of management and broad spans of control. All bank staff at Work Level 4 and above have been identified as Code Staff along with a small number of Work Level 3 managers. The list of Code Staff is reviewed annually by the Remuneration Committee.

### Decision making process for remuneration policy

TPF plc operates two Governance groups to review, govern and implement the general principles of the Remuneration Policy. The TPF plc Remuneration Committee is appointed by the Board of TPF plc and consists of four independent Non Executive Directors of the bank. Members of the Remuneration Committee are members of either or both of the bank's Audit and Risk Committees, which ensures they receive regular updates on key risk profiles and issues relating to the bank. The Chief Executive of TPF plc and the Chairman of TPF plc also attend meetings at the request of the Committee.

The Committee's role is to determine remuneration policy for Code Staff, directly oversee remuneration arrangements for the senior directors within the bank leadership team and all Code Staff, as well as staff in the key control functions of Risk, Compliance and Audit independently of other business areas. The TPF plc Remuneration Committee seeks to ensure that the levels and

structures of remuneration are designed to attract, retain and motivate management talent needed to run the business in a way which is consistent with the risk appetite and ongoing sustainability of the business and to be compliant with the applicable legislation and regulation.

In performing its duties, the TPF plc Remuneration Committee is supported by the Personnel Director for the Retailing Services division of Tesco and the Tesco Group Reward team within the Tesco Group Personnel division who may also provide further information to assist the Committee with their duties. Representatives from TPF plc's Risk, Finance and Internal Audit functions are invited to attend the Committee at appropriate times. Where appropriate the Committee also draws on external consultants to provide advice and guidance. In 2010/11 the Committee received independent advice from Freshfields Bruckhaus Deringer LLP.

A separate non-board committee, People Matters Group (PMG), exists to manage the day-to-day human resources operations of the bank and covers such areas as talent planning, recruitment, performance and development. It makes decisions on reward matters for all staff below Work Level 4 not covered by the Remuneration Code, including pay and bonus awards, and makes recommendations on Code Staff for the Remuneration Committee to review. The PMG is made up of, amongst others, the Chief Executive of TPF plc, the Chairman of TPF plc, the Head of Personnel for the Bank and the Personnel Director for the Retailing Services division of Tesco.

The Remuneration Committee met five times during the 2010/11 financial year.

Following publication of The Code in December 2010, the Remuneration Committee decided to review its remuneration arrangements for those staff identified as Code Staff. From the 2011/12 financial year onwards all Code Staff will receive their variable remuneration structured in line with the recommendations made by the FSA. These schemes are outlined later in this document.

### Link between pay and performance

TPF plc has set its risk appetite, and via the Remuneration Committee's oversight of remuneration practice, the bank's overall aim is to ensure an appropriate alignment between pay and total reward in line with the risk profile of the organisation. At an operating level, the bank's risk appetite has been translated into Key Performance Indicators (KPIs) within the business, which build up into an overall assessment in the bank's steering wheel, as well as within its individual remuneration arrangements in a number of ways including:

- An appropriate combination of fixed and variable pay, benchmarked annually, ensuring the bank's fixed-variable ratios on remuneration are controlled and do not encourage inappropriate risk taking behaviour
- Basing variable performance measures on a combination of balanced measures, including qualitative and quantitative factors. The use of the bank Steering Wheel as a way of assessing short-term performance is viewed as a balanced way of ensuring that stakeholders are considered as part of business performance (as opposed to solely financial measures) and that decisions are not taken for short-term financial gain to the detriment of other aspects of the business
- Ensuring that all employees of the bank, including Code Staff, have a set of annual objectives and a clear personal development plan. Managers use objectives to communicate the required level of performance and to set expectations. They are a key part of how employee performance is managed. Performance development plans focus on the skills and behaviours appropriate to enable staff to do their jobs well and to help them fulfil their potential. An employee's progress is reviewed on a regular basis and every employee receives an annual performance rating. Individual objectives, performance reviews and personal development plans for all Code Staff are shared with the Remuneration Committee as part of the process for determining variable award levels

- The basis of assessment for the short-term bonus is adjusted for people in control functions, so greater emphasis is placed on the performance of the control function. The remuneration for Code Staff in key control functions are overseen by the Remuneration Committee
- Maximum award levels are determined as percentages of salary, which are pre-set for the whole bank based on work level. Awards are mathematically driven based on both business and personal performance. Weak individual performance – as identified through the annual ratings system – results in reduced or zero awards. Rewards are not increased over and above this calculation, and therefore the opportunity for an individual to benefit from increased rewards outside of this core structure does not exist
- There is a strong share based element to the variable reward offered to support long-term commitment to sustainable performance, with all Code Staff subject to levels of deferral
- All incentive awards include a clawback facility at the discretion of the Remuneration Committee

### **Design and structure of the remuneration system**

TPF plc delivers its reward via a combination of fixed pay, variable pay and other benefits. All executive Code Staff at the bank participate in the variable reward schemes, along with other managers at their work level (in line with the approach used across the wider Tesco Group). Non Executive Code Staff do not participate in any variable pay arrangements.

#### **Base salaries**

- Fixed reward which reflects the size of the role, individual skills, experience and performance, as well as the remuneration at other similar companies.

#### **Short-term reward**

##### **- Short-term bonus**

- A one year scheme designed to incentivise and reward managers for attainment of business targets achieved in the financial year.
- Performance for the whole bank staff is assessed against a combination of the bank's financial measures and steering wheel, the performance of the Tesco group and individual performance.
- Awards are made in the form of compulsory deferred shares, voluntary deferred shares and cash, the percentages of which vary by work level. All Code Staff receive a share bonus deferral in line with the Remuneration Code requirements.
- Awards for Code Staff are subject to performance adjustment at the discretion of the Remuneration Committee. This can be made by one or a combination of; adjusting levels of award prior to payment; applying clawback to existing awards; reducing or lapsing unvested share awards.

#### **Long-term reward**

##### **- Long-term bonus**

- A three year scheme rewarding long-term shareholder value creation, designed to reward the performance of the Tesco Group. Awards are made based on a percentage of salary.
- Performance is assessed against a matrix of financial measures assessed at Tesco Group level. Vesting levels range from 0%-100% depending on overall Group business performance.
- These rewards are subject to claw-back and performance adjustment at the discretion of the Remuneration Committee for misconduct or losses which result from excessive risk being taken, or if the TPF plc results are significantly lower than plan to that of the Tesco Group over the performance period.

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### - Other schemes

In addition to the long-term bonus, certain members of the TPF plc senior director population participate in a long-term incentive scheme which will deliver rewards based on long-term sustainable profit growth and annual corporate objectives encompassing certain customer, operational, people and financial metrics over a five year period. This award will vest, subject to the Remuneration Committee's assessment of performance, in 2015. Any awards paid will be made net of the cumulative amounts paid to eligible participants under other bonus and share based arrangements in the preceding five years.

### Remuneration for Code Staff in 2010/11

Table 1: Fixed and variable remuneration breakdown for all Code Staff (TPF plc senior directors, Non Executive Directors, Chairman of the Bank and those whose actions have a material impact on the risk profile of the bank).

	Senior Management <sup>4</sup>	Other Code Staff <sup>4</sup>	Total
Total number of Code Staff	10	15	<b>25</b>
Fixed reward (£m) <sup>1</sup>	2.4	3.6	<b>6.0</b>
Variable reward (£m) <sup>2,3</sup>	1.6	1.5	<b>3.1</b>
<b>Total remuneration (£m)</b>	<b>4.0</b>	<b>5.1</b>	<b>9.1</b>

#### Notes

<sup>1</sup> Includes base salary (and in the case of Non Executive Directors any fees), benefits in kind and any other cash payments paid in the year

<sup>2</sup> Where payable other than in cash, the variable remuneration has been valued for the purposes of this table using the following methods: Annual bonus award – the value of any cash payments and/or deferred shares valued on award; Performance share plan – an expected value of 75% of the value of the grant; Share options – an expected value of 25% of the value of the grant

<sup>3</sup> The Remuneration Committee chose to disapply the requirement under SYSC 19A.3.47 to award 50% of variable remuneration in the form of shares to awards made before the expiry of the transitional period on 1 July 2011.

<sup>4</sup> Senior management refers to all senior directors operating within Work Level 5, Non Executive Directors and the Chairman of the Bank. Other Code Staff includes directors at Work Level 4 and senior managers at Work Level 3.