

SUMMARY DIRECTORS' REMUNERATION REPORT

Guy Parsons, Chairman of the Remuneration Committee, explains how directors are paid.

What is the Directors' Remuneration Report?

The Group publishes an annual remuneration report. The 2016 report shows director remuneration earned in 2016 (and 2015 for comparison). As a member, you have a say in how the directors of the organisation are paid, and so this is something you have the opportunity to vote on through an advisory vote at the AGM. We take our members' views seriously and we will review the results of the advisory vote to consider any appropriate action.

How does the Group manage directors' remuneration?

The Group manages executive directors' pay and the Chairman's fees via the Remuneration Committee, which is made up of three non-executive directors. The committee is

guided by the Group's Remuneration Policy, which is aligned to its current strategic priorities. The Policy supports the Group in delivering its strategy by enabling the recruitment and retention of talented individuals, keeping a strong focus on our customers and being compliant from a regulatory perspective. The Policy is regularly reviewed to ensure it continues to support the delivery of the wider business strategy. The Policy was last approved by members at the 2016 AGM by advisory vote and will remain in force for 2017. The full Remuneration Policy is available at ybs.co.uk/annualreport with a summary included on page 30 of this report.

How have directors' salaries changed in 2016?

Executive directors' base salaries are reviewed each May at the annual pay review, at the same time as all other colleagues.

The 2016 awards for directors were in line with those received by the wider colleague group, which ranged from 0.5% to 4.5%. Individual increases are based on personal performance, a comparison to similar roles in the wider financial services market and affordability. In 2016, additional pay awards were made available for the wider colleague group to recognise high performance, address any gender differences in relation to pay and respond to market movements – this resulted in some awards around 10%. As a result, in 2016, the average pay award for all colleagues was 2.7% (including all executive directors). Stephen White became an executive director in February 2016, with a joining salary of £400,000 per annum.

Will directors receive a bonus for 2016?

In 2016 the Group introduced a new bonus scheme, entitled 'Your Bonus'. It is anchored to the core business objectives of financial performance, customer experience and risk management. The scheme design is the same for all colleagues, with a range of on-target awards. A bonus is awarded on successful achievement of Group financial and customer performance measures and individual

£500,000, or where their bonus equates to at least 33% of total remuneration in a given year. This is known as the 'de-minimis threshold'. Under these circumstances, bonuses will be paid over a longer period and delivered in part via a Share Equivalent Instrument (SEI) rather than cash. Full details of this deferral are outlined in the full Directors' Remuneration Report available at ybs.co.uk/annualreport.

Non-executive directors do not participate in any Group bonus scheme.

You can find more information on the Group's 2016 results that have influenced the recommended 2016 bonus outturn on pages 12 to 13.

How will changes to the executive directors on the Board affect remuneration in 2017?

Chief Executive Officer change

In June 2016 Chris Pilling advised the Board of his intention to step down from the role of CEO on 31 December 2016, after five years' service with the Group. All payments made to him in respect of his service during 2016 are reported in the table on the following page. Chris is contracted to a 12 month notice period. He will not work for

AS A MEMBER, YOU HAVE A SAY IN HOW THE DIRECTORS ARE PAID

performance. In line with our Remuneration Policy for executive directors, a risk overlay on bonus is also undertaken in line with agreed principles.

The industry continues to experience significant change and a challenging trading environment. The Group has responded to these changes, while continuing to work towards our vision of being 'the most trusted provider of financial services in the UK'. Within this context, the Group's 2016 performance remained strong and the committee approved bonus payment for executive directors, with an eligible executive director achieving, on average, 76.2% of their maximum opportunity.

Bonus payments will be delivered in line with the Prudential Regulatory Authority's (PRA) Remuneration Code. This applies to colleagues whose total remuneration is greater than

the remaining six months' of his notice period and receives the remaining payment as 'payment in lieu of notice' (PILON), subject to certain mitigating provisions. He receives this in monthly instalments for the remainder of his notice period, until 30 June 2017. Chris will not receive a bonus for the 2016 performance year. Mike Regnier, previously Chief Customer Officer, was appointed to the position of CEO with effect from 1 January 2017. His remuneration package has been set at a level slightly below that received by Chris Pilling, reflecting the fact that it will be his first year in the role. In line with Group policy (to position ourselves at market median for total remuneration), he will receive a base salary of £550,000. Mike's base salary will next be reviewed in 2018.

Reference to page numbers relate to the Annual Review 2016 booklet

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Other executive director changes

Andy Caton left the Group on 9 December 2016 after 25 years' service. All payments made to him in respect of his service during 2016 are reported in the table below. Andy will receive the payment of his total notice period as PILON over a 12 month period in 2017. This payment is also subject to mitigating provisions. Andy will not receive a bonus in relation to the 2016 performance year. Following Andy's departure, Robin Churchouse, Finance Director, assumed additional responsibilities from 1 January 2017. As a result of this change, his base salary increased to £375,500 per annum. Robin's base salary will next be reviewed in 2018.

Were non-executive director fees changed in 2016?

Non-executive directors' basic fees were generally increased by 2.6% in July 2016. This change took into account external market data, the skills and the time commitment required for the role as well as wider colleague salary increases. Fees for members of the Remuneration Committee and non-executive director pension trustee members' fees were increased by 11.28% (from £5,392 to £6,000). This change was recommended to reflect comparable market data and nearest peer comparators.

How much did the executive directors earn in 2016?

The table below shows the remuneration of the executive directors of the Group for the years ended 31 December 2016 and 2015. This is audited information.

Executive directors' remuneration - year ended 31 December 2016

Executive director	Fixed Remuneration				Total £000
	Base Salary £000	Taxable Benefits £000	Pension Allowance £000	Bonus £000	
Andy Caton	312	3	50	-	365
Robin Churchouse	338	12	55	85	490
Chris Pilling	590	15	96	-	701
Mike Regnier	376	11	61	177	625
Stephen White	340	26	53	144	563

Executive directors' remuneration - year ended 31 December 2015

Executive director	Fixed Remuneration			Bonus £000	Total £000
	Base Salary £000	Taxable Benefits £000	Pension Allowance £000		
Ian Bullock ¹	301	10	48	83	442
Andy Caton	306	12	80 ²	56	454
Robin Churchouse	331	11	53	91	486
Chris Pilling	571	15	92	177	855
Mike Regnier	322	11	51	99	483

In line with the aim of increased transparency, the presentation of the executive directors' remuneration table reflects the full amount executive directors earned in relation to the 2016 performance year. The figures include deferred elements, which will be paid in line with regulatory deferral requirements outlined in the 2016 Annual Report and Accounts, available at ybs.co.uk/annualreport. The 2015 figures have been restated in this manner, and in line with regulation, to be shown on a consistent basis.

¹ Ian Bullock retired from the Society on 30 November 2015. ² Andy Caton was participating in a defined benefit scheme until 31 December 2015, at which point the scheme was closed to future accrual. In 2016, Andy received a cash allowance in lieu of pension contributions in line with other executive directors and prevailing tax restrictions.

How much did our non-executive directors earn in 2016?

The non-executive directors' basic and committee fees for 2016 are outlined below. Note that the Group's non-executive directors do not receive any benefits. Non-executive directors are reimbursed for any expenses incurred such as travel and subsistence. Any tax due is the responsibility of individual non-executive directors.

Non-executive director remuneration - year ended 31 December 2016

Non-executive director	Basic Fees £000	Committee Fees ⁴ £000	Total £000
John Heaps (Chairman)	182	-	182
Kate Barker ³	48	19	67
Alison Hutchinson	48	14	62
Gordon Ireland	48	8	56
David Paige ³	48	51	99
Mark Pain (Vice Chairman)	69	28	97
Guy Parsons	48	16	64

³ The committee fees for David Paige and Kate Barker include their duties as Chairman and Trustee respectively, of the Yorkshire Building Society Pension Scheme in 2016.

⁴ Details of non-executive director committee memberships and role-holders are set out on pages 21-25.

A SUMMARY OF THE DIRECTORS' REMUNERATION POLICY

The Remuneration Policy was approved by members at the 2016 AGM

	Operation	Opportunity
Base pay	Typically reviewed annually, in line with the range of increases for all colleagues, and determined with reference to: <ul style="list-style-type: none"> Role, experience and individual performance; Affordability – the economic environment and overall financial state of the Group; Comparison to the external market, supported by reference to the Group's grading structure, the Career Framework. 	n/a
Bonus (Your Bonus)	<ul style="list-style-type: none"> Key measures within the Corporate Plan have to be achieved for 'on target' pay-out, and considerably exceeded for maximum pay-out. All bonus payments are made in line with regulatory requirements and adhere to the relevant deferral periods. The committee reserve the right to apply a malus adjustment (reduce bonus or lapse deferred elements) and to apply clawback (recover bonus payments already made) as applicable. 	'On-target' achievement of Group performance criteria results in a bonus of 30% of base salary for the executive directors, with a maximum of 50% of base salary.
Benefits	Benefits include car benefits, healthcare, private medical insurance, life cover and insured sick pay.	All benefits are provided in line with the Group's grading structure, the Career Framework.
Pension	Executive directors are eligible to participate in the Group's defined contribution pension scheme. <ul style="list-style-type: none"> Where contributions exceed the annual or lifetime allowance, executive directors may be permitted to take a cash supplement instead of contributions to the plan. 	Executive directors receive a contribution (or cash allowance) equal to a maximum of 16% of base salary.

Chairman and Non-Executive Directors' Remuneration

	Operation	Opportunity
Chairman Fees	Normally reviewed and approved by the Remuneration Committee on an annual basis.	Fee levels take into account time commitment for the role and practice at other organisations.
Non-executive director fees	Normally reviewed and approved by the executive directors and the Chairman on an annual basis. <ul style="list-style-type: none"> Non-executive directors receive a basic fee. An additional supplement is paid for serving on or chairing a Board Committee. Non-executive directors do not participate in any performance pay or pension arrangement. 	

For a full copy of the Annual Report and Accounts, including a full copy of the Remuneration Report: visit ybs.co.uk/annualreport call or email using the contact details on the enclosed letter.