

2017 ANNUAL GENERAL MEETING – REMUNERATION COMMITTEE CHAIRMAN’S PRESENTATION

Thank you Robin and good afternoon everyone.

The Directors’ Remuneration Policy was last approved by members at the 2016 Annual General Meeting (AGM). At the meeting today you are being asked to vote on the Directors’ Remuneration Report for 2016. I would therefore like to take a few minutes to go through this with you.

Our approach to remuneration is designed to reflect the values of the organisation. We operate in a highly competitive and skilled market and it is crucial that we are able to attract and retain the best talent for each role. We recognise that the way colleagues are rewarded and motivated is a cornerstone of our leading people experience.

The Remuneration Committee, made up of myself as Chair and two other Non-executive Directors, determines the Remuneration Policy for the Society. We receive professional internal and independent external advice and we constantly scrutinise comparative levels and benchmarks within the financial services sector.

The approach taken to the annual pay review is the same for the Executive Directors as it is for all colleagues within the Group and no individual is involved in determining his or her own pay. In 2016, the base salary of the Executive Directors and the fees paid to Non-executive Directors increased in line with the award made for all colleagues.

Regarding the Chief Executive’s remuneration in particular, Chris Pilling advised the Board of his intention to step down from the role of Chief Executive in June 2016. Once the Board had selected Mike Regnier as his successor who, as an internal appointment didn’t have a lengthy notice period, they determined that it would be in the best interests of the Society for Mike to commence the role from 1st January, and to ask Chris to take payment in lieu of the remainder of his contractual, 12 months, notice period rather than continue to work in the Society day to day.

The salary Mike will receive as Chief Executive was set with consideration to both the external market in relation to Chief Executive remuneration and the skills and capabilities Mike brings to the role. This was detailed in the Annual Review and the Annual Report and Accounts.

Looking at variable payments, which are generally known as bonuses, the Group operates one consistent scheme structure that rewards all colleagues in the same way. Variable payments are linked to the Society’s performance against targets agreed by the Board. The 2016 targets were set to reflect the external market environment and our desire to deliver value to the members. As you have heard from Robin, the profit target set for 2016 was lower than the out turn in the previous year.

It is important to note that all Executive Directors' variable payments are subject to a period of deferral to ensure the long-term success and sustainability of the Group and to prevent undue risk taking. Significant amounts, of between 50 and 60 per cent of variable pay awards, are held back for payment in future years, and are subject to malus and clawback provisions. This provision applies to those Executive Directors still working at the Society and those that left at the end of 2016.

As you have just heard, 2016 was a successful year resulting in over-achievement against our key financial, risk and customer service measures. We therefore propose variable pay awards to the Executive Directors for 2016 performance, of between 25 and 47%. These amounts reflect the Group's performance on Profit and Customer Service as well as each individual's personal performance. An assessment of our risk performance is also taken into consideration.

I can confirm that, in line with the Remuneration Policy, no bonus will be paid to Chris Pilling and Andy Caton in respect of 2016 as both resigned during the year.

You may be aware of, and perhaps will have seen, the considerable media attention that is focussed on the complexity, appropriateness and transparency of executive pay. I would like to reassure you that as Chair of the Remuneration Committee, I am confident that the Society is well positioned in this debate as a result of our simple, understandable and consistent approach to both our fixed and variable remuneration.

I trust you will agree that the continuous scrutiny and benchmarking we undertake and the performance of the Group in 2016 warrants your approval of the Directors Remuneration Report for 2016.

I will now hand back to John. Thank you.