

YBS GROUP REWARD POLICY

At YBS Group our people are at the heart of everything we do. We recognise that the way colleagues are rewarded and motivated is a key part in delivering our aspiration of being the most trusted financial services provider.

Our Reward Aims and Objectives

Rewarding our people in a way which attracts and retains them is the foundation to us being a trusted employer. Our aim is to build commitment and pride through colleague reward, benefits and recognition, with an approach that is founded in our mutuality and values.

Our remuneration policy is in place to support our colleagues in working together for the benefit of the Group and our customers.

Our Reward Principles

To support us in achieving our aspirations we follow five key principles. These help us know when we are doing the right things and set out what we believe good reward practice for all of our colleagues looks like. Our five reward principles are:

1. Our colleagues believe our reward and recognition approach is **trustworthy and transparent** and we actively educate and involve people in changing rewards for the better. This helps us build trust in our reward practices and gives colleagues a clear understanding of the reward and benefits offered, both in their own role and the different roles across the Society.
2. We recognise the value of our colleagues through their base pay and our performance as a Group through variable pay (i.e. pay which can change, such as our bonus scheme). Our variable pay reflects both team and individual achievement, making sure our people feel motivated to contribute to the Groups overall success. The 'YOUR BONUS' scheme is **contribution based**, meaning that what colleagues receive reflects the hard work and effort they make in their role.
3. We focus on total reward and not just base salary, recognising that reward and benefits are more than just pay it's all the other benefits that are provided too. This is about ensuring our approach to reward and benefits and the total reward package is **integrated** in what we do every day.
4. We have frameworks and structure in place to ensure that the rewards colleagues receive are equitable and meet our internal and external requirements. We support our managers to do the right thing and to use their judgement to ensure the right outcomes for their people by giving managers **flexibility within a framework**, to make good reward decisions.
5. Our reward and recognition will attract and retain the best talent by offering forward thinking, inspirational, customised and flexible approaches which are right for our colleagues, customers and the Society. This is about offering reward and benefits that meet our current and future needs and what we offer is **distinctive** whilst remaining true to our mutual values.

Our Approach to Risk Management and Governance of Reward

Our reward provisions will meet all the requirements of both our internal governance processes and external regulators. Our provision of reward and benefits and the associated policies, processes, procedures and practices relating to these will be created in a way which ensures the appropriate level of governance is in place to mitigate any potential risks to the Society, colleagues and customers.

Our Committees

To ensure our reward policies and procedures are robust and assured we have two main Committees in place to support this; Remuneration Committee (RemCo) and Reward Committee. These Committees play different roles in making sure our approach to reward meets our required levels of compliance, as explained below.

Remuneration Committee (RemCo)

This Committee has specific responsibility for making sure we have the right processes in place for our most senior roles and setting the tone for the wider organisation. RemCo is made up of Non- Executive members of the Board of Directors and its purpose is to oversee the remuneration policy in place for YBS Group, making sure this aligns to our business strategy and any regulatory requirements. Details in relation to the composition and the Terms of Reference of the Remuneration Committee can be accessed on [Our Committees](#) webpage on the Yorkshire Building Society website.

Reward Committee

The Reward Committee, similar to RemCo, is in place to ensure effective governance and oversight of our reward policy with a focus on regulatory compliance and alignment to our YBS Group business strategy. The Committee also ensures that any incentive arrangements (such as our bonus) that we offer colleagues drive the right behaviours towards risk taking and safeguard good customer outcomes. The Reward Committee is comprised of a number of Senior Leaders within the organisation with representation from the People, Finance and Risk functions.

Our Regulators

As a financial services provider we are regulated by both the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). Our relationships with our regulators are important and support us to build trust both inside and outside of the Group. This means that from a reward and benefits perspective we ensure that our pay, bonus and benefits not only meet any necessary obligations of our regulators but are designed and provided in a way which develops a trusted relationship with them.

Remuneration Components

The remuneration arrangements applicable to our Executive Directors are made up of 4 key components:

1. Fixed remuneration – Base pay
2. Short term performance-based remuneration (variable pay)
3. Benefits
4. Retirement Benefits

Executive Director Remuneration Policy

This document details the Group's remuneration policy for its Executive Directors, making comparisons where applicable to the wider colleague group. For executive directors, the remuneration policy is voted on every three years and was last approved by an advisory vote at the 2016 AGM. (Further details can be found on [Our Financial Results](#) webpage in the 2015 annual report and accounts.) The next remuneration policy vote will take place at the 2019 AGM unless a change is proposed in the intervening period.

Fixed Remuneration – Base Pay

Purpose and link to strategy To enable the attraction and retention of the right calibre of Executive by ensuring that they are appropriately rewarded for their role.

The level of base pay awarded serves to reflect the contribution of Executive Directors in their role as defined by the combination of:

- Skills, knowledge and experience;
- On-going performance;
- Demonstration of the Group's behaviours and values.

Actual pay levels are also determined by a review of market conditions to ensure that we offer base salaries that are appropriate in the market and enable us to attract and retain talent into the organisation.

In Practice

Base pay is typically reviewed annually and determined with reference to:

- Role, experience and individual performance.
- Affordability – the economic environment and overall financial position of the Group.
- Comparison to the external market, supported by reference to the Group's grading structure, the Career Framework.
- Internal relativities and wider workforce salary levels

A consistent set of principles are applied when considering both Executive Directors' base salaries and those of the wider organisation.

Opportunity

There is no 'maximum' salary opportunity.

We seek to target a median position in relation to total cash remuneration. To ensure that this is achieved pay ranges are developed with reference to the total package including variable pay.

Annual pay increases will normally be in line with the typical level of increases awarded to the wider workforce and will be a reflection of the individual's performance.

The Remuneration Committee may award increases above this level in certain circumstances.

Short term performance-based remuneration (variable pay)

Purpose and link to strategy To ensure that an Executive Director's remuneration has a direct link to the success of the Society, motivating delivery of core business metrics in line with our company values.

The Group's '**YOUR BONUS**' scheme rewards annual performance against challenging financial and customer measures as well as key individual objectives.

Bonus is driven by 3 key factors:

- Financial performance measured via Profit Before Tax
- Customer Experience measured via the Group's Net Promotor Score
- Individual performance measured with reference to an Executive Director's performance against key objectives.

In Practice

Key measures within the Corporate Plan have to be achieved for 'on target' pay-out, and considerably exceeded for maximum pay-out.

Bonus is achieved in the following way:

1. The development of a bonus pool determined by reference to the Group's financial performance.
2. The bonus pool is moderated up or down as a result of the Customer Experience received by our Members and customers.
3. Individual awards are determined by an executive director's performance against his or her annual objectives (annual performance rating).

A minimum level of performance across all 3 metrics is required to activate a bonus payment.

Bonus payments are subject to the operation of Business Controls Process that considers a range of key metrics to evidence the robust management of the Society e.g. cost indicators, risk indicators.

The profit figures utilised for pay out may be adjusted at the discretion of the Remuneration Committee in line with approved principles to ensure a true and fair view of performance is applied.

Risk Overlay

Bonus payments applicable to Material Risk Takers are subject to a formal risk overlay process where a series of key risk indicators are considered to provide assurance that no inappropriate risk taking behaviours have taken place.

In instances where issues are identified the Remuneration 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. Awards are subject to clawback for up to a maximum of ten years.

Deferral and Share Equivalent Instrument (SEI)

In line with the Remuneration Code, all bonus awards for executive directors are subject to deferral. Bonus deferral ensures that the Group delivers variable pay in a manner that prevents undue risk taking and achievement of sustainable performance.

The delivery of the annual bonus award will normally be delivered as cash and paid over three years: 50% of any bonus is paid out in the year following the performance year; the remaining 50% is deferred with 25% released in year 2 and 25% released in year 3.

For executive directors designated as 'Senior Managers' under the Senior Manager Regime and over the 'de-Minimis*' limit, bonus awards require a longer deferral period or a larger percentage to be deferred in line with regulations. A de-Minimis limit level is set by regulation, in relation to the level of bonus deferral applied, and impacts colleagues' whose total remuneration is greater than £500,000 per annum and/or where variable remuneration is more than 33% of their total remuneration.

Where also required by regulation, 50% of a payment will be delivered as SEI, which is subject to a retention period. For 2016 performance year, 40% of each individual director's award vests in May 2017 and the remaining 60% is deferred over seven years.

For example:

- Year 1 – 40% of any bonus earned is paid out in the year following the performance year. Half of this amount is paid in cash and the other half is delivered in a SEI and subject to an additional retention period prior to revaluation and payment.
- Deferral Years – the remaining 60% is deferred for 7 years and paid equally each year from 3 years after the award. Each year, the award is split in two, with half the amount paid in cash and the second half held in a SEI and subject to an additional retention period prior to revaluation and payment. SEI valuations continue every six months until the bonus schedule is complete.

Bonuses for executive directors will be disclosed in the annual report and accounts.

Opportunity	<p>All colleagues are invited to participate in the same 'YOUR BONUS' scheme.</p> <p>'On-target' achievement of Group performance criteria results in a bonus of 30% of base salary for the executive directors. The maximum bonus available to executive directors is 50% of base salary.</p> <p>Failure to meet organisational or individual performance thresholds can reduce bonus awards to zero.</p> <p>All Senior Manager bonus is subject to deferral.</p>
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Benefits

Purpose and link to strategy	To provide a total reward package that is in line with market practice and enables the attraction and retention of executive directors of the required calibre.
In Practice	<p>Executive Directors are eligible to receive a number of benefits, principally consisting of:</p> <ul style="list-style-type: none">▪ Private medical insurance▪ Life assurance (6x salary);▪ Concessionary mortgage and savings account;▪ Insured sick pay;▪ Provision of a company car, or cash equivalent
Opportunity	There is no 'maximum' level of benefits – the overall value of benefits to the Group's executive directors is determined by the nature of its benefit offering which is subject to change throughout a given year.

Retirement Benefits

Purpose and link to strategy	The Group's pension arrangements support the recruitment and retention of executive directors through the provision of competitive retirement benefits.
In Practice	<p>The Society operates a single defined contribution pension scheme and all colleagues have the opportunity to participate.</p> <p>Where contributions exceed the annual or lifetime allowance, or participation in the scheme is tax inefficient, colleagues may be permitted to take a cash supplement instead of contributions to the plan.</p>
Opportunity	Executive directors receive a contribution (or cash allowance) equal to a maximum of 16% of base salary.

Remuneration Arrangements in relation to specific circumstances

New Hires

Remuneration Package	When agreeing the components of a remuneration package for the appointment of executive directors, the committee will apply the following principles:
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- The packages will be sufficient to recruit individuals of the required calibre to lead the business and effectively execute the strategy for members;
- The committee will look to align the remuneration package offered with the Group's broader remuneration policy; and,
- The committee will ensure that the level of pay is necessary but not excessive.

The committee has discretion within the policy to make remuneration decisions where it considers it appropriate to do so.

In determining remuneration arrangements, the committee will consider similar positions in the market, the structure of the remuneration package and the experience of the candidate. This ensures that arrangements are in the best interests of both the Group and its members without paying in excess of what is necessary to recruit an executive director of the required calibre

Buy out arrangements

The committee may make awards on hiring an external candidate to the Board to compensate them for the forfeiture of any award entered into with a previous employer. In determining any such 'buy out', the committee will consider all the relevant factors including the likelihood of the awards vesting should the candidate have remained in their previous employment, the form in which they were awarded and the time over which they would have vested.

Bonus buyouts will be liable to forfeiture or 'clawback' in the event of early departure and are executed in line with the Remuneration Code.

Leaver Arrangements and Loss of Office

The committee shall apply the policy in relation to leavers, taking into account performance, conduct and commercial justifications, as summarised below:

Notice Period

The standard notice period is 12 months from the Group and 12 months from the executive directors.

In normal circumstances, executive directors will be required to work their notice period. In the event executive directors are not required to fulfil their notice period, they will receive a payment in lieu of notice, or they may be placed on garden leave.

Chief Officers and other MRTs have notice periods varying between three months and one year, depending on the role undertaken.

Termination Payment

Typically, termination payments will consist of basic salary and other contractual benefits for the notice period, the emphasis being to not reward failure.

Annual Bonus – Leaver Provisions

On termination of office, the leaver provisions as set out below will apply. These are also outlined in the Group's bonus plan rules:

- In the event of retirement or redundancy, ill-health or disability, any bonus will be pro-rated to reflect the time served during the performance period. Any deferred payments due remain subject to future performance conditions and are payable at the end of the corresponding performance periods. They are also subject to the Group's risk overlay process, and therefore subject to the Group's malus and clawback provisions.
- In the case of death, any bonus payments will be pro-rated to reflect the time served during the performance period. Payment of any deferred amounts, including deferred amounts from previous years, is accelerated and payable at the next payment date.
- Subject to committee discretion, in the event of resignation, any eligibility to participate in the current year's bonus scheme will cease. Leavers under these circumstances will be eligible to receive deferred bonus payments earned in previous years, subject to the Group's risk overlay process.

Subject to committee discretion and the Group's risk overlay process, executive directors who resign from the Group will retain eligibility to any deferred bonus payments earned in previous years. Malus and clawback provisions continue to apply.

Remuneration Policy in relation to Non-Executive Directors

Retirement Benefits

Purpose and link to strategy Sole element of remuneration set at a level that reflects market conditions and sufficient to attract individuals with appropriate knowledge and experience to provide a meaningful contribution to the Group.

In Practice Fees are based on the level of fees paid to non- executive directors and chairs serving on boards of comparable organisations, the time commitment, and contribution expected from the role.

- Non-executive director fees are determined and approved by the Board on recommendation from the CEO.
- The Chairman's fees are determined by the committee.
- Both the Chairman's and non- executive directors' fees are reviewed periodically, at least annually.
- The Chairman's and non-executive directors' fees are not subject to any specific performance measures; however, their overall performance is reviewed on a regular basis.

Neither the Chairman nor any of the non-executive directors have any influence over the setting of their own fees.

Opportunity There is no 'maximum' fee opportunity.

Fees are set with reference to the level of fees paid to non- executive directors and chairs serving on boards of comparable organisations, the time commitment, and contribution expected from the role.