

## Directors' Remuneration Report

# LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE



Dear Member,

I'm pleased to share the Remuneration Committee's report, including details of the directors' pay, for the year ended 31 December 2016.

### Our Policy

We recognise that the way colleagues are rewarded and motivated is a cornerstone of a leading people experience and supports our vision of being the most trusted financial services provider in the UK. Our approach to remuneration is designed to reflect the values of our organisation and extends to all colleagues. At the 2016 AGM, our Directors' Remuneration Policy was approved by our members (through advisory vote), and it continues to set the framework for our directors' remuneration. A summary of the policy is set out in this report.

### Chief Executive Officer change

In June 2016, our Chief Executive Chris Pilling announced his intention to step down from his position after having led the Group for five years. We thank Chris for his successful leadership, dedication to the Group's trust agenda and his passion for customer service. Chris leaves the Group in a strong position and in the careful stewardship of our incoming Chief Executive, Mike Regnier (previously Chief Customer Officer for the Group). Mike assumed the position of Chief Executive on 1 January 2017. Details of Chris Pilling's leaving arrangements and the remuneration package for Mike Regnier are outlined in this report.

### Other Executive Director changes

In February 2016 we welcomed Stephen White to the Group as our Chief Operating Officer.

In December 2016 our Chief Corporate Affairs and Treasury Officer, Andy Caton, left the Group after 25 years' service. Andy has been at the forefront our 'Locally Famous' strategy, which we are now embedding as part of the wider Leading People Experience strategy, as well as overseeing our Treasury function. Following Andy's exit, responsibility for the Treasury function will be held by our Finance Director, Robin Churchouse.

Full details regarding the remuneration impact of the above changes are included in this report.

### How the Group has performed

Our 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. As set out earlier in the Annual Report, 2016 was a solid year for the Group. We remain committed to putting the needs of our members at the heart of everything we do. In recent years, this attention has seen the Group successfully move up the 'leading customer experience' league table run by KPMG/Nunwood from 112th to 27th in 2016. For most of 2016, the Group was ranked as the third most trusted provider of savings and mortgages according to a survey conducted by You Gov. At the same time, our financial focus throughout 2016 has been on sustainability; our profit was in line with expectations and the balance sheet remained robust, retaining a strong capital position.

### The impact of performance on directors' pay

The Group's results have been reflected in the directors' remuneration awarded for 2016. The remuneration of our executive directors reflects their contribution to, and is aligned with, the success of the Group. The Committee has carried out a comprehensive review of the remuneration outcomes of the executive team, whilst considering these in the context of wider colleague pay in the Group. In 2016, (on average) an eligible executive director achieved 76.2% of their maximum bonus opportunity, with all eligible colleagues on average receiving 60.4% of their maximum opportunity. The Group's bonus is awarded on successful achievement of financial and customer performance measures and individual performance. Further details of how payments have been calculated for executive directors are outlined in this report.

We've made some changes within the body of this report to support increased transparency and help members understand the context of the executive director remuneration policy and how it works in practice. I hope you'll find the 'at a glance' summary introduced to outline what our directors' earned in relation to the 2016 performance year easy to understand.



## Directors' Remuneration Report continued...

### Base salary increase for employees in 2016

Across the Group (including all executive directors), the average base salary increase was 2.7%.

### Base salary increases for executive directors in 2016

Our executive directors received an average base salary increase in line with the average employee increase: Andy Caton (Chief Corporate Affairs and Treasury Officer) received 2.0%, Robin Churchouse (Finance Director) received 2.6% and Chris Pilling (Chief Executive Officer) received 3.0%.

As part of Mike Regnier's appointment to the larger Chief Customer Officer role in 2015, it was agreed that a further pay award would be made subject to performance in his new role. The Committee is comfortable that Mike has performed to the required level; consequently a pay award of 9.1% was made in 2016.

As Stephen White (Chief Operating Officer) was appointed on 24 February 2016, he did not receive an increase to base salary.

### Reporting requirements

This report discloses information in line with the Building Societies (Accounts and Related Provisions) Regulations 1998; and the Pillar 3 disclosure requirements relevant to a Proportionality level 2 firm (relating to the European Banking Authority's CRD IV requirements). The Group also voluntarily complies, where possible, with disclosure requirements of the Large and Medium-sized Companies (Accounts and Reports) Regulations 2008.

### Looking ahead to 2017

Our focus remains on providing value to our members in terms of customer service and building a sustainable business for the future. This is supported by our current remuneration policy, which will largely be in line with that seen in 2016.

I trust that members will agree that the performance of the Group and its leaders in 2016 warrants their continued approval of the Annual Report on Remuneration. On behalf of the Remuneration Committee, I recommend that you endorse the report.

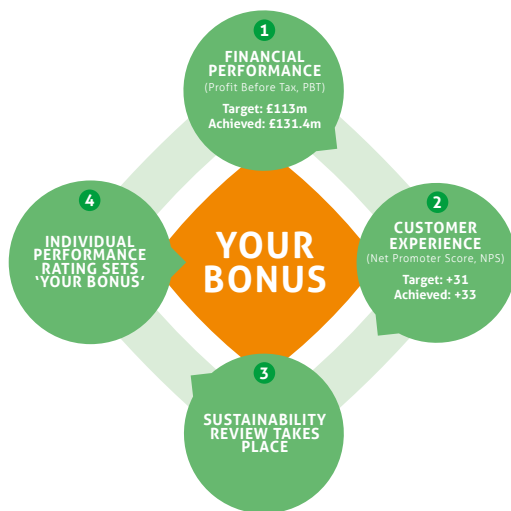
**Guy Parsons**  
**Chair of the Remuneration Committee**

27 February 2017

## At a Glance Summary of 2016

The summary below outlines the structure of the Group's bonus scheme, 'Your Bonus' and the performance measures taken into account to calculate executive director bonus award.

### The Group's Performance used for bonus calculations



The PBT figure for 'achieved' is different to the figure stated on page 30 of the Annual Report and Accounts. This figure is adjusted to reflect underlying profit and is in line with agreed principles which are outlined on page 87 of this report. The NPS measures how likely customers are to recommend us and is a combination of customer and broker NPS, resulting in an achieved NPS of +33 – note that this is calculated on a different basis to the purely customer NPS score, of +31, referred to elsewhere in the Annual Report and Accounts.

The scheme design is the same for all colleagues, with varying on-target award levels for colleague and senior managers. Bonus is awarded on successful achievement of financial and customer performance measures and individual performance. 'On-target' achievement of Group performance and individual performance criteria of 'met/met' 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.

The Remuneration Committee retains the discretion to make adjustments to the profit figure to ensure that it reflects a true view of underlying performance prior to payment of the bonus. In line with our directors' remuneration policy, the Committee undertakes a risk overlay process on bonus based on a series of agreed principles. These are detailed in the report.

### How much have our Directors earned in 2016?

The summary below illustrates Executive Director total earnings for 2016 performance year.

	Base Salary £000	Other Fixed Pay** £000	Bonus*** £000	Total Earnings £000
Andy Caton	312	53	–	365
Robin Churchouse	338	67	85	490
Chris Pilling	590	111	–	701
Mike Regnier	376	72	177	625
Stephen White*	340	79	144	563

\* Stephen White joined on 24 February 2016 and his payments reflect his length of service with the Group. As part of his joining arrangements, a location allowance was agreed and is incorporated into other fixed pay.

\*\* Fixed pay includes pension allowance, taxable benefits and any location allowance.

\*\*\* Andy Caton and Chris Pilling will not receive a bonus in relation to the 2016 performance year due to their resignations.

In 2017 base salary, fixed pay and bonus earning opportunity will continue to operate in the same way.



## Directors' Remuneration Report continued...

### Remuneration Policy in Practice

The Group's directors' remuneration policy is aligned to our current strategic priorities. The policy supports the Group in delivering its strategy by enabling the Group to recruit and retain talent, to focus on our customers and by being compliant from a regulatory perspective. The remuneration policy is regularly reviewed to ensure it continues to support the delivery of business strategy.

The Group's approach to remuneration recognises the executive directors for their contribution to the organisation's success. Executive directors and non-executive directors are not involved in deciding their own remuneration. A key principle in developing the Group's remuneration policy is to focus the executive directors and non-executive directors on the delivery of key business and customer outcomes.

The remuneration policy was approved by members at the 2016 AGM and remains in force for 2017. A summary of the remuneration policy is set out below. The approved directors' remuneration policy is in the 2015 Annual Report and Accounts, available at [www.ybs.co.uk](http://www.ybs.co.uk). A summary of the Group's wider remuneration principles and policy is available at [www.ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.html](http://www.ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.html)

	Purpose and link to strategy	Operation	Opportunity
<b>Base pay</b>	<p>Reflects the contribution of executive directors in their role as defined by the combination of:</p> <ul style="list-style-type: none"> <li>■ Skills, knowledge and experience.</li> <li>■ Performance.</li> <li>■ Demonstrating the Group's behaviours and values.</li> </ul>	<p>Base pay is typically reviewed annually in line with the range of increases for all colleagues, and determined with reference to:</p> <ul style="list-style-type: none"> <li>■ Role, experience and individual performance.</li> <li>■ Affordability – the economic environment and overall financial state of the Group.</li> <li>■ Comparison to the external market, supported by reference to the Group's grading structure, the Career Framework.</li> </ul>	n/a

	Purpose and link to strategy	Operation	Opportunity
<b>Bonus ('Your Bonus')</b>	Rewards annual performance against challenging financial and customer measures as well as key individual objectives.	<ul style="list-style-type: none"> <li>■ Key measures within the Corporate Plan have to be achieved for 'on target' pay out, and considerably exceeded for maximum pay out.</li> <li>■ 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.</li> <li>■ Bonuses for executive directors will be subject to the relevant disclosures.</li> <li>■ 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.</li> <li>■ Awards are subject to clawback for up to a maximum of ten years.</li> </ul>	<p>All colleagues participate in the same scheme.</p> <ul style="list-style-type: none"> <li>■ '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.</li> </ul>
<b>Benefits</b>	Executive directors receive benefits to ensure their total package is in line with market practice to enable the attraction and retention of executive directors of the required calibre.	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.
<b>Pension</b>	The Group's pension arrangements support the recruitment and retention of executive directors through the provision of competitive retirement benefits.	Executive directors are eligible to participate in the Group's defined contribution pension scheme.  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.



## Directors' Remuneration Report continued...

### Approach to new hires and leavers

Provision	Policy
<p><b>New hires</b></p>	<ul style="list-style-type: none"> <li>■ When agreeing a remuneration package for the appointment of executive directors, the committee will apply the following principles:</li> <li>■ The packages will be sufficient to recruit individuals of the required calibre to lead the business and effectively execute the strategy for members.</li> <li>■ The committee will look to align the remuneration package offered with the Group's broader remuneration policy.</li> <li>■ The committee will ensure that the level of pay is necessary but not excessive.</li> <li>■ The committee has discretion within the policy to make remuneration decisions where it considers it appropriate to do so.</li> </ul> <p>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.</p>
<p><b>Notice Period</b></p>	<p>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 (PILON) based on fixed elements of pay, or they may be placed on garden leave.</p>
<p><b>Termination Payment</b></p>	<p>Typically, termination payments will consist of basic salary and other contractual benefits for the notice period, the emphasis being to not reward failure.</p>
<p><b>Bonus – leaver provision</b></p>	<p>On termination of office, the leaver provisions as set out below will apply. These are also outlined in the Group's bonus plan rules:</p> <ul style="list-style-type: none"> <li>■ 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.</li> <li>■ 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.</li> <li>■ 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.</li> <li>■ Where deferred awards continue, they remain subject to the Group's risk overlay process, malus and clawback provisions. Under resignation circumstances, the SEI value will remain at the original allocated amount.</li> </ul>

## Chairman and Non-Executive Remuneration

	Operation	Opportunity
<b>Chairman Fees</b>	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.
<b>Non-executive director fees</b>	Normally reviewed and approved by the executive and the Chairman on an annual basis. <ul style="list-style-type: none"> <li>■ Non-executive directors receive a basic fee.</li> <li>■ An additional supplement is paid for serving on or chairing a Board Committee.</li> <li>■ Non-executive directors do not participate in any performance pay or pension arrangement.</li> </ul>	

## Annual Report on Remuneration

### Executive Directors' Remuneration

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.

	Base Salary £000	Fixed Remuneration Taxable Benefits £000	Pension Allowance £000	Bonus £000	Total Remuneration £000
<b>Executive Director</b>					
<b>Year ended 31 December 2016</b>					
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
<b>Year ended 31 December 2015</b>					
Ian Bullock	301	10	48	83	442
Andy Caton	306	12	80 <sup>1</sup>	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 'single figure' table of remuneration 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 deferral requirements outlined on pages 87 to 88. The 2015 figures have been restated in this manner, and in line with regulation, to be shown on a consistent basis.

<sup>1</sup> Andy Caton was participating in a defined benefit scheme until 31 December 2015, when 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.



## Directors' Remuneration Report continued...

### Base salary

Executive directors' salaries are reviewed each May at the annual pay review. The 2016 awards were in line with those received by the wider colleague group which, for all colleagues, ranged from 0.5% to 4.5%. Individual increases are based on performance, relative position to market and affordability, with the aim of retaining talent in a challenging environment.

Additional pay awards were also made 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 at circa 10%. As a result, in 2016, the average pay award for all colleagues was 2.7%, including all executive directors.

The table below sets out the base pay levels for executive directors, incorporating increases which were awarded during the annual pay review in May 2016.

Executive Director	Base Salary at 1 May 2015 £000	Base Salary at 1 May 2016 £000	Increase %
Andy Caton	308	314	2.0%
Robin Churchouse	333	341	2.6%
Chris Pilling	579	596	3.0%
Mike Regnier*	355	387	9.1%
Stephen White**	–	400	–

\* Mike Regnier assumed additional responsibilities when appointed to the role of Chief Customer Officer on 1 December 2015. It was agreed that Mike would receive a two-stage increase linked to performance in role; an increase in 2015 and a further increase in 2016. The Committee was comfortable that Mike has performed to the required level and subsequently an increase of 9.1% was awarded in 2016.

\*\* Stephen White was appointed as an executive director on 24 February 2016, with a joining salary of £400,000, resulting in ineligibility for the 2016 pay review in May. There were no bonus buy out arrangements agreed on appointment.

### Base salary in 2017

Mike Regnier was appointed to the position of Chief Executive Officer 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 role. In line with Group policy (to position ourselves broadly at market median for total remuneration), he will receive a base salary of £550,000. From 1 January 2017 Robin Churchouse assumed additional responsibilities following the departure of Andy Caton. As a result of this change, and again in line with our remuneration policy, his base salary increased to £375,500. The next pay review for both Mike and Robin will be in 2018.

Stephen White's base salary will be reviewed in May 2017 in line with the 2017 annual pay review process.

### Bonus

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 varying on-target awards for all colleagues and senior managers. Bonus is awarded on successful achievement of financial and customer performance measures and individual performance. A risk overlay process is also carried out to ensure the Group hasn't been exposed to unnecessary risk. '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. The payment of bonus is subject to the discretion of the Remuneration Committee, and all executive director bonuses are subject to the relevant deferral periods.

Payments will be reduced or forfeited if the sustainable level of capital required to support the Group's growth rate is not generated each year. This is done via a scale adjustment measured against a minimum level of Return on Mean Assets (ROMA) for each year based upon the growth achieved. The 2016 ROMA target for the Group was 33%. The 2016 performance year ended with a ROMA position of 29.4%, which was in the desired parameters.

The risk overlay process considers the management of specific business risk appetite measures and payment can be amended where material breaches are identified. Following a rigorous process where business controls processes were reviewed and assessed, it was deemed that no action was required to adjust the bonus outturn for the 2016 performance year.

Under the terms of the Your Bonus scheme, scope is given to make adjustments to the calculation of profit underpinning payment of the scheme. The following principles are applied when identifying potential adjustments:



- Where an unexpected or unplanned item arises that is not part of the core, business as usual, running of the Group; for example one-off investments or projects that were not included in the plan profit number against which actual performance is judged.
- Adjustments also include removing both positive and negative impacts from non-core actions that do not reflect management of the underlying Group, for example any unplanned profits (or losses) on the sale of property are not included in the PBT figure used to calculate bonus outturn.

The profit before tax (PBT) figure used as part of the bonus scheme also excludes certain 'Day 1 fair value releases' but includes a Financial Services Compensation Scheme (FCSC) provision. The Committee retains the discretion to make any adjustments required to the profit figure to ensure that it reflects underlying profit. In line with the above, the overall PBT figure was adjusted to produce an achieved position of £131.4m against a reported figure of £151.5m. This has performed above target and set the bonus earning potential for the financial element.

The second performance measure is the customer 'Net Promoter Score' (NPS), which unlocks the bonus award. The NPS measures how likely our customers are to recommend us and we obtain this through customer and broker surveys. The results are combined, at a ratio of 90% customer and 10% broker, to create the 'combined NPS' for Your Bonus. To pay an 'on-target' bonus, the target NPS for the year was +31. At the end of 2016, the NPS was at +33 – note that this is calculated on a different basis to the purely customer NPS score, of +31, referred to elsewhere in the Annual Report and Accounts.

For 2016 performance year, 99.1% of eligible colleagues will receive a bonus. On average an eligible executive director achieved 76.2% of their maximum opportunity, with all eligible colleagues on average receiving 60.4% of their maximum opportunity.

Bonuses for executive directors remain subject to malus and clawback, with bonus subject to clawback for up to 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.

Annual bonus awards 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 two and 25% released in year three.

2016 Bonus	Delivery	2017	2018	2019
Undeferred April	Cash			
Deferred year 1 April	Cash			
Deferred year 2 April	Cash			

#### Key:

→ bonus deferral period

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. Where also required by regulation, 50% of a payment will be delivered via a share equivalent instrument (SEI) and is subject to a retention period. For 2016 performance year, an executive director that reaches the de-minimis limit will receive 40% in cash in 2017 and the remaining 60% is deferred over seven years.

(\*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.)

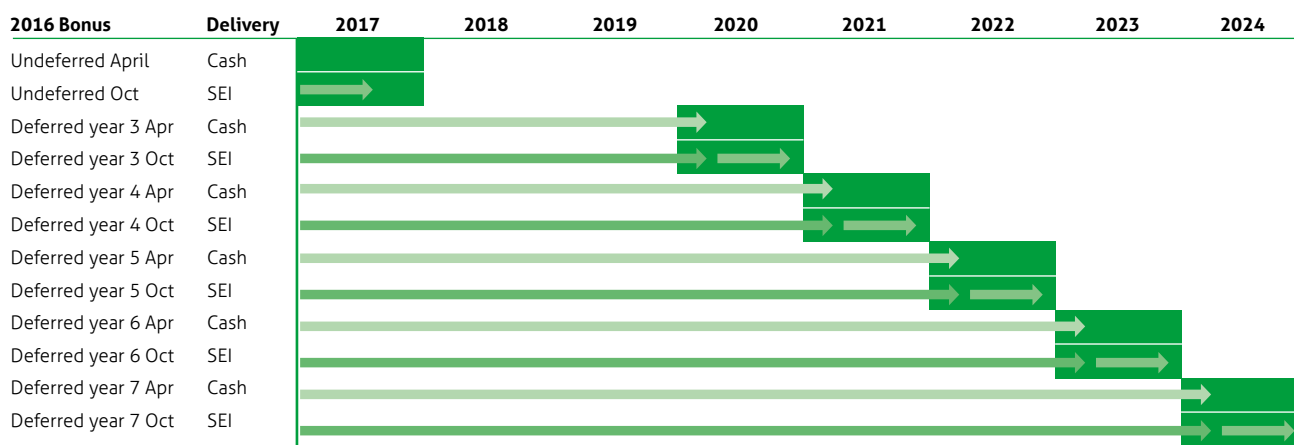
For example:

- Year One – 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 seven years and paid equally each year from three 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.



## Directors' Remuneration Report continued...

### Length of time variable pay is at risk



**Key:**

→ Cash bonus deferral    → SEI deferral    → SEI holding period

### How did bonus deferral look for our Executive Directors?

	Total Bonus	% Deferred	Deferral Period	SEI
Robin Churchouse	85	50%	2 years	N
Mike Regnier	177	60%	7 years	Y
Stephen White	144	60%	7 years	Y

In 2016, we released deferred bonuses to executive directors in respect of previous years' performance. These were re-valued in line with the SEI process (where applicable) and resulting payments are outlined below:

Performance Year	Ian Bullock £000	Andy Caton £000	Robin Churchouse £000	Chris Pilling £000	Mike Regnier £000
2012	29	28	28	83	-
2013	34	9	30	49	-
2014	29	24	10	55	18
2015	41	28	46	76	50
<b>Total</b>	<b>133</b>	<b>89</b>	<b>114</b>	<b>263</b>	<b>68</b>

As we've changed the way we report on the single figure table of remuneration, full bonus payments (irrelevant of deferral period) will be reported in that table for future years.

## Taxable Benefits

The taxable benefits awarded to executive directors are in line with the wider colleague offering, comprising a company car (or equivalent allowance), private medical insurance, permanent health insurance and any location allowances. Executive directors, like all colleagues, can also participate in a concessionary mortgage scheme which is subject to a maximum concessionary amount of £160,000; no executive directors have taken up this mortgage scheme. No significant changes to the construct of the executive directors' benefits entitlement are planned for 2017.

## Pensions

In line with the policy approved by members at the 2016 AGM, until the end of 2015 the executive directors were either eligible to participate in the contributory defined benefit section (on a career average revalued earnings basis) or the defined contribution section of the Group's pension scheme. From 1 January 2016, the contributory defined benefit section of the pension scheme was closed to future accrual for all colleagues. Andy Caton was the only executive director participating in the defined benefit section, and ceased on-going participation at that date.

At 1 January 2017 all executive directors are members of the Group's defined contribution scheme; a contribution of up to 16% of base salary is paid for this population. Where prevailing tax restrictions limit pension contributions, the remainder is paid as a cash allowance.

The pension scheme also provides a lump sum of six times' pensionable salary on death in service.

## Executive Director Pension Arrangements

Andy Caton's accrued defined benefit pension as at 31 December 2016 is £152,000.

## Change in CEO pay

The table below sets out the percentage change in salary from the prior year at pay review for the CEO compared to all other colleagues, including the executive directors. Details are also provided in relation to the relative bonus achievement of CEO vs the wider colleague population.

Pay Review Percentage Change 2016	2016 Change
CEO	3.0%
Colleague average (including executive directors)	2.7%
Bonus Comparison	2016 Change
CEO	(100.0%)
Colleague average (including executive directors)	36.7%
Overall change in CEO pay (including salary, bonus, benefits and pension) in 2016	(18.0%)

## Payment for loss of office

In June 2016 Chris Pilling advised the Board of his intention to step down from the role of CEO on 31 December 2016. All payments made to him in respect of his service during 2016 are reported in the single figure of remuneration table. Chris is contracted to a 12 month notice period but will not work for the remainder of his notice period and will receive the remaining payment as 'payment in lieu of notice' (PILON), subject to certain mitigating provisions. He will receive this in monthly instalments for the remainder of his notice period ending in June 2017.

Andy Caton stepped down from the Board on 9 December 2016. As with Chris, all payments made to him in respect of his service during 2016 are reported in the single figure of remuneration table above. Andy will receive the payment of his total notice period as PILON over a 12 month notice period ending in December 2017. PILON payments are made up of base salary and benefits only. This payment is also subject to mitigating provisions.



## Directors' Remuneration Report continued...

Neither Chris nor Andy will receive a bonus for the 2016 performance year.

In line with the remuneration policy and the bonus scheme rules, the Committee considered it appropriate to allow the deferred portions of their outstanding variable pay awards to subsist in full. These payments will be subject to continued performance adjustment requirements and payments will be made on the normal dates. Regulatory requirements relating to risk adjustments, malus and clawback will continue to apply to all deferred bonus awards in the same way as if Chris and Andy had remained in employment. The total amount of bonus deferred from previous performance years is £250,007 for Chris and £71,253 for Andy.

The Group paid £8,000 to Chris and £4,000 to Andy to obtain independent legal advice.

All payments made in respect to Chris and Andy's leaving arrangements are in line with the Executive Directors Remuneration Policy.

### Payments to past directors

In 2016, payments were made to Ian Bullock in respect of bonus deferred from 2012, 2013, 2014 and 2015 performance years. This equated to £133,027.

### Executive pay relative to the wider colleague population

The committee approves executive pay against the Remuneration Policy and in the wider context of colleague remuneration. Colleagues have the opportunity to share their views on subjects such as the remuneration policy via the annual colleague 'Best Workplaces' survey and regular 'Let's Talk' sessions with members of the management team.

### Chairman and non-executive directors

In line with the annual review of Chairman and non-executive director fees, the fee levels were reviewed in June 2016 and came into effect on 1 July 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 11.3% (from £5,392 to £6,000). This change was recommended to reflect comparable market data and nearest peer comparators.

Non-executive director fees (annual equivalents)	Overall Fees 2015 £	Overall Fees 2016 £	Uplift %
Chairman's basic fees	180,000	184,680	2.6%
Vice-Chair basic fees	67,290	69,040	2.6%
Non-executive Director basic fees	47,232	48,460	2.6%
<b>Additional fee for:</b>			
Audit Committee – Chair	19,595	20,105	2.6%
Audit Committee – Member	8,103	8,314	2.6%
Remuneration Committee – Chair	16,000	16,417	2.6%
Remuneration Committee – Member	5,392	6,000	11.3%
Group Risk Committee – Chair	19,595	20,105	2.6%
Group Risk Committee – Member	8,103	8,314	2.6%

### Single total figure of Remuneration for each non-executive director

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	Basic Fees £000	Committee Fees £000	Total £000
John Heaps (Chairman)	182	–	182
Kate Barker*	48	19	67
Alison Hutchinson	48	14	62
Gordon Ireland	48	8	56
David Paige*	48	51	99
Mark Pain (Vice Chairman)	69	28	97
Guy Parsons	48	16	64
<b>Total</b>	<b>490</b>	<b>137</b>	<b>627</b>

\* 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.

### Remuneration Committee Terms of Reference

The Remuneration Committee has specific responsibility for ensuring we have the right policies in place for our most senior roles and setting the tone for the wider organisation. Its purpose is to oversee the remuneration policy in place for YBS Group, making sure it aligns to the Group's business strategy and any regulatory compliance requirements, with a specific focus on the risks posed by remuneration policies and practices. This includes approving the design of, and determining the performance targets for, any discretionary performance pay plans operated by the Group.

The Committee's Terms of Reference were reviewed and updated in March 2016. The full Terms of Reference are available on the Group's website, [www.ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.html](http://www.ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.html)

The members of the Remuneration Committee are all independent non-executive directors and include a member of the Group's Risk Committee. During the year the Committee members were: Guy Parsons (Chair of the Remuneration Committee), Kate Barker and Alison Hutchinson.

The Committee met six times during the year and covered the following activities:

- A strategic review of the Group's Reward strategy.
- Agreeing the Group's bonus scheme 'Your Bonus' structure and targets.
- Ongoing work in relation to the Prudential Regulation Authority's (PRA) Remuneration Code and how it applies to YBS Group as a mutual.
- Agreeing the approach for executive base salary increases in 2016.
- Agreeing the remuneration package for the new Chief Executive Officer.

The Committee is supported by the Chief People Officer, the Head of Reward & Benefits and where appropriate the Chairman and Chief Executive Officer are invited to attend to provide further background and context to assist the Committee in discharging its duties.

The Remuneration Committee draws on the advice of independent external consultants to support in performing its duties. During the year, the Committee sought advice on executive director salaries, variable pay structures and regulatory matters from PwC. The Committee is satisfied that the advice received is objective and independent. PwC's fees for advice provided to the Committee in 2016 were £99,900 (including irrecoverable VAT).



## Directors' Remuneration Report continued...

### Statement of Member Voting

The Group remains committed to ongoing member dialogue and takes an active interest in voting outcomes. The following table sets out actual voting in respect of the resolution to approve the Directors' Remuneration Report and Remuneration Policy at the Society's Annual General Meeting (AGM) in 2016.

Resolution	Votes for	Votes against	% in favour	Votes withheld
To approve the Directors' Remuneration Report	152,796	13,503	91.88	3,431
To approve the Directors' Remuneration Policy	151,417	14,692	91.16	3,628

As noted in the committee Chairman's letter, there will be an advisory vote on the Annual Report on Remuneration at the 2017 AGM.

On behalf of the Board

**Guy Parsons**  
**Chair of the Remuneration Committee**  
27 February 2017

## Aggregate remuneration data

In accordance with the Capital Requirements Regulation as part of CRD IV, which requires the disclosure of the aggregate remuneration data for senior managers and Material Risk Takers (MRTs), the Group's data is set out as follows:

	Senior Management <sup>1</sup> £000	Other MRTs £000	Total £000
<b>Aggregate remuneration data</b>			
Fixed Pay	9,528	723	10,251
2016 Variable Pay (undeferrred)	1,225	59	1,284
2016 Variable Pay (deferred)	1,411	–	1,411
2016 Variable Pay due via SEI	232	–	232
Deferred variable pay to be paid 2017	919	–	919
Outstanding deferred variable pay from previous years	605	–	605
<b>Total</b>	<b>13,920</b>	<b>782</b>	<b>14,702</b>

### Aggregate bonus buyout and severance payments

Bonus Buyout Payments – 2016	513	–	513
Severance Payments – 2016	–	–	–
<b>Total</b>	<b>513</b>	<b>–</b>	<b>513</b>

	Senior Management	Other MRT	Total
Number of MRT colleagues	53	9	62

<sup>1</sup> Senior managers and colleagues whose actions have a material impact on the risk profile (including executive and non-executive directors). Non-executive directors' fees are included under fixed pay. No variable pay was awarded to non-executive directors.

## Ratios between fixed and variable pay

YBS Group's fixed:variable pay ratio is not affected by the CRD IV cap on variable pay as the variable component of total remuneration to the fixed component does not exceed 1:1. The maximum variable pay award for any colleague is 50% of base salary and therefore variable pay will not exceed the CRD IV cap.