

Directors' Remuneration Report

Letter from the Chair of the Remuneration Committee

I am pleased to share the Directors' Remuneration Report, including details of the directors' pay, for the year ended 31 December 2018. Our role as a Remuneration Committee, (the Committee), is to make sure that all of our remuneration policies align with the Board-approved strategy to ensure that the business is run safely, successfully and sustainably for our members.

At the 2019 Annual General Meeting (AGM), both the Directors' Remuneration Report and the Remuneration Policy will be subject to an advisory vote. As in previous years, where possible this report discloses information in line with the Building Societies (Accounts and Related Provisions) Regulations 1998; and the Pillar 3 disclosure requirements under CRD IV relevant to a Proportionality Level 2 firm. The Society also voluntarily complies, where possible, with the disclosure requirements of the Large and Medium-sized Companies (Accounts and Reports) Regulations 2008.

Looking back to 2018

For 2018, the executive directors' were set stretching objectives in the context of a challenging trading and economic environment. The Committee have considered their performance against this backdrop and believe a strong performance has been delivered in a sustainable and balanced way. Further information is detailed within the annual report page 18.

In determining bonus awards, the Committee has carried out a comprehensive review of the remuneration outcomes of the executive team, taking into consideration the context of wider colleague pay in the Group, both in relation to financial performance and delivery to our members and customers. Full details of how pay and bonus is awarded for executive directors are included within this report. In 2018, on average, an eligible executive director received a pay increase of 1.8%. Across the Society, the average pay increase was

2.6%. From a bonus perspective, on average, an eligible executive director achieved 73.6% of their maximum bonus opportunity, with all eligible colleagues receiving an average of 50.6% of their maximum opportunity.

We support the changes outlined in the 2018 UK corporate governance code in relation to remuneration, as they reflect how we operate today. Through the Committee's review of the remuneration policy, these changes have remained a key consideration.

 **The full remuneration policy is available on pages 78 to 81.**

The remuneration policy

Looking forward to 2019 we've reviewed the way in which bonus is distributed to both colleagues and executive directors to support the Society's aspirational culture of working together. Care has been taken to ensure that the bonus scheme is motivational for all colleagues and is market competitive whilst maintaining compliance with regulations applicable to financial services organisations.

We have maintained our conscious decision of offering a lower level of performance related pay (bonus) than many of our competitors, capping our maximum bonus potential at 50% of salary (more than 50% lower than the regulatory maximum). We do however recognise the need to deliver competitive levels of bonus for our senior leadership, recognising their contribution to the delivery of the business strategy and corporate plan.

We are introducing a new scheme - Building Together - through which all colleagues will share in the success of the Society in the same way. A collective approach to bonus serves to reinforce our target culture of 'working together', ensuring all colleagues are working towards the same business outcomes. Everyone will have the opportunity to earn an 'on-target' 7% of salary with a maximum of 10%. Building Together will be awarded on successful achievement of financial and non-financial performance indicators. The targets will be the same for all colleagues.

For our senior leadership team, including executive directors, there will be an opportunity to earn an additional bonus taking the total bonus opportunity up to a maximum of 50% of salary. Payment of this element will be awarded based on a combination of business and individual performance and financial and non-financial criteria, measured via a stretching individual balanced scorecard. When setting targets for both elements, we always seek to drive performance that benefits the Society and its members, ensuring a sustainable business over the long-term which is true to our heritage and values, for the coming years.

Full details are included within the remuneration policy.

Going forward we will also be making a change to our pension contribution rates, aligning them for all new colleagues across the Society. Existing directors will remain eligible for pension contribution rates of up to 16%. New executive directors will be eligible for pension contribution rates of up to 11%; this is in line with the wider colleague eligibility.

We have sought colleague views on the 2019 policy through a series of listening groups, ensuring their feedback is fully reviewed and incorporated.



Looking ahead to 2019

We recognise the fundamental role the culture of an organisation plays in terms of engaging colleagues, creating inclusiveness and collaboration, and ensuring value for members. The aspired culture of the Society is centred on four key themes: commercial focus and pace; open and honest conversations; trust and empowerment; and working together. The way in which we encourage and motivate our colleagues to achieve this is a key part of the People Plan.

Our aim is to build a working environment where all colleagues feel engaged and committed to the Society's journey, ensuring they feel valued and respected to give their best. Our reward offering is integral to that aim. As a mutual, we are committed to considering both colleagues and members' interests when designing our remuneration policy at all levels in the organisation. Our remuneration policy and practice is designed to reflect our culture and ensure the successful delivery of the business strategy.

This year the Committee has reviewed the executive director remuneration policy, including how that aligns to

the wider colleague population, in preparation for an advisory vote at the 2019 AGM. As part of this process, we have also sought colleague views on the 2019 policy through a series of listening groups, ensuring their feedback is fully reviewed and incorporated. The reward policy seeks to balance the need for total remuneration to be competitive in the wider financial services sector, whilst remaining commensurate with our mutual status.

Gender pay

In November 2018 the Society reported its gender pay gap for the second time (the difference between the average pay of men and women regardless of seniority). The Society's mean gender pay gap at April 2018 was 29.7%, which has marginally reduced from 2017. If the Society had an equal (50:50) split of males and females at each level, the gap would be much lower at 2.2%. The full gender pay gap report is available at ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.html#remuneration-committee

I'm pleased to report that in June 2018 the Society also signed the Women in

Finance Charter, confirming the Society's commitment to target a 50:50 split of men and women in senior leadership positions. Executive directors now have specific objectives to support this target. The Society continues to strive to create an environment where diversity in all forms is encouraged and barriers in the way of colleagues fulfilling their potential are removed. The Committee contribute to this by ensuring that the Society's remuneration policy is inclusive in both its design and practice.

In conclusion

I trust that members will agree that the performance of the Society and its leaders in 2018 warrants your continued approval of the Directors' Remuneration Report and Directors' Remuneration Policy. On behalf of the Committee, I recommend that you endorse both items.

Guy Parsons

Chair of the Remuneration Committee

27 February 2019

At a glance summary of executive director outcomes in 2018

The summary below outlines the structure of the Society's current bonus scheme, 'Your Bonus' and the performance measures taken into account to calculate executive directors' bonus awards.

The Group's performance is used for bonus calculations (in line with the remuneration policy approved at the last advisory vote at the 2016 AGM).

*The PBT figure for 'achieved' is different to the figure stated on page 28 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 73 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 +41.



How much have our directors earned in 2018?

The summary below confirms Executive Director total earnings for the 2018 performance year.

Mike Regnier CEO	560	104	199	863
Alasdair Lenman CFO	350	99	143	592
Stephen White COO	418	98	149	665

Key
 ■ Base Salary £'000 ■ Other Fixed Pay £'000* ■ Bonus £'000 ■ Total Earnings £'000
 * Fixed pay includes pension allowance and any location allowance or additional responsibilities allowance and taxable benefits.

The bonus scheme design is the same for all colleagues, with varying on-target award levels for colleagues and senior managers. Bonus is awarded on the successful achievement of financial and customer performance measures, combined with individual performance. 'On-target' achievement of Group performance and individual performance criteria in line with expectations 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 Committee retains the discretion to make adjustments to the profit figure to ensure that it reflects a true view of the underlying performance of the Group prior to the payment of any bonus. In line with our directors'

remuneration policy, the Committee undertakes a risk overlay process (part of the sustainability review) on bonus based on a series of agreed criteria. These are detailed in this report.

The remuneration policy for 2019 and beyond is outlined in this report and is subject to an advisory vote at the 2019 AGM.

Annual Report on Remuneration

Executive directors' remuneration

All remuneration in the 2018 performance year has been awarded in line with the Society's remuneration policy which was last approved by members in 2016. Full details of the Society's remuneration policy are available at ybs.co.uk/pdf/financial/reward-policy.pdf.

The table below shows the single total figure table of remuneration for the executive directors of the Society for the years ended 31 December 2018 and 2017. **This is audited information.**

Executive Director	Role	Fixed Remuneration			Bonus*	Total Remuneration
		Base Salary	Taxable Benefits	Pension/Pension Allowance		
		£'000	£'000	£'000	£'000	£'000
Year ended 31 December 2018						
Mike Regnier	CEO	560	14	90	199	863
Alasdair Lenman**	CFO	350	43	56	143	592
Stephen White	COO	418	31	67	149	665
Year ended 31 December 2017						
Mike Regnier	CEO	550	15	90	275	930
Alasdair Lenman	CFO	27	3	4	–	34
Stephen White	COO	407	31	65	204	707

*The bonus figures illustrated represent the full amount of bonus awarded in respect of the 2018 performance year. Mike, Alasdair and Stephen will only receive 20% of this in cash in 2019, with the remainder delivered over seven years. Full details regarding how bonuses are paid are available on pages 74 to 75.

**In September 2018, Alasdair assumed the responsibilities of the Chief People Officer and is temporarily receiving an additional non-pensionable supplement of 10% of his salary for this. This uplift is in line with supplements for the wider colleague group.

The following is unaudited information.

Base salary

Executive directors' salaries are reviewed each May as part of the annual pay review. The 2018 increases were in line with those received by the wider colleague group which, for all colleagues, increases ranged from 0.5% to 14.0%. Individual increases are based on performance, relative position to market and affordability, with the aim of retaining talent in a challenging environment. As a result, in 2018, the average pay award for all colleagues was 2.6%, including all executive directors.

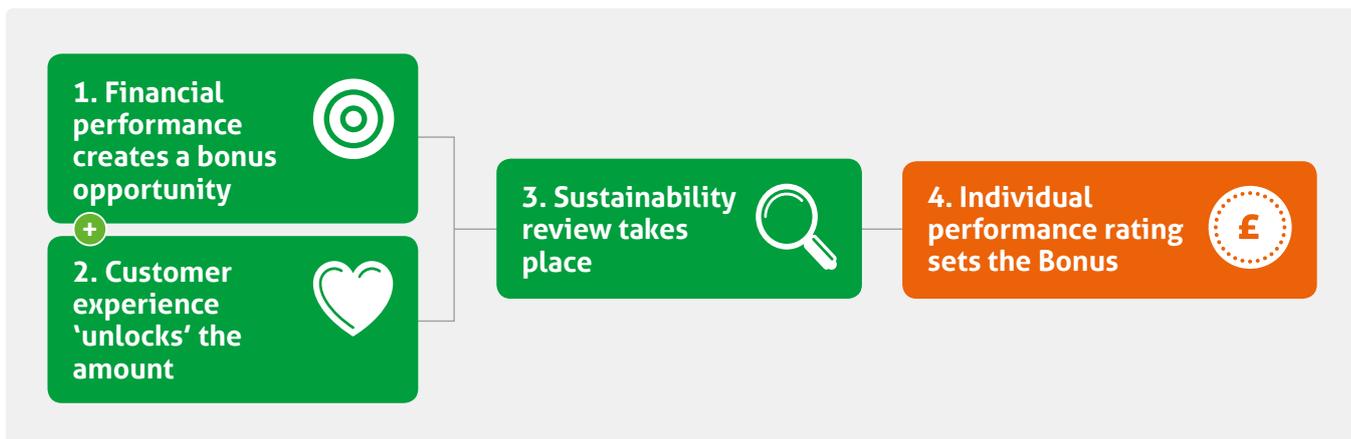
The table below sets out the increases in base pay levels for executive directors following the annual pay review in May 2018.

Executive Director	Base Salary at 1 May 2017	Base Salary at 1 May 2018	Increase	
		£'000	£'000	%
Mike Regnier	550	565	2.7%	
Alasdair Lenman*	–	350	–	
Stephen White	411	422	2.7%	

* Alasdair Lenman joined the Group on 4 December 2017 with a salary of £350,000 and his salary was reviewed in May 2018 with no increase given.

Bonus

The Society's bonus scheme, in which executive directors participate, 'Your Bonus' 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, combined with individual performance. A risk overlay process is also carried out to ensure the Group hasn't been exposed to unnecessary risk; this forms part of our 'sustainability review'. '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 Committee, and all executive director bonuses are subject to the relevant deferral periods.



1. Financial performance

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 Society. 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 profit before tax (PBT) figure used to calculate bonus outturn.

In line with the above, the overall profit before tax figure was adjusted to produce an achieved position of £154m against a reported figure of £193m. This has performed above target, which was £144m and set the bonus earning potential for the financial element. The PBT calculations used for the bonus outturn have been verified by the Society's internal audit team.

2. Customer experience

The second performance measure is the customer 'Net Promoter Score' (NPS), which unlocks the bonus award. The NPS measures how likely our members and customers are to recommend us and we obtain this through customer and broker surveys. The results are combined, at a ratio of 50% mortgages and 50% savings, to create the 'combined NPS' for 'Your Bonus'. To pay an 'on-target' bonus, the target NPS for the year was +42. On average in 2018 the NPS was at +41.

Contribution from different NPS surveys to the overall combined Group NPS score for Your Bonus	
Mortgages: 50%	
Broker feedback: 25%	Mortgage customer feedback: 25%
Savings: 50%	
Savings customer feedback: 45%	Shareplans customer feedback: 5%

3. Sustainability review

The following calculations are undertaken and reviewed before any bonus payment is awarded:

- an assessment of the level of capital held by the Society to ensure it remains sustainable and holds sufficient levels of capital from a regulatory perspective.

- an assessment of the Society's cost management to ensure that it is managing its costs in line with targets approved by the Board. Payments will be reduced or forfeited if the Society has not delivered in line with these targets.

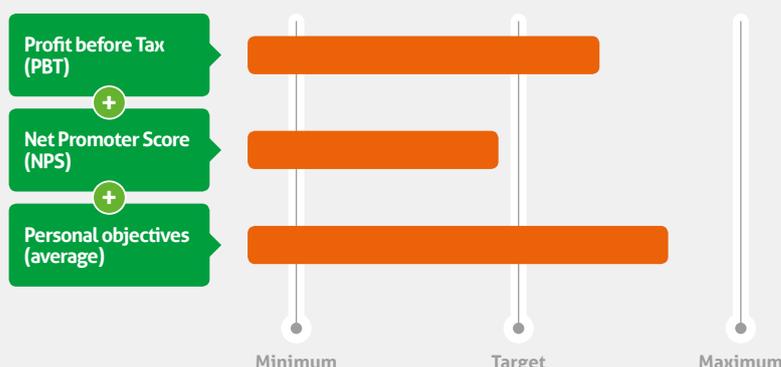
As part of this review, the risk overlay process considers the management of specific business risk appetite measures and payment can be amended where material breaches are identified. Following a rigorous review where business controls processes were assessed, it was deemed that no action was required to adjust the bonus outturn for the 2018 performance year.

4. Individual performance

The Group's performance determines the core bonus award; all three above elements need to be achieved at minimum levels before any bonus will be awarded. Individual performance concludes the percentage of bonus to be awarded.

How bonus is calculated for executive directors

The table below summarises the outcome against the various measures for 'Your Bonus'.



How bonus is awarded for our executive directors

Executive Director	Role	Total Award		Deferral schedule*						
		% of salary	£'000	2019	2020	2021	2022	2023	2024	2025
Mike Regnier	CEO	35.51	199	79	-	-	24	24	24	24
Alasdair Lenman	CFO	39.45	143	56	-	-	17	17	17	17
Stephen White	COO	35.51	149	59	-	-	18	18	18	18

*Bonus deferral is explained below.

For 2018 performance year, 99.7% of eligible colleagues will receive a bonus. On average an eligible executive director achieved 73.6% of their maximum opportunity, with all eligible colleagues on average receiving 50.6% of their maximum opportunity.

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

Bonus Deferral and Share Equivalent Instrument (SEI)

In line with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) remuneration regulations and the Senior Managers and Certification Regime, all bonuses payable to executive directors designated as 'Senior Managers' are subject to deferral. In addition to regulatory requirements, the Society's remuneration policy requires bonuses for all members of the senior management team are subject to an element of deferral. Bonus deferral ensures that the Society delivers variable pay in a manner that prevents undue risk taking whilst achieving a level of sustainable performance.

For executive directors whose remuneration is over the 'de-minimis'

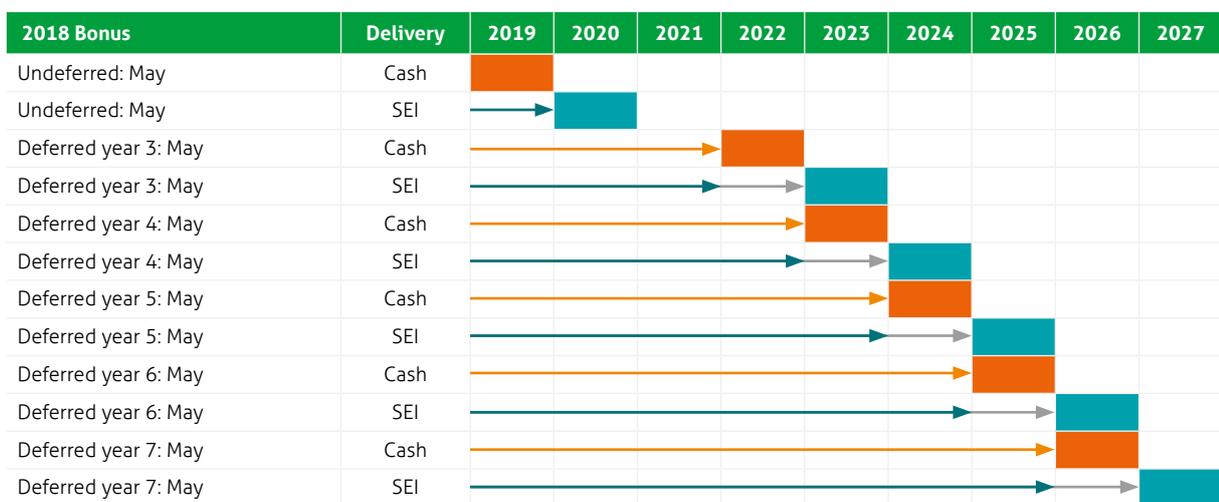
limit, bonus awards are required to have a longer deferral period and/or a larger percentage deferred in line with regulations. Where also required by regulation, 50% of each bonus payment will be delivered via an SEI and is subject to a retention period. For the 2018 performance year, an executive director whose remuneration exceeds the de-minimis limit will receive 40% of their bonus in 2019 with the remaining 60% deferred over seven years, with a one year retention period applying to the SEIs received.

(*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 or where variable remuneration is more than 33% of their total remuneration.)

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 12 months until the bonus schedule is complete.

Length of time variable pay is at risk



Key

→ Cash bonus deferral → SEI deferral → SEI holding period ■ Cash ■ SEI

In a performance year, where executive directors total remuneration falls below the de-minimis limit, the annual bonus awards will 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 after one year and 25% released after two 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 2018.

Pensions

From 1 January 2018 all executive directors are members of the Society's defined contribution scheme; a core 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.

From 1 January 2019 all newly appointed executive directors will be eligible for a core contribution of up to 11% of base salary. This is in line with all other colleagues.

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

Movement in CEO remuneration relative to the wider colleague population

Mike Regnier received a pay increase of 2.7% in May 2018. The average pay increase in 2018 for all colleagues (including executive directors) was 2.6%.

The overall change in the CEO's pay is 7.2% lower than the same timeframe in 2017.

Payments for loss of office

There were no payments for loss of office in 2018.

Payments to past directors

There were no payments to past directors in 2018 that had not already been disclosed in previous reports..

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 2018 and came into effect on 1 July 2018. Non-executive directors' basic fees were increased by 2.2% in July 2018. 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. This change was recommended to reflect comparable market data and nearest peer comparators. Non-executive directors fees are agreed by the Society's chairman and executive directors.

The Committee reviews the fees payable to the Society's Chairman. The Chairman is not involved in any decisions relating to his own remuneration. Despite the Chairman being a member of the Committee, he is not involved in decisions relating to his own remuneration.

Non-executive director fees	Fees at 1 July 2017	Fees at 1 July 2018	Uplift
Annual equivalents	£'000	£'000	%
Chairman basic fees	188.6	192.7	2.2
Vice Chairman basic fees	70.5	72.0	2.2
Non-executive director basic fees	49.5	50.6	2.2
Additional fee for:			
Audit Committee – Chair	20.5	21.0	2.2
Audit Committee – Member	8.5	8.7	2.2
Remuneration Committee – Chair	16.7	17.1	2.2
Remuneration Committee – Member	6.1	6.3	2.2
Group Risk Committee – Chair	20.5	21.0	2.2
Group Risk Committee – Member	8.5	8.7	2.2

Single total figure of remuneration for each non-executive director

The non-executive directors' basic and committee fees earned in 2018 are outlined on page 76. Note that the Society'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	2017 Basic Fees	2017 Committee Fees	Total	2018 Basic Fees	2018 Committee Fees	Total
	£000	£000	£000	£000	£000	£000
Annual equivalents						
John Heaps (Chairman)	187	–	187	191	–	191
Neeta Atkar	33	20	53	50	29	79
Alison Hutchinson	49	14	63	50	15	65
Gordon Ireland	49	14	63	50	17	67
Mark Pain (Vice Chairman)	70	28	98	71	29	100
Guy Parsons	49	17	66	50	17	67

2019 Remuneration Policy

Our reward aims

Our aim is to build a working environment where colleagues feel engaged and committed to the Society's journey, ensuring they feel valued and respected to give their best. Our reward offering is integral to that, with an approach founded in our mutuality and values.

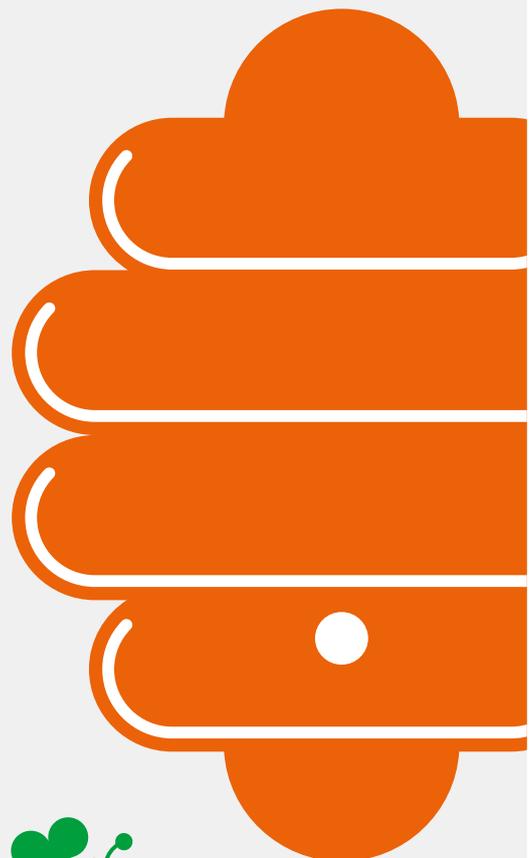
Our remuneration policy is in place to support our colleagues in working together for the benefit of the Society and our members.

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 developed with YBS colleagues' are:

- 1 Attract and retain talent, aligned to our mutual values and forward thinking to ensure relevance in a changing world.
- 2 Focused on total reward; recognising that reward is more than just pay, enabling colleagues to make the choices that work for them at different stages in their life.
- 3 Flexible within a framework to ensure a consistent approach whilst responding to different challenges, supported by education to help managers balance doing the right thing for both the Society and their people.
- 4 Reward decisions and choices are clear and transparent for colleagues; delivered through effective and open communication.
- 5 Our reward arrangements are reflective of both team and individual achievements, with the ability to recognise the contribution all colleagues have made to our success.



Our aim is to build a working environment where colleagues feel engaged and committed to the Society's journey, ensuring they feel valued and respected to give their best.



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 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; the Remuneration Committee (RemCo) and the Performance 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 policies and processes in place for our most senior roles and setting the tone for the wider organisation. RemCo is made up of non-executive directors and its purpose is to oversee the remuneration policy in place for the Society, 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 found on our website at ybs.co.uk/committees.

Performance & Reward Committee

The Performance & Reward Committee is in place to ensure effective governance and oversight of our reward policy with a focus on regulatory compliance and alignment to our business strategy. The Committee also ensures that any incentive arrangements (such as the Society's bonus) that we offer colleagues drive the right behaviours towards risk taking and safeguard good customer outcomes. The Performance & Reward Committee comprises a number of senior leadership team members within the organisation with representation from the Customer, People, Finance and Risk functions.

Our Regulators

As a financial services provider we are regulated by both the FCA and the PRA. The relationship with our regulators is important to us, and builds 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' or 'bonus')
- 3 Benefits
- 4 Retirement Benefits

Executive Director Remuneration Policy

This document details the Society'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 (or sooner if required) and will be shared with members for their approval through an advisory vote at the 2019 AGM.

Fixed Remuneration – Base Pay (also referred to as 'Base Salary')

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

Opportunity

There is no 'maximum' base pay opportunity.

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

Annual base 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.

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 Society's grading structure, the Career Framework.
- Internal relativities and wider workforce base pay levels

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



Short term performance-based remuneration ('variable pay' or 'bonus')

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 Society's 'Building Together' 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 currently measured via Profit Before Tax
- Customer Experience currently measured via the Group's Net Promoter 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 The total individual awards are determined by an executive director's performance against his or her annual objectives.

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

Bonus payments are subject to the operation of a 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 regulation, all bonus awards for executive directors are subject to deferral. Bonus deferral ensures that the Society delivers variable pay in a manner that prevents undue risk taking and achievement of sustainable performance.

For executive directors designated as 'Senior Managers' under the Senior Manager Regime and over the 'de-Minimis*' limit, a percentage of their bonus awards is deferred for a period of time, subject to regulation.

*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 colleagues' 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 example in the 2019 performance year, 40% of each individual director's award vests in 2020 and the remaining 60% is deferred over seven years.

How this works in practice:

- 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 an SEI, subject to an additional retention period prior to revaluation and payment. SEI valuations continue every year until the bonus schedule is complete.

Where executive director remuneration is below the de-minis criteria and they are not defined as 'Senior Manager' within the senior manager regime, 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.

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

Opportunity

'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.

Failure to meet organisational or individual performance thresholds can reduce bonus awards to zero.

All Senior Manager bonuses are subject to deferral.

All of the Society's bonus schemes are underpinned by the same metrics.

Benefits

🏆 Purpose and link to strategy

To provide a total reward package (base pay, bonus, pension and benefits) that is in line with market practice and enables the attraction and retention of executive directors of the required calibre.

👥 In practice

Executive directors are eligible to receive a number of benefits, principally consisting of:

- 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 Society'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 Society's pension arrangements support the recruitment and retention of executive directors through the provision of competitive retirement benefits.

👥 In practice

The Society operates a single defined contribution pension scheme and all colleagues have the opportunity to participate.

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.

💡 Opportunity

Current executive directors receive a contribution (or cash allowance) equal to a maximum of 16% of base salary.

Future executive directors (appointed after 1 January 2019) will receive a contribution in line with the wider colleague group equal to maximum of 11% of 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:

- 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 Society'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 Society 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 Society 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.

Remuneration arrangements in relation to specific circumstances

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 Society 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 Period

Typically, termination payments will consist of basic pay 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 Society'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. There will be no acceleration of payment. They are also subject to the Society's risk overlay process, and therefore subject to the Society'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 Society's risk overlay process.

Subject to Committee discretion and the Society's risk overlay process, executive directors who resign from the Society 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

Non-executive director fees

🎯 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 Remuneration 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

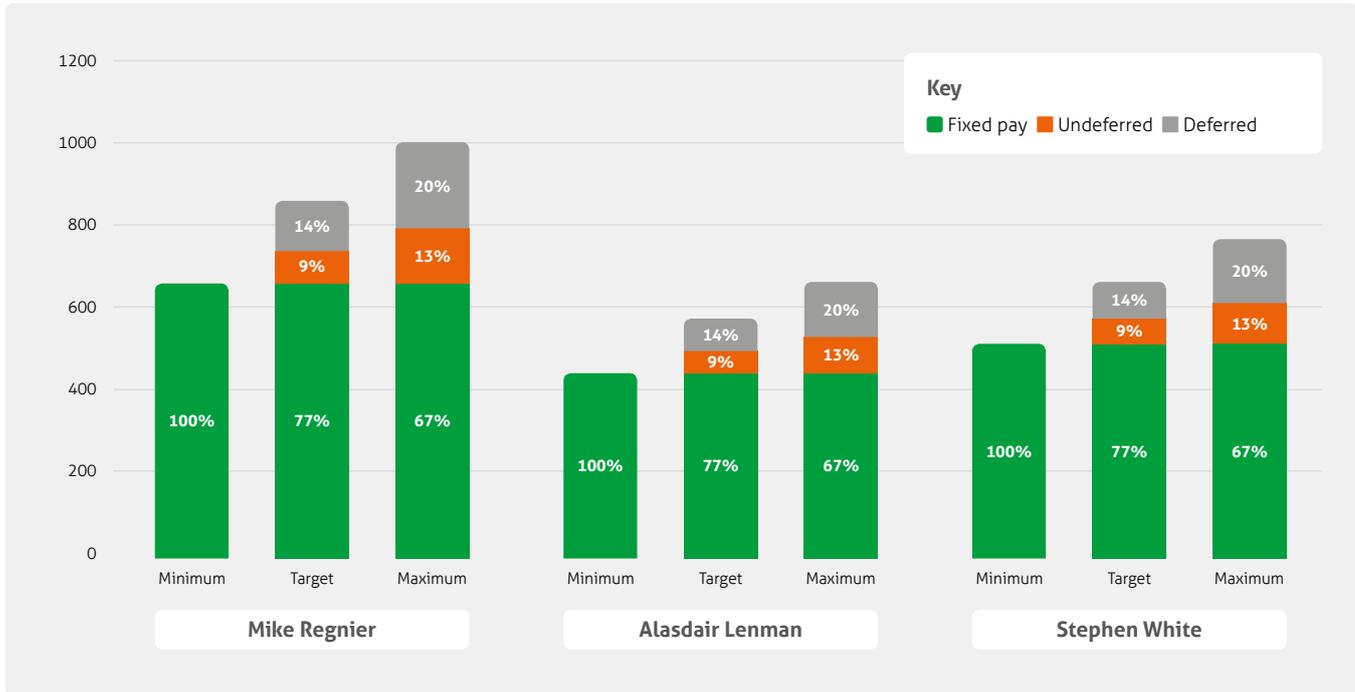
There is no 'maximum' fee opportunity.

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.

Remuneration scenarios in relation to the 2019 Remuneration Policy

The chart on page 82 shows the potential split of remuneration between fixed pay (salary, benefits and pension) and variable pay for the CEO and other executive directors under the following scenarios:

- **Minimum** – under certain performance conditions, bonus can be zero.
- **Target** – represents remuneration (30% of base salary) that would be paid if Group and personal performance measures are achieved in 2019.
- **Maximum** – the maximum bonus (50% of base salary) that could be paid assuming Group and personal performance measures are fully realised.



Remuneration Committee terms of reference

The 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 the Society, 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.

The Committee’s Terms of Reference were reviewed and updated in January 2019. The full terms of reference are available on the Society’s website at ybs.co.uk/committees.

The members of the Remuneration Committee consist of 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), John Heaps and Alison Hutchinson.

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

- Reviewing the Society’s remuneration policy for executive directors and the wider colleague group
- A strategic review of the Society’s Reward strategy
- Reviewing the Society’s bonus scheme structure and targets
- Ongoing work in relation to the Prudential Regulatory Authority’s (PRA) Remuneration Code and how it applies to the Group

- Agreeing the approach for executive base salary increases in 2018
- Agreeing the remuneration package for the new Chief Officers

The Committee is supported by the Chief People Officer and the Director of People Performance. Where it is felt to be appropriate, the Chief Executive Officer is invited to attend to provide further background and context to assist the Committee in discharging its duties.

The 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 2018 were £113,400 (including irrecoverable VAT): £113,400 in 2017 (including irrecoverable VAT). During 2018, PwC also provided business consulting services across the Society on matters including IT risk assurance, data assurance, project assurance, operational risk assurance, regulatory compliance monitoring services, internal audit, risk treasury (hedge accounting) support, accounting advisory support and tax advisory support.

As PwC have been appointed as the Society’s external auditors, subject to member approval at 2019 AGM, PwC will no longer serve as advisors to the Committee. After a robust selection process, EY have been appointed as Remuneration Committee advisors for 2019 onwards.

Statement of Member Voting

The Society remains committed to ongoing member dialogue and takes an active interest in voting outcomes. The following table sets out the voting results in respect of the resolution to approve the 2018 Directors’ Remuneration Report at the Society’s Annual General Meeting (AGM) in 2018.



As noted in the Committee Chair’s letter, there will be an advisory vote on the Directors’ Remuneration Policy and Directors’ Remuneration Report at the 2019 AGM.

On behalf of the Board

Guy Parsons,
Chair of the Remuneration Committee

Aggregate remuneration data (Pillar 3)

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

	Senior Management ¹	Other MRTs	Total
	£'000	£'000	£'000
Aggregate remuneration data			
Fixed pay	6,562	532	7,094
2018 Variable pay (undeferred)	893	39	932
2018 Variable pay (deferred)	1,016	–	1,016
2018 Variable pay due via SEI	309	–	309
Deferred variable pay to be paid 2018	652	–	652
Outstanding deferred variable pay from previous years	1,004	–	1,004
Total	10,127	571	10,698
Aggregate bonus buyout and severance payments			
Bonus buyout payments - 2018	–	–	–
Severance Payments - 2018	1,056	–	1,056
Total	1,056	–	1,056

	Senior Management	Other MRT	Total
Number of MRT colleagues at 1.1.18	28	9	37
Number of MRT colleagues at 31.12.18	28	6	34

Ratios between fixed and variable pay

The Society'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 annual bonus award for any colleague is 50% of base pay and therefore variable pay will not exceed the CRD IV cap. The Society's full Pillar 3 disclosure is available at ybs.co.uk/your-society/financial-results.

¹ 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.

The main components of Material Risk Taker (MRT) remuneration structures are:

Element & purpose	Operation	Opportunity
<p>Base pay</p> <p>To enable the attraction and retention of the right calibre of individual by ensuring that they are appropriately rewarded for their role.</p>	<p>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"> 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
<p>Bonus</p> <p>To ensure that an MRT's remuneration has a direct link to the success of the Society, motivating delivery of core business metrics in line with our company values.</p>	<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. Awards are subject to clawback for up to a maximum of ten years. 	<p>'On-target' achievement of Group performance criteria results in a bonus of 30% of base salary for the majority of MRTs, with a maximum of 50% of base pay.</p> <p>For a small number of MRTs working within the Treasury function, their on-target achievement is 7% of base pay and a maximum of 10% of base pay.</p>
<p>Benefits</p> <p>To provide a total reward package that is in line with market practice and enables the attraction and retention of MRTs of the required calibre.</p>	<p>Benefits include car benefits, healthcare, private medical insurance, life cover and insured sick pay.</p>	<p>All benefits are provided in line with the Group's grading structure, the Career Framework.</p>
<p>Retirement benefits</p> <p>The Group's pension arrangements support the recruitment and retention of executive directors through the provision of competitive retirement benefits.</p>	<p>MRTs are eligible to participate in the Group's defined contribution pension scheme.</p> <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. 	<p>Current executive directors receive a contribution (or cash allowance) equal to a maximum of 16% of base pay.</p> <p>Future executive directors (appointed after 1 January 2019) and all other MRTs will receive a contribution in line with the wider colleague group equal to maximum of 11% of base pay.</p>