

Yorkshire Building Society 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 customers.

Our Reward Principles

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

Our five reward principles 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 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, members 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 Board 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 accessed on the Society's website.

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 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 Financial Conduct Authority (FCA) and the Prudential Regulation Authority (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)
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 advisory vote at 2019 AGM.

Fixed Remuneration – Base Pay

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

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

- Skills, knowledge and experience;
- On-going performance;
- Demonstration of the Society'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.

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.

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.

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 bonus scheme – Building Together - 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 Promotor Score
- Individual performance measured with reference to an Executive Director's

performance against key objectives.

In Practice

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

Bonus is achieved in the following way:

1. The development of a bonus pool determined by reference to the Group's financial performance.
2. The bonus pool is moderated up or down as a result of the Customer Experience received by our Members and customers.
3. 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 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 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 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 Board to compensate them for the forfeiture of any award entered into with a previous employer. In determining any such 'buy out', the committee will consider all the relevant factors including the likelihood of the awards vesting should the candidate have remained in their previous employment, the form in which they were awarded and the time over which they would have vested.

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

Leaver Arrangements and Loss of Office

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

Notice Period

The standard notice period is 12 months from the 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 Payment

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 Society.

In Practice

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

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

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

Opportunity

There is no 'maximum' fee opportunity.

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