SUMMARY FINANCIAL STATEMENT

Details of your Society's financial performance in 2016.

This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and the Annual Business Statement, all of which will be available to members and depositors free of charge at every office of Yorkshire Building Society, (including N&P branches) from 17 March 2017. The information is also available online at ybs.co.uk/annualreport

Summary Directors' Report

The information contained in the Chairman's welcome and Chief Executive's review on pages 2 to 11 addresses the requirements of the Summary Directors' Report.

The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis has continued to be adopted in preparing the Annual Report and Accounts.

Approved by the Board of Directors on 27 February 2017:

John Heaps - Chairman

Mark Pain - Vice Chairman

Mike Regnier - Chief Executive

Group results for the year	2016 £m	2015 £m
Net interest income	**475.6**	534.6
Net losses from fair value volatility	**0.9**	(6.5)
Net realised profits	**1.8**	2.1
Other income and charges	**36.3**	18.0
Total income	**514.6**	548.2
Administrative expenses	**(346.0)**	(346.1)
Provisions[1]	**(17.1)**	(28.8)
Profit before taxation	**151.5**	173.3
Taxation	**(37.3)**	(34.8)
Profit for the year	**114.2**	138.5

[1] 'Provisions' encompasses provisions for impairment of loans and advances, Financial Services Compensation Scheme (FSCS) levy and other liabilities.

Group financial position at end of year	2016 £m	2015 £m
Assets		
Liquid assets	**4,675.9**	4,404.7
Loans to customers	**34,103.3**	33,321.7
Derivative financial instruments	**540.5**	180.1
Fixed and other assets	**275.8**	312.1
Total assets	**39,595.5**	**38,218.6**
Liabilities		
Shares	**28,693.2**	27,396.4
Borrowings	**7,916.9**	7,955.5
Derivative financial instruments	**348.0**	340.9
Other liabilities	**112.8**	128.1
Subordinated liabilities	**297.0**	286.1
Subscribed capital	**6.7**	6.7
Reserves	**2,220.9**	2,104.9
Total liabilities	**39,595.5**	**38,218.6**

Summary of key financial ratios	2016 %	2015 %
Gross capital as a percentage of shares and borrowings The gross capital ratio is the relationship between the Group's capital and its liabilities to investors. Capital comprises general reserves (i.e. accumulated profits), hedging and revaluation reserves, subordinated liabilities and subscribed capital (Permanent Interest Bearing Shares).	**6.90**	6.78
Liquid assets as a percentage of shares and borrowings (liquidity ratio) The liquid asset ratio measures those assets available to meet requests by savers to withdraw their money, to fund mortgage advances and to fund general business activities. It expresses cash and assets easily converted into cash as a percentage of the Group's liabilities to investors.	**12.77**	12.46
Profit for the year as a percentage of mean total assets This ratio expresses profit or loss, after tax, as a percentage of average total assets.	**0.29**	0.37
Management expenses as a percentage of mean total assets The management expense ratio measures how cost effective the Group is. It is calculated by comparing the management expenses (administrative expenses opposite) for the year with average total assets.	**0.89**	0.91

Independent auditor's statement to the members and depositors of Yorkshire Building Society

We have examined the summary financial statement for the year ended 31 December 2016 which comprises the summary Group results for the year and Group financial position at end of year together with the Summary Directors' Report.

This report is made solely to the Society's members, as a body, in accordance with section 76(5) of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the summary financial statement, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within this booklet with the full Annual Report and Accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in this booklet and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

We conducted our work in accordance with Bulletin 2008/3 "The auditor's statement on the summary financial statement in the United Kingdom" issued by the Auditing Practices Board. Our report on the Group and Society's Annual Report and Accounts describes the basis of our audit opinion on those financial statements.

Opinion on summary financial statement

In our opinion the summary financial statement is consistent with the Annual Report and Accounts, the Annual Business Statement and Directors' Report of Yorkshire Building Society for the year ended 31 December 2016 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

Deloitte LLP, Chartered Accountants and Statutory Auditor, Leeds.
27 February 2017.

A WELCOME FROM YOUR CHAIRMAN

"I am pleased to report another year of solid financial performance by your Society."

This Annual Review provides you with an overview of the Society's performance, including how we continue to deliver good long-term value to you, our members, whilst maintaining a strong, sustainable business for the future.

As an organisation owned by our members, our goal is to deliver sufficient profit to maintain financial security, with profit above this level returned to members through a competitive range of products, exceptional service and investment for the future.

While economic confidence was initially knocked back by the outcome of the referendum on EU membership, the second half of 2016 saw more resilience in the economy than many had expected. As we are a UK focused business, our core activities are not directly affected by an exit from the EU. There will however be regulatory and funding implications for us along with the wider economic impact in the future.

In 2016 your Board reviewed the Group's strategy to ensure it fully reflects the external environment in which we operate. The review reaffirmed our commitment to our vison 'to be the most trusted provider of financial services in the UK'.

Over the past year there have been some changes to your Board and you can find out more about these as well as the skills and experience your directors bring on pages 21 to 25. Notably, I'm pleased to welcome Mike Regnier as the Society's new Chief Executive.

You will find highlights of your Society's performance on the following pages, where Mike also answers questions on the achievements of 2016.

Mike succeeds Chris Pilling, and I'd like to thank Chris for his strong leadership and significant contribution over the last five years and also Andy Caton, Executive Director, who left the Group after 25 years.

I hope you'll spend a few moments finding out more about your Society, the directors that run it on your behalf and how we're keeping your money safe and looking after your interests.

Our customer-led strategy, centred on mortgages and savings will remain our focus for the future. We'll continue to make necessary changes to improve the service and value we deliver to you, at the same time maintaining and improving the financial strength of the Group for the benefit of current and future generations of members.

John Heaps, Chairman
27 February 2017

GROUP PERFORMANCE AT A GLANCE – 2016

In a challenging year the Group's financial performance has remained solid.

- ↑ Gross lending increased by **4.9%** to **£7.2bn**
- ↑ Overall mortgage balances grew by **2.3%** to **£34.1bn**
- ↓ Net lending decreased by **36.3%** to **£0.7bn**
- ↓ **2.9%**[1] share of the gross mortgage market, compared to **3.1%** in 2015

- ↑ Overall savings balances grew by **4.2%** to **£29.1bn**
- ↑ Savings inflow was **£0.9bn** compared to an outflow of **£0.2bn** in 2015
- ↓ **114,000** new savings accounts opened, reduced from **166,000** in 2015
- ↑ Our average savings rates across the Group were **0.38%**[2] above the market average

- ↑ Common Equity Tier 1 (CET1) capital ratio was **14.9%** up from **14.5%** in 2015

- ↑ Liquidity was **12.8%** up from **12.5%** in 2015 and remains above regulatory requirements

- ↓ Core operating profit decreased to **£128m** from **£185m**
- ↓ Statutory profit decreased to **£152m** from **£173m**

- ↑ Cost to income ratio increased to **67%** from **63%** in 2015

- 15 awards across the Group
- ↓ **1,124** Group savings and mortgage Best Buy mentions in 2016, reduced from **3,300** in 2015[3]

- ↑ Our Net Promoter Score® has increased to **+31**[4] from **+29** in 2015

- In the top **10%** of the UK brands in the KPMG Nunwood Customer Experience Excellence Study[5]

"We are confident that we will be able to build on our solid foundations and manage both challenges and opportunities as they arise."

Sources: [1]Bank of England, as at December 2016. [2]Based on latest data available. Average savings rates based on savings stock from CACI's Current Account and Savings Database (CSDB) currently covering 85% of retail savings market (based on stock value). Data as at 31 October 2016. [3]Presswatch Financial from Kantar Media, January 2016 - December 2016. [4]Nunwood Customer Voice Programme, January 2016 - December 2016. Based on interviews with 29,290 customers. [5]Nunwood Consulting – Nunwood Customer Experience Excellence Centre Top 100 UK Brands 2016, 287 companies were subject to the study but only the top 100 is published.

YOUR CHIEF EXECUTIVE INTERVIEWED

Mike Regnier, your newly appointed Chief Executive, answers questions about the Group's performance in 2016.

In January 2017 you were appointed as Chief Executive, what are your initial thoughts?

Taking over as Chief Executive in January 2017 I am proud to be leading an organisation with such a fantastic legacy, strengthened by good progress in 2016. We completed a number of projects from our strategic initiative programme, including investment in new and better systems and processes to improve the service we offer to our customers.

Whilst 2016 was a challenging year and our profits reduced compared to 2015, our overall performance was ahead of expectations.

As a strong, focused, national organisation we face less distraction than the larger banks when it comes to the impacts of ongoing economic uncertainty, certain regulatory change and the UK's exit from the EU. This focus means we can continue to devote much more of our attention to the needs of our members.

I'm optimistic about the future for the Group as we continue to progress towards our vision of becoming 'the most trusted provider of financial services in the UK'.

What stands out for you from 2016?

I'm delighted that again we're in the top 10% in the KPMG Nunwood Customer Experience Study. This study collates customer feedback on their experience of hundreds of UK brands from all sectors and I'm proud to say that once again we've outperformed many household names. We've seen a significant improvement since 2012, increasing our position by 38 places since then. This shows that our customers really are noticing the continued focus that we have placed on them being at the heart of everything we do.

We've also seen an increase in a key measure of customers' satisfaction, the Net Promoter Score® (NPS), which has increased by +2 to +31[4]. NPS is an independent measure of those customers who would actively recommend a business, against those who wouldn't.

Customer recognition and feedback is really important, as we're always looking for ways to improve the service and products we offer and to find out what really matters to you. It was also great to be recognised within the industry with 15 awards, including the 2016 Moneywise awards for Best First Time Buyer Mortgages and Best Building Society Mortgage Provider.

How did the Society perform financially in 2016?

Despite a challenging and often uncertain external environment, overall the Group's performance has been solid and ahead of our targets set for the year.

We've seen an expected reduction in profit before tax which decreased to £152m (from £173m in 2015) and core operating profit (a measure of underlying performance) to £128m (from £185m in 2015). This is due to a number of factors including; ongoing investment in the business, the competitive mortgage market driving down rates and the support we have given to our savers by providing higher interest rates than the average rates in the market. In addition, existing business maturities and redemptions from higher profitability mortgages written during the financial crisis, combined with expected reductions in the number of customers on our standard variable rate mortgages, have also had an impact.

This level of profit enables us to sustain the business financially, whilst ensuring we give long-term value to our members through our products, as demonstrated by the 1,124[3] best buy mentions we received for mortgages and savings.

Going forward we are focused strongly on enhancing our efficiency so we can continue to offer good rates to our customers and deliver real value however members choose to deal with us.

YOUR CHIEF EXECUTIVE INTERVIEWED

What other financial measures do you look at?

We use a number of key measures to monitor the Group's success. Many of these are included in the performance at a glance section on pages 4 to 5.

One key measure is the cost to income ratio, which looks at the relationship between income generated and our costs. As we've invested in the future of our business, costs have naturally gone up and we've seen an expected increase to 67% (from 63% in 2015). We expect to improve our cost to income ratio going forward, through efficiencies and ongoing cost management across the business, our medium-term target is less than 55%.

Our Common Equity Tier1 (CET1) and leverage ratio are good measures of our ability to deal with unforeseen circumstances. We've increased our CET1 level to 14.9% (14.5% in 2015) and leverage ratio to 5.1% (5.0% in 2015), demonstrating that our financial strength has improved further.

We've continued to monitor our liquidity closely ensuring we don't hold too much 'available cash', which can limit our ability to offer customers competitive products. The level remains healthy and both this and our capital levels, remain well above the regulatory requirements.

We also review the money we set aside to cover items such as customers falling behind on payments, conduct issues and the Financial Services Compensation Scheme (FSCS). I am confident that our overall level of financial provision is sufficient to cover all of our known exposures.

What does the current low interest rate environment mean for savers?

Low interest rates continued in 2016 and we saw a large number of organisations reducing savings rates to both new and existing customers. We protected rates as long as we could, but it was necessary for us to follow a similar course of action to ensure we maintain our financial security, and that we don't attract more money than we can safely and sensibly lend.

This means that although interest rates across the market have fallen, we've continued to support savers as much as possible.

The latest data available shows we paid an average of 0.38%[2] higher than the average rates in the market, compared to 0.19% in 2015.

Find out more about a 'day in the life' of your Chief Executive at ybs.co.uk/agm

We also renewed our Savings Pledges that we first committed to in 2015, making it clear to our customers what they can expect from us. You can find out more about our Savings Pledges on page 16.

How has the mortgage market performed this year?

The mortgage market in 2016 continued to be challenging which, as expected, drove a reduction in interest rates. Despite an increase in repayments and redemptions, overall our mortgage balances increased to £34.1bn (from £33.3bn 2015). Mortgage arrears have continued to fall and are below the industry average. We remain committed to making sure when we help people buy their own home that they can afford to do so, and are not stretching themselves too far financially.

With this in mind, we will be closing a number of Yorkshire and Norwich & Peterborough (N&P) branches later this year, leading to the eventual withdrawal of the N&P name from the high street. As a result, Yorkshire Building Society will become our only high street brand.

We believe operating fewer brands will help us to become more efficient, allowing us to provide better long-term value for all our customers, and that we can do this best by focusing on our core businesses of mortgages and savings. Although I wish it weren't the case, this has also led us to take the difficult decision to close all N&P current accounts, which we aim to do by 31 August 2017. Changes in the current account market mean continuing to provide this service to existing and new customers requires significant investment that we don't believe represents

"WE'VE HELPED 6,400 FIRST TIME BUYERS BUY A HOME OF THEIR OWN"

More customers are now interacting with us online, by phone and through brokers recommending the Group to their clients. As a result we've made big improvements to our websites, making it easier for our customers to select, compare and transfer to new products.

Can you explain the recent changes you've announced across the business?

As one of the largest and strongest building societies in the UK, we continually review how our Society is run to make sure we're acting in the best long-term interests of all our members. Over time we have seen fewer of our members using branches and an increasing number using the internet to manage their accounts. This means that we believe the Society can no longer maintain branches in a number of places where they are currently located.

long-term value for the wider membership. We've been working closely with affected customers outlining what the changes mean to them and will continue to do so to help them switch to another banking provider.

Whilst these were difficult decisions to make, it is necessary, that we constantly review the way we operate to ensure we continue to deliver long-term value and improved services to our members that meet their changing needs. We believe we can best do this by aiming to be 'simply brilliant' (brilliant in an efficient and simple way) in our core businesses of mortgages and savings.

YOUR CHIEF EXECUTIVE INTERVIEWED

How have you been helping customers in 2016?

With our focus on our core activities of mortgages and savings, I'm particularly pleased that we've helped 6,400 first time buyers buy a home of their own.

In 2016 we also opened savings accounts for 66,000 new customers, including over 11,000 children and 6,000 young saver accounts, which help those saving smaller sums each month.

We've been more active on social media, including Twitter, Facebook and Instagram, meeting the increased demand from customers for service and support in this way and we'll look to continue this in 2017.

In 2016 we improved our savings statement, providing a combined view of all the accounts a customer holds, including balances and interest earned, making it easier to see the overall picture. We've had lots of positive feedback that the statement is more relevant and clearer to understand. The statement was sent to everyone with at least £500 in savings, reaching 1.1m members in 2016 (compared to 0.7m in 2015). Customers that have registered for online services, can still view their information in this way.

How do you seek to be a responsible employer?

All our colleagues play a key part in providing a great customer experience for our members. Our annual research with colleagues allows us to see where we're doing well and areas we can improve. I recognise that we're going through a considerable amount of change at the moment and have asked a lot from our colleagues. Despite that I'm pleased our colleagues' overall rating of working for the Society in 2016 was 77%, which is back to previous levels after a fall in 2015 (to 70%).

The impact of our increased focus on online services and branch closures, that we announced recently, means a number of our colleagues have entered a period of consultation and may lose their jobs over the next 16 months. Through this period of change we are doing all we can to support these colleagues at a time that will inevitably be difficult for them.

What is the future outlook?

We expect 2017 to present additional challenges given the level of economic uncertainty, but it will also provide new opportunities. We're confident we'll be able to build on our solid foundations and manage both challenges and opportunities as they arise.

The Group has a further year of significant change ahead as we continue to adapt our business to reflect changing customer demand and as we work towards achieving our vision of being the 'most trusted provider of financial services in the UK'.

We believe we'll achieve our vision by being simply brilliant at mortgages and savings and as recently announced will focus more on a streamlined and efficient core business. This means we can reinvest cost savings from greater efficiency in improving the level of service and the value we provide to our members.

In my new role, I am privileged to be leading the Group forward and I will ensure we remain focused on maintaining a financially sustainable business, and that we use our mutual ownership structure to return as much value to our members as possible.

Mike Regnier, Chief Executive
27 February 2017