SUMMARY FINANCIAL STATEMENT

Details of your Society's financial performance in 2017.

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 22 March 2018. 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 28 February 2018:

John Heaps - Chairman

Mark Pain - Vice Chairman

Mike Regnier - Chief Executive

Group results for the year	2017 £m	2016 £m
Net interest income	**502.1**	475.6
Net losses from fair value volatility	**13.1**	0.9
Net realised profits	**6.1**	1.8
Other income and charges	**14.5**	36.3
Total income	**535.8**	514.6
Administrative expenses	**(339.5)**	(346.0)
Provisions[1]	**(30.5)**	(17.1)
Profit before taxation	**165.8**	151.5
Taxation	**(41.4)**	(37.3)
Profit for the year	**124.4**	114.2

[1] 'Provisions' encompasses provisions for impairment of loans and advances, remediation relating to Payment Protection Insurance (PPI) and restructuring costs, along with other liabilities.

Group financial position at end of year	2017 £m	2016 £m
Assets		
Liquid assets	**6,095.7**	4,675.9
Loans to customers	**35,061.2**	34,103.3
Derivative financial instruments	**591.8**	540.5
Fixed and other assets	**298.5**	275.8
Total assets	**42,047.2**	**39,595.5**
Liabilities		
Shares	**28,938.0**	28,693.2
Borrowings	**9,805.1**	7,916.9
Derivative financial instruments	**156.9**	348.0
Other liabilities	**157.3**	112.8
Subordinated liabilities	**593.7**	297.0
Subscribed capital	**6.4**	6.7
Reserves	**2,389.8**	2,220.9
Total liabilities	**42,047.2**	**39,595.5**

Summary of key financial ratios	2017 %	2016 %
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).	**7.72**	6.90
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.	**15.73**	12.77
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.	**0.30**	0.29
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.	**0.83**	0.89

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 2017 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 2017 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

Deloitte LLP, Statutory Auditor, Leeds.
28 February 2018.

A WELCOME FROM YOUR CHAIRMAN

John Heaps, your Chairman, reflects on 2017.

I am pleased to report another strong performance by your Society, in a year where we've continued to put our members and customers at the heart of everything we do.

In 2017 we have improved our financial strength whilst at the same time investing in building our role in society; to provide real help with real life to over three million customers. This Annual Review provides an overview of your Society's performance and you'll find more details on the following pages, where Mike Regnier, your Chief Executive answers questions on the achievements of 2017.

the UK economy including inflation, growth, interest rates and house prices.

In November 2017 the Bank of England increased the Bank Rate for the first time in over ten years. It was important that we were able to pass this increase on in full to our variable rate savings customers.

"WE'RE PROUD OF OUR HERITAGE AND THE SUPPORT WE PROVIDE"

We are proud of our 150 year commitment to our mutual values - delivering long-term value and maintaining a strong, sustainable business which is fit for the future. This means delivering sufficient profit to maintain financial security, returning potential profits above this level to our customers in pricing, service and investment for the future.

Last year we talked about refocusing on our core activities of mortgages and savings. By becoming 'simply brilliant' in these areas we believe we can provide the help you need to make buying your home, and providing a safe place for your savings, as easy and simple as possible. By consistently getting the basics right, we can continue to be competitive in this rapidly changing environment.

The UK's exit from the EU continues to create some uncertainty. As we operate almost entirely within the UK we anticipate the direct impact on the Society will be low, with the key threat being the more general impact on

There have been some changes to your Board over the last year and I would like to thank those directors that have left the Board, Dame Kate Barker, Robin Churchouse and David Paige for their significant contribution, and at the same time welcome Neeta Atkar and Alasdair Lenman who joined us in 2017. You can find out more about the role of your Board and the directors who run the Society on your behalf on pages 21 to 25.

I believe the Society is positioned well for the future. There is always room to improve and competition remains fierce. The economic outlook remains uncertain and customer needs are changing arguably more rapidly than ever before. However, I believe our customer focus, mutual structure and financial strength means we can continue to improve the support, help and value we provide for you, now and in the future.

John Heaps, Chairman
28 February 2018

GROUP PERFORMANCE AT A GLANCE – 2017

"We believe the Society is positioned well for the future"

In a challenging year the Group has recorded a strong financial performance.

SAVINGS

- Retail savings balances grew by **0.9%** to **£28.9bn**
- Savings outflow was **£0.2bn** compared to an inflow of **£0.9bn** in 2016
- **193,000** new savings accounts opened, increased from **114,000** in 2016
- Our average savings rates across the Group were **0.28%**[1] above the market average

MORTGAGES

- Gross lending increased by **12.5%** to **£8.1bn**
- Net lending increased by **46.5%** to **£1.0bn**
- **3.1%**[2] share of the gross mortgage market, compared to **2.9%** in 2016

- Common Equity Tier 1 (CET1) capital ratio was **15.8%** up from **14.9%** in 2016
- Liquidity was **15.7%** up from **12.8%** in 2016 and remains above regulatory requirements
- Statutory profit before tax increased to **£166m** from **£152m**
- Core operating profit increased to **£160m** from **£128m**
- Winners of **25** awards across the YBS Group
- Maintained similar levels of Group savings and mortgage Best Buy mentions in 2017 - **1,023**[3] compared to **1,124** in 2016
- Our Net Promoter Score has increased to **+41**[4] from **+34** in 2016
- Our position in the KPMG Nunwood Customer Experience Excellence Survey[5] decreased to 87th from 27th in 2016. This reflects the impact of the brand and distribution changes, rather than branch service or satisfaction with colleagues, which remain high.
- Cost:income ratio decreased to **63%** from **67%** in 2016

More detailed information is available at **ybs.co.uk/annualreport**

Source: [1] Average rates based on savings stock from CACI's Current Account and Savings Database (CSDB), which covers 86% of the retail savings market (based on stock value). Data period January – October 2017. [2] UK Finance. [3] Presswatch Financial from Kantar Media, January – December 2017. [4] KPMG Nunwood Customer Voice Programme, January – December 2017. Based on 25,107 completed interviews with customers. Net Promoter, Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reicheld. [5] KPMG Nunwood Consulting – Nunwood Customer Experience Excellence Centre Top 100 UK Brands 2017, 295 participants were subject to the study but only the top 100 is published.

YOUR CHIEF EXECUTIVE INTERVIEWED

Mike Regnier answers questions on the Group's performance in 2017.

In a year of economic and market uncertainty, the Group has recorded a strong financial performance. We've outperformed against our plan in a number of areas and have continued to invest to make improvements for members and to strengthen our financial position.

How was 2017?

In 2017 we continued to focus on being 'simply brilliant' in our core businesses of savings and mortgages, so that we can remain relevant and competitive. This means helping people with the financial moments that matter, by providing simple solutions to core financial needs – buying a house of course, but also saving for a family, considering retirement, paying off a mortgage early and leaving a financial legacy for the next generation.

We've seen the pace of technological change in financial services at unprecedented levels. This is influencing customer behaviour and the costs of providing services. Customers are moving increasingly from dealing with a branch to using online and mobile devices, increasing the use of brokers and intermediaries and the more widespread use of price comparison websites[6].

We've successfully come through the financial crisis, the ensuing mergers and regulatory changes, but along with many others, still need to simplify the business, manage our cost base and move our digital strategy forward. Following another strong performance in 2017 we remain in a good position to do this and to continue delivering value to our members.

How did the Society perform financially in 2017?

Despite a challenging external environment, the Group's financial position remains strong. The Board monitors the Group's performance against a number of key measures and you'll find details on the main ones on pages 4 and 5. Our profit before tax increased to £166m (2016: £152m), further strengthening our capital position.

Core operating profit also increased to £160m (2016: £128m), reflecting the underlying profitability of the Group. This is due to a number of factors, including:

- Supporting our savers – paying higher interest rates than the market average[7]
- A competitive mortgage market driving down rates and putting pressure on mortgage margins
- Focused management of our retail flows to avoid holding significant excess liquidity
- Continued use of low-cost government funding
- Ongoing investment in the business – including reducing costs associated with multiple brands and further investment in our customer experience and maintaining regulatory compliance.

In 2017 we successfully reduced our operating costs by £6m, whilst continuing to support our ongoing investment programme. This is reflected in our cost:income ratio, which looks at the relationship between the income we generate and our costs. The lower the ratio, the less we are spending to generate every pound of income. This reduced to 63% (2016: 67%) and our medium-term target remains to be below 55%. Our management expense ratio (which measures management expenses as a percentage of mean total assets) has also fallen to 0.83% (2016: 0.89%).

[6] 85% of UK consumers with access to the internet have used a digital comparison tool at least once, Competition and Markets Authority Digital Tools Market Study (September 2017).

[7] Average rates based on savings stock from CACI's Current Account and Savings Database (CSDB), which covers 86% of the retail savings market (based on stock value). Data period January - October 2017.

We have continued to build on the financial sustainability of the Group by increasing our Common Equity Tier1 (CET1) capital ratio to 15.8% (2016: 14.9%) and our leverage ratio increased slightly too. Both are good measures of our ability to deal with any unforeseen circumstances.

Overall, this is a strong performance that delivers profit above the level needed to sustain the business, whilst ensuring we provide strong long-term value to our members.

ON THE HIGH STREET

Can you explain why you are making changes to your high street presence?

Research shows that there is still strong demand for face-to-face customer service and while people are happy to carry out simple, day-to-day tasks, like checking their balance or paying bills online, nearly two-thirds prefer to talk to someone face-to-face when making a big financial decision[8].

> **Our focus is on supporting our customers**

Against that backdrop we've continued to review our branch and agency network to ensure it meets existing and future customer needs. This highlighted both the opportunity to expand into some new towns and cities where we don't currently have a presence, and a need to rebalance and consolidate in locations where we have a high concentration of branches relative to customer demand. As a result we're looking to expand our retail network into at least 50 new locations by looking for, and working with, agencies where there is customer demand.

To deliver greater efficiencies and to act in the long-term interests of all our members, last year we announced that Yorkshire Building Society (YBS) will become our principal brand, and the N&P name will be withdrawn from the high street. We will also be closing 13 branches during 2018 in locations where we have two or more retail outlets close to each other or where there is both an N&P and YBS presence. As with our recent closures, our absolute focus will be on supporting our customers through the transition period.

[8] Social Market Foundation, Balancing Bricks and Clicks: Understanding how consumers manage their money (2016).

HELPING YOU PUT DOWN ROOTS FOR OVER 150 YEARS

SAVINGS

How are you being simply brilliant at savings?

Savings rates have remained at historically low levels driven by the low mortgage rates and availability of low-cost funding. However there was good news for savers when the Bank of England increased its Bank Rate in November 2017 by 0.25% to 0.5%, the first increase in over a decade. It was important to us that we passed that rate increase on in full to all our variable rate savers.

We continued to offer average rates that are higher than the market average, 0.28%[7] higher in 2017. This reflects our deliberate decision to continue to minimise the impact of the low-rate environment on our savings members as far as possible.

In 2017 we renewed our Savings Pledges, originally made in 2015. The six pledges build on our core value of 'customers at our heart' and make it clear what you can expect from us. You can find out more on our Savings Pledges on page 19.

We welcomed over 67,000 new savers last year and have provided over 600,000 savers access to their accounts online, so they can choose how they want to deal with us.

MORTGAGES

How are you demonstrating being simply brilliant at mortgages?

As an inclusive lender we introduced more support for borrowers who may have previously struggled to get a mortgage, acknowledging the growth in the number of people that work for themselves and have irregular income patterns. Through Accord, our intermediary lending subsidiary, we've also reintroduced interest only lending, designed to give customers greater freedom and better control of their financial and personal goals.

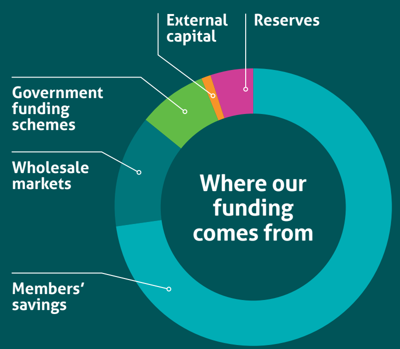
We've also made online enhancements to help people buying their home, including improvements to our 'borrowing calculator' for mobile users and introducing handy online guides.

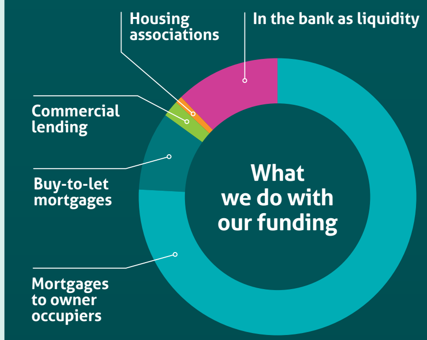
We were really pleased to have helped more people buy their home in 2017 than we did in 2016 and our gross market share increased to 3.1% (2016: 2.9%). We lent £1.3bn to first time buyers (2016: £1.3bn), and overall net lending increased to £1.0bn (2016: £0.7bn).

We were delighted to receive industry recognition with several mortgage awards including the 2017 Moneywise Award for Best Lender for First Time Buyers and Best Building Society Mortgage Provider in the 2017 Moneyfacts Awards.

What's the role of a modern building society?

Our business model is simple: we exist to provide a secure place for members to grow their savings, which allows us to lend to people to buy their own homes. That's every bit as relevant today as it ever was.





How we generate income

- We generate income on the difference in interest rates received from borrowers, relative to that paid to savers
- We also receive interest on the money we keep in the bank, and pay interest on our sources of external funding
- We receive commission on third party products, such as insurance and later life planning services

Where our costs come from

- We spend money on running the business
- We put money aside for bad debt

What we use our profits for

- As capital to safeguard sustainability
- To reinvest in the business
- To provide benefits to customers through better products and services
- To provide benefits to the communities in which we operate
- We do not pay any of our profits away to external shareholders - every penny is reinvested for the benefit of members

Having customers at our heart means we can truly focus on providing real help for real life.

How do you demonstrate you're a responsible employer?

I'm delighted that we've been recognised as one of the UK's Best Large Workplaces[9] alongside a range of household names. There were two elements that came through strongly in the survey results; how welcoming and friendly our people are and the contribution we make through our charitable work and volunteering. In the survey, 90% of colleagues said that they felt good about the ways we support the community. You can find out more about our work in the community on page 14.

We've also been named as one of the UK's top 30 employers for working families[10], for our investment in family policies and our commitment to foster a flexible approach to the way we work.

We have seen a fall in the engagement score in 2017 from 77% to 68%, our key measure of how our colleagues feel about working for the Society. This still compares favourably to average engagement in Large Organisations (57%), and we appreciate that this drop reflects the considerable change and uncertainty many colleagues are facing at the moment.

In 2017 we have also increased our focus on mental health, diversity and inclusion, raising awareness with events and workshops across the business. The National Centre for Diversity has been so impressed with the progress we have made in 2017 that we have already been awarded conditional achievement of the Investors in Diversity Accreditation - Stage 2, a year ahead of our target.

We are also proud to have expanded our apprenticeship programme in 2017, taking on 24 apprentices across a variety of head office and branch roles. Our efforts were recognised by being awarded 'Best Newcomer' in the North East, Yorkshire and Humber Regional Apprenticeships Awards.

How is the future looking?

As our activities are focused almost exclusively in the UK, we are not distracted by the uncertainties surrounding the UK's exit from the European Union. We expect the pace of change in financial services to continue to accelerate. We remain committed to face-to-face service and will be expanding our network of branches and agencies across the country. This combination, supported by the vital role our colleagues play, will ensure we remain sustainable for the long term and able to continue to make a lasting impact on society.

Mike Regnier, Chief Executive
28 February 2018

[9] The Best Workplaces survey is an external benchmarking exercise conducted by Great Places to Work®, involving an employee survey and a culture audit.

[10] The Top Employers for Working Familes benchmark was established by Working Families, a UK work-life balance charity.