Summary financial statement

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 Chelsea, Barnsley and N&P branches) from 6th March 2014.

Summary directors' report

The information contained in the Chairman's and Chief Executive's reports on pages 3 to 12 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 25th February 2014

Ed Anderson - Chairman
Lynne Charlesworth - Vice Chairman
Chris Pilling - Chief Executive

Group results for the year

	2013 £m	2012 restated[2] £m
Net interest income	**531.6**	346.0
Net losses from fair value volatility	**15.9**	(11.8)
Net realised profits	**(41.7)**	77.9
Other income and charges	**37.6**	48.3
Total income	**543.4**	460.4
Administrative expenses	**(298.4)**	(233.6)
Merger and acquisition costs	**(1.6)**	(16.4)
Provisions[1]	**(44.1)**	(52.3)
Profit before taxation	**199.3**	158.1
Taxation	**(51.2)**	(34.2)
Profit for the year	**148.1**	123.9

[1] 'Provisions' encompasses provisions for impairment of loans and advances, Financial Services Compensation Scheme (FSCS) levy and other liabilities.
[2] A restatement has been made to the prior period due to a change in accounting policy regarding the FSCS levy. Further details are included in the Annual Report and Accounts.

Group financial position at end of year

	2013 £m	2012 restated[2] £m	2011 restated[2] £m
Assets			
Liquid assets	**4,421.2**	5,231.5	4,917.8
Loans to customers	**29,515.8**	27,572.4	27,022.2
Derivative financial instruments	**273.0**	380.6	373.8
Fixed and other assets	**243.4**	312.6	333.2
Total assets	**34,453.4**	33,497.1	32,647.0
Liabilities			
Shares	**26,290.3**	26,817.5	25,973.4
Borrowings	**5,916.4**	4,171.1	3,866.9
Derivative financial instruments	**194.8**	517.4	609.1
Other liabilities	**187.0**	219.5	224.5
Subordinated liabilities	**48.7**	122.8	230.9
Subscribed capital	**6.8**	7.3	177.0
Reserves	**1,809.4**	1,641.5	1,565.2
Total liabilities	**34,453.4**	33,497.1	32,647.0

Summary of key financial ratios

	2013 %	2012 restated[2] %
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).	**5.79**	5.69
Liquid assets as a percentage of shares and borrowings The liquid asset ratio measures those assets available to meet requests by investors 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.	**13.73**	16.88
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.	**0.44**	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 plus merger and acquisition costs opposite) for the year with average total assets.	**0.88**	0.76
Management expenses as a percentage of mean total assets adjusted for the effects of mergers, acquisitions and closures (using monthly mean assets)	**0.88**	0.71

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 2013 which comprises the Group results for the year and Group financial position at end of year and summary of key financial ratios as well as 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, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing this booklet, 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 as described on page 2 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 issued by the Auditing Practices Board. Our report on the Group and the Society's Annual Report and Accounts describes the basis of our audit opinion on those financial statements.

Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Report and Accounts, the Annual Business Statement and Directors' Report of Yorkshire Building Society for the year ended 31 December 2013 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.
25th February 2014

Looking ahead to a brighter future

Our Chairman, Ed Anderson, reports another successful year as the economic upturn becomes more established.

I'm delighted that during 2013 we continued to build on our success of recent years. The Group's financial performance has remained very strong, achieving excellent levels of profit while maintaining solid levels of capital and liquidity.

We are one of the UK's strongest financial institutions, because of our management approach. With trust in financial services organisations remaining low we continue to stand out amongst the crowd, because we are different, because we have customers at our heart and because we have no need to chase short-term profits or undertake risky financial activities.

We will continue to balance delivering value and service to our members with maintaining our financial strength for the long term. We view 2013 as having been another year of successful delivery.

Is the UK economy finally turning a corner?

Forecasts are more optimistic and business confidence is growing

Our lending activity has increased - whether it's residential lending to home owners, buy to let, social housing or secured lending to small and medium-sized businesses. Through safe and responsible lending, our business has grown across our Yorkshire, Chelsea and Norwich & Peterborough building society brands and Accord Mortgages, our intermediary lending subsidiary.

This is despite the continued economic uncertainty that prevailed for most of 2013. As we move into 2014, there is growing evidence that the UK economy is now taking a more convincing path towards recovery. Both commentators and independent forecasters are increasingly optimistic, and business confidence is now above pre-crisis levels.

All this means that we're well placed to grow our business further. We are aware that there are still risks to the UK economy and so it makes sense for us to approach 2014 confidently but carefully.

How are things looking for savers?

Low rates are likely to be with us for some time to come

Savers continue to face low interest rates and may do so for some time. Rates are driven by the record-low Bank of England Bank Rate and the effects of the Government's Funding for Lending Scheme. Mark Carney, the new Governor of the Bank of England ('the Bank'), has indicated that the Bank Rate will not be increased until the UK recovery is well-established. Against this background, we will continue to seek to protect savers from the worst effects of low rates as far as we sensibly can.

How are you protecting savers and ensuring pricing that's sustainable in the long term?

We remain focused on delivering long-term value

We're always exploring ways to offer excellent rates through competitive products for both new and existing customers. At the same time we have to be careful not to overprice our savings products and be flooded with more money than we're able to sensibly lend to our borrowers.

As a responsible mutual building society, answerable to our members and not to external shareholders, we see simple, easy-to-understand products as key to our long-term vision.

The Group achieved 3,184[1] mortgage Best Buy mentions in 2013 - a 30% increase from 2012

What's the picture for home owners?

As demand picks up, we remain committed to responsible lending

2013 saw people's incomes further stretched by the rise in living costs. Inflation has been running at around 2.5% for most of 2013, but earnings have grown at less than 1%[2]. As a responsible lender, we need to make sure our borrowers can afford their mortgages not just now, but also in the future.

Assisted by improved consumer confidence, record-low interest rates and the Government's Help to Buy scheme, the mortgage market revival continues. The Bank's data[3] confirms that mortgage rates continued to fall in 2013, while demand for mortgages and their availability increased. As the market re-energises we will maintain our focus on lending affordably and sustainably for us and our borrowers.

How are you regulated?

Two new bodies have changed the regulation landscape

In April 2013, our regulation by the Financial Services Authority (FSA) was replaced by supervision through two new bodies. At a high level, the Prudential Regulation Authority (PRA) now assesses our financial strength, while the Financial Conduct Authority (FCA) monitors how we ensure fair outcomes for our customers.

During 2013, in addition to its day-to-day supervision, the PRA reviewed the Yorkshire Building Society Group in two areas. Firstly, it conducted formal 'stress tests' of our capital position to test the Board's view that it has sufficient capital. Secondly, it held a meeting with the Board to assess its effectiveness.

The FCA reviewed key areas of our business, looking at our conduct risk controls i.e. those designed to ensure that we deliver fair customer outcomes. As a Group, we've always made the way we treat customers a top priority, but we will work on continually strengthening our controls to both deliver and monitor this commitment.

How are you managing conduct risk?

Our risk framework encompasses all aspects of the Group

Our obligation is to make sure that our conduct risk framework is effective right across the Group, so that we consistently deliver fair customer outcomes.

It has become clear that some of the Group's processes and systems were not providing sufficiently robust assurance that fair outcomes were always being delivered to customers. In other words, we could not always be sure that we were delivering on our commitment. This was particularly the case in our arrears collection operation, where it was felt that a lack of robustness in some processes could lead to unnecessary charging of administration fees to some customers. We're working to put this right in our arrears management through a programme of reimbursing previously charged administration fees and re-designing our arrears management systems and processes.

During the year we also withdrew our Protected Capital Account from sale, as a result of concerns raised by the FCA about an element of the product literature. We continue to discuss this with the FCA to ensure that fair outcomes for customers are achieved.

At the same time, we very quickly sought advice from an expert external firm to review all areas of the business and identify those where detailed reviews and changes might be needed in order to ensure that fair outcomes for customers are delivered consistently. We're now acting on that advice across a range of areas including investing in an ongoing assurance programme to ensure we maintain the high standards we have set ourselves.

As a Group, we've always made the way we treat customers our top priority, but continue to strengthen our controls to deliver and monitor this commitment

How is the Group responding to regulatory changes?

We closely monitor the impact of new regulation

The Retail Distribution Review (RDR) conducted by the FSA looked at how to raise professional standards for the provision of financial advice, providing better clarity between the different types of service available and making the cost of advice clearer to customers. The resulting regulations were introduced in January 2013 and a number of providers of financial advice have since withdrawn from the high street. Many other providers are now restricting their advice to more affluent customers and reducing the number of advisers they employ. We are proud to say we continue to be committed to offering financial advice to all our customers, through our relationship with Legal & General.

April 2014 sees new Mortgage Market Review (MMR) regulations coming into force. These new regulations are designed to ensure responsible lending to new and existing borrowers. We believe that we are well placed for their introduction. For example, our branches already provide mortgage information to new and existing borrowers on an 'advised' basis through our qualified mortgage advisers – a requirement of the new regulations.

We keep a constant watch on economic and regulatory developments. As we enter 2014, we continue to monitor the impact of MMR changes, the EU's mortgage credit directive, and the upcoming FCA review of cash savings accounts.

[1] Source: Presswatch Financial from Kantar Media.
[2] Source: Office for National Statistics - Consumer Price Inflation and Average Weekly Earnings.
[3] Source: Bank of England 'Trends in Lending' January 2014.

What were the Board's priorities in 2013?

Our main focus during the year was on:

- **Ensuring capital and liquidity ratios remain efficient**
  We have maintained capital and liquidity at levels above those that would be required in adverse conditions.
- **Managing our funding in a sustainable way**
  We have taken advantage of the Government's Funding for Lending Scheme but continue to draw the majority of our funding from members' savings.
- **Continuing to grow the business through new lending**
  Balancing borrowers' needs with our commitment to lend safely and responsibly at all times.
- **Closely managing our arrears position**
  Arrears remain well below the industry average[4], nevertheless we continue to focus on helping borrowers who are experiencing payment difficulties.
- **Effective management of conduct risks**
  Ensuring fair customer outcomes through an effective conduct risk framework right across the Group.
- **Ensuring the Group is set up to deliver our strategy and operate more effectively**
  Our new customer-focused organisational structure means we're better placed to deliver our strategy.
- **Staying close to what members need**
  We do this in various ways, including regular surveys, member Q&A sessions across the UK and branch visits. We are currently reviewing our member engagement activities, looking for new ways to make it easy for customers to tell us what they think.

How is the Board governed?

Our experienced, capable team meets the highest standards

The Board is composed of executive directors and non-executive directors who possess skills and experience at the highest level across different specialisms and industries. This means we can ably adapt to the Group's changing business needs. The Board works to ensure that the Group adopts high standards of corporate governance in line with relevant codes and regulations.

As well as their wide-ranging experience, it's also vital that the Board has specialist knowledge of the financial services industry. The current members of the Board have a combined experience of around 220 years within the industry – an average of over 18 years per director.

How does the Board set strategy and monitor performance?

Regular meetings and reviews ensure we are making progress against our plans

The Board holds regular monthly meetings, including two dedicated strategy sessions during the year. It works closely with the Executive Team to set, monitor and review a strategy that is appropriate for the Group and for changing market conditions.

At the same time, the Board makes sure the Group is following the agreed Corporate Plan, which sets out our strategy for the next five years. To do this, every month the Board reviews a Management Information pack setting out target Key Performance Indicators and the current performance against these. In particular, this enables the non-executive directors to monitor and challenge the Executive Team's performance throughout the year. More detail on these measures, our performance and corporate plan are in the Annual Report and Accounts. For a copy, call in to your branch, visit ybs.co.uk/annualreport

[4] Source: Council of Mortgage Lenders as at December 2013.

Everything we do is aimed at building on the trust you place in us to act in your long-term interests

or use the contact details on the Chairman's letter.

How has the Board changed during the year?

We have strengthed your Board with new members

Guy Parsons and **Mark Pain** were appointed as non-executive directors on 1st May and 1st August 2013 respectively, bringing with them valuable experience and fresh insights. Both will be put forward for election by members at the 2014 AGM.

Mike Regnier has recently been appointed to the new role of Chief Commercial Officer and Executive Director, to lead the Group's commercial activities including product development and marketing. He is expected to take up his position in the spring.

Roger Burden retired after three years on the Board as a non-executive director on 17th April 2013. We thank him for his commitment and excellent contribution.

It is with great sadness that I have to report the death of Mark Jenkins, General Manager for Commercial Services, following his long battle with cancer. Mark's significant contribution to the Executive Team has helped transform our business and he will be greatly missed by all. In his memory, the money we donate from each AGM vote will be shared between the two charities that Mark supported, Macmillan Cancer Support and Guide Dogs for the Blind Association.

It's our people that make the difference

A big thank you to our team

The Group's workforce now stands at 4,333 people across our national branch network and office sites in Bradford, Cheltenham, Leeds and Peterborough.

On behalf of the Board, I wish to thank the entire team for again delivering excellent service to all our customers in 2013. It is thanks to their hard work that the Group has performed so well.

Further building trust as we celebrate 150 years

As an established building society, the interests of our members will always come first

Trust in the financial services sector as a whole continues to be low. As a building society we are owned by our members and everything we do is aimed at building on the trust you place in us to act in your long-term interests.

150 years on from the original foundations of the Yorkshire, we continue to believe in helping people have better lives. We will work hard to fulfil our vision 'to be the most trusted provider of financial services in the UK'. We will do this by providing excellent service to you, our members; earning and keeping your trust – and proving that we're different to the big banks. Our outstanding team and our financial strength and sustainability equip us ably to do this and to face any uncertainties that lie ahead.

Ed Anderson
Chairman
25th February 2014

150 YEARS BUILDING TRUST

Building on 150 years for continued success

Our Chief Executive, Chris Pilling, highlights the successes of 2013 – and our progress towards delivering our vision for the future.

Our vision is to be the most trusted provider of financial services in the UK

We aim to deliver this vision by being a modern mutual that remains firmly grounded in 150 years of experience. Owned by our members, our fundamental purpose is to provide a secure place for people to save and to help people buy their own homes.

To provide value to our members, we aim to optimise rather than maximise profits. This means pricing our products so that they provide long-term value, are attractive to new customers and so help grow the Group. At the same time, our products must generate sufficient profits to maintain our strong capital position. If we can deliver this, then we will keep the Group solid and be around for another 150 years for future generations of members.

To achieve this balance safely in a changing market, we focus on our five strategic priorities:

1. To deliver a market leading **customer experience** built on empathy, simplicity and trust.
2. To deliver products, processes and systems for all our channels and brands that are **easy and simple** to use.
3. To attract and retain the best talent, with a leading **people experience** built on our cultural foundation of mutual trust.
4. To deliver **sustainable financial performance** that ensures real financial security for our customers, within our risk appetite.
5. To be **locally famous** and meaningfully engaged in our communities.

At the start of 2013 all our people helped us reshape the Group's values. Our values now centre around the simple principle of having **'customers at our heart'**. This statement encapsulates everything we do already and who we are. We also aim to:

- **Be trustworthy** – keeping our promises so people can count on us when it matters most.
- **Keep it personal** – putting people first, with humanity, decency, warmth and care.
- **Be passionate** – loving what we do today and sharing our ideas to make things better for tomorrow.

Investment programme

Investing in a better customer experience

In 2013 we launched our investment programme, encompassing our systems, branches, people and products. At the same time, in line with our vision, an over-riding priority is doing the right thing for our customers and so regulatory projects form a key part of the programme.

The four main elements are:

1. **Re-engineering.** Establishing more efficient, effective and cohesive processes and systems, making it easier and simpler for our customers and people whilst allowing the Group to operate and grow at a lower cost.
2. **Web and mobile.** Developing the Group's internet and mobile capabilities so that our customers can more easily interact with us in the ways that they choose to.
3. **Insight.** Enhancing our management information systems and processes so we can make decisions more efficiently and effectively.
4. **Property enhancements.** Enhancing our branch and office environments for our customers and our people.

Over five years the overall programme will cost around £273m, but we are convinced that it is in the best interests of all our customers to improve the Group in this way. We will, needless to say, continue to rigorously control and review what we are spending and how we spend it.

2013: A year of substantial achievements

Focusing on what matters to customers

- We know that savers are suffering in the current low-rate environment, and so have kept savings rates competitive and as high as we can safely sustain. For example, at October 2013 the overall average interest rate on our savings products was 2.00%, compared to the rest of the market at 1.72%[1]. Across all our brands, our savings products have received 1,232[2] Best Buy mentions.
- We've seen record levels of mortgage completions, and confirmed our commitment to first time buyers by offering 5% deposit mortgages. During 2013 the Yorkshire launched the lowest ever five year fixed rate mortgage[3] and received 3,184[2] Best Buy mentions across our brands.
- Customer feedback is consistently positive across all our high street brands.

Customer Experience Net Promoter Score

YBS Group[4]	Financial Services Sector[5]
37%	-1%

[1] Source: Average rates based on savings stock from CACI's Current Account and Savings Database (CSDB), currently covering 86% of the retail savings market. Data as at the last working day of October 2013.
[2] Source: Presswatch Financial from Kantar Media.
[3] Source: Moneyfacts March 2013.
[4] Source: Nunwood Internal Customer Experience Tracker.
[5] Source: Nunwood Customer Excellence 2013 rankings - a national survey of 7,500 UK consumers in October 2013.

Only 6% of complaints referred to the Financial Ombudsman Service about the Society were upheld, significantly lower than the industry average of 64%[6]

- We've invested in our web and mobile technology, making it easier than ever for customers to research and apply for products.
- Three new Yorkshire Building Society branches opened in Ripon, Wetherby and Yeadon, demonstrating our continued commitment to our branch network.

In the current environment we're pleased that Yorkshire Building Society was awarded Most Trusted Financial Provider and Most Trusted Savings Provider at the Moneywise Awards 2013 – in line with our vision 'to be the most trusted provider of financial services in the UK'. With almost 20,000 people voting, this is the single largest customer service survey about financial services providers in the UK.

Moneywise Customer Service Awards 2013
MOST TRUSTED
SAVINGS PROVIDER
YORKSHIRE BUILDING SOCIETY

Moneywise Customer Service Awards 2013
MOST TRUSTED
FINANCIAL PROVIDER
YORKSHIRE BUILDING SOCIETY

Continuously finding ways to improve

Listening to our customers about better meeting their needs

We know we don't always get it right, and it has become clear that the Group's arrears collection processes and systems were not strong enough to tell us confidently that we were always delivering fair outcomes to customers. This might have led to the unnecessary charging of administration fees for some customers. We have worked to put that right as quickly as we can by reimbursing all such fees without delaying matters by analysing whether or not they were in fact fairly charged. We are also investing in re-designing our systems and processes in this area.

We have also undertaken a comprehensive review, using external experts, of our conduct controls across the whole Group, and are acting on these experts' suggestions. Delivering fair outcomes is critical to us, and we will act to ensure we can do so at all times, making sure customers are at our heart.

Likewise, we know we can learn from complaints and use this to strengthen our customer service and customers' trust in us. We have improved our complaints process in 2013 to include all forms of dissatisfaction, even if the issue was resolved or the customer didn't lodge a complaint. We believe our handling and resolution of complaints continues to be excellent. For only 6% of the complaints referred to the Financial Ombudsman Service (FOS) in the first half of 2013 did the FOS believe we had mishandled the complaint, significantly lower than the industry average of 64%.[6]

[6]Source: Financial Ombudsman Service complaints data (resolved cases) 1st January - 30th June 2013.

Making it easy and simple

Developing skills and processes to better serve our customers

During 2013 we've been laying the foundations to transform the Group, with a key focus on developing our people and support processes. We want to make sure we have the required skills and competencies to drive change within the business. In 2013 we have made progress in a wide range of areas, including re-designing arrears and complaints processes, addressing conduct issues and new regulatory requirements, investing in our web and mobile offering, replacing key financial management systems and starting to re-design our mortgage and savings processes. We have been busy, but still have a long way to go. 2014 will see a number of these areas start to deliver real benefits to our customers, our people and the Group as a whole.

Another year of strong financial performance with robust profits, continued capital strength and healthy liquidity

A leading people experience

Creating a better working environment for our people

We strive to attract and retain the best people. Without great people who are passionate about what they do, we won't deliver an outstanding experience for our customers.

We've increased our total number of employees by 222 in 2013, principally to deliver our investment programme and to work in our new branches. This has led to a need for larger premises and 800 colleagues recently re-located to new offices in the centre of Leeds. We've also started a much needed refurbishment of our principal office in Bradford for the 1,000 colleagues based there.

We know that there is more we can do but also know that we continue to do well in terms of colleague engagement – which stood at a healthy 76%, higher than the financial services industry average of 73%.[7]

Sustainable financial performance

Maintaining our financial strength and sustainability

Profit and profitability

In 2013 the Group recorded another year of strong financial performance, with robust profits, continued capital strength and healthy liquidity.

Profitability in 2013 was driven primarily by the following movements:

- A release of Fair Value Adjustments made against assets and liabilities taken on during the mergers with Chelsea Building Society and Norwich & Peterborough Building Society, totalling £89m. This release is driven by our management of the underlying loans (and hence improved performance of the loan books) and by the improving economic conditions. We have, however, retained sensible levels of protection against these assets.
- The relatively low cost of funding because savings rates have been suppressed by a number of factors, including the Government's Funding for Lending scheme.
- A reduction in the amount provided for mortgage losses (£15m compared to £39m in 2012) reflecting further improvements in the quality of our loan books and improvements in the economic conditions.

Against these positive items:

- The Group bought back £75m of the £100m Convertible Capital Notes issued at the time of the Chelsea merger – and whilst this generated a loss in 2013 of £30m it will,

[7]Source: ORC International YBS Group Colleague Survey 2013.

over the next few years, generate an overall profit for the Group.

- Other income fell as we withdrew our Protected Capital Account product after concerns were raised by the FCA about elements of the product literature.
- As expected, management expenses were higher than 2012, driven primarily by our investment programme. We have made provisions to cover costs connected with the conduct issues relating to the arrears and Protected Capital Account issues referred to above.

Balance sheet strength

- Our key capital measure is up on 2012, despite the growth of our mortgage assets, reflecting our continued financial strength.
- Our liquidity is closely managed to minimise the amount of costly, excess liquidity, whilst ensuring that we remain clearly above our regulatory requirements.
- Looking at the quality of our mortgage books, our arrears levels remain below the industry average.[8]

Business volumes

Mortgage lending returned to levels not seen for several years. In 2013 our gross lending was £6.8bn, compared to £4.6bn in 2012. This represents a market share of 3.8%[9] (2012: 3.2%) and reflects our ability to deliver competitive products as the mortgage market improved.

In 2013, we saw a net retail funding outflow of £864m because we started the year with more funding than we needed (or could safely lend) following our decision to delay savings rate cuts in late 2012 and early 2013. We continued to offer competitive products as shown by over 190,000 new account openings in 2013.

It is a really important part of our mutual heritage that colleagues connect with their local communities

Locally famous

Being an invaluable part of our communities

It is a really important part of our mutual heritage that branch and office colleagues connect with their local communities. We put our branches at the heart of their communities, with initiatives like our Charity Choices programme, where members elect which local charities their branch will support. You can find more information on how we make a difference in our Societies Together section on the following page.

Outlook for 2014

In 2014 we'll continue our focus on delivering our investment programme to underpin our strategic priorities, whilst also continuing to deliver good-value products and excellent service to our customers. As outlined in this report, this is a significant investment that will put pressure on our costs in the short term, until we start to realise some of the financial benefits in years to come. But during 2014 customers should start to experience many of the benefits - be that through our new web and mobile offerings or our new or revitalised branches.

We expect 2014 to offer further real opportunities to increase our mortgage lending within our risk appetite, bringing award-winning mortgages to a growing number of customers.

We are confident that our financial strength, passion for customers and mutual heartbeat, along with investment in the business, mean we are well placed to succeed and be the most trusted provider of financial services in the UK.

Chris Pilling
Chief Executive
25th February 2014

[8]Source: Council of Mortgage Lenders as at December 2013.
[9]Source: Council of Mortgage Lenders. Lending secured on dwellings 2013.