

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 10 March 2015. 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 report on pages 2 to 9 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 23 February 2015

Ed Anderson - Chairman

Lynne Charlesworth - Vice Chairman

Chris Pilling - Chief Executive

Group results for the year	2014 £m	2013 £m
Net interest income	549.2	531.6
Net (losses)/profits from fair value volatility	(10.9)	15.9
Net realised profits/(losses)	1.3	(41.7)
Other income and charges	25.6	37.6
Total income	565.2	543.4
Administrative expenses	(331.0)	(300.0)
Provisions ¹	(46.0)	(44.1)
Profit before taxation	188.2	199.3
Taxation	(40.8)	(51.2)
Profit for the year	147.4	148.1

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	2014 £m	2013 £m
Assets		
Liquid assets	4,794.7	4,421.2
Loans to customers	32,234.1	29,515.8
Derivative financial instruments	214.3	273.0
Fixed and other assets	328.9	243.4
Total assets	37,572.0	34,453.4
Liabilities		
Shares	27,241.4	26,290.3
Borrowings	7,502.5	5,916.4
Derivative financial instruments	413.6	194.8
Other liabilities	147.8	187.0
Subordinated liabilities	299.5	48.7
Subscribed capital	6.9	6.8
Reserves	1,960.3	1,809.4
Total liabilities	37,572.0	34,453.4

Summary of key financial ratios	2014 %	2013 %
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).	6.52	5.79
Liquid assets as a percentage of shares and borrowings 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.	13.80	13.73
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.	0.41	0.44
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.	0.92	0.88

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 2014 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 as described on page 3 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 2014 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.
23 February 2015

CHAIRMAN'S WELCOME



In his final annual review, our Chairman Ed Anderson reports another year of strong performance and outlines how the Yorkshire Building Society Group is positioned for continued future success.

I'm delighted to report that 2014 has been another strong year for the Group. As the UK economy has strengthened, we've successfully achieved our priority of striking the right balance between maintaining our financial strength, providing excellent value and service to our members and generating sufficient profit to enable continued investment for the future.

Your Board

Your Board leads the Group on your behalf to ensure its long-term success. The Group includes Yorkshire, Chelsea, Barnsley and Norwich & Peterborough building societies and Accord Mortgages, our intermediary lending subsidiary.

The Board's priorities are the Group's strategy and to ensure robust controls, processes and risk management practices are in place, in addition to monitoring the performance of the executive team. Together the directors provide all the skills and experience necessary to run a large organisation in the best interests of its customers and, in our case, members.

Board changes

I announced in November last year that I will step down as your Chairman after the 2015 Annual General Meeting (AGM). I'm delighted that John Heaps, who joined the Board in November, is my successor. John has considerable experience in leading a large customer-focused organisation and delivering long-term strategies and I am confident that he will continue to take the Group forward successfully.

Mike Regnier was appointed to the role of Chief Commercial Officer and executive director in June 2014. Mike leads the Group's commercial activities, including product development and the customer experience.

Alison Hutchinson was appointed a non-executive director in February 2015. Alison brings additional IT and change programme skills to the Board and is a member of the Audit Committee.

Simon Turner retired from the Board in April 2014. Simon made an extremely valuable contribution to the Group over the last nine years, particularly in his role as Chair of the Remuneration Committee.

Philip Johnson will be retiring at the end of the 2015 AGM. In his eight years' service, Philip's depth of knowledge in the financial services industry and his role as Chair of the Audit Committee has been of great value.

I would like to record our thanks and appreciation to both Simon and Philip.

Further details about all your directors can be found in Your Easy Guide To Voting.



Ed Anderson - Chairman

Our people

The success of the Group is only possible due to the enthusiasm, commitment and hard work of the Group's 4,600 people who strive to provide outstanding customer service in every area of the business. On behalf of the Board I thank the entire team for their performance.

And finally

It has been an immense privilege to have served as Chairman. The most enjoyable part of the role has been those times when I had the pleasure of meeting with members. These opportunities help us to understand what really matters to you and ensure that we remain a member-focused organisation. I am proud to leave the Society in such good shape and well placed to face future challenges, and I wish you all success for the future.

Ed Anderson
Chairman

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Chief Executive, Chris Pilling, shares highlights of the Group's strong financial performance in 2014 and the outlook for the future.

Building on 150 years' experience of delivering member value

As a building society we are owned by our members, who are also our customers, and not external shareholders. This means that our core values remain the same as 150 years ago - to help people achieve financial security by providing a safe place for their savings and helping them to buy a home of their own.

We aim to offer consistently good long-term value and exceptional service to our members. To do this we do not look to maximise profits. Instead we aim to make no more than is necessary to maintain our financial strength and sustainability and to support our investment for the future.

We believe this approach matches the interest of our members. It means we are a genuine alternative to the banks and it supports our vision **'To be the most trusted provider of financial services in the UK'**.

Our core value is to keep **'customers at our heart'** in everything that we do. To support this we aim to:

- Be **trustworthy** – keeping our promises so people can rely on us when it counts 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.

To succeed we focus on our five strategic priorities, which remain:

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

Supporting the delivery of our strategic priorities, in 2012 we embarked on an ambitious investment programme. We invested £65m during 2014 on activities primarily aimed at improving our customer experience, people experience and making it easy and simple to do business with us. Details of each of the strategic priorities are set out on pages 5 to 9.

1. Customer Experience

Delivering value and rewarding loyalty, whilst continuing to invest in improving our service

In 2014 we completed a record amount of mortgage lending, reflecting the considerable demand generated by our competitive mortgage products. Our mortgages featured consistently in national Best Buy tables, with over 2,100¹ mentions during the year.

I'm delighted that we maintained our focus on supporting first time buyers by continuing to offer 5% deposit mortgages. In the year, 37% of all our house purchase mortgages were to first time buyers, providing funding to help more than 8,000 people get onto the housing ladder, the highest number in our history.

Our gross mortgage lending in the year was a record £7.6bn, 13% higher than the previous year, with mortgage balances growing by 9% to £32.2bn. This led to record mortgage growth of £2.6bn - 11%² of the UK's total net lending in the year.

For savers it was another tough year. The Bank Rate remained at a record low and the availability of cheap funding, such as the government's Funding for Lending Scheme, reduced competition for savers' deposits, driving down the average savings rate.

Whilst we've always tried to protect savers from the impact of low rates, it was necessary for us to take the difficult decision to reduce our average savings rate.



Chris Pilling -
Chief Executive

The way we did this shows how being a mutual makes a difference to how we maintain and reward the loyalty of our members:

- Our average savings rate was 1.60% compared to the market average of 1.34%³.
- We didn't make any reductions to our children's or regular saver accounts, to encourage a savings habit.
- We ensured that all our customer savings accounts paid at least 0.50%. This meant that around 900,000 savers saw an increase in their rate.
- On a number of accounts, existing members benefit from a higher interest rate than those offered to new customers.
- To celebrate our 150th anniversary, we launched a children's savings account paying 5% gross p.a./AER, which was only available to existing members.

1. Presswatch Financial from Kantar Media.
2. Bank of England Interactive Database.
3. Average 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 2014.

In 2014 we achieved 869⁴ national Best Buy mentions for our savings products and we were pleased to open almost 200,000 new savings accounts. Our overall savings balances grew by 2.4% to £28bn in the year.

As part of our investment programme we have:

- Launched a consistent and contemporary new look, which unites the brands across the Group.
- Continued to invest in the branch network through our refurbishment programme, with a further 51 branches now offering a more modern and pleasant environment in which to do business.
- Embraced the opportunities presented through digital channels by investing in the services we provide, as detailed under the Easy and Simple section opposite.

We aim to provide an exceptional customer experience each time a member does business with us. We measure ourselves against this ambition in many ways, including:

- **Net Promoter Score® (NPS)** – this measures those customers who would recommend us against those who wouldn't – and we're pleased that we continue to significantly outperform our competitors, with a score of 40% against an average of just 3%⁵ for the financial services sector.
- **Awards** – we won a number of prestigious awards across the Group in recognition of the quality of our products and the service we provide to our customers.
- **Complaints** – a measure of how well we are serving our customers is the Financial Ombudsman Service overturn rate. The Ombudsman decided we had made the wrong decision on 7% of complaints referred to them by our customers, compared to an industry average of 57%⁶.

Placing 'customers at our heart' means if things go wrong we'll always deal with them in a way that continues to focus on the best possible outcome for our customers.

In 2014 two issues came to a conclusion with a regulatory fine from the Financial Conduct Authority (FCA):

- **Mortgage customers with payment difficulties** – the FCA found that we didn't promptly identify the cause of some customers' problems and establish their future financial prospects, and imposed a fine of £4.1m. Prior to the Regulator's action we voluntarily and proactively refunded all mortgage arrears administration fees charged since 2009, plus interest, deciding this to be the fairest approach for our customers.
- **Promotion of structured deposits** – the FCA found that the promotional material we had used for some structured deposit accounts that we previously offered fell short of the required standard and imposed a fine of £1.4m.

Following this action all of the affected customers have been given the option to exit their account without charge and receive an appropriate rate of interest or retain their account until maturity. Again we believe this to be the fairest approach.

We agreed with the FCA on both these issues and sincerely apologise to the customers affected. All the costs associated with these actions have been fully provided for in our 2013 and 2014 financial accounts. As a consequence of these events, and to ensure that we do everything possible to prevent any similar situations occurring in the future, we've made a considerable investment in transforming our systems, increasing colleague training and developing our processes.

4. Presswatch Financial from Kantar Media.
5. Nunwood Consulting – 2014 Annual Customer Experience Excellence Survey of 7,500+ customers. Study was conducted in October 2014.
6. Financial Ombudsman Service complaints data 1 January - 30 June 2014 resolved cases.

2. Easy and Simple

Developing our systems and processes to deliver member benefits

Delivering on our ambitious investment programme will create a modern business, fit for the fast-paced, digital world we live in, whilst retaining our strong commitment to face-to-face customer contact. The principal aim of this programme is to provide the best possible customer service, whichever channel a customer chooses to use.

In 2014 we delivered a number of projects, including some relating to regulatory changes, in addition to investing in building strong foundations for the future.

Key successes in the year include:*

- Delivered changes to our mortgage processes to provide better service and efficiency for our customers.
- Developed our online capabilities to enable us to better understand and meet customers' expectations, including a simpler online mortgage application process and a completely paperless ISA transfer process.
- Delivered a new online mortgage transfer process to enable customers to move to a new mortgage product at the end of a fixed rate period more easily.
- Enabled customers to reset their passwords using our website, with over 140,000 customers already registered for this easier and simpler service.
- Launched a new online customer forum to gain feedback on the Group and help shape the products and services we offer.
- Improved how we tackle e-crime, including increased colleague training in this area, to help ensure we can keep our customers' savings safe.

- Introduced a new complaints handling system to enable us to identify the causes driving complaints and subsequently improve customer service.
- Implemented the requirements of the new Mortgage Market Review (MMR) regulations, which ensure consistent and responsible practices across all lenders.
- Improved colleague communication and collaboration through the delivery of a single modern intranet, which provides easier access to information so we can better serve our customers.

3. Locally Famous

Increasing awareness of our Group and being meaningfully engaged in communities

Our 150th birthday in 2014 was a great opportunity for us to bring this strategic priority to life. Our heritage reminds us of the important role building societies should play in their local communities and we continue to do this in many ways:

- **Charitable donations** – £464,000 was donated to charities and good causes by our Charitable Foundation in 2014, with over £6m donated since it was launched in 1998. 91% of Charitable Foundation donations in 2014 were to causes recommended by our members.
- **Community donations** – £1.2m was donated primarily as a result of our popular affinity accounts. We also celebrated our 150th anniversary by sharing £150,000 between 15 charitable projects across the UK to fund projects that will leave a lasting legacy in their local community.

*Some of these changes have not been implemented across all our brands.

- **Employee volunteering** – our colleagues donated a record 10,000 hours, sharing their skills and time to support local community activities.
- **Marie Curie** – this fantastic charity was chosen by members and colleagues to benefit from our fundraising activities. We have set an ambitious target to raise £500,000 by the end of 2016 and are delighted to have already achieved over £200,000 towards this.
- **Tour de France** – we were able to demonstrate our pride in our Yorkshire roots as one of the main sponsors of the Grand Départ. The Tour de France, which travelled from Yorkshire to East Anglia and on to London, passed many of our branches enroute. Following this sponsorship, brand awareness for Yorkshire Building Society reached a record 83%⁷ in our Yorkshire heartland and peaked at 56%⁸ across the UK.
- **Protecting the environment** – we implemented a number of initiatives to help us reduce our waste and energy use across the Group, including the installation of 1,400 solar panels at two of our main office sites. These are expected to reduce our carbon dioxide emissions by 130 tonnes a year.

You'll find more information on how we have supported the communities where our members live and work on pages 22 to 23.

7. YouGov Monthly Brand Tracker Study, July 2014
8. YouGov Monthly Brand Tracker Study, September 2014

4. People Experience

Continuously finding ways to improve the engagement and expertise of our colleagues

Our people are vital for us to deliver an exceptional customer service. We continue our commitment to attract and retain the best talent and as part of this we are:

- Continuing to review our management and remuneration policies and practices to ensure we optimise individual performance and rewards.
- Improving employee engagement and communications to ensure everyone understands our vision and strategy and the role they play in delivering these.
- Continuing to invest in our people through comprehensive training and development, with an average of 3.1 training days provided for each colleague in 2014.
- Providing a great working environment where our people can flourish through our branch and office refurbishment programme.

As well as recruiting externally to bring in new talent, our colleague development programmes have led to 31% of vacancies being recruited internally in 2014.

5. Financial Sustainability

Maintaining our financial strength and sustainability

We have delivered another year of strong financial performance, with solid capital and liquidity positions, prudent funding and stable profits. This sustainable performance continues to support our commitment to deliver long-term value to members and to continue with our investment programme.

Our financial highlights, where all regulatory measures are comfortably above the required levels, include:

- Strong capital position maintained with a Common Equity Tier 1 capital ratio of 13.8% and a leverage ratio of 4.8%.
- Through efficient management, we maintained prudent liquidity balances at £4.8bn, to meet the needs of borrowers and savers and other commitments.
- Maintained a stable level of pre-tax profit at £188.2m and delivered a moderate increase in core operating profit⁹ to £178.9m.
- Successfully completed a number of wholesale funding transactions demonstrating market confidence in the Group.
- Achieved sustainable growth of £3.1bn with total assets increasing to £37.6bn.
- Continued a prudent approach to lending, with an overall average indexed loan-to-value of 50.9% and a reduction in mortgage arrears which remain below the industry average¹⁰.
- Cost to income ratio increased slightly to 58.6%, as we progressed our investment programme and delivered necessary regulatory changes.

In addition to delivering products and services to our members, we're also active in some other profitable business areas, which are in line with our principal aims as a building society and support our financial sustainability. These include residential and buy-to-let lending through mortgage intermediaries and a small amount of commercial lending.

9. Core operating profit measures longer-term underlying performance as it excludes non-core items such as timing differences that reverse over time or items of a one-off nature.
10. Number of loans in arrears by more than three months 1.21% compared to the industry average of 1.39%. Expressed as a percentage of outstanding balances, including repossessions, Council of Mortgage Lenders, as at December 2014.
11. Moody's Press Release, 13 March 2014
12. Fitch Press Release, 24 September 2014

The executive team is mindful that there are risks and uncertainties which may impact the future financial performance of the Group. We therefore have robust systems of monitoring and control in place and we remain confident that we're well placed to continue to succeed.

We're delighted that the Group's strong financial performance was recognised externally in 2014 with credit rating upgrades from both Moody's Investor Service¹¹ and Fitch¹².

OUTLOOK FOR 2015

Our financial strength means we are well positioned to invest in the future with confidence. In 2015 we'll continue to focus on our strategic priorities and progress our investment programme, which will deliver many benefits to both existing and future members.

Over the past 150 years we have earned the trust of our members, who depend on us to keep their long-term interests at the heart of all that we do. We are confident that our mutual values and outstanding team - who have a passion for providing excellent customer service - together with our clear business focus, make us well placed to succeed and be the most trusted provider of financial services in the UK.

Chris Pilling
Chief Executive