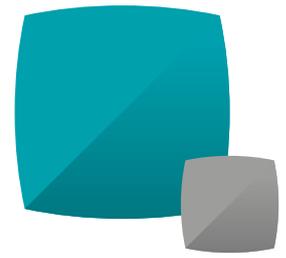


Corporate Governance Report

CHAIRMAN'S STATEMENT



Dear Member

One of my responsibilities is to ensure that the Society maintains high standards of corporate governance which provides a clear framework for the way in which the Board (and the rest of the Group) operates. Good corporate governance is vital in providing effective leadership and in assisting the Society to continue as a successful organisation run for the benefit of its current and future members in a legal, ethical and transparent manner.

As stated in previous reports, the Board's approach to corporate governance is influenced by the following considerations:

- The Board is accountable to the Society's members for the conduct and performance of the business.
- The interests of members are at the heart of the Board's decision-making.
- The interests of other parties, including all our customers, colleagues, suppliers and the communities in which we operate, are also taken into account.
- The Society should be managed in a prudent and efficient manner with effective decision making and robust risk management.
- The effectiveness of the Board is vital to the financial strength and future success of the Group.

This approach is based on the principles and provisions of the UK Corporate Governance Code published by the Financial Reporting Council (FRC) to the extent that they are relevant to a building society. A revised Code was published in June 2016 (the Code) which does not take effect until reporting year 2017, however the Society has chosen to adopt this version of the Code earlier than formally required. A copy of the Code is available at www.frc.org.uk. In the interest of transparency, the

Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) also encourage each building society to explain in its Annual Report and Accounts whether, and to what extent, it adheres to the Code.

During the year I have spent considerable time reviewing how the Board operates to ensure that it remains effective; further details are set out on pages 65 to 67 of this report. One of my key responsibilities is to lead the development of the Society's culture; how things get done and how each of our people behave is just as important as what gets done. I believe the Society has a positive culture; its values are well understood, our people are warm, friendly and passionate about what they do. Crucially having a strong and appropriate culture provides a framework for our risk management strategy and our strong financial control and customer focus. To further understand our culture and to reinforce the behaviour that we expect of all our people, in 2016 we appointed an external partner to work with us on developing our culture in line with our strategy and vision. This work has initially centred on the formal definition of a target culture, with input from a wide range of colleagues at all levels from branch colleagues to the non-executive directors. Your Board will continue to be fully engaged in this work throughout 2017.

As reported in the 2015 Corporate Governance Report, the new regulatory Accountability Regime came into effect on 7 March 2016. This is known within the Group as 'our Trust Code' and comprises three components: the Senior Managers' Regime which includes the allocation of functions and responsibilities to executive and certain non-executive directors and other senior management, the

introduction of a new Certified Regime for relevant colleagues (requiring us to certify them as 'fit and proper') and the introduction of revised Conduct Rules. A substantial amount of work was undertaken to ensure that we were prepared for the implementation of the regime in March 2016. Since then further work has been undertaken to embed the Trust Code further within the organisation including the following:

- A review of our policies and processes to ensure that we met the requirements of the regulation.
- The introduction of a mandatory 'eLearning' module to promote a consistent Group-wide understanding of the new regulation, including the Conduct Rules with additional support to customer-facing business areas to identify and report any Conduct Rules' breaches.
- The completion of our first 'Fit and Proper' review in May 2016, involving the certification of all colleagues in advance of the regulatory deadline of 7 March 2017.
- Stress-testing our processes and ensure they had been embedded successfully.
- The commencement of on-going reviews to ensure that all Fit and Proper certificates remain appropriate.

I am pleased to report that during 2016 the Society complied with the Building Societies Association guidance on the Code. This report sets out below how the Board has operated in 2016 and applied the relevant provisions using the Code's main themes.

John Heaps
Chairman

27 February 2017



Corporate Governance Report continued...

THE UK CORPORATE GOVERNANCE CODE

Leadership

The role of the Board

The Society is headed by the Board which is accountable to the members of the Society. It operates under formal Terms of Reference (with a schedule of matters reserved to the Board) which include:

- Being collectively responsible for the success, including the long term success, of the Group and for acting in the best interest of the Society and its members as a whole (both current and future). The Board may also consider the interests of other customers, colleagues, suppliers and the wider community.
- Having responsibility for the overall management of the Group within a framework of risk management which supports and directs financial security, fair outcomes and a Group built on trust.
- Establishing a sustainable business model and setting the strategy of the Group consistent with that model.
- Developing the culture of the Group and setting a 'tone from the top' to ensure that the desired values and behaviours are Board led.
- Having oversight of the Group's operations ensuring the following are in place:
 - Competent and prudent management.
 - Sound planning and risk management.
 - Adequate systems of internal control.
 - Adequate accounting and other records.

- Compliance with statutory and regulatory obligations.
- Adequate financial resources.
- The fair treatment of all customers.
- Appropriate risk aligned remuneration systems.

- Reviewing the performance of the Group in the light of the strategy and Corporate Plan and ensuring that any necessary corrective action is taken. An essential part of this is the review of the Board management information.

Reserved matters to the Board

As referred to above, the Board maintains a schedule of reserved matters (which is reviewed at least annually) in order to ensure that it exercises control over the business of the Group. These include the approval of:

- The Annual Report & Accounts and the interim financial results.
- The strategic aims of the Group, including mergers and other acquisitions and disposals.
- The Corporate Plan.
- The core strategies (i.e. Customer, Corporate Responsibility, Financial, IT, People and Operational).
- Certain policies including the Anti-bribery & Corruption, Commercial & Retail Lending and Vulnerable Customers policies.
- The Group's Risk Appetite.
- Other matters which must be approved by the Board under legislation and the Society's Rules.
- The appointment of Directors and Chief Officers.

The Board delegates implementation of the strategy and the day-to-day management of the Group to the senior Executive Team which is led by the Chief Executive Officer. It delegates certain other responsibilities to Board committees as set out in the committees' Terms of Reference.

A copy of the Board's Terms of Reference and schedule of Reserved Matters is available on request from the Group Secretary or can be found on the Society's website at www.ybs.co.uk/board.

Board committees

As referred to above, certain matters are referred to Board committees in order that they can be considered in more detail by those directors with the most relevant skills and expertise. Details of the Board committees are:

Audit Committee

Details including membership and responsibilities are contained in the Audit Committee Report on pages 71 to 74.

Board Governance and Nominations Committee

The members of the committee (who are all non-executive directors) are:

- John Heaps (Chairman of the Committee)
- Mark Pain
- Kate Barker

The committee is responsible for:

- Reviewing the structure, size and composition of the Board including the required skills, knowledge, experience and diversity and making recommendations to the Board on any changes to the Board and any changes to the membership of Board committees.

- Considering the succession planning for directors and other senior executives (unless this is considered by all of the non-executive directors in respect of executive directors).
- Leading the appointment process for director roles for approval by the Board.
- Approving the Directors' Conflicts of Interest policy and monitoring any potential conflicts.
- Approving the Board diversity policy including setting any target for the underrepresented gender on the Board.
- Reviewing other governance arrangements and making recommendations to the Board as appropriate.

In 2016 the committee met five times with key matters discussed being director recruitment and diversity. Further details on these matters are contained on pages 63 to 64.

Group Risk Committee

Details including membership and responsibilities are contained in the Risk Management Report on pages 75 to 77.

Remuneration Committee

Details including membership and responsibilities are contained in the Directors' Remuneration Report on pages 91 to 92.

Chairman's Committee

The members of the committee are:

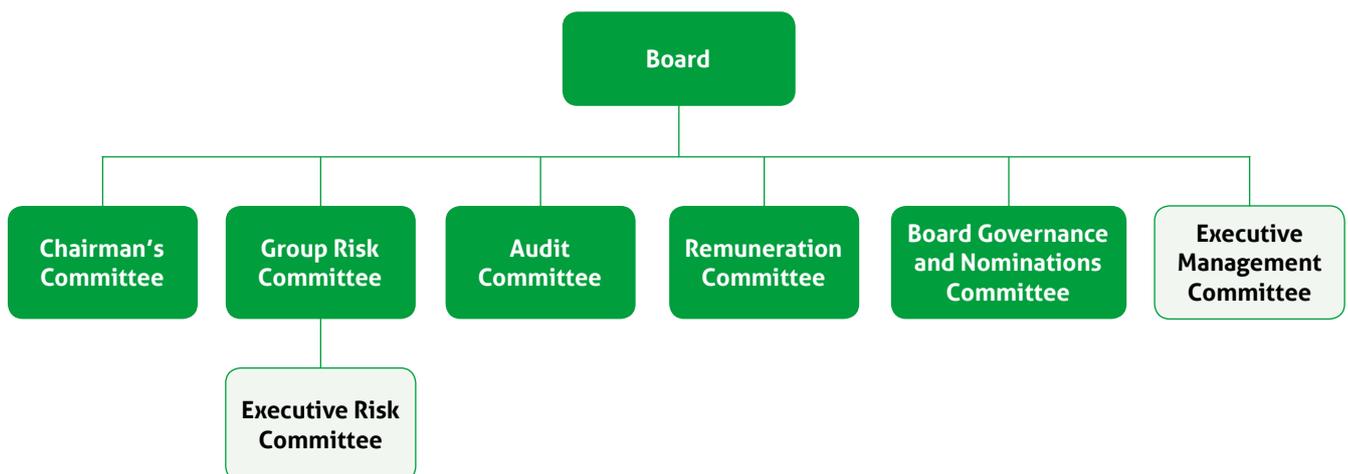
- The Chairman (John Heaps)
- The Vice Chairman (Mark Pain)
- The Chief Executive (Chris Pilling in 2016. Mike Regnier from 1 January 2017)

Other directors may be co-opted onto the committee, as agreed by the Board, to consider specific matters. The committee's main function is to consider any matter which the Board has specifically delegated to it.

The Terms of Reference of the committees are available on request from the Group Secretary or on the Society's website at www.ybs.co.uk/committees. The chair of each committee reports to the subsequent Board meeting on the matters discussed at each committee meeting. The minutes of each committee meeting are circulated to all directors unless it is considered inappropriate to do so.

The Board and executive committee structure is set out below. In addition there is a suite of sub committees that report into the Executive Management and Executive Risk Committees.

Board and Executive committees



Key:

- Board and Board sub-committees
- Executive committees



Corporate Governance Report continued...

Board meetings

The Board held 10 scheduled meetings in 2016 together with an additional three meetings which were convened at short notice to consider ad hoc matters including the appointment of a Chief Executive to replace Chris Pilling. The attendance record of each director at these meetings and at relevant Board committee meetings is set out on page 70. Where a director is unable to attend a meeting then he/she will provide feedback on the agenda items to the Chairman prior to the meeting. To provide focus on the development of strategy, twice a year (in June and September) the Board has specific strategy sessions outside of the usual Board meetings.

The Board generally meets in West Yorkshire (either in Leeds or Bradford) but at least one meeting each year is held in a location outside of West Yorkshire where the Group has an administrative centre. In October 2016 the meeting was held at the administrative office in Peterborough where the directors, in particular the non-executive directors, had an opportunity to meet colleagues and answer any questions they had in Q&A sessions held prior to the Board meeting.

Board agenda items

The key matters considered by the Board are planned on a rolling 12 month basis with additional ad hoc items included throughout the year as appropriate. At each Board meeting, the Board receives a comprehensive management information pack covering business performance including financial and non-financial information and scorecards to monitor progress against key performance indicators (including customer and people metrics) and the business risk appetite. The Board pack also incorporates a report on the external and competitive environment which now includes a range of potential economic indicators arising out

of the expected exit from the EU following the referendum held in June 2016. Where appropriate the relevant executive director or Chief Officer provides an oral update to the Board on the particular aspects of performance and highlights any emerging issues. In addition, the Board agenda includes the following:

- Minutes of Board committee meetings held since the previous Board meeting and oral updates from the chairs of Board committees on the main issues discussed and matters agreed. This ensures that all Board members are aware of the key discussions and decisions made by the committees.
- Minutes of the meetings of the monthly Executive Management Committee.
- A report from the Chief Executive which highlights the current trading and financial performance and any other relevant matters he wishes to bring to the attention of the Board.
- A quarterly report on risk including performance against the agreed risk appetite and compliance/monitoring reports undertaken.
- A quarterly report on the progress of the key strategic priorities.
- Items for decision and key matters which need to be debated. For example, in 2016 the matters that the Board considered included the following:
 - approval of the 2015 Annual Report & Accounts and the 2016 Interim Financial Statements.
 - the distribution strategy including a review of the Group's brands and branch network.
 - review of the N&P current account and potential Group wide current account offering.
 - interest rates and the response to the Bank of England rate change.
 - the management of conduct and prudential risk including regulatory dialogue and correspondence.
 - results of the colleague annual survey.
 - a revised Corporate Plan covering the next five years including the funding strategy and in particular the proportional use of wholesale funding.
 - the Corporate Responsibility Strategy.
 - management of cyber security.
 - senior executive succession planning.
 - director and senior executive appointments.
 - the approach to culture and diversity updates.
 - consideration of the Group's basis risk position and its management.
 - review of the Group's approach to interest rate transfer pricing in product management and improvements to it.
 - the impact of the Internal Ratings Based (IRB) approach to capital requirements on the Group's capital and credit risk management.
 - the setting of, and the adherence monitoring of, the Group's Risk Appetite.

If a major item requires further detailed consideration then the Board may delegate this to an appropriate Board Committee.

As referred to above, the Board holds two separate strategy sessions each year. In 2016 these sessions included detailed reviews of a number of matters including the customer, distribution, brand and product strategies and the change portfolio.

Non-executive directors

In addition to playing their part on the Board as a whole, the non-executive directors are responsible for bringing independent judgement to Board debate and decisions using their own experience and skills, and for constructively challenging the Executive Team.

The non-executive directors meet without the executive directors present to discuss relevant matters. In 2016 the non-executive directors met four times and such discussions included Board agenda topics, the content and format of management information received by the Board, succession planning and the overall performance of the Executive Team.

The Vice Chairman, who is also the Society's Senior Independent Director, deputises for the Chairman when appropriate and provides support and guidance to him. He would also act, if required, as an intermediary for the other directors. As Senior Independent Director, the Vice Chairman is also the main point of contact for members should the normal channels of communication with the Chairman, Chief Executive or other executive directors fail or be inappropriate.

The roles of the Chairman and the Chief Executive

The roles of the Chairman and Chief Executive are held by different people and are distinct in their purpose.

The Chairman is responsible for leadership of the Board and for ensuring that the Board acts effectively, promoting high standards of corporate governance. He is also responsible for leading the development of the Group's culture by the Board and thus setting the 'tone from the top'.

The Chief Executive has overall responsibility for managing the Society and its subsidiaries and for implementing the strategies and policies agreed by the Board, supported by the Executive Team and through a suite of management and risk committees.

Effectiveness

Composition of the Board and succession planning

As at the date of this report, the total number of directors is 10 consisting of three executive directors and seven non-executive directors. The size and composition of the Board and the Board committees are kept under constant review by the Chairman and are also reviewed at least annually by the Board Governance and Nominations Committee. This is to ensure that there is adequate and orderly succession planning for executive and non-executive directors and that there is the optimum mix of skills and experience on the Board for the direction of the Group's activities and to populate and chair the Board committees. The Board accepts that there needs to be flexibility in the number of directors (particularly in the number of non-executive directors), to take into account any future skills or experience gaps, either due to changes in the Group's business activities or as part of succession planning and recruitment.

Non-executive director succession planning:

The Board Governance & Nominations Committee reviews a skills matrix of the non-executive directors each year; this consists of a schedule of desired skills within the non-executive population and a self-evaluation of the level of experience against each skill gained outside of the Group. The Committee also reviews at each meeting the anticipated retirement date of each non-executive director and the impact on Board committee membership. These processes assist in the forward recruitment planning including the skills and experience required of the successful candidate.

Kate Barker, Non-executive director, and David Paige, Chair of the Group Risk Committee, retire immediately after the 2017 AGM. In 2016, non-executive director recruitment commenced to identify a successor

for David Paige, the aim of which was also to strengthen further the risk and retail banking experience and also to give regard to greater diversity on the Board. The recruitment process was (and continues to be) overseen by the Board Governance & Nominations Committee. It is supported by an independent search agency, JCA, which has no other connection with the Society. A role specification was drawn up for this position with a long list of candidates considered by the Committee. For the purpose of this recruitment, Alison Hutchinson, Non-executive director, joined the committee members to form a selection panel which then conducted interviews with the selected short listed candidates. This included an assessment of the candidates against the agreed specification including the cultural fit. The process also includes the obtaining of references and other checks to assist in the assessment of the candidate's fitness and propriety to undertake the role. In early February 2017, on the recommendation of the selection panel, the Board approved the appointment of a new Chair of Risk Committee to replace David Paige subject to regulatory approval under the Senior Managers Regime. At the date of this report the regulatory approval process remained ongoing.

Executive director and senior management succession planning:

An annual review is undertaken by the non-executive directors of the succession plan status for roles within the Executive Team (i.e. the executive directors and other Chief Officers). During 2016 the senior leader development activity has been aligned to this succession plan. This will continue into 2017 as we adapt and enhance the capability of our senior leaders. Succession plans are also reviewed by each Chief Officer for their division on an annual basis to ensure plans are considered for critical roles and to ensure development opportunities are put in place.



Corporate Governance Report continued...

Chief Executive succession

In June 2016, Chris Pilling, Chief Executive, announced his intention to step down at the end of 2016. Following this announcement, the Board Governance & Nominations Committee led a rigorous recruitment process. An external executive search agency, Egon Zehnder, was engaged to support an extensive external market review and the selection process generally. The extensive search produced a short list of strong candidates, both external and internal. An initial assessment of these candidates was undertaken by Egon Zehnder which was followed by an interview with the Committee together with an assessor from Egon Zehnder to ensure consistency throughout the process. On the recommendation of the Board Governance & Nominations Committee, the Board approved the appointment of Mike Regnier who was an internal candidate and held the position of Chief Customer Officer & Executive Director. Following regulatory approval under the Senior Managers Regime, Mike Regnier took up the position on 1 January 2017. Egon Zehnder has no other connection with the Society.

Details of the Society's directors are set out on pages 52 to 55.

Changes to the Board

During 2016 there were a number of Board changes:

- Chris Pilling, Chief Executive, stepped down from the Board on 31 December 2016. He was succeeded by Mike Regnier who had previously joined the Society in June 2014 as Chief Commercial Officer and Executive Director, and became Chief Customer Office in December 2015. Further details about the recruitment of Chris Pilling's successor are set out above.
- Stephen White joined the Board on 24 February 2016 as Chief Operating Officer and Executive

Director. The recruitment process was undertaken in 2015 and was set out in the 2015 Corporate Governance Report.

- Andy Caton, Chief Treasury & Corporate Affairs Officer & Executive Director stepped down from the Board on 9 December 2016. Mr Caton's executive responsibilities have currently been split between the Finance Director (Robin Churchouse) and the Chief People Officer (Jane Hanson).

Diversity

When recruiting directors, the Board gives consideration to all aspects of diversity, including gender, although it continues to adopt the principle that all appointments should be based on merit. In November 2013 the Board approved a recommendation of the Board Governance & Nominations Committee that there should be an aspirational target to have 25% female directors by the end of 2015. This aspirational target was reviewed by the Committee in November 2016 following which the Board approved a recommendation to increase it to 30% female directors in the medium term to bring it more into line with the latest Hampton-Alexander Review recommendation of 33% of females on the boards of FTSE 350 companies by 2020. The Committee also agreed that search and specialist recruitment agencies for director appointments should only be engaged if they have signed up to the Standard Voluntary Code of Conduct for Executive Search Agencies with a preference to use those signed up to the Enhanced Code.

The percentage of females on the Society's Board at 31 December 2016 was 20% (2015 – 18.2%). The above mentioned revised aspirational target was therefore not met during 2016. As indicated in the 2015 Corporate Governance Report, the percentage is expected to fluctuate during the ongoing recruitment process.

As mentioned in this report, the non-executive director recruitment currently underway at the date of this report is taking into account the diversity issue. Subject to regulatory approval of the successful candidate and following the retirements of David Paige and Kate Barker on 25 April 2017, it is anticipated that the percentage of females on the Board will be 22%.

The Group's ambition is to foster an inclusive environment where everyone is able to contribute to the Group's success; it is also intended to work towards the goal of achieving 'Investors in Diversity' standard in 2017/18. Work is also ongoing to build on our network and understanding through membership of 'Creating Inclusive Cultures'; a collaboration of employers who are committed to realising, and to take advantage of, the benefits of diversity and inclusion. A number of focus groups were held internally in 2016 across the business to understand our colleagues' views which will shape the direction of the Diversity and Inclusion strategy to ensure we implement a colleague-led approach. To assist in the promotion and understanding of all aspects of diversity and inclusion across the Group, during the second half of 2016 a strategy and action plan was formed and a specialist experienced Diversity and Inclusion Manager appointed.

By way of further information and in keeping with the Society's focus on diversity, as at 31 December 2016 there were the following percentages of female colleagues in the Group:

- 33% of the Executive Team (excluding executive directors). This reduces to 16.7% if executive directors are included.
- 27% of the next level of senior managers (i.e. the senior leadership team).
- 65% of all colleagues (including executive directors).

Performance evaluation

Board evaluation

Board effectiveness is a matter not just for consideration on a once a year basis, rather it is under continuous review. As a result, Mr Heaps has continued with his focus on the operation of the Board (from an interaction as well as an administration perspective) and, with the assistance of an external consultant, in depth discussions took place in the second half of 2016 between small groups of directors and other Chief Officers regarding how the Board operates. In addition, an internal Board Evaluation review was conducted in the final quarter of 2016 through a questionnaire completed by all directors and other Chief Officers. This included a review of Board focus and appropriate level of engagement on a number of key matters, Board and Society culture, Board composition including diversity, Board processes (including the adequacy of information referred to the Board) and training requirements.

The outcome of the above two exercises were considered by the Board at its meeting in early February 2017 and an action plan for 2017 agreed in order to ensure that the Board is strong and effective with a culture and behavioural characteristics that reflect the agreed values and ethical approach of the Society. These actions include:

- Strengthening succession planning for executive and non-executive directors, taking a longer term view.
- Recommendations to be made on the Board monitoring of culture within the organisation.
- Review of the number and timing of Board meetings including the number and content of strategy days.

- At each Board meeting the Board reviews draft agendas for the next two meetings (in addition to the annual Board runway) to ensure the balance between strategic, operational and monitoring items is appropriate.
- Review of the timing of delivery of Board meeting packs and the current secure application used to ensure it is the optimal solution.
- Continue to review the Board Management Information.
- Identify appropriate external speakers on relevant topics.
- Strengthen the feedback to the Board on member engagement activities.

The Board last undertook an external Board review in 2014. In late 2015 a number of actions resulted from a review of Board effectiveness undertaken by Mr Heaps following his appointment as Chairman in April 2015. These actions were progressed in 2016 and included the review and implementation of revised Board management information reports and review of the Board agenda to ensure there was sufficient time for debate on key matters.

In 2016 internal performance evaluations of the Audit and Remuneration Committees were carried out through the means of a questionnaire completed by all relevant committee members and any appropriate improvements were identified for action. An external review of the effectiveness of the Group Risk Committee was undertaken by Grant Thornton the results of which were reviewed by the committee and an action plan agreed which was also referred to the Board; further details are contained in the Risk Management Report on page 76. An internal review of the Board Governance and Nominations Committees is currently being undertaken.

Individual director evaluation

In the latter part of 2016 individual evaluation of directors was undertaken through the completion of internal feedback questionnaires which concluded that all directors continued to perform effectively. Each non-executive director was reviewed by all other directors and Chief Officers. The written results of the questionnaire were given to each such director by the Chairman in appraisal meetings held in early 2017. The Vice Chairman conducted the appraisal meeting with the Chairman.

The non-executive directors reviewed the performance of each executive director (and also other members of the Executive Team) through the completion of an internal questionnaire. This was used as part of the year end performance appraisal meetings of the executive directors with the Chief Executive, Chris Pilling. As Mr Pilling resigned on 31 December 2016, he has not undergone a formal year end appraisal.

Conflicts of interest

One of the criteria which the Board takes into consideration when recruiting a non-executive director is his/her ability to have sufficient time to take on the position. In addition, during the term of their directorship with the Society any other external positions that a director takes up have to first be referred to the Board so that the time commitment and any potential conflict of interest can be considered. The Board has a Conflict of Interest policy which sets out procedures for regularly reviewing, through the Board Governance and Nominations Committee, and if appropriate, authorising any potential conflicts as they arise. This applies to executive as well as non-executive directors.



Corporate Governance Report continued...

The letters of appointment of non-executive directors give an indication of the time commitment required although this will change depending on whether he/she is chair and/or member of any Board committee(s). The commitment will also increase, inevitably, when a significant transaction or development is being considered.

Copies of the letters of appointment of each of the non-executive directors are available for inspection on request from the Group Secretary.

The Board is satisfied that all of the non-executive directors are independent based upon the guidance set out in the Code, including the Chairman on appointment.

Induction and development

The Chairman ensures that, on appointment, non-executive directors receive a comprehensive tailored induction programme on the Group's business and regulatory environment which is monitored by the Board Governance & Nominations Committee. All non-executive directors update their skills, knowledge and familiarity with the Group through internal presentations by senior managers, relevant external and internal presentations and training and through branch visits and attendance at member events which are referred to below and on page 64. In November 2016, for example, Deloitte LLP presented to a number of Executive and non-executive directors on the subject of hedge accounting. The Board also had a number of training sessions on capital management (including the use of Return on Capital in product pricing and transfer pricing) and IRB. Individual training requirements for non-executive directors are discussed as part of the performance evaluation process and a personal development plan was drawn up for each non-executive director. A training record for each non-executive director is maintained by the Group Secretary.

Non-executive directors are encouraged to contact individual members of the Executive Team to discuss any queries that they may have and to undertake branch and department visits on an ad hoc basis in order to deepen their understanding of the business.

All directors have access to independent professional advice if required and have the benefit of appropriate liability insurance cover at the Society's expense. In addition, they have access to the advice and services of the Group Secretary who is responsible for ensuring that Board procedures are complied with and for advising the Board, through the Chairman, on governance matters.

Accountability

The Board is responsible for the system of internal control. The Audit Committee Report on pages 71 to 74 sets out the internal control framework which is designed to safeguard member and Group assets and to facilitate the effectiveness and efficiency of operations which helps to ensure the reliability of internal and external reporting and assists in compliance with applicable laws and regulations.

The Board is also responsible for setting the Risk Appetite of the Group and ensuring that there is a robust system for risk management in place to ensure the security of members' funds. The Group's risk management framework is set out in the Risk Management Report on page 75.

The Board has delegated to the Audit Committee oversight of the relationship with the external auditor to ensure that they remain independent and objective. Further details can be found in the Audit Committee Report on page 74.

Remuneration

The Board has delegated to the Remuneration Committee the policy on remuneration for the Chairman, the executive directors and other members of the Executive Team and the senior leadership team. A review of its activities and the remuneration policy is set out in the Directors' Remuneration Report on pages 79 to 93.

Relations with members

Member engagement

The Society's owners are its individual members who are made up of its savers and borrowers (subject to a small number of exceptions). This is different to the shareholders of a listed company, whose owners may include institutional shareholders. The vast majority of the Society's customers are, therefore, its members and the Society encourages feedback from them on any aspect of the Society's activities.

This feedback takes various forms, including member 'Question Time' meetings which give members the opportunity to meet and ask questions of the Chief Executive, the senior management team and local branch colleagues. In 2017 we are looking to extend the reach of our Question Time programme through online and social media channels, ensuring members can engage with us whichever way they prefer.

The Society also operates My Voice, our online research community. My Voice gives customers the opportunity to feedback on a variety of topics that really matter through regular collaborative discussions, quick polls and surveys. It enables the Society to have a two way dialogue with our customers about what they want, what we could do better and what they want us to keep doing and to help shape the future of the Group.

In addition, a monthly customer perception tracker with over 2,500 customers across all Group brands is undertaken to monitor the strength of the relationship customers have with the Group. The results provide a key performance indicator of customer advocacy (called the Net Promoter Score®) which is monitored by the Board on a monthly basis. We also contact approximately 30,000 members every year through our customer experience and brand tracker surveys to understand how they perceive the organisation and how we can improve our products and services.

The Annual General Meeting (AGM)

At the AGM, the Chairman, Chief Executive and Finance Director give presentations on the previous year's trading and financial performance and on future plans. At the 2016 AGM, the Chair of the Remuneration Committee also gave a presentation on the directors' remuneration. The meeting also provides an opportunity for members to question

the Chairman, Chief Executive and other directors on the resolutions to be proposed at the meeting and on any other aspect of the Society's business. All directors attend the AGM (unless their absence is unavoidable) including the chairs of all of the Board committees.

All members who are eligible to vote at the AGM receive a proxy voting form, which includes a 'vote withheld' option, and a pre-paid reply envelope (unless they have opted to receive the AGM pack by email) to encourage them to exercise their vote through the appointment of a proxy if the member cannot attend and vote at the meeting. Members are also able to appoint a proxy online.

At the AGM, the Chairman calls for a poll on all resolutions so that all proxy votes are recorded. The results of the proxy votes, and the votes cast at the AGM, are published on the Society's website and in branches. A separate resolution is proposed on each matter, including a resolution on the Annual Report and Accounts.

Relations with other investors

The Society also places great importance on maintaining a frequent dialogue with its providers of external capital and funding. As part of the annual results publication process, the Society conducts a series of investor meetings to provide a detailed briefing on its financial performance. These briefings are held with a wide range of institutional investors and analysts and are not restricted to existing providers of wholesale funds or capital. The presentation materials are available throughout the year on the Society's website. In addition, representatives of the Society's treasury team conduct regular face-to-face meetings with external stakeholders, including rating agencies, throughout the year in order to provide updates on the Society's performance and respond to market queries.



Corporate Governance Report continued...

Board and committee attendance record 2016

Set out below are details of the directors during 2016 and their attendance record at Board meetings and relevant Board committee meetings in the year. The figure in brackets indicates the number of meetings that the director was eligible to attend as a member of the Board and relevant committee(s) during 2016. In the case of Chris Pilling and Andy Caton this excludes any meeting which has been convened to discuss their resignation and subsequent succession plans/replacement appointment due to potential conflicts of interest.

Director	Board Meetings	Board Committees			
		Audit	Nominations	Remuneration	Risk
John Heaps					
Chairman	13(13)	–	5(5)	–	–
Dame Kate Barker					
Non-executive Director	13(13)	–	5(5)	6(6)	6(6)
Andy Caton					
Chief Treasury & Corporate Affairs Officer & Executive Director (resigned 09.12.2016)	11(11)	–	–	–	–
Robin Churchouse					
Finance Director	11(13)	–	–	–	–
Alison Hutchinson					
Non-executive Director	11(13)	6(7)	–	6(6)	–
Gordon Ireland					
Non-executive Director	10(13)	–	–	–	5(6)
David Paige					
Non-executive Director	11(13)	7(7)	–	–	6(6)
Mark Pain					
Vice Chairman/SID	12(13)	7(7)	4(5)	–	6(6)
Guy Parsons					
Non-executive Director	12(13)	–	–	6(6)	–
Chris Pilling					
Chief Executive	10(11)	–	–	–	–
Mike Regnier					
Chief Customer Officer & Executive Director	13(13)	–	–	–	–
Stephen White					
Chief Operating Officer and Executive Director (appointed 24.02.2016)	12(12)	–	–	–	–

Notes:

- As referred to on page 64 of this report, there were 10 scheduled Board meetings and three additional meetings which were convened at short notice to consider ad hoc matters.
- The Chairman's Committee did not meet in 2016.
- The written resolution procedure under the Society's Rules was used on seven occasions by the Board, on one occasion by the Chairman's Committee, on two occasions by the Remuneration Committee and on one occasion by the Group Risk Committee to conduct business.

On behalf of the Board

John Heaps
Chairman

27 February 2017