

Chairman's statement

Dear Member

I am responsible for ensuring that the Society maintains the highest standards of corporate governance with 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 sustainable organisation which is run for the benefit of its current and future members and all our stakeholders in a legal, ethical and transparent manner.

In keeping with the long-established tradition of the building society movement, we operate to help our borrowing and saving members and seek to optimise rather than to maximise profits. During the year the Board has overseen a move towards simplifying how the business operates and this has resulted in a number of brand, product and distribution changes. Further details on these initiatives are set out in [the Chief Executive's introduction and the Strategic Report on pages 12 to 37](#). Our mutual status means that we are not driven by the requirements of shareholders and do not have to balance satisfying their needs with providing good customer service in the way some established 'plc' banks are required to do. Our members are both our customers and the owners of the Society and they are a key influence on the Board's approach to corporate governance, with the interests of members at the heart of the Board's decision making processes.

The Board's approach to corporate governance is also influenced by the following considerations:

- The accountability of the Board to the Society's members for the conduct and performance of the business.
- The interests of other stakeholders, including all our customers, colleagues, suppliers and the wider community are also taken into account.

- The management of the Group in a prudent and efficient manner with effective decision making and robust risk management.
- The effectiveness of the Board for the financial strength and future success of the Group.

This approach is based on the principles and provisions of the UK Corporate Governance Code (the 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 and took effect for the 2017 reporting year. However, the Society voluntarily chose to adopt the new version of the Code early in the 2016 reporting year. A copy of the Code is available at www.frc.org.uk. In the interest of transparency, our regulators, the FCA and the PRA, also encourage each building society to explain in its Annual Report and Accounts whether, and to what extent, it adheres to the Code. We will be keeping up to date with changes to the Code following the publication of the FRC's consultation document in December 2017. It is expected that a new Code will be published in summer 2018 and we will be working to ensure that we continue to 'comply or explain' with any new provisions as well as those retained from previous versions of the Code.

The significant volume of legislation, regulation and guidance in the governance world continues to make board governance an important element of my role in ensuring that the Board is fit for purpose and capable of responding to the fast moving and challenging market place in which we operate. It is important that all Board members ensure that they remain up to date with governance developments and we are supported in this by the Board Governance and Nominations Committee which continues its role in monitoring developments and

making recommendations for changes to the Board. In particular, I am responsible for ensuring that the Board has the right mix of skills, diversity and independence and is effective in all aspects of its role. The Board Governance and Nominations Committee keeps the composition of the Board and future succession planning under regular review to ensure that the Board retains the skills it needs to be effective.

In January 2017 the Board appointed a new Chief Executive, Mike Regnier, who was previously the Chief Customer Officer and Executive Director. In April the Board welcomed a new Non Executive Director, Neeta Atkar. Also in April, David Paige and Dame Kate Barker retired from the Board. In December Alasdair Lenman replaced Robin Churchouse as Chief Finance Officer and Executive Director. Robin Churchouse stepped down from the Board in September 2017 at which time Rob Purdy, his deputy, stood in during the interim period.

Throughout the recruitment process it has been important to ensure a continuity of skills was maintained whilst adding further strength in key areas such as risk. Further details are provided in the following Corporate Governance Report and the report of the Board Governance and Nominations Committee.

The Board is responsible for agreeing and leading the development of the Group's culture; how things get done and how our colleagues behave is just as important as what gets done. The Society continues to have a strong culture; its values are well understood, our colleagues are warm, friendly and passionate about what they do. In 2016 we appointed an external partner, t-three, to work with us on understanding and developing our culture in line with our strategy and vision, and to reinforce the behaviour that we expect of all our colleagues.

Corporate Governance Report continued...

Cultural development activity at the Group is focused upon building on existing cultural strengths and moving towards a culture that emphasises:

- Commercial focus and pace.
- Trust and empowerment.
- Working together.
- Open and honest conversations.

The Board has continued to be fully engaged in this work throughout 2017, monitoring the evolution and development of our culture against agreed plans. This included a session in March, focusing on how the Board can experience and gauge the culture for themselves. Following this session, management information in relation to culture was shared in July and December which drew from colleague engagement survey data and behavioural observations from our oversight functions in order to describe the progress of alignment with the target culture.

As reported last year in the Corporate Governance Report, a substantial amount of work has been undertaken to ensure the Society was prepared for the implementation of the regulator's Senior Managers and Certification Regime (SMCR) in March 2016 and this has continued to ensure 'Our Trust Code', as it is known in the Group, is and remains embedded. Whilst the Conduct Rules under the SMCR were extended to cover all Non Executive Directors in 2017, Our Trust Code All Colleague Rules (the SMCR Individual Conduct Rules) have already applied to all our Non Executive Directors since March 2016. All of our colleagues, including Executive and Non Executive Directors, complete an annual online learning module to ensure a consistent Group-wide understanding of the regulations, including the Conduct Rules.

The opportunity was also taken, under the leadership of Mike Regnier, to review and subsequently rationalise the senior management structure which has resulted in a more streamlined and focused team which now comprises an Executive Committee and an Operating Committee. The Executive Committee is responsible for overseeing and directing the management of all aspects of the Group with the specific aim of delivering the Group's purpose, vision, values, strategies and operating plan. The Operating Committee is responsible for Group-level operational decisions with a specific focus upon trading, service, people and cost.

I am pleased to report that throughout 2017 the Society complied with the Building Societies Association guidance on the Code. This Report sets out below how the Board has operated in 2017 and applied the main Principles of the Code.

John Heaps
Chairman
28 February 2018



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 interests of the Society and its members as a whole (both current and future) and having regard to 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 (including a culture of risk awareness, prudent management and openness with the regulators) and setting a 'tone from the top' to ensure that the desired values and behaviours are Board led.
 - Oversight of the Group's operations ensuring competent and prudent management is in place.
 - Sound planning and risk management.
 - Adequate systems of internal control.
 - Adequate accounting and other records.
 - Compliance with statutory and regulatory obligations.
 - Adequate financial resources.
 - 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.

Matters reserved to the Board

As referred to above, the Board maintains a schedule of matters that are reserved for the Board's decision, 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:

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

The Board delegates the implementation of the strategy and the day-to-day management of the Group to the Leadership 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 Matters Reserved to the Board are available on request from the Group Secretary or can be found on the Society's website at 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 58 to 60.
- Board Governance and Nominations Committee – details including membership and responsibilities are contained in the Board Governance and Nominations Committee Report on pages 56 to 57.
- Group Risk Committee – details including membership and responsibilities are contained in the Risk Management Report on pages 61 to 69.
- Remuneration Committee – details including membership and responsibilities are contained in the Directors' Remuneration Report on page 84.
- Chairman's Committee – the members of the Committee are:
 - The Chairman of the Board, (John Heaps);
 - The Vice Chairman, (Mark Pain); and
 - The Chief Executive, (Mike Regnier).

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.

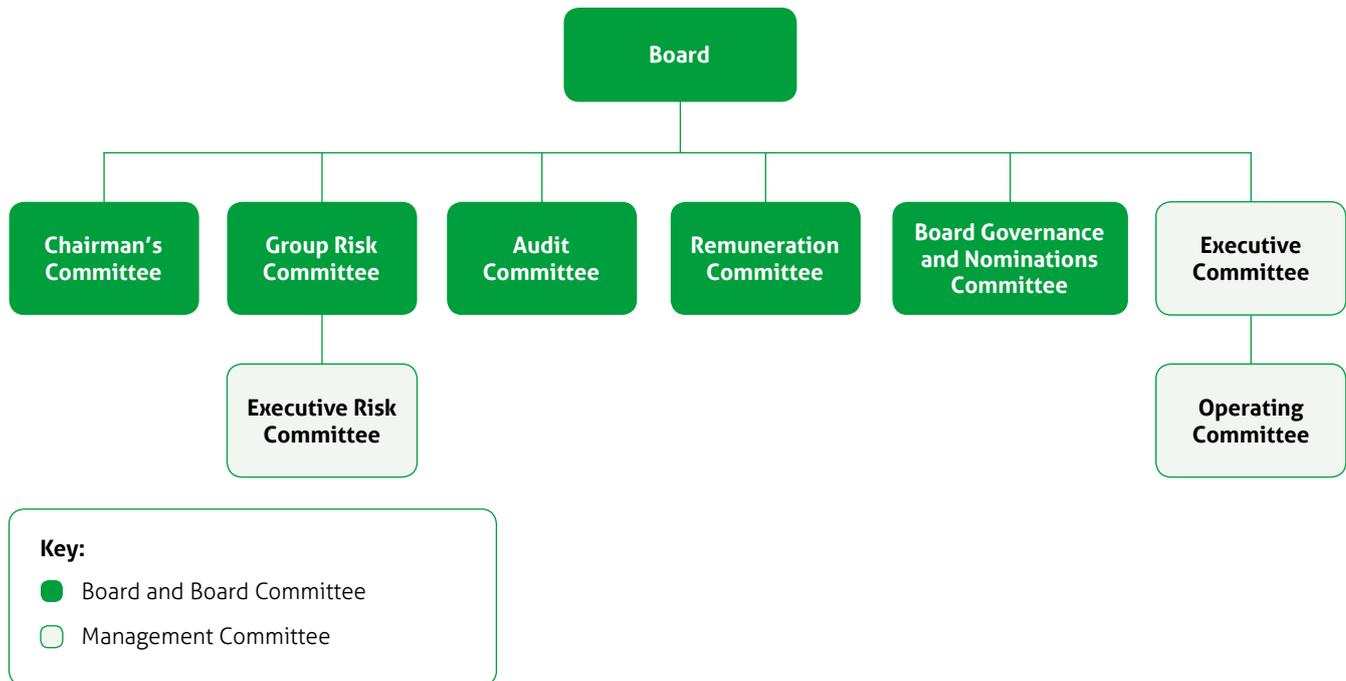
The Terms of Reference of the Audit, Group Risk, Remuneration and Board Governance and Nominations Committees are available on request from the Group Secretary or on the Society's website at ybs.co.uk/committees

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.

Corporate Governance Report continued...

Board and Committee structure

The Board, Board Committee and Management Committee structure is set out below:



In addition, there is a suite of sub committees that report into the Executive Risk Committee.

The management committee structure was revised during the year to streamline the way in which the Group operates and to further embed SMCR by the replacement of the Executive Management Committee with the Executive Committee (ExCo). The role of ExCo is to oversee and direct the management of all aspects of the Group with the specific aim of delivering the Group's purpose, vision, values, strategies and operating plan. Its membership is made up of all the Chief Officers, including Executive Directors.

An Operating Committee was also established to replace a number of management committees. It is a sub committee of ExCo which has delegated authority to it to take Group level operational decisions with a specific focus upon trading, service, people, cost and risk.

Board meetings

The Board held nine scheduled meetings in 2017 together with one additional meeting convened at short notice to consider an ad hoc matter. The attendance record of each director at the scheduled Board meetings and at relevant Board Committee meetings is set out on page 49. Where a director is unable to attend a meeting they will provide comments on the agenda items to the Chairman prior to the meeting.

To provide focus on the development of strategy, twice a year (usually in June and September/October) the Board has specific strategy sessions outside of the usual Board meetings.

The Board generally meets in West Yorkshire, either Leeds or Bradford, but at least one meeting each year is held in a location outside West Yorkshire where the Group has an administrative centre. In October 2017 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 question and answer sessions held prior to the Board meeting.

Board and Board Committee attendance record 2017

The table below sets out the details of the directors during 2017 and their attendance record at scheduled 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 2017. The Chairman and Chief Executive usually attend all Board Committee meetings at the invitation of the Committee Chair.

Director	Board	Board Committees				
		Chairman's	Audit	Board Governance and Nominations	Remuneration	Group Risk
John Heaps						
Chairman	10(10)	2(2)	–	4(4)	4(4)	–
Neeta Atkar						
Non Executive Director (Appointed 25.04.2017)	6(7)	–	3(3)	–	–	2(2)
Dame Kate Barker						
Non Executive Director (Retired 25.04.2017)	4(4)	–	–	1(1)	2(3)	1(2)
Robin Churchouse						
Chief Finance Officer and Executive Director (Resigned 30.09.2017)	8(8)	–	–	–	–	–
Alison Hutchinson						
Non Executive Director	10(10)	–	2(2)	3(3)	7(7)	2(2)
Gordon Ireland						
Non Executive Director	10(10)	–	3(3)	–	–	4(4)
Alasdair Lenman						
Chief Finance Officer and Executive Director (Appointed 04.12.2017)	1(1)	–	–	–	–	–
David Paige						
Non Executive Director (Retired 25.04.2017)	4(4)	–	2(2)	–	–	2(2)
Mark Pain						
Vice Chairman / Senior Independent Director	10(10)	2(2)	5(5)	4(4)	–	4(4)
Guy Parsons						
Non Executive Director	9(10)	–	–	–	7(7)	–
Mike Regnier						
Chief Executive Officer and Executive Director	10(10)	2(2)	–	–	–	–
Stephen White						
Chief Operating Officer and Executive Director	10(10)	–	–	–	–	–

Notes:

- There were nine scheduled Board meetings and one additional meeting which was convened at short notice to consider an ad hoc matter.
- A sub committee of the Board was held in July 2017 for final ratification of the Interim Financial Statements subsequent to approval by the Board. The members of the Committee were Mike Regnier, Mark Pain and Robin Churchouse.
- The Written Resolution procedure under the Society's Rules was used on three occasions by the Board, on six occasions by the Remuneration Committee and on one occasion by the Group Risk Committee to conduct business.

Corporate Governance Report continued...

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 includes ongoing monitoring of a range of potential economic indicators arising from the decision to leave the EU as a result of 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 ExCo and bi-annual reports from the Chairman of the Board of Accord Mortgages Limited, our intermediary lending subsidiary.
- 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 details of 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 2017 the matters that the Board considered included the following:
 - Approval of the 2016 Annual Report and Accounts and the 2017 Interim Financial Statements.
 - The implementation of the distribution strategy including changes in relation to the Group's brands and branch/agency network.
 - Interest rates and the response to the Bank of England Bank rate change.
 - The management of conduct and prudential risk including regulatory dialogue and correspondence.
 - Results of the annual Best Workplaces survey.
 - Approval of the first annual review of the Society's Corporate Responsibility Report, Society Matters.
 - Updates in relation to the management of cyber security.
 - General Data Protection Regulation (GDPR).
 - Cost efficiency initiatives.
 - Senior executive succession planning.
 - Director and senior executive appointments.
 - Review of the leadership and business governance structures.
 - Updates on the approach to culture and diversity.
 - Consideration of the Group's basis risk position and its management.
 - Internal Ratings Based (IRB) application process.
 - The setting of, and the adherence monitoring of, the Group's Risk Appetite.
 - Approval of the Modern Slavery Act Statement.

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 2017 these sessions included detailed reviews of a number of matters including the customer, distribution, commercial, 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 leadership team.

The Non Executive Directors meet without the Executive Directors present to discuss relevant matters; in 2017 discussions included Board agenda topics, succession planning and the overall performance of the leadership 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 roles are set out in writing in the respective role profiles and can be summarised as follows:

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.

In addition, the Prescribed Responsibilities under the Senior Managers Regime have been allocated where relevant to the Chief Executive and Chairman (as well as to other senior managers).

Effectiveness

Independence

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.

Composition of the Board and succession planning

As at 31 December 2017, the Board is comprised of nine (2016: 10) directors consisting of the Chairman, three (2016: three) Executive Directors and five (2016: six) Non Executive Directors. The size and composition of the Board and the Board Committees are kept under constant review by the Chairman and the Board Governance and Nominations Committee (BGNC). 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 ongoing succession planning and recruitment.

Non Executive Director succession planning

The BGNC 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 and taking into account the Group's strategic plans. The Committee also reviews at each meeting the anticipated retirement date and continued independence 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.

Further details are contained within the report of the Board Governance and Nominations Committee set out on pages 56 to 57.

Executive Director and senior management succession planning

The Group has an integrated Talent Management Strategy which aims to create a consistent and robust approach to succession planning across the Group, including the Executive Director roles. The members of the Executive Team are fully engaged in succession planning for their roles, their direct report roles and for considering key person risk. Talent reviews are conducted twice yearly based upon a review of existing data, identification of development needs, Talent Forums and individual data.

An update is provided to the BGNC in June each year and 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) in January each year.

The structure of the Leadership Team was reviewed in 2017 resulting in the implementation of a new and more efficient management structure from September 2017. The simplified senior management structure provides greater clarity and accountability to enable the Group to be more responsive to developments in financial services and the needs of our customers.

Details of the Society's Directors and Chief Officers are set out on pages 38 to 42.

Changes to the Board

During 2017 there were a number of Board changes:

- Mike Regnier became Chief Executive on 1 January 2017 (the former Chief Executive, Chris Pilling, having stepped down from the Board on 31 December 2016). Mike joined the Society in June 2014 as Chief Commercial Officer and Executive Director, and became Chief Customer Officer in December 2015 until his appointment as Chief Executive.
- David Paige, Non Executive Director and Chair of Group Risk Committee, and Dame Kate Barker, Non Executive Director, both retired from the Board at the AGM on 25 April 2017.
- Neeta Atkar joined the Board on 25 April 2017 as a Non Executive Director and Chair of the Group Risk Committee.
- Robin Churchouse, Chief Finance Officer, stepped down from the Board on 30 September 2017. He was succeeded by Alasdair Lenman who joined the Society and the Board on 4 December 2017. During the interim period Rob Purdy, Robin Churchouse's deputy, assumed his responsibilities.

The appointments of Neeta Atkar and Alasdair Lenman are subject to election by members at the AGM to be held on 25 April 2018.

Further details on the recruitment of directors can be found in the Board Governance and Nominations Committee Report on pages 56 and 57.

Diversity

The Board gives consideration to all aspects of diversity when reviewing the composition of the Board and in identifying suitable candidates for the position of director. The annual review of the statement on Board diversity was completed in conjunction with the Group's Diversity and Inclusion Manager and a revised Board Diversity Statement was approved in December 2017 to take into account the Board's wider commitment to diversity and following benchmarking against similar organisations.

Corporate Governance Report continued...

The Group's diversity and inclusion ambition is to foster an inclusive environment where everyone can contribute to the Group's success. The Board believes investing in this culture is fundamental in ensuring it attains its aspirations as a Society. We recognise the importance of having a diverse Board (and workforce generally) not least because it reflects the make-up of the membership and the community at large but it also makes commercial sense, being the governing body of the Society. The Board places great emphasis on ensuring that its composition will reflect a comprehensive range of differing skills, experience and perspectives, whilst supporting good governance through different insights, challenge and dynamics. Nevertheless, it continues to adopt the principle that all appointments should be based on merit and the skills and experience the individual can bring to the Board as a whole.

The Board Diversity Statement also notes the commitment to investing in the senior talent pipeline, particularly nurturing black, Asian and minority ethnic (BAME) and female talent and delivering tailored leadership development and robust succession planning. This was underpinned by the Board's commitment to developing an inclusive culture while undertaking appropriate training to support the delivery of this policy.

The Board Governance and Nominations Committee will continue to review the position in relation to the Board Diversity Statement and report annually on the agreed objectives and the progress against those objectives, together with other initiatives to promote diversity.

Work is ongoing with the National Centre for Diversity to work towards the Investors in Diversity Accreditation. As part of the work towards achieving the standard, in July 2017 a comprehensive survey of the business was completed to gather data and insights which will drive specific actions and activities. We are currently progressing with activity that will help us to work towards the attainment of the accreditation in the third quarter of 2018 and we have recently received conditional

accreditation. The following were some of the Group's key achievements in 2017:

- Developed and communicated our Diversity and Inclusion ambition.
- 'Celebrate Difference' workshops (a basic introduction to Diversity and Inclusion) delivered across the Group reaching over 1,000 colleagues.
- Mobilised 66 Agents of Change, 'diversity champions' located across the business.
- Strong working relationship developed with Aegis, the Society's Union, who are fully supportive of the Society's Diversity and Inclusion ambitions.
- Promoted the Group as a local inclusive employer at Bradford Festival and Leeds Pride weekend.
- Updated Diversity and Inclusion mandatory training launched for all colleagues.
- Diversity and Inclusion intranet page developed, including regular communication on inclusion topics and blogs.
- Joined Bradford Employers Network.
- Delivered Inclusive Leadership sessions to the Leadership Team.
- Became an active member of Creating Inclusive Cultures – a forum where like-minded businesses share best practice across a range of inclusion topics.

The Society also won the UK's Most Improved Organisation of the Year 2018 and the UK Financial Services Company of the year as awarded by the National Centre for Diversity.

The Board previously approved an aspirational target to have 25% women 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 the target to 30% women directors in the medium-term to bring it more into line with the latest Hampton-Alexander Review recommendation of 33% of women

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 women on the Society's Board at 31 December 2017 was 22% (2016: 20% excluding the outgoing Chief Executive). The revised aspirational target was therefore not met during 2017. The percentage is expected to continue to fluctuate during the ongoing recruitment process for a new Non Executive Director which is being conducted in line with the Board Diversity Statement.

By way of further information and in keeping with the Society's focus on diversity, as at 31 December 2017 there were the following percentages of women colleagues in the Group:

- 33% of the Executive Team (excluding Executive Directors). This reduced to 17% if Executive Directors are included.
- 30% of the next level of senior managers (i.e. the Leadership Team).
- 65% of all colleagues (including Executive Directors).

Board and committee evaluation

The Board undertakes a formal annual evaluation of its performance and that of its Committees, together with an annual review of the performance of individual directors. In accordance with the Code, which recommends the evaluation of the Board to be externally facilitated every three years, in the latter part of 2017 an external effectiveness review was carried out by SCT Consultants (SCT), which has no other connection with the Society.

The work carried out by SCT consisted of a review of key Board documents, a series of interviews with Board members and the Group Secretary, a confidential questionnaire to all Board members, along with attendance at the September 2017 Board meeting.

The outcomes of the review were presented to the January 2018 Board meeting and SCT confirmed that the Board operates in an effective and diligent manner, with directors acting openly and honestly. The review also observed that over the past year the level of collaboration between Board members has improved with a substantial amount of time and commitment having

been given to the development of the Board. The range of issues identified in 2017 included Board purpose, culture, composition, meetings (including frequency and agendas) and member engagement. Good progress was made throughout the year in addressing these issues and the evaluation by SCT further supported their continuing development.

The SCT review identified some potential areas where there could be further improvement which would allow the Board to continue to be effective, exemplifying a positive culture and behavioural characteristics that reflect the values of the Society.

Key themes and actions agreed are outlined below:

Themes	Actions
Further strengthen the composition of the Board to bring additional expertise in areas such as retail banking and digitalisation.	Work is currently ongoing to recruit additional expertise to the Board taking into account the overall skills requirement of the Board. Future Board appointments will be communicated at the appropriate time.
Review the format of all Board and Committee papers to ensure that they allow directors to make informed decisions and that agendas are appropriately managed with the layout of meetings reflecting the roles of all Board members.	The Group Secretary has been tasked with reviewing Board and Committee papers with a view to streamlining and focusing the process to further improve decision making within the Group. This process, together with a wider review of business governance, has commenced with an implementation expected during Q2 2018.
Seek to identify additional ways of bringing the members' and customers' voice into the boardroom.	As a mutual organisation run for the benefit of our members, our customers are at the heart of our decision-making and it is important that we continue to seek areas of potential differentiation. This will be considered as part of the Group's review of its strategic priorities.
Ensure that the Board has a comprehensive succession plan.	Good progress has been made with the Board and senior management succession plan and this will be further developed during 2018 with reviews continuing to be carried out by the Board Governance and Nominations Committee.
Continue to identify the fundamental drivers of culture within the Society.	Organisational culture had been a strong focus of attention during 2017 and the existing and future target culture has been identified. Work has commenced on incorporating the target culture requirements into people practices and will continue to be progressed during 2018.
In relation to major investments it is recommended that the investment appraisal process should continue to be improved.	As part of a more general review of both Board and management information the Chief Finance Officer will carry out a review of the investment appraisal process.

Internal performance evaluations of the Audit, Group Risk, Remuneration and Board Governance and Nominations Committees were also carried out through the means of a questionnaire completed by all relevant Committee members and regular attendees and any appropriate improvements were identified for action by each of the Committees.

Corporate Governance Report continued...

Individual director evaluation

In early 2018 the evaluation of individual directors was undertaken through the completion of feedback questionnaires completed by the Non Executive Directors, Executive Directors and the Chief Officers.

The reviews concluded that all directors continued to perform effectively. The written results of the questionnaire were given to each director by the Chairman in appraisal meetings held in early 2018. The Vice Chairman conducted an appraisal of the Chairman's performance and it was concluded that he continued to provide strong and effective leadership of the Board.

The Non Executive Directors reviewed the performance of each Executive Director and Chief Officer through the completion of an internal questionnaire. This was used as part of the year end performance appraisal meetings of the Executive Directors and Chief Officers with the Chief Executive. The Chief Executive's appraisal meeting was conducted by the Chairman.

Conflicts of interest

One of the criteria which the Board takes into consideration when recruiting a Non Executive Director, including the Chairman, is their 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 Directors and Chief Officers, as well as Non Executive Directors.

Time commitment

The letters of appointment of Non Executive Directors give an indication of the time commitment required, taking into account any roles they are appointed to, however, this may be subject to change dependent on any additional Committee member or chairman roles undertaken in the future. The time commitment for the Committee Chairs is expected to be significantly greater than that of Committee members. 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.

Induction and development

The Chairman ensures that all Non Executive Directors receive a comprehensive tailored induction programme on appointment which provides an introduction to the Group's business and the regulatory environment. The progress of the induction programme is monitored by the Board Governance and Nominations Committee until completion. The Chief Executive also ensures that a tailored induction programme is provided for all Executive Directors.

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. For example, during 2017 the Board has had a number of training sessions in relation to the IRB approach, diversity and inclusion and completed online learning on key topics such as whistleblowing. In November 2017, the Board Governance and Nominations Committee agreed an overall Training Plan for the Board which documents the training to be provided throughout the year ahead.

Individual training requirements for Non Executive Directors are discussed as part of the performance evaluation process with the outcomes documented in a personal development plan. An annual 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, Simon Waite, 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 systems of internal control. [The Audit Committee Report on pages 58 to 60](#) 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 61.](#)

The Board has delegated to the Audit Committee oversight of the relationship with the external auditor to ensure that they remain independent, objective and effective. [Further details can be found in the Audit Committee Report on page 60.](#)

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 and the Leadership Teams. [A review of its activities and the remuneration policy is set out in the Directors' Remuneration Report on pages 70 to 84.](#)

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 'Your time to talk' events which give members the opportunity to meet and ask questions of the Chief Executive, the Leadership Team and/or local branch colleagues. In 2018 we are looking to hold more of these events and extend the reach 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 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.

Annual General Meeting (AGM)

At the AGM, the Chairman, Chief Executive and Chief Finance Officer give presentations on the previous year's trading, financial performance and on future plans. At the 2017 AGM, the Chair of the Remuneration Committee also gave a presentation on the directors' remuneration.

The meeting 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.

Eligible members are asked to vote on a number of resolutions and in particular are entitled to vote on the election and re-election of all directors in accordance with the Society's Rules.

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 in order to provide updates on the Society's performance and respond to market queries.

On behalf of the Board

John Heaps
Chairman

28 February 2018

