

Chairman's statement

I am pleased to present our Corporate Governance Report for 2018.

Our approach to Corporate Governance

In my role as Chairman I am responsible for leading the Board and ensuring that it maintains the highest standards of corporate governance whilst promoting the long-term sustainable success of the Society. We have a clear framework in place for the way in which the Board, the Society as a whole, and the other Group entities, operate to ensure we are working for the benefit of our current and future members, whilst taking into account all our other key stakeholders, in a legal, ethical and transparent manner.

Our approach to corporate governance is based upon the principles and provisions of the UK Corporate Governance Code (the Code) published by the Financial Reporting Council (FRC). Whilst the Code sets out the requirements for premium listed companies, the Society is expected by its regulator to have regard to the Code when establishing and reviewing its corporate governance arrangements. The Society is committed to the highest standards of corporate governance and, as such, aims to comply with the spirit of the Code wherever relevant to a building society. The following Corporate Governance Report sets out how the Society has applied the Code during the 2018 financial year based upon the 2016 version of the Code (which applies for this period).

Your Board

The Board composition has remained unchanged during 2018 which has provided the opportunity to consolidate and develop as a team following the changes to membership seen in 2017. There has been a significant focus on succession planning with the Board committed to ensuring that there is a robust plan in place to maintain an effective Board in the future. I am, therefore, pleased to confirm the appointment of Guy Bainbridge as a

Non-executive Director to the Board with effect from 1 January 2019. Guy brings recent and relevant experience of the financial services sector to the Board and the Audit Committee. As well as strengthening the existing skills on the Board, Guy's appointment will assist future succession planning and continuity.

Looking forward

A new version of the Code was published in July 2018 with some far reaching changes which reflect the significant level of interest there continues to be in relation to corporate governance. Whilst the new Code did not apply until 1 January 2019, with reporting in the 2019 Annual Report and Accounts, the Board is committed to adopting the principles and provisions of the new Code where relevant to the Society as soon as is practicably possible.

We are proud of our mutual status and feel that the way we operate means we are already in a strong position in relation to the requirements of the new Code. We are not driven by the requirements of shareholders and do not have to balance their needs with providing excellent customer service in the way some established 'plc' banks do. Our principal focus is on our members who are also our customers and they are an important influence on the Board's approach to corporate governance.

I would now like to share with you some of the progress we have already made in relation to the key requirements of the new Code.

Investing in our culture

We have a strong, positive culture of doing the right thing by each other and our members. Warmth, friendliness and a passion for customer care are important traits to us, particularly in respect of our mutual status, and we fiercely protect them.

The new Code has made culture a key principle for the first time requiring the Board to ensure that the Society's culture is aligned with the purpose, values and strategy of the Society. This move reflects work already begun at the Society in early 2016, with our Board already responsible for and leading on the development of the Society's culture. The aim of the work is to enshrine existing strengths and encourage four particular themes of behaviour:

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

The Board will remain committed to the ongoing development of the Society's culture and will continue to assess and monitor progress in respect of these four themes.

Our principal focus is on our members who are also our customers and they are an important influence on the Board's approach to corporate governance.

Stakeholder engagement

The new Code expects that the Board understands the views of the Society's key stakeholders and takes account of their interests in discussions and decision making. In order to be a sustainable business, the Society is committed to being financially secure so our members can rely on us for the long-term. At the same time, we also want to ensure that we have a positive and meaningful impact on the communities we serve together with the wider society. As well as our customers, the Board's approach to corporate governance is influenced by and takes account of the interests of other key stakeholders, including customers, colleagues, suppliers, investors, regulators and our local communities.

We are reviewing our key stakeholders and our existing engagement mechanisms as part of our work in relation to the requirements of the new Code to ensure that there continues to be a strong stakeholder voice in our decision making. Details of some of our existing stakeholder engagement is set out in this report on page 52 and I look forward to bringing you further updates on our progress in the 2019 Annual Report and Accounts.

Workforce engagement

As part of the requirements for effective engagement with stakeholders, the new Code recommends using one, or a combination, of the following methods for workforce engagement: (i) a designated non-executive director, (ii) a director appointed from the workforce or (iii) a formal workforce advisory panel. An alternative effective method that delivers meaningful, regular dialogue with the workforce could also be used as long as the alternative method is explained.

When considering the options the Board has sought to ensure that there is a balance between those requirements, building on the excellent engagement processes we already have as a Society and ensuring that any action we take serves to provide valuable insights to the Board.

Following a detailed review, the Society has chosen to assign a designated Non-executive Director, which we aim to have completed shortly. This approach will ensure that the views of the workforce can be understood and considered more accurately and completely in Board discussions and decision making.

We have a strong, positive culture of doing the right thing by each other and our members. Warmth, friendliness and a passion for customer care are important traits to us, particularly in respect of our mutual status, and we fiercely protect them.

Whistleblowing

We are committed to ensuring all our colleagues are protected when making a whistleblowing report and to provide the mechanisms for making such reports. As such, we already have in place a robust Whistleblowing Policy which has been monitored by the Audit Committee in accordance with the 2016 version of the Code. The new Code includes a provision to ensure that there is a means for the workforce to raise concerns and that the Board should review this. The Board has, therefore, agreed that approval and oversight of our Whistleblowing Policy should be a matter reserved for the Board, with support from appropriate Board Committees in relation to specific issues which fall within their remit. For the 2019 Annual Report and Accounts an update on the oversight of our Whistleblowing Policy will be included in the Corporate Governance Report.

Conclusion

The revised Code reflects the significant interest which has been shown in the need for effective corporate governance and is just one of a number of developments in legislation, regulation and guidance over the last year. We are committed to ensuring we have the highest standards of corporate governance and during 2019 will continue to monitor all future developments, implementing changes to enhance our existing good practice if required.

John Heaps
Chairman

27 February 2019



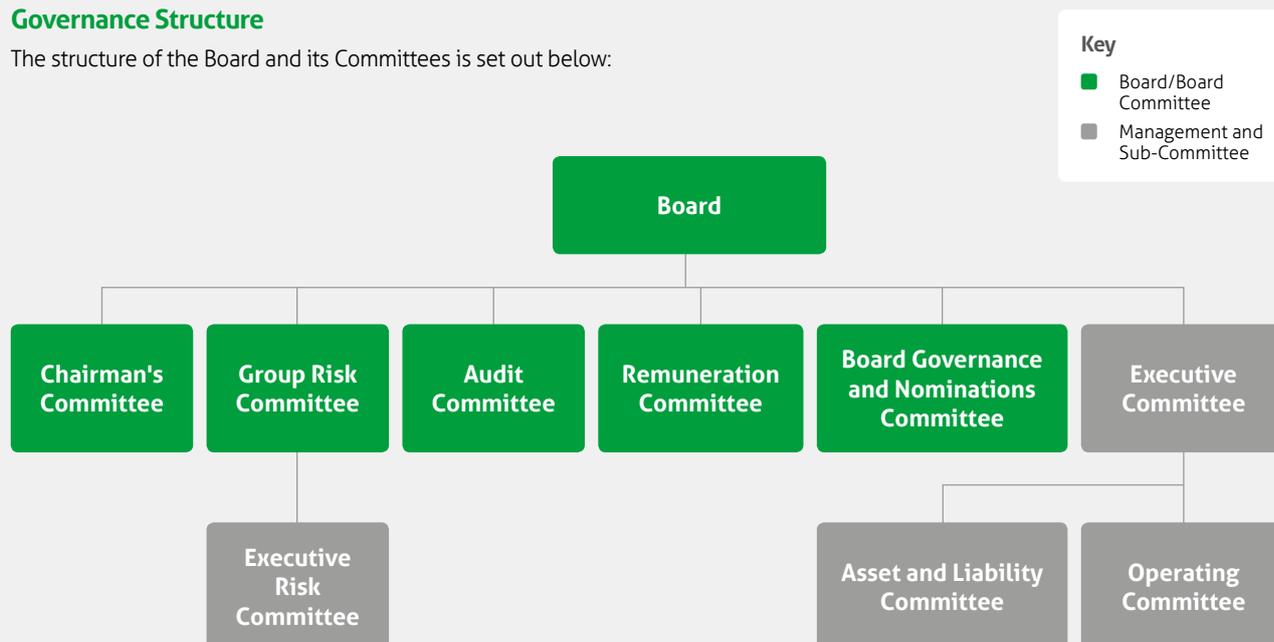
UK Corporate Governance Code

For the 2018 financial year, the Society has applied the Principles and complied with the Provisions of the UK Corporate Governance Code (available on the FRC's website frc.org.uk) to the extent they are relevant to building societies (according to the Building Societies Association Guidance available on their website at bsa.org.uk).

Leadership

Governance Structure

The structure of the Board and its Committees is set out below:



Directors of the Board

The roles of the Directors of the Board are set out in writing in role profiles and are summarised below.

Chairman

The Chairman is responsible for leadership of the Board and for ensuring that the Board acts effectively, promoting high standards of corporate governance. This includes the annual review of the performance of the Board, its Committees and individual directors, at least once a year, as well as identifying the ongoing development needs of the Board.

The Chairman is also responsible for leading the development of the Society's culture by the Board and setting the 'tone from the top'.

Vice Chair / Senior Independent Director

The Vice Chair, who is also the Society's Senior Independent Director, deputises for and provides support and guidance to the Chairman when appropriate. If required the Vice Chair will also act as

an intermediary for the other directors and leads the performance evaluation of the Chair. As Senior Independent Director, the Vice Chair 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.

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.

Chief Executive

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.

Executive directors

In addition to playing their part on the Board as a whole, the executive directors have responsibility for the day-to-day management of specific areas of the business and bringing the associated skills and knowledge to the Board.

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

The roles of the Chairman and Chief Executive are held by different people.

In accordance with the new UK Corporate Governance Code published in 2018, a summary of the roles of the Chairman, Vice Chairman / Senior Independent Director and Chief Executive are published on the Society's website at ybs.co.uk/board.

Role of the Board

The Board is the governing body of the Society and is accountable to its members. It has formal Terms of Reference and its responsibilities include:

- Collective responsibility 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.
- Overall management of the Society within a framework of risk management which supports and directs financial security and fair outcomes.
- Maintenance of a sustainable business model and a strategy for the Society which is consistent with that model.
- Continuous development of the culture of the Society (including a culture of risk awareness, prudent management and openness with the regulators), ensuring that the desired values and behaviours are Board led.
- Oversight of the Society's operations ensuring:
 - 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.
 - Fair treatment of all customers.
 - Appropriate risk aligned remuneration systems.
- Review of the performance of the Society in the light of the strategy and Corporate Plan and ensuring that any necessary corrective action is taken. An essential part of this exercise is the review of the Board management information.

Matters reserved to the Board

The Board keeps specific matters for its own approval, set out in the Schedule of Matters Reserved to the Board, which include the approval of:

- Annual Report and Accounts and the Interim Financial Statements.
- Strategic aims of the Society.
- Corporate Plan.
- Core strategies.
- Key policies.
- Society's Risk Appetite.
- Appointment of executive directors, non-executive directors and chief officers.
- Any matter which must be approved by the Board under legislation and the Society's Rules.

The Board delegates the implementation of the strategy and the day-to-day management of the Society to the Leadership Team which is led by the Chief Executive. It delegates some other responsibilities to Board and Management 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

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. The Board has established the following Committees:

- Audit Committee.
- Board Governance and Nominations Committee.
- Group Risk Committee.
- Remuneration Committee.

↓ Details including membership and responsibilities of each of the Committees are contained in the individual Committee reports on pages 53 to 84.

The Board has also established a Chairman's Committee to consider any matter which the Board specifically delegates to it. The members of the Committee are:

- Chairman of the Board - John Heaps.
- Vice Chairman - Mark Pain.
- Chief Executive - Mike Regnier.

Other directors may be co-opted onto the Committee, as agreed by the Board, to consider specific matters.

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 Board directors unless it is considered inappropriate to do so.

Management Committees

The Society has a number of Management Committees which have a delegated mandate from the Board or appropriate Board Committee, including:

Executive Committee (ExCo)

The role of ExCo is to oversee and direct the management of all aspects of the Society with the specific aim of delivering the Society's purpose, vision, values, strategies and operating plan. Its membership is made up of all the chief officers, including executive directors.

Operating Committee (OpCo)

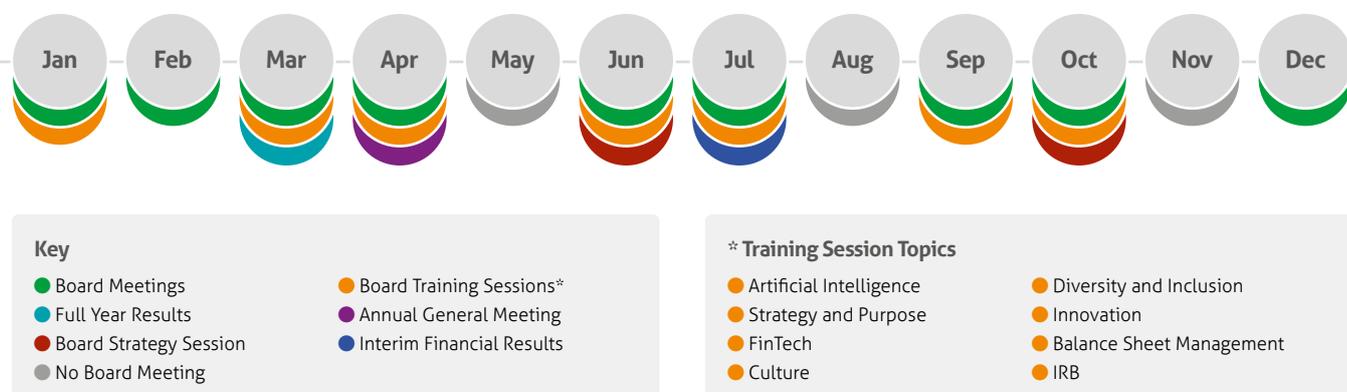
OpCo is a sub committee of ExCo which has delegated authority to take Group level operational decisions with a specific focus upon trading, service, people, cost and risk. Its membership is made up of the members of the Executive Committee and the Leadership Team.

↓ The Society also has an Executive Risk Committee. Further details of which can be found in the Risk Management Report on page 62.

Board meetings and activities

The Board held nine scheduled meetings in 2018. It has also held two strategy sessions outside of the usual Board meeting schedule to provide focus on the development of the Society's strategy.

The following diagram sets out the timing of the Board meetings and other key Board activities which took place during 2018:



Board and Committee attendance record 2018

The table below sets out the directors during 2018 and their attendance record at scheduled Board and relevant Board Committee meetings. 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 2018. The Chairman and Chief Executive usually attend all Board Committee meetings at the invitation of each Committee Chair. The Chief Risk Officer attends all Board meetings at the invitation of the Chairman.

Director	Board	Board Committees				
		Chairman's	Audit	Board Governance and Nominations	Remuneration	Group Risk
John Heaps - Chairman	9 (9)	2 (2)	–	4 (4)	7 (7)	–
Neeta Atkar - Non-executive Director	9 (9)	–	5 (5)	–	–	5 (5)
Alison Hutchinson - Non-executive Director	8 (9)	–	–	4 (4)	7 (7)	5 (5)
Gordon Ireland - Non-executive Director	9 (9)	1 (1)	5 (5)	–	–	5 (5)
Alasdair Lenman - Chief Finance Officer and Executive Director	9 (9)	1 (1)	–	–	–	–
Mark Pain - Vice Chairman / Senior Independent Director	9 (9)	2 (2)	5 (5)	4 (4)	–	3 (5)
Guy Parsons - Non-executive Director	9 (9)	–	–	–	7 (7)	–
Mike Regnier - Chief Executive Officer and Executive Director	9 (9)	2 (2)	–	–	–	–
Stephen White - Chief Operating Officer and Executive Director	9 (9)	–	–	–	–	–

Where a director is unable to attend a meeting they will receive the papers and provide comments on the agenda items to the Chairman prior to the meeting.

Written resolutions

If an urgent decision is required outside of the formal Board meeting schedule, a decision can be taken in writing if there is unanimous approval from all directors (or all members in the case of a Committee), for example the appointment of a new non-executive director. The written resolution procedure is set out in the Society's Rules and in 2018 was used to conduct business twice by the Board and on one occasion each by the Remuneration Committee and the Board Governance and Nominations Committee.

Board agenda items

The key matters considered by the Board are planned on a rolling 12 month basis with additional 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.
- Scorecards to monitor progress against key performance indicators (KPIs) (including customer and people metrics) and the business risk appetite.
- A report on the external and competitive environment, including ongoing monitoring of a range of potential economic indicators and, where relevant, the potential impact arising from the vote to exit the European Union.
- A report from the Chief Executive highlighting the current trading and financial performance and any other relevant matters he wishes to bring to the attention of the Board.
- A report from the Chairman, including an update on key issues and events relating to the Society.
- Minutes of Board Committee meetings held since the previous Board meeting and verbal updates from the Chairs of Board Committees on the main issues discussed and matters agreed to ensure that all Board members are aware of the key discussions and decisions made by the Committees.
- Minutes of the monthly meetings of the Executive Committee.

Where appropriate, the relevant executive director or chief officer provides a verbal update to the Board on the particular aspects of performance and highlights any emerging issues.

In addition to the above, Board agendas also include the following at the appropriate scheduled meeting(s) in the year:

- Bi-annual reports from the Chairman of the Board of Accord Mortgages Limited, our intermediary lending subsidiary and the minutes of each quarterly meeting.
- 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 2018 the matters that the Board considered included:
 - Approval of the 2017 Annual Report and Accounts and the 2018 Interim Financial Statements.
 - Approval of the appointment of an external auditor following a competitive tender process.
 - Continued implementation of the distribution strategy.
 - Interest rates and the response to the Bank of England Bank rate change.
 - Management of conduct and prudential risk including regulatory dialogue and correspondence.
 - Results of the annual colleague survey.
- Updates in relation to the management of cyber security.
- General Data Protection Regulation (GDPR).
- Senior executive succession planning.
- Non-executive director and chief officer appointments.
- Updates on the approach to culture and diversity.
- Consideration of the Society's risk position and its management.
- Internal Ratings Based (IRB) application process.
- Approval of the Groups Risk Appetite and ongoing monitoring of adherence.
- Approval of the Modern Slavery Act Statement.
- Changes to the UK Corporate Governance Code.
- Approval of the 2018 Internal Capital Adequacy Assessment Process (ICAAP).
- Approval of the 2018 Internal Liquidity Adequacy Assessment Process (ILAAP).
- Review of the Society's position in relation to cyber security and operational resilience.

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

The Board holds two separate strategy sessions each year and in 2018 these sessions undertook detailed reviews of a number of matters including:

- The Corporate Plan.
- Retail strategy: customer, proposition and distribution.
- Digital and IT strategy.
- People Strategy.



Effectiveness

Independence

The Board has reviewed and 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.

The table below sets out the year of appointment of the Chairman and each of the non-executive directors.



 Guy Parsons Non-executive Director Appointed 2013	 Mark Pain Non-executive Director Appointed 2013
 John Heaps Chairman Appointed 2014	 Alison Hutchison Non-executive Director Appointed 2015
 Gordon Ireland Non-executive Director Appointed 2015	 Neeta Atkar Non-executive Director Appointed 2017

 Further details on succession planning can be found in the Board Governance and Nominations Committee Report on page 54.

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. 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 Society's activities and to populate and chair the Board Committees.

The Board gives consideration to all aspects of diversity when reviewing its composition and in identifying suitable candidates for the position of director.

 Further details in relation to diversity and inclusion can be found in the Board Governance and Nominations Committee Report on pages 54 to 55.

The Board seeks to maintain a balance between experience and the benefits of bringing fresh perspectives into decision making as part of its overall approach to succession planning.

Changes to the Board

During 2018 there were no changes to the Board.

Following a recruitment process undertaken during 2018, and taking account of the current Board Composition and Succession Plan, the Board appointed a new Non-executive Director, Guy Bainbridge, with effect from 1 January 2019.

 Further details on the recruitment process can be found in the Board Governance and Nominations Committee Report on page 54.

Performance evaluation

Board and Committee evaluation

The Board undertakes a formal review of its performance, that of its Committees and individual directors on an annual basis. In accordance with the Code, which recommends the evaluation of the Board to be externally facilitated every three years, an external effectiveness review was carried out by SCT Consultants (SCT) in 2017 and reported in the Annual Report and Accounts 2017. Following the external evaluation in 2017, it was agreed that an internal evaluation would be completed in 2018. The outcomes of the review were presented to the January 2019 Board meeting.

The table below sets out the progress made against the themes identified from the 2017 external evaluation, progress made during 2018 and the subsequent themes arising from the 2018 internal evaluation together with next steps.

Themes for 2017	Progress made	Themes for 2018 and next steps
Composition		
Further strengthen the composition of the Board to bring additional expertise.	Following a robust recruitment process Guy Bainbridge was appointed to the Board with effect from 1 January 2019 bringing recent and relevant experience from the financial services sector.	Continue to challenge and identify opportunities to further strengthen work in relation to the diversity of the Board, with ongoing monitoring through the Board Governance and Nominations Committee.
Ensure that the Board has a comprehensive succession plan.	Good progress continues to be made with both Board and senior management succession planning. The Board Governance and Nominations Committee has carried out a review of succession planning arrangements at each of its meetings in 2018. Further details are set out in the Committee's Report.	Ensure that succession plans for executive and non-executive directors remain robust with ongoing monitoring through the Board Governance and Nominations Committee.
Engagement		
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. Ensuring the voice of our members and customers is brought into the Boardroom remains an ongoing priority and this is supported through a quarterly report on customer and member feedback. In addition, every paper considered by the Board or a Committee sets out any implications the recommendations will have for our members and customers.	Continue to ensure opportunities are available for non-executive director's involvement in member engagement.
Culture		
Continue to identify the fundamental drivers of culture within the Society.	Culture has remained a strong focus of attention during 2018 with the Board responsible for and leading its development. This work will continue in 2019 with the Board assessing and monitoring progress.	Whilst there were no specific themes arising relating to culture during 2018, work will continue in 2019 with the Board assessing and monitoring progress.
Meetings		
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.	A new internal Corporate Governance Framework was launched in May 2018 which contains guidance on the content of minutes as well as a revised Board and Committee paper template. The new Framework ensures a consistent approach and supports improved decision making.	Whilst there were no specific themes arising in relation to meeting administration in 2018, the information provided to the Board will remain under ongoing review to ensure it enables the Board to continue to make informed decisions.
Investment appraisal process for major investments should continue to be improved.	A review of the process has been completed and an update on investment appraisals has been incorporated in monthly reporting.	

Further details on the evaluation process for the Board and its Committees in 2018 can be found in the Board Governance and Nominations Committee Report on pages 53 to 56.

Individual director evaluation

Individual non-executive director evaluations are completed annually on a one-to-one basis by the Chairman with a half year progress review. Executive directors are evaluated by the Chief Executive against agreed performance targets on an annual basis.

The Vice Chairman and Senior Independent Director leads the Board's evaluation of the Chairman's performance. The results of the Chairman's evaluation were discussed at the January 2019 Board meeting and it was concluded that he continued to provide strong and effective leadership to the Board.

Conflicts of interest

The Board has a Conflict of Interest Policy which sets out procedures for regularly reviewing and, if appropriate, authorising any conflicts or potential conflicts. The Policy applies to executive directors, non-executive directors and chief officers.

During the term of their directorship with the Society, any external position that a director is proposing to take must first be referred to, and if appropriate approved by, the Board to enable any impact on time commitment or any potential conflict of interest to be considered.

The Board maintains a Register of Interests which records any conflicts or potential conflicts which may arise and is monitored through the Board Governance and Nominations Committee.

Time commitment

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 undertake the role. The letters of appointment for the non-executive directors set out the expected time commitment, taking into account any Committee or other roles to which they are appointed. Copies of the letters of appointment of each of the non-executive directors are available for inspection on request from the Group Secretary.

The time commitment of individual non-executive directors may be subject to change dependent on any additional Committee membership, chair or other roles undertaken in the future. The time commitment for a Committee Chair is expected to be significantly greater than that of Committee members. The overall time commitment of all directors will also increase, inevitably, when a significant transaction or development is being considered.

Time commitment is also taken into account when the Board reviews and authorises any additional external appointments, together with the requirements of the Capital Requirements Directive IV to confirm that no director holds more than the prescribed number of directorships. There have been no significant changes to the time commitment of the Chairman during the year.

The new UK Corporate Governance Code requires the Board to take into account demands on directors' time as part of the appointment process and also requires that Board approval is provided for any additional external appointments. Whilst the requirements reflect existing Society processes, in order to ensure that the requirements of the new Code are fully reflected in advance of the implementation on 1 January 2019, specific reference has been incorporated into the Board Governance and Nominations Committee Terms of Reference and to the non-executive directors letter of appointment. In addition, the non-executive director annual one-to-one reviews with the Chairman incorporate a specific consideration of time commitment.

Induction and development

The Chairman, supported by the Group Secretary, ensures that all non-executive directors receive a comprehensive tailored induction programme on appointment which provides an introduction to the Society'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 ensures that a tailored induction programme is provided for all executive directors.

The Board has a Training and Development Plan which is agreed on an annual basis by the Board Governance and Nominations Committee. As well as addressing ongoing requirements to ensure directors update their skills, knowledge and familiarity with the Society, the Training and Development Plan is also tailored to the Society's future strategy as well as potential impacts from the external and competitive environment.

Training and development includes input from external presenters, internal presentations by specialists within the Society, training courses, visits to branches and operational areas and attendance at member events.

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.

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 57 to 59 sets out the internal control framework which is designed to safeguard member and Society assets and to facilitate the effectiveness and efficiency of operations. This 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 Society and ensuring that there is a robust system for risk management in place to ensure the security of members' funds.

↑ **The Society's risk management framework is set out in the Risk Management Report on pages 60 to 62.**

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 59.**

Remuneration

The Board has delegated to the Remuneration Committee the setting of policy on remuneration for the Chairman, the executive directors and other members of the Executive Committee and the Leadership Team.

↑ **A review of its activities and the remuneration policy is set out in the Directors' Remuneration Report on pages 69 to 84.**

The approval of non-executive director remuneration is a matter reserved to the Board and is considered by the executive directors and Chairman only.

Relations with members

Member engagement

The Society's owners are its individual members who are made up of savers and borrowers, subject to a small number of exceptions. This is different to the shareholders of a listed company, whose owners include institutional shareholders. The vast majority of the Society's customers are its members, and the Society encourages feedback from them on any aspect of the Society's activities. Members have the opportunity to feed back at 'Your Time to Talk' events. These events are held at different locations across the UK and are an opportunity for members to meet the leadership team and branch colleagues to let them know what is important to them. In 2019, we plan to hold more events across the country which local members will be invited to.

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 Society.

In addition, a monthly customer perception tracker with over 2,500 customers across all Yorkshire Building Society brands is undertaken to monitor the strength of the relationship customers have with the Society. 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 Society and how we can improve our products and services.

Annual General Meeting (AGM)

At the AGM, presentations on the previous year's trading, financial performance and on future plans are given by key representatives of the Society.

The meeting provides an opportunity for members to question the Chairman, Chief Executive and other executive and non-executive 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.

In accordance with the requirements of the new UK Corporate Governance Code, published in July 2018, the Society has a process in place should there be 20% or more of votes cast against a Board recommendation for a resolution.

Relations with stakeholders

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

Relations with our colleagues

Our current approach to colleague engagement is set out on pages 24 to 25 of the Strategic Report. As set out in the Chairman's Statement introducing this report, the Society has chosen to assign a designated Non-executive Director in relation to workforce engagement. This will build on the strong existing mechanisms we have in place and ensure that the views of our colleagues are understood and considered more accurately and completely in decision making.

Relations with other stakeholder groups

The Board recognises the importance of all the Society's stakeholders and seeks to ensure that their views are taken into account as part of decision making. This includes:

- Suppliers.
- Community Groups.
- Member of Parliament (MPs).
- Media.
- Investors.
- Mortgage Brokers.
- Regulators.

During 2019 we will be reviewing our key stakeholders and existing engagement measures to take account of the new UK Corporate Governance Code.

In summary, I believe the Society operates robust governance arrangements which are aligned with the requirements of the Code, as far as applicable to a building society. Our commitment to the highest standards in corporate governance will continue in 2019 as we seek to ensure we are aligned with the requirements of the new Code published in 2018.

On behalf of the Board

John Heaps
Chairman

27 February 2019