Summary Financial Statement

Details of your Society's financial performance in 2018.

This financial statement is a summary of information in the audited Annual Report and Accounts, the Directors' Report and the Annual Business Statement, all of which will be available to members and depositors free of charge at every office of Yorkshire Building Society, from 22 March 2019. The information is also available online at **ybs.co.uk/annualreport**

Summary Directors' Report

The information contained in the Chairman's welcome and Chief Executive's review on pages 4 to 13 addresses the requirements of the Summary Directors' Report.

The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis has continued to be adopted in preparing the Annual Report and Accounts.

Approved by the Board of Directors on 27 February 2019:

John Heaps - Chairman

Mark Pain - Vice Chairman

Mike Regnier - Chief Executive

Group results for the year	2018 £m	2017 £m
Net interest income	**471.7**	502.1
Net gains from financial instruments held at fair value	**20.1**	13.1
Net realised profits	**8.0**	6.1
Other income and charges	**10.4**	14.5
Total income	**510.2**	535.8
Administrative expenses	**(311.2)**	(339.5)
Provisions[1]	**(6.5)**	(30.5)
Profit before taxation	**192.5**	165.8
Taxation	**(42.7)**	(41.4)
Profit for the year	**149.8**	124.4

[1] 'Provisions' encompasses provisions for impairment of loans and advances, restructuring costs, onerous lease costs and customer redress.

Where applicable the 2018 balances on pages 14 and 15 are under IFRS9, and the 2017 balances under IAS 39.

Group financial position at end of year	2018 £m	2017 £m
Assets		
Liquid assets	**5,504.7**	6,095.7
Loans to customers	**36,702.4**	35,061.2
Derivative financial instruments	**564.4**	591.8
Fixed and other assets	**283.2**	298.5
Total assets	**43,054.7**	**42,047.2**
Liabilities		
Shares	**29,558.6**	28,938.0
Borrowings	**10,139.6**	9,805.1
Derivative financial instruments	**97.8**	156.9
Other liabilities	**139.1**	157.3
Subscribed capital	**6.1**	6.4
Subordinated liabilities	**585.1**	593.7
Reserves	**2,528.4**	2,389.8
Total members' interests, equity and liabilities	**43,054.7**	**42,047.2**

Summary of key financial ratios	2018 %	2017 %
Gross capital as a percentage of shares and borrowings The gross capital ratio is the relationship between the Group's capital and its liabilities to investors. Gross capital represents the aggregate of general reserve, cash flow hedge reserve, fair value through comprehensive income reserve, subordinated liabilities and subscribed capital.	**7.86**	7.72
Liquid assets as a percentage of shares and borrowings (liquidity ratio) The liquid asset ratio measures those assets available to meet requests by savers to withdraw their money, to fund mortgage advances and to fund general business activities. It expresses cash and assets easily converted into cash as a percentage of the Group's liabilities to investors.	**13.87**	15.73
Profit for the year as a percentage of mean total assets This ratio expresses profit or loss, after tax, as a percentage of average total assets.	**0.35**	0.30
Management expenses as a percentage of mean total assets The management expense ratio measures how cost effective the Group is. It is calculated by comparing the management expenses (administrative expenses opposite) for the year with average total assets.	**0.73**	0.83

Independent auditor's statement to the members and depositors of Yorkshire Building Society

We have examined the summary financial statement for the year ended 31 December 2018 which comprises the summary Group results for the year and Group financial position at end of year together with the Summary Directors' Report.

This report is made solely to the Society's members, as a body, in accordance with section 76(5) of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the summary financial statement, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within this booklet with the full Annual Report and Accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in this booklet and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

We conducted our work in accordance with Bulletin 2008/3 "The auditor's statement on the summary financial statement in the United Kingdom" issued by the Auditing Practices Board. Our report on the Group and Society's Annual Report and Accounts describes the basis of our audit opinion on those financial statements.

Opinion on summary financial statement

In our opinion the summary financial statement is consistent with the Annual Report and Accounts, the Annual Business Statement and Directors' Report of Yorkshire Building Society for the year ended 31 December 2018 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

Deloitte LLP, Statutory Auditor, Leeds.
27 February 2019.

A welcome from your Chairman

I'm pleased to say your Society has had another good year

Politics and the economy might be uncertain, but we are in good financial shape.

That puts us in a strong position to look after you, our members, and give you real help with real life. As you read through this review, you'll see how we're doing just that. You can find out more detail on the numbers from Mike Regnier, your Chief Executive on pages 8 to 13.

Being a mutual means we answer to you – not to shareholders

You're not just a customer – being a member means you own the Society. That means our profits don't go to shareholders, but back into making the Society strong and financially secure for the future, so you keep feeling the rewards of our success years down the line.

It means you get the benefit from the decisions we make. We've stayed focused on our purpose

To us, real help with real life means helping you with two big things: saving for the future, and getting a home.

This year, we've stayed focused on helping you with those two things. Our average savings rates have been above the average for banks and building societies. We're also making it easier for people to buy a home, helping families give younger generations a helping hand onto the property ladder.

As our environment changes, we'll keep adapting as we need to

The financial services sector is changing fast. That means keeping up with new regulation and competitors. It also means staying in tune with what you expect from us, whether it's someone to talk to in a branch or managing your money from your phone. Whatever challenges come – we're ready to meet them.

One of those challenges, of course, is Brexit

Brexit has created significant uncertainty, and it will affect the economy as businesses put off spending decisions until the UK's relationship with the EU becomes clearer. There could also be ups and downs in financial markets, interest rates and house prices.

Whatever happens, because we've got a good amount of capital behind us, we're ready to protect ourselves from any unexpected changes that might come our way.

Our Board continues to help us stay on the right course

I'm happy to welcome Guy Bainbridge as a non executive director and a member of our Audit Committee. You can find out more about your Board on pages 19 to 24.

Keep reading to see our results for 2018 and to hear our thoughts on the future.

I am confident we're going into the future on a firm footing, and with our eyes firmly set on doing what's best for you – our members.

John Heaps, Chairman
27 February 2019

Lothar Götz, Xanadu, 2017
Acrylic on wall
Victorian staircase, Leeds Art Gallery

Highlights 2018

Savings

197,000
new savings accounts opened, providing a safe place for your money (193,000 in 2017)

Our average savings rate[1] was **0.37%** higher than the market average (0.28% higher in 2017)

Community

£1.4m given to our local communities

180 homeless young people helped into a home

5,091 pupils benefited from financial literacy support

16% reduction in our carbon footprint compared to 2017

Another strong performance in 2018
means we can continue to invest and ensure your Society is sustainable for the long term, delivering benefits for members now and in the future.

Mortgages

Gross lending increased to £8.9bn (£8.1bn in 2017), meaning we **helped more people buy their home**

Best
Overall Mortgage Provider at the Moneynet Personal Finance Awards

£193m
statutory profit (£166m in 2017)

£181m
core operating profit (£160m in 2017)

Recognition and service

Winners of **22** awards across the YBS Group

5 star
rating for service at the Finance Service Awards

[1] YBS Group average savings rate compared to rest of market average rates based on savings stock from CACI's Current Account and Savings Database (CSDB), covering 87% of the retail savings market (based on stock value). Data period January-November 2018.

YOUR CHIEF EXECUTIVE REVIEWS 2018

In the face of a tough year for the UK, we've done well in 2018.

The world around us might have been unpredictable this year, but your Society has carried on doing what it does best: being there for you, our members.

Despite upheaval from the UK getting ready to leave the EU – and the economic uncertainty that's come with it – financially, we've done well once again.

And we've done that while holding true to our purpose – giving you real help with real life. Our focus is still on helping you with the moments that really matter, be that saving for the future or buying your own home.

All this is against a background of change

And we're not the only ones facing up to it. The whole financial services sector is adapting. This year, changes to technology and regulation have shaped everything from how much money we need to hold back to cope with the unexpected, to how we look after your data.

Throughout these changes, being a mutual means we'll always decide what to do based on what's right for you – not for external shareholders.

Overall, our numbers give a good picture

Our profit before tax and core operating profit are both up on last year

Profit before tax for 2018 was £193m – that's up £27m on the year before.

That means we have more capital, and more opportunities to bring you even better products and service in the future.

Our core operating profit was up too, from £160m in 2017 to £181m in 2018. This is the best guide to how profitable the Society is day-to-day.

Our response to increasing competition is to be more efficient

Despite growing in 2018, our net interest income has fallen by £30m to £472m, reflecting ongoing competition, reducing interest rates and mortgage income.

Income has decreased but so have costs, meaning our cost to income ratio is down to 61%.

This means that for every £1 we earned, we spent 61p. In 2017 it was 63p for every pound. That puts us on target for our medium-term goal of 55%.

Our costs as a percentage of assets fell too – in 2018 they were 0.73% of our mean total assets, compared to 0.83% in 2017.

Our core measure of financial sustainability has strengthened again

Our Common Equity Tier 1 (CET1) Ratio – which essentially measures our ability to absorb future losses – is up to 16.3% (15.8% in 2017). That's much higher than the regulator's current requirements of us, although we do expect some changes in the future.

Our liquidity ratio is at 13.9%. That means we're retaining a healthy level of liquid assets – balancing having enough so we're prepared in case something unexpected happens, but not so much that we're inefficient.

How did we achieve these results?

We kept our focus on growing our savings business

We opened 197,000 new savings accounts in 2018 (193,000 in 2017), with 56,000 of them for new customers. And we now look after £29.6bn of savers' money, which is up from £28.9bn in 2017.

We also paid average savings rates[2] which were 0.37% (0.28% in 2017) higher than the market average, which was above our target.

[2] YBS Group average savings rate compared to rest of market average rates based on savings stock from CACI's Current Account and Savings Database (CSDB), covering 87% of the retail savings market (based on stock value). Data period January-November 2018.

We attracted more borrowers, although mortgage margins were down

We improved the competitiveness of our mortgage business which meant we helped more customers buy their homes than ever before. However a number of factors drove down mortgage margins this year – increased competition in the market, more people re-mortgaging their homes, and the fact that existing customers paying higher rates continued to pay down their mortgages with us.

We cut costs, and put that money into areas that matter

We cut our operating costs by £29m in 2018, by looking for ways to be more efficient without impacting our service. And that's after investing in things like customer experience, new technology, and keeping up with regulation.

We kept our liquidity at a healthy level

Balancing how much cash we need readily available to stay secure, without running up costs by holding too much.

We tapped into low cost government funding

We've made the most of the government's schemes to encourage banks and building societies to lend more money. They include the Funding for Lending Scheme and the Term Funding Scheme.

We've focused on the things that really count

More broadly, there are **five key areas** we've been focusing on over the last year – and will keep focusing on for the future – to set us up for success.

FUTURE FOCUSED

1. Building stronger products

We've improved our savings and mortgage offerings, giving our members products providing real value. We've added new products this year too including interest only and Help to Buy mortgages, which have helped us attract new customers and retain existing ones.

2. Keeping costs down

With competition tougher than ever, it's even more important to look for ways to save on spending. We've made ourselves more efficient and brought in more automation to keep costs down. Our plans will see us continue to cut our costs, digitising parts of our business so we can give you better service and value.

3. Bringing N&P into YBS

We've finished bringing the Norwich & Peterborough (N&P) and Yorkshire businesses together. That has meant finding new homes for N&P current account customers, as well as rebranding some N&P branches to YBS branches and agencies.

It has helped us save on running costs like technology and marketing, and we have put the money we saved back into the Society. It also means we've one brand on the high street.

4. Developing what we do

We're preparing our technology for the new era of open banking. This will give everyone who banks online a clearer, simpler view of their money and a better way to pick deals that suit them.

We're also working on better ways of dealing with financial crime like fraud and money laundering, and shutting out cyber-attackers.

5. Working better together

Within YBS, we've focused more on building up our leadership, and helping everyone across the business understand our values, and how to live them day-to-day.

So what has all that meant for our members, people and communities?

Our members are at the heart of what we do

There are a few key things we've done this year to help our members get the most out of being with us.

We've stepped up our support for borrowers

Our mortgage business did well this year. We're lending to more people than ever, and our mortgage assets grew faster this year than last (4.7% compared to 2.8%).

That's all in the context of a difficult 2018 for the housing market. Even though house prices rose over the year, Brexit uncertainty has made people less confident that it's a good time to buy or sell.

So we've done plenty of things to help borrowers this year, including:

- **Helping people who might find it hard to get a mortgage.** That includes self-employed people who don't always bring in the same amount of money each month.
- **Making some of our mortgages more flexible.** With more of our mortgages, people can now over-pay, make large one-off payments without running up charges, or take payment holidays.
- **Supporting first-time buyers** with new mortgages linked to the government's Help to Buy scheme.
- **Helping parents and grandparents give younger relatives a helping hand** through Offset Plus mortgages – using savings to keep interest payments down.
- **Sharpening up how we process mortgages online.** That means no extra paperwork and less time waiting for a decision on your loan.

And we've kept looking after savers, too

This year, more than 80% of our savings customers who came to the end of their fixed-term deals decided to keep their money with us.

This is down to a few key ways we supported savers this year, by:

- Making it simpler to open accounts at branches in one visit, without having to come back and see specialist staff.
- Offering more of our accounts online.
- Improving the layout of our website on smartphones.
- Making it easier to deposit money online with a debit card.
- Making it easier to open a second account online.

We've also stuck to our Savings Pledges to make sure we're always doing the best for our savers. And, because they were so successful in 2018, we've brought them into 2019.

All of that's resulted in strong feedback from you

Our Net Promoter Score[3] – based on how many of our customers and broker partners say they'd recommend us – reflects the trust you placed in us.

Our score stayed steady in 2018 at +41, despite changes that have had a big effect on some customers. That tells us that a lot of members back the changes we've made. And although not directly comparable that score still stands up well to the financial services banking average of +5[4].

We've also kept our five-star service rating from the Finance Service Awards and won awards for our products, including Best Overall Mortgage Provider at the Moneynet Personal Finance Awards.

Your Society is making a difference

Giving back is in our DNA

We never forget our roots. Building societies like YBS grow out of their communities, and it's up to us to give back to those communities.

This year, I've taken a lot of pride in seeing how we've made a difference – from teaching schoolchildren the ins and outs of managing money and getting ready for the world of work, to helping young homeless people get into their own accommodation.

That passion for giving back runs through every level of our business. Over the past 11 years, our colleagues have spent over 100,000 working hours on voluntary work.

We upped our efforts to look after the environment in 2018

We reduced our carbon footprint by 16% (19% in 2017), with measures like heat-reflecting windows, LED lighting in offices and branches, and making the most of the hot weather with our solar panels at our Bradford and Peterborough offices.

We also cut our car fleet almost in half, with more people using video-conferencing instead of travelling to meetings.

Our people make us

We can only put our members first if we create an environment where our people can give their all.

We've won a string of awards this year which show we're on the right track, including Best Change Management Initiative at the Chartered Institute of Personnel and Development Awards. We also achieved the Investors in Diversity accreditation, and our flexible working and parental leave policies saw us make Working Families' top 30 UK employers for the second year running[5].

We're keen on building up young talent, too – our apprenticeship scheme has now welcomed 53 apprentices since we launched in 2016.

We're ready to take on 2019 – and beyond

Helping society is central to where we want to go

So we're going to keep helping people who are let down by other organisations. By focusing on people who struggle to own their homes and don't get what they need from banks, we'll be doing the right thing. As well as helping our Society stay sustainable.

And, internally, we want to carry on making YBS a welcoming, supportive place to work, by doing things like signing up to the Women in Finance Charter, which we did in 2018. Because we know we won't be able to achieve any of our ambitions without the hard work of every one of our colleagues.

We're going to keep helping people who are let down by other organisations.

The world is changing faster than it ever has, and no one expects that pace to let up

I'm confident we're doing the right things to adapt to that change, and to give our members the mix of digital and face-to-face service they want and expect.

I also believe we're doing what we need to do to keep our business thriving into the future. And that's the best possible foundation for a Society that you can value and trust.

Mike Regnier
Chief Executive
27 February 2019

[3] KPMG Nunwood Customer Voice Programme, January- December 2018. Based on 14,556 completed interviews with customers. Net Promoter score and NPS are trademarks of Satmetrix Systems, Inc. Bains & Company, Inc., and Fred Reichheld.

[4] The YBS Group Net Promoter Score uses weightings of scores from KPMG Nunwood Customer Voice Programme's interviews with YBS customers. This is weighted differently to the financial services banking average NPS in the 2018 KPMG Nunwood CEE report, which is based on an independent survey containing both YBS and non-YBS customers.

[5] The Top Employers for Working Families benchmark was established by Working Families, a UK work-life balance charity, helping working parents and carers and their employers find a better balance between responsibilities at home and work.