

REAL HELP WITH REAL LIFE

2019 OVERVIEW

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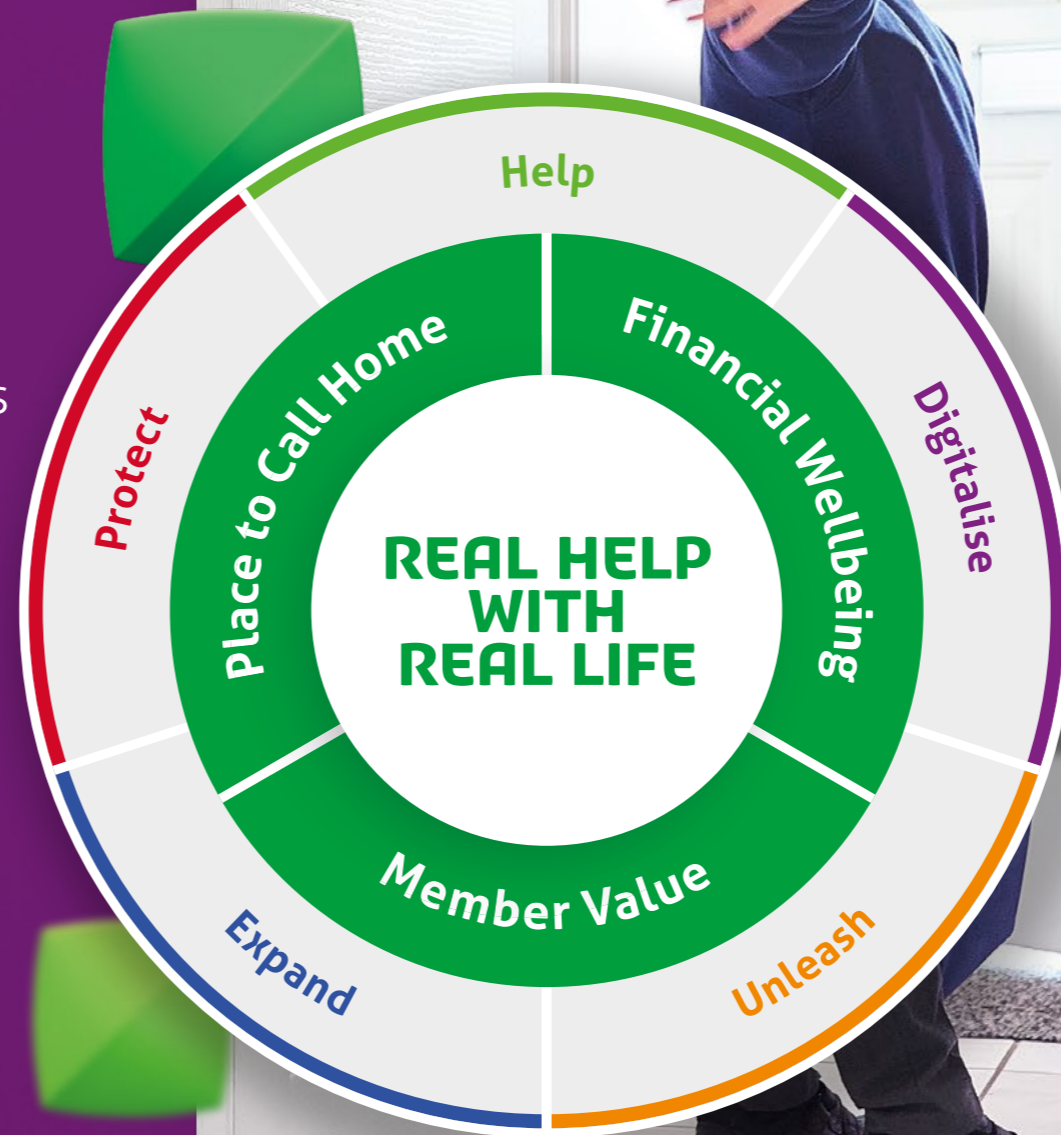
2 OUR PURPOSE AND STRATEGY

We've built our strategy around our purpose of providing **Real Help with Real Life**. For us, as a building society, it means delivering three central ambitions:

- Helping people to have a **place to call home**
- Helping them towards greater **financial wellbeing**
- Creating long-term **value for our members**.

To enable us to achieve our ambitions, we've identified five priority areas to focus on over the next few years:

- **Help** people with the real financial barriers they face, through our products, services and community programmes
- **Digitalise** our business to become more agile, efficient and effective
- **Unleash** every one of our colleagues to maximise their full potential
- **Expand** our reach, physically and digitally, so we can help more people.
- **Protect** our stakeholders by making sure our Society is financially and environmentally sustainable.



OUR VALUE CREATION MODEL

UNDERSTANDING THE VALUE WE CREATE FOR OUR STAKEHOLDERS

Our value creation model shows the resources we rely on, and activities we undertake, in order to deliver our strategy. The value we create for our stakeholders is measured by comparing our inputs, against the outputs and impacts of our activities.

There's always the potential for an activity that we undertake to decrease value for some stakeholders whilst increasing value for others. We try to strike the right balance, sometimes knowing that the creation of value

in one area may cause a decrease of value in another. The value we create is captured in our value creation model, in line with the International Integrated Reporting Council's (IIRC) framework.¹

INPUTS

Financial

- Interest received from customers on mortgages
- Fees and charges received from customers
- Members' savings deposits
- Funding from investors
- Financial capabilities (e.g. financial reserves and risk management)

Social

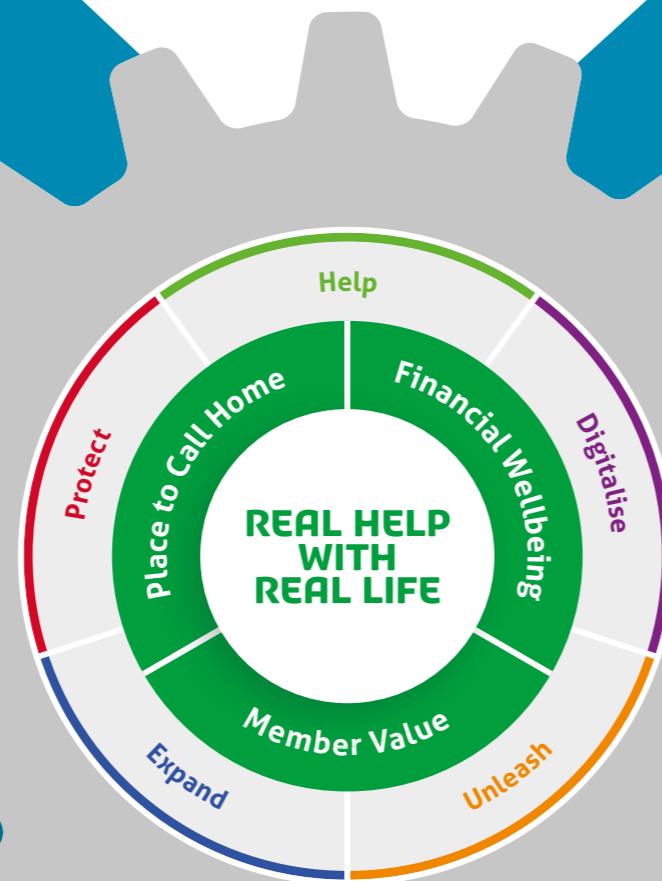
- Strong relations with stakeholders, including partners
- Thriving local communities
- Healthy housing market and employment rates

Human

- Colleagues' time, skills, knowledge and experience
- Internal systems, processes and technology

Environmental

- Energy, water and other natural resources consumed



OUTPUTS AND IMPACTS

Financial

1. Interest paid to our members and investors
2. Pay and benefits provided to our colleagues
3. Profits to ensure our long-term sustainability for all our stakeholders
4. Taxes paid to the Treasury

Social

5. Access to a place to call home through mortgages and End Youth Homelessness partnership
6. Greater financial wellbeing through savings accounts and financial education programmes
7. Great customer service in branches, agencies, by phone and online
8. Investment in our local communities

Human

9. Training and development for our colleagues
10. Engaging workplace culture

Environmental

11. Environmental footprint.

1.	Average rate paid	1.09%
2.	Colleague pay and benefits	£141M
3.	Core operating profit	£185M
4.	Tax paid	£62M
5.	People helped into a home	49,776
6.	People helped towards greater financial wellbeing	84,008
7.	Net Promoter Score (NPST TM)	+51
8.	Community investment	£1.0M
9.	Colleague training investment	£1.5M
10.	Colleague engagement score	7.4/10
11.	Annual carbon footprint reduction	-17%

4 OUR LONG-TERM GOALS

Place to Call Home



We're here to help people to have a place to call home.

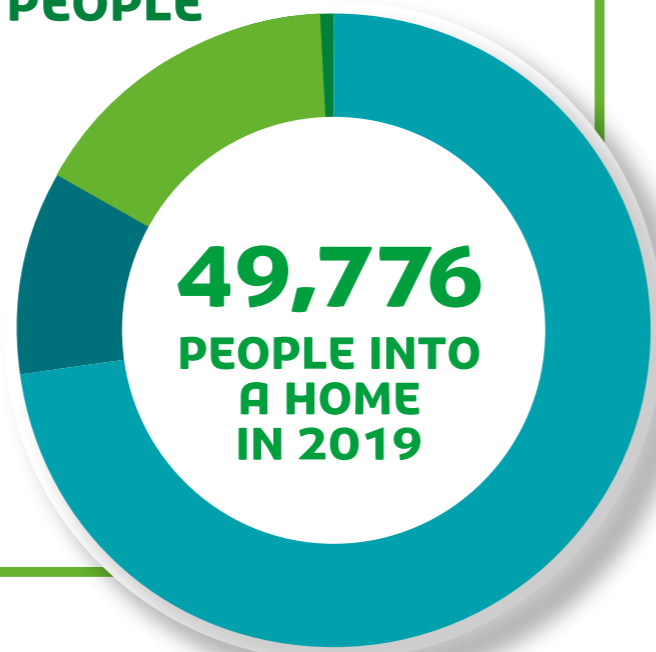
This includes people choosing us to be their mortgage provider, people renting from our customers who are buy-to-let landlords, people living in housing association accommodation we've funded, and young people we support through our partnership with End Youth Homelessness.

206 HOMELESS YOUNG PEOPLE

3,271 RENTERS

2,005 PEOPLE IN SOCIAL HOUSING

44,294 HOMEOWNERS



We were set up over 150 years ago to help people buy a home of their own, and this remains one of our core areas of focus today. We know that today's housing market is challenging. Average house prices in England and Wales climbed from 3.5 times' the average full-time worker's salary in 1997 to almost 7.8 times' the average earnings in 2018.²

We support both first time buyers and house movers through a range of residential mortgages, both directly through our YBS brand, and via Accord, our broker-led service. In 2019, we've helped 18,710 first time buyers get on the property ladder, and 25,584 people move to a new home.

We're conscious that the private and social rental markets also form a key part of the UK's housing market. Not everyone wants, or is able to buy their own home, and renting is becoming increasingly common, especially amongst younger generations. We therefore think it's important to help both private and social landlords with the finance they need to provide decent quality properties to the rental sector. This lending also helps us to diversify our product offering and supports our long-term financial sustainability. In 2019, by providing mortgages to landlords, we've enabled 3,271 people to access the

rental sector. We've also provided £315m of funding to the social housing sector in 2019, helping a further 2,005 people have a place to call home.

Our ambition to help people into homes is reflected in our community investment, through our partnership with End Youth Homelessness. EYH is a movement of grassroots charities who work together at a local level to end youth homelessness on a national scale. Our partnership enables young people who have faced homelessness to access the private rental sector, by providing landlords with a guarantee certificate in place of a traditional cash deposit, and helping young people access the support they need as well as essential household items like bedding and cooking equipment through a grant. Since the partnership started in 2017, we've helped 386 homeless young people move into their own rented home, including 206 in 2019.

We've set ourselves an ambition to help 500,000 people have a place to call home over the next few years.

5 OUR LONG-TERM GOALS

Financial Wellbeing



We're here to help people towards greater financial wellbeing.

This includes customers choosing to build up their savings with us, directly or through our partners, and people who have benefited from financial literacy and employability support through our Money Minds and Career Minds community programmes.

7,322
PEOPLE SUPPORTED WITH
FINANCIAL LITERACY

1,254
PEOPLE SUPPORTED WITH
EMPLOYABILITY
SKILLS

75,432
SAVERS



Savings are a cornerstone of good financial wellbeing. A household with an income of £25,000 a year after tax is 44% less likely to fall into problem debt if they have accessible cash savings of £1,000.³ However, UK savings rates are very low. Households in the UK saved just 6.1% of their disposable income in 2018, down from 11.6% in 2010 and a high of 14.7% in 1995.⁴ Worryingly, we estimate 7.5m of the UK's working adults have no savings⁵, while 34% of people regularly run out of money before pay day.⁶

Supporting financial wellbeing through saving is an essential part of what we do. In 2019, we've helped 56,627 customers build their savings pot, supporting them to become more resilient to potential future financial shocks.

We also work with employers through YBS Share Plans to enable them to provide direct-from-salary savings schemes to their employees. These include the Sharesave scheme, which is an all-employee share plan that offers tax advantages⁷ and allows employees to obtain shares in their employer's business on potentially advantageous terms. Research shows Sharesave is an important way of helping people to start saving. Almost one in three (28%) of those using direct-from-salary share plans have no other form of savings, whilst two in five (40%) said that they'd spend their contributions if they weren't

in the scheme.⁸ Through our workplace saving products, we've helped a further 18,805 people to improve their financial wellbeing by saving directly from their salary.

Knowledge and understanding of how to manage money well are essential to enabling healthy financial habits. Research from the Government's Money Advice Service indicates basic concepts relating to money habits are formed by the time a child is seven years old,⁹ so financial education from an early age is important to support good financial wellbeing. As well as helping people to plan for the future and secure their financial goals with savings, we provide financial education to young people across the UK through our colleague volunteering programme, Money Minds. This works hand-in-hand with our Career Minds programme, which helps prepare young people for the world of work, as employment plays a big part in maintaining long-term financial wellbeing. In 2019, we delivered lessons on financial education and career skills to 8,576 young people.

We've set ourselves an ambition to support 500,000 people towards greater financial wellbeing over the next few years.

6 OUR KEY PERFORMANCE INDICATORS



HELP

Net Promoter Score (NPS™)¹⁰

+51

+41 in 2018

This measures how willing our customers are to recommend us to others and we've seen improvements across most products and channels.

Average savings rate paid

1.09%

0.34% above the market average of 0.75%

This equates to more than £95m of benefit given back to our members.

Community investment

£1m

£1.4m in 2018

This shows how much we've contributed to our local communities through charitable giving and volunteering.

Gross lending

£7.9bn

£8.9bn in 2018

Retention improvements meant lower lending to ensure sustainable levels of growth.

Gross mortgage market share

2.9%

3.3% in 2018

This reflects our share of all mortgage lending in the UK housing market.

Mortgage balances have grown by

3.5%

4.7% in 2018

We use the interest from our mortgages to give back to our savers and invest for the future.

Savings accounts opened

243,000

197,000 in 2018

Helping thousands of our members save for the future.

Savings market share

1.96%

1.97% in 2018

This reflects our share of the UK savings market.

Retail savings balances

£30.7bn

£29.6bn in 2018

We use this to fund the mortgages we offer to our customers.

Colleague engagement score¹¹

7.4/10

Compared to an industry average score of 7.6

This reflects how engaged our colleagues feel working here.

Colleague pay and benefits¹²

£141m

£146m in 2018

This shows our total reward package to colleagues, including salaries and benefits.

Colleague training investment

£1.5m

Equates to £440 per colleague

This shows our investment in helping our colleagues develop their skills and capabilities.

Colleague turnover¹³

21%

19.3% in 2018

This reflects the percentage of colleagues who leave the Society in a given year.

Absenteeism rate

3.9%

3.6% in 2018

This reflects the level of colleague absences from work due to sickness.

Accidents and near misses

108 accidents
33 near misses

158 accidents and 31 near misses in 2018

This shows the number of accidents and near missed reported by colleagues at work.

UNLEASH



7 OUR KEY PERFORMANCE INDICATORS

PROTECT

Statutory Profit before tax

£167m

£193m in 2018

This is the profit we earned from our ongoing business operations, excluding taxes.

Core Operating Profit

£185m

£181m in 2018

This is the profit we earned, excluding taxes, one-time charges and infrequent events.

Cost to 'Core' Income Ratio

60%

63% in 2018

This ratio measures how efficiently we run our Society, by showing how much we're spending to generate every pound of our income.

Common Equity Tier 1 ratio

16.6%

16.3% in 2018

Maintaining this ratio above a certain minimum helps to protect ourselves against unexpected losses.

Liquidity Ratio

13.8%

13.9% in 2018

This ratio measures our ability to lend to borrowers, give money back to savers when they want it and pay our bills.

Leverage Ratio

5.8%

5.8% in 2018

This ratio highlights the capital we hold compared to our assets, showing our ability to cope with unexpected events.

Tax paid¹⁴

£62m

£59m in 2018

This shows the amount we've paid in taxes.

Carbon footprint reduction¹⁵

-17%

-16% in 2018

This shows how much we've reduced our carbon emissions year on year.



8 APPENDIX 1: BUILDING OUR STRATEGY AROUND OUR STAKEHOLDERS

In 2019, we finalised our strategy, which has our purpose at its centre.

1. CONSULTING WITH OUR STAKEHOLDERS

Our external stakeholders, including members, customers, investors, brokers and local community groups, contributed to this process by giving their perspectives on how our activities create value for them, allowing us to gauge the impact we have on different areas of society. Colleagues from every department across the Society also helped us to explore how we create financial, social, human and environmental value for all of our stakeholders.

We summarised the findings from all of our stakeholders into value creation statements which were refined via a survey of three of our biggest stakeholder groups: customers, colleagues and brokers.



3. SHAPING OUR STRATEGY

We used the consultation to inform our strategy, driven by our purpose of providing Real Help with Real Life. The areas where we felt we could make the biggest contribution to society became our long-term ambitions: helping people to secure a place to call home and supporting people towards greater financial wellbeing. These are underpinned by our ambition of creating long-term value for our members, which reflects our mutual ownership structure and the importance of maintaining a sustainable business.

To make sure that we remain focused on delivering these ambitions, we identified the five

key themes of Help, Digitalise, Unleash, Expand and Protect that drive our shorter-term priorities. These are designed to make sure that we are protecting the interests of our stakeholders, growing our business and putting the Society in a strong position for the future.

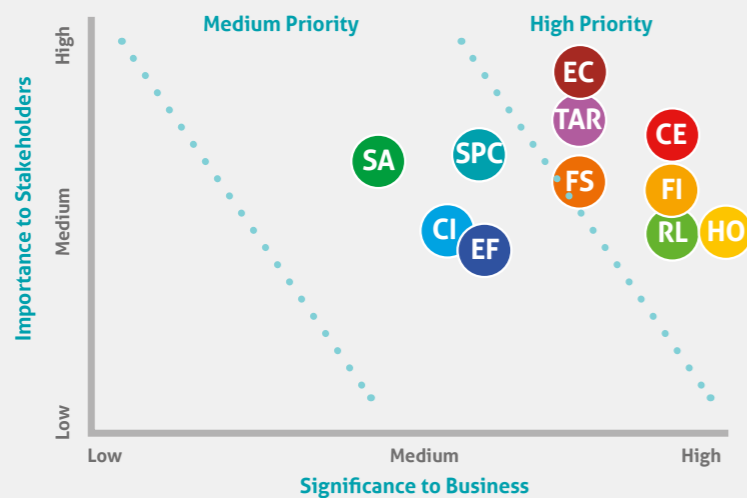
4. MEASURING PROGRESS

We have set long-term goals to measure the progress that we make towards delivering on our ambitions. To keep us on track, we monitor the value we create through specific, measurable outputs and impacts.

5. COMMUNICATING TO OUR STAKEHOLDERS

Continuing to engage with our stakeholders will ensure that we understand what they value most, and will inform the evolution of our strategy. Our progress towards achieving our specific goals will be tracked in our Annual Report and Accounts, maintaining a level of transparency and accountability with regard to our stakeholders.

VALUE CREATION: KEY THEMES¹⁶



- EC Ethics and culture
- CE Customer experience
- TAR Talent attraction & retention
- FS Financial sustainability
- FI Financial inclusion
- HO Home Ownership
- SPC Strategic partnerships & collaboration
- RL Responsible Lending
- SA Stakeholder advocacy
- CI Community impact
- EF Environmental footprint

2. IDENTIFYING THE KEY AREAS OF FOCUS IN TODAY'S SOCIETY

The views and contributions of our stakeholders allowed us to identify 11 key areas where we currently create value, or where we have potential to in the future. We recognise that the areas most important to our stakeholders may evolve over time and therefore we are planning further consultations in 2020 to understand whether there are any new themes or emerging issues. An example of this may be an increased focus on the environment, given the growing concerns around the impact of climate change.



FOOTNOTES

¹ International Integrated Reporting Council. International <IR> Framework (2013). Available here: <https://integratedreporting.org/resource/international-ir-framework/>

² ONS. Housing affordability in England and Wales: 2019 (2020). Data available here: <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingaffordabilityinenglandandwales/2019>

³ StepChange. Becoming a nation of savers (2015). Available here: <https://www.stepchange.org/Portals/0/documents/Reports/BecominganationofsaversStepChangeDebtCharityreport.pdf>

⁴ ONS. Household's saving ratio (2020). Data available here: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/dgd8/ukea>

⁵ We analysed the FCA's Financial Lives Survey data, which is based on nearly 13,000 interviews. Data available here: <http://www.fca.org.uk/publications/research/understanding-financial-lives-uk-adults> then compared it with Office for National Statistics Population and Employment estimates to estimate the number of people who don't save.

⁶ YBS analysis of FCA's Financial Lives Survey data and Office for National Statistics Population and Employment estimates. Available here: <https://www.fca.org.uk/publications/research/understanding-financial-lives-uk-adults> and <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates>

⁷ Provided the plan meets the requirements of the legislation in Schedule 3 of the Income Taxes (Earnings and Pensions) Act 2003 and is also registered and reported via HMRC's ERS Online filing service. Introduced under the 1980 Finance Act.

⁸ YBS Share Plans research in 2018, conducted with Leeds and Durham Universities, interviewed over 2,000 Share Plans customers about their savings habits.

⁹ Money Advice Service. Habit Formation and Learning in Young Children (2013). Available here: <https://mascdn.azureedge.net/cms/the-money-advice-service-habit-formation-and-learning-in-young-children-may2013.pdf>

¹⁰ KPMG Nunwood Customer Voice Programme, January – December 2019. Based on 14,566 completed interviews with customers. Net Promoter score and NPS are trademarks of Satmetrix Systems, Inc. Bains & Company Inc., and Fred Reichheld.

¹¹ Peakon colleague survey conducted October 2019. Score calculated from four separate questions.

¹² This figure includes salaries (including directors' fees and pensions, and allowances, bonus, maternity pay, impact of salary sacrifice), employer contributions to the pension scheme, employee benefits costs (private medical insurance, health cash plan, life assurance, insured sick pay, season ticket loans, and car allowance), and other staff costs (redundancy and post-employment notice pay). The reduction in this figure year-on-year is driven by a reduction in our number of colleagues from 3,727 at the end of 2018 to 3,382 at the end of 2019.

¹³ Turnover includes colleagues who resigned, retired, finished their contract or took redundancies within the year. In 2019 we've streamlined our operations and reduced our number of colleagues from 3,727 at the end of 2018 to 3,382 at the end of 2019, which is reflected in our turnover rate. Our resignation rate was 10% in 2019 compared to 11.8% in 2018.

¹⁴ This figure includes tax payments made in the year for the following: corporation tax, property taxes, employer's national insurance contributions, apprenticeship levy and VAT.

¹⁵ All YBS Carbon Emission data has been verified by Ricardo AEA Limited. A full breakdown of our carbon footprint can be found [here](#).

¹⁶ Based on research by YBS (September 2018).



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