

2017 ANNUAL GENERAL MEETING – CHIEF EXECUTIVE’S PRESENTATION

Thank you John and good afternoon everyone. This is my first Annual General Meeting (AGM) as the new Chief Executive of Yorkshire Building Society and I’m delighted to be here.

John has spoken about our Vision. As a building society we are set up specifically to help people rather than to make money from them. That’s every bit as relevant today as it ever was.

That’s because customers still need a safe home for their savings, and funding for their home, safe in the knowledge they can trust us to act in their best interests, not just today but in the future as well.

We’re all aware that the market for financial services is changing:

- 77% of our members chose not to visit one of our branches last year,
- 72% of our mortgages are now sold by mortgage brokers rather than by our own advisers, and
- 46% of all savings transactions are now conducted on a mobile phone.

Our challenge is not to lose sight of what our current members want, at the same time as ensuring we remain relevant for future generations of members.

We believe we’ll achieve this by aiming to be simply brilliant in our core businesses of mortgages and savings. This means being brilliant at what we do, but also making things simple so we can do this efficiently and effectively.

We are focusing on four strategies to achieve this:

- **Customer experience:** Offering market leading products and services delivered through customers’ preferred channels.
- **People experience:** Being recognised as an employer of choice and creating a lasting, positive impact on society.
- **Easy and simple:** Being a business that is simple, efficient and effective.
- **And Business sustainability:** Ensuring we remain financially sustainable, returning potential profit over and above what we need to members in better pricing, service and investment for the future.

All of this is underpinned by our four values that we expect all of our colleagues to live by: being personal, passionate, and trustworthy, and making decisions with customers at our heart, always.

Last year we completed a strategic review of our business. This confirmed three things:

1. Focusing on our core mortgages and savings business is sensible and sustainable.
2. There is scope for us to invest in technology to improve efficiency.
3. That we should not launch a Group current account.

That's because the cost of launching and building a current account to the necessary scale would be too high and it would take too long. Planned regulatory changes will also increase costs of entering the current account market.

I'd now like to pull out examples of how we are bringing our strategy to life. A good example of business sustainability is the way we managed interest rates for our savings members last year.

As you'll be aware the Bank of England Bank Rate is the key reference for interest rates. Disappointingly for savers, Bank Rate has been at unprecedented low levels for years.

Despite Bank Rate being stable the average interest rates offered to savers across the market have continued to fall. This is because since 2012 the Government has been offering very cheap funding to banks and building societies to stimulate mortgage lending and the wider economy.

This means that banks aren't as reliant on deposits from savers so interest rates on savings accounts have come down.

Because we're a building society owned by our members we decided we would try our best to protect our savers from the effects of these falling interest rates. On this chart you can see the average rate we paid to our members over the past year in blue, and the average rate paid by the market in grey.

You'll see that our average rates have dropped slightly, but nowhere near as much as the overall market. We achieved this by giving up potential profit we could have made if we had followed the market, and handing this value back to our members in the form of higher savings rates instead. This means our savings members are receiving average rates that are 0.38% higher than average rates elsewhere.

From an Easy and Simple perspective we made some important decisions in January last year when we announced our plans to close 22 branches and take the Barnsley and

Chelsea Building Society names off the high street. The majority of these were where we closed one branch in towns where we had two. We also opened new agencies in three of the remaining locations.

After further detailed analysis last year we announced this January some more difficult decisions that reflect the changes in customer behaviour I referred to earlier, as well as our decision not to launch a Group current account.

We will be closing another 20 Yorkshire branches this year and 28 Norwich & Peterborough (N&P) branches. All of our branches nationally will become Yorkshire Building Society branches and we will also be closing the N&P current account. This is becoming more and more expensive to maintain and it isn't in the best interests of our wider membership for us to spend their money cross subsidising this business in this way

To be clear, we are still absolutely committed to providing the face-to-face service that many of our members value. After these changes we will have 260 high street branches and agencies with strong national presence, which is considerably greater than other businesses relative to their scale.

We will use the savings we make from these changes to provide better value, and to improve service in other ways including improving our digital services.

Turning to mortgages, activity across the market has been growing steadily in recent years, although still behind pre-crisis levels. More recently it has been affected by the tax changes on second properties and BTL landlords, and by uncertainty surrounding the impact of the referendum vote.

Competition has been particularly intense. We have grown our mortgage balances steadily and sustainably and will not chase business at any cost.

I'm proud that we provided 27,000 mortgages last year, including helping 6,400 first time buyers to take their first step onto the property ladder. We have also been investing in our processes and have reduced the time taken to process a mortgage application by five days.

Also from a customer service perspective, 18 months ago we launched our savings pledges. These pledges are our commitment to how we think all savings providers should operate for their customers. They include making sure members can find out about new savings products as soon as we launch them, and a 14 day pledge to match rates on ISAs or bonds if we launch new versions paying higher rates.

Actions like these, together with our passion to provide the best possible customer service, have led to a further increase in our Net Promoter Score. This score is one of the strongest measures of customer satisfaction and our score of +31 is exceptionally high and around four times better than the industry average.

And for the past two years we're delighted to have been ranked in the top 10% of all UK consumer brands for customer service. This puts us ahead of companies such as Waterstones, the RAC and even British Airways.

This also helped us to win 15 industry awards last year in recognition of our products, services and our community support.

One award we were particularly proud of last year was Business of the Year, in the Charity Business Awards. Supporting our local communities has always been a priority, indeed it is in our DNA and is the reason building societies came into being.

That is why we have formalised the support we provide to the society as a whole in a new strategy called Society Matters, a summary of which you can find in a new publication alongside this year's Annual Report and Accounts. It gives a summary of our performance across a range of social, ethical and environmental issues, as you can see from this short video.

[A Society Matters video was played at this point]

I would like to take this opportunity to thank all of you who helped us raise and donate a fantastic £1.15m for Marie Curie over the last few years. This was an outstanding achievement and funded over 57,000 hours of nursing care.

Our new charity partner for the next three years is End Youth Homelessness, which we selected following a member and colleague vote. Our aim is to help 700 homeless young people get their lives on track and into a home of their own. It's a huge challenge, but sits at the heart of our purpose, and I hope you will find ways to support us.

Of course none of this is possible without our outstanding colleagues – they are the key to delivering exceptional service, award winning products and for supporting customers and communities with their expertise and passion. Through our People strategy, we will work hard to continue to attract and retain the best talent and be a brilliant employer with a culture where people feel respected, valued and proud to work at Yorkshire Building Society.

Looking ahead, I'm expecting the mortgage and savings markets to continue to be very competitive. We are well placed to take advantage of the opportunities and to face into any challenges.

Above all else we will continue to prioritise delivering great value and great service to you, our members, at the same time as making sure we remain a strong and sustainable business for the future.

We're already amongst the top three most trusted providers of financial services nationally.

We provide great value and service not as a means of making a profit for shareholders, but because that's the end in itself. And we believe that by keeping that focus clearly in mind and aiming to be simply brilliant at what we do, is how we'll achieve our vision of becoming the most trusted provider of financial services in the UK.

I'll now hand over to Robin to explain more about financial performance. Thank you.