



**YBS
GROUP**

YORKSHIRE BUILDING SOCIETY

2016 ANNUAL RESULTS UPDATE



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YBS GROUP OVERVIEW





- 2nd largest UK building society⁽¹⁾ with total assets of £39.6bn⁽³⁾
- 7th largest mortgage lender in the UK⁽²⁾
- Traditional Building Society balance sheet
 - Residential mortgage lending in UK (£34.1bn⁽³⁾)
 - Large deposit base (£28.7bn⁽³⁾)
- Strong capital base (CET 1 of 14.9%⁽³⁾) with healthy funding ratio of 21.6%⁽³⁾ and liquidity ratio of 12.8%⁽³⁾
- Operating under a multi-brand strategy
 - Direct lending via branches & internet
 - Intermediary lending via Accord mortgages (web based)
- Mutual organisation

Source:

(1) *Building Societies Association*

(2) *CML*

(3) *As of YE 2016*

Brand	Timeline
 YORKSHIRE BUILDING SOCIETY	Established 1864
 ACCORD MORTGAGES	Established 2003
 CHELSEA BUILDING SOCIETY	Merged 2010
 NORWICH & PETERBOROUGH BUILDING SOCIETY	Merged 2011

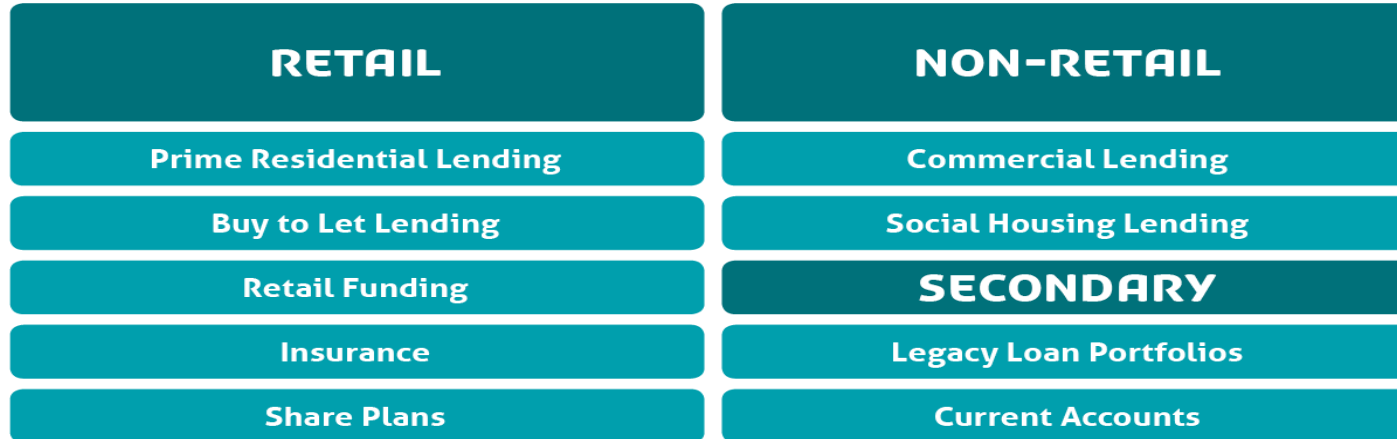
Agency	Short Term	Long Term	Last change
Fitch	F1	A-	Upgrade Sep 2014
Moody's	P-2	Baa1 (senior) A3 (deposit)	Upgrade Jun 2015

(All Stable)

Source: Fitch Ratings, Moody's Investors Service



BUSINESS MODEL



BUSINESS DELIVERY FUNCTIONS



BUSINESS DIRECTION FUNCTIONS



BUSINESS ENABLING FUNCTIONS



CENTRAL FUNCTIONS



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2016 ANNUAL RESULTS KEY HIGHLIGHTS

Robust Performance	<ul style="list-style-type: none">▪ YBS is maintaining its position as a leading UK mortgages and savings provider▪ Statutory profit before tax of £152m and core operating profit of £128m
Asset Growth & Market Share	<ul style="list-style-type: none">▪ Increased total asset base to £39.6bn from £38.2bn at year end 2016▪ Gross mortgage lending of £7.2bn (£0.7bn net lending) and gross lending market share of 2.9%▪ Savings balances grew by 4.2% to £29.1bn
Consistent Performance	<ul style="list-style-type: none">▪ Asset quality remains strong with the value of loans in arrears by 3+ months further reduced to 0.79% - lower than the industry average of 1.02% reported by CML at the end of 2016
Improved Liquidity Position	<ul style="list-style-type: none">▪ Securely above regulatory requirements with liquidity holdings increasing to £4.7bn (12.8%)▪ Liquidity Coverage Ratio 160%▪ Liquidity predominately Bank of England Reserve Account, Gilts and T-Bills
Capital Position & Leverage Ratio	<ul style="list-style-type: none">▪ Strengthened Common Equity Tier 1 capital ratio to 14.9% from 14.5% at year end 2015▪ Increased leverage ratio to 5.1% from 4.8% at year end 2015 (end point)
Putting The Customer First	<ul style="list-style-type: none">▪ Achieved a Net Promoter Score of +31 up from +29 in 2015▪ In the top 10% of the UK brands in the KPMG Nunwood Customer Excellence Study
Delivering Value For Members	<ul style="list-style-type: none">▪ Delivered value to our members by providing an average saving rate 0.38% above market average▪ More than 114,000 new accounts opened by savers



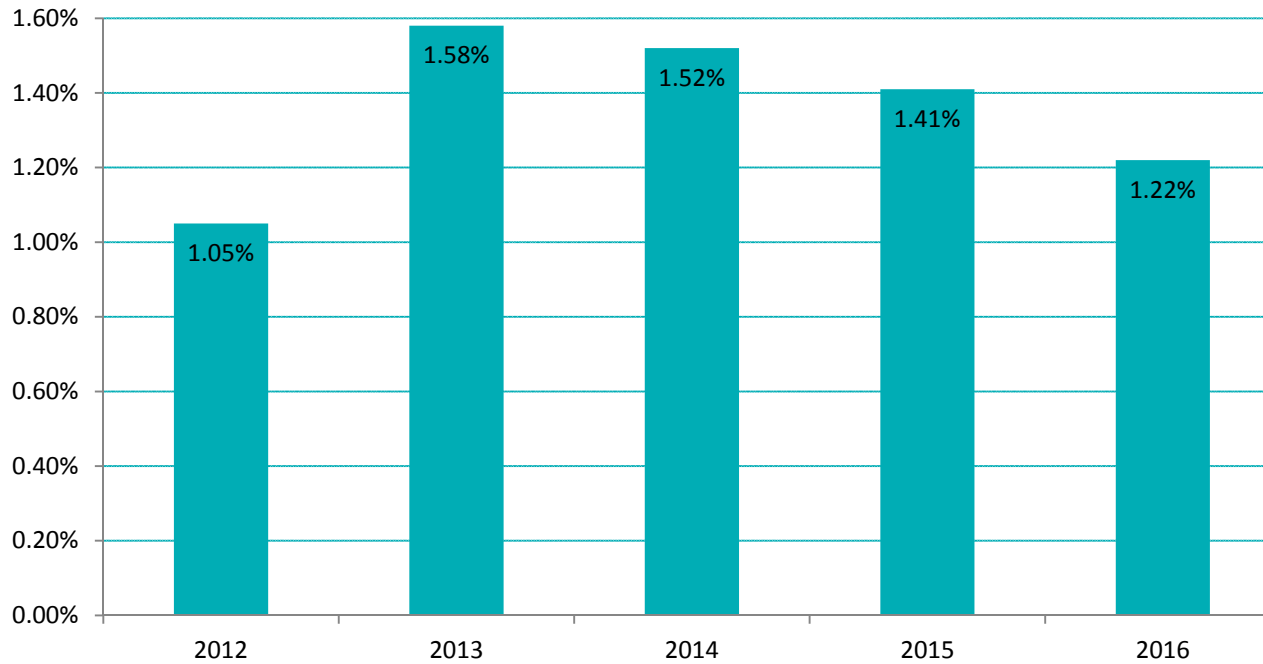
STATUTORY AND CORE OPERATING PROFIT

Statutory Profit Before Tax	£m	2011	2013	2014	2015	2016
Net Interest Income		329	531	549	535	476
Fair Value Movements		(10)	16	(11)	(7)	1
Profit/ (loss) from sale of assets (debt securities)		3	(2)	1	2	2
Profit/ (loss) on capital repurchase		-	(40)	-	-	-
Other Income		47	38	26	18	36
		369	543	565	548	515
Management Expenses		(209)	(300)	(331)	(346)	(346)
		166	243	234	202	169
Provisions		(33)	(44)	(46)	(29)	(17)
Statutory Profit before tax		133	199	188	173	152
Add back:						
FSCS levy ¹		3	12	12	11	5
Non-core investments ²		5	(14)	(11)	1	(1)
Timing differences - fair value volatility ³		5	(2)	22	6	(1)
Mergers - adjustments to balances acquired ⁴		-	(94)	(33)	(4)	(3)
Mergers and acquisitions - costs		20	2	-	-	-
Mortgage book disposal ⁵		-	13	-	-	-
Capital liability management exercises		-	30	-	-	-
Other non-core items ⁶		3	6	-	(2)	(24)
Core Operating Profit		163	152	179	185	128

- 1) UK Depositor Protection Scheme
- 2) Structured Credit (in run off - £44m)
- 3) Accounting volatility on hedging
- 4) Release of merger Fair Value
- 5) Ex Chelsea BS Equity release book sale
- 6) Proceeds from Visa share sale (£12m) & sale of properties (£12m)



INCOME STATEMENT – NET INTEREST INCOME



- Net interest margin returning to historic normal levels



INCOME STATEMENT - COSTS



- Major cost initiatives underway now, more to follow
- Medium term goal Cost:Income ratio below 55%



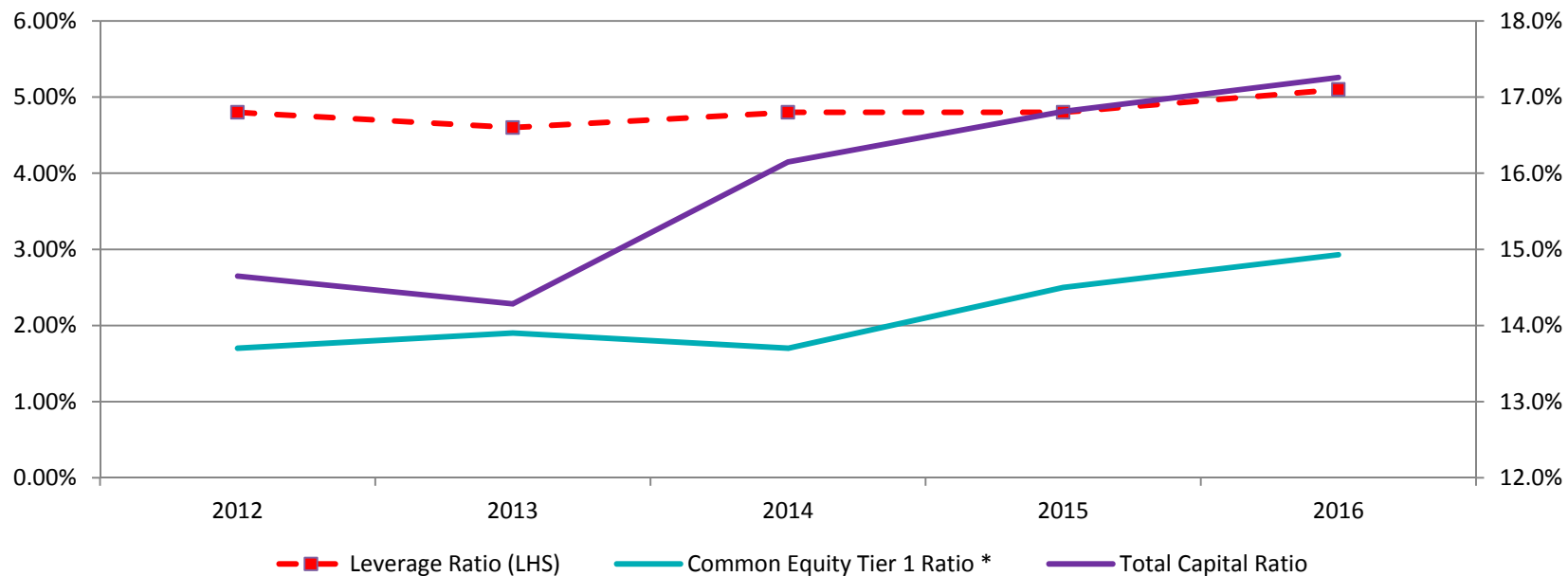
BALANCE SHEET

Group Balance Sheet	£bn	2012	2013	2014	2015	2016
Liquid Assets		5.2	4.4	4.8	4.4	4.7
Mortgage and other loans		27.6	29.5	32.2	33.3	34.1
Other assets		0.7	0.6	0.6	0.5	0.8
Total Assets		33.5	34.5	37.6	38.2	39.6
Retail Savings		26.8	26.3	27.2	27.4	28.7
Wholesale funding		4.2	5.9	7.5	7.9	7.9
Other liabilities		0.8	0.4	0.6	0.5	0.5
		31.8	32.6	35.3	35.8	37.1
Remunerated capital		0.1	0.1	0.3	0.3	0.3
Reserves		1.6	1.8	2.0	2.1	2.2
Total Liabilities		33.5	34.5	37.6	38.2	39.6

- Gross lending £7.2bn (net £0.7bn)
- Increased retail savings balances £1.3bn in 2016
- 92% of mortgage funded by retail savings and retained earnings



Capital Ratios (Standardised RW)



- Common Equity Tier 1 ratio - **14.9%** / Total capital ratio - **17.2%** (calculated under standardised approach and fully loaded)
- Leverage ratio - **5.1%** (on an end point Tier 1 and CRD IV measure)
- Minimum Requirement for Eligible Liabilities (MREL) - to be met via Tier2/Tier 3 or Non Preferred issuance (subject to UK law)
- YBS currently working towards **ADVANCED INTERNAL RATINGS BASED (A-IRB)** approach
- £55.5m (0.4% CET1) of remaining Fair Value protection versus merger portfolios

* Pre 2014 Core Tier 1



KEY RATIOS

Key Ratios	Dec-14 (%)	Dec-15 (%)	Dec-16 (%)
Group net interest margin	1.52	1.41	1.22
Group management expenses/mean assets	0.92	0.91	0.89
Group asset growth	9.1	1.7	3.6
Group loans and advances growth	9.2	3.4	2.4
Member savings balances growth	3.6	0.6	4.7
Liquidity ratio	13.8	12.5	12.8
Funding ratio	21.6	22.5	21.6
Gross capital ratio	6.52	6.78	6.90
Free capital ratio	6.05	6.33	6.50
Total capital ratio	16.1	16.8	17.3
Common Equity Tier 1 capital ratio	13.7	14.5	14.9
Leverage ratio	4.8	4.8	5.1
Cost : income ratio	58.6	63.1	67.2



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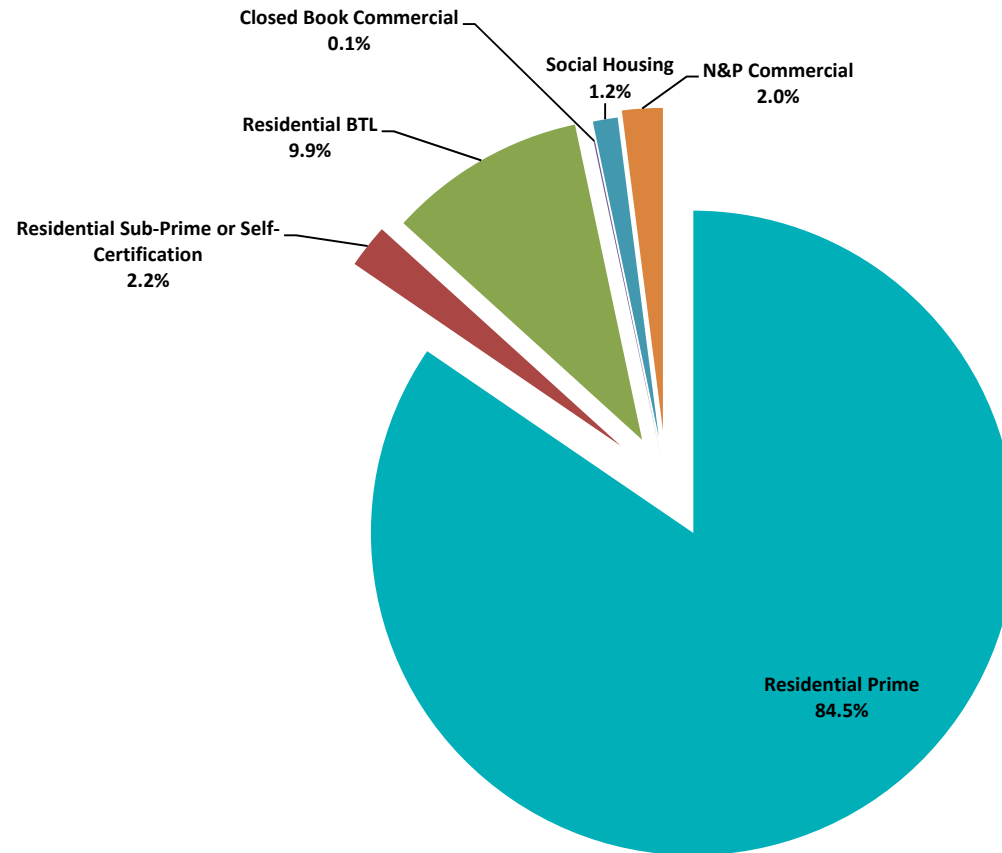
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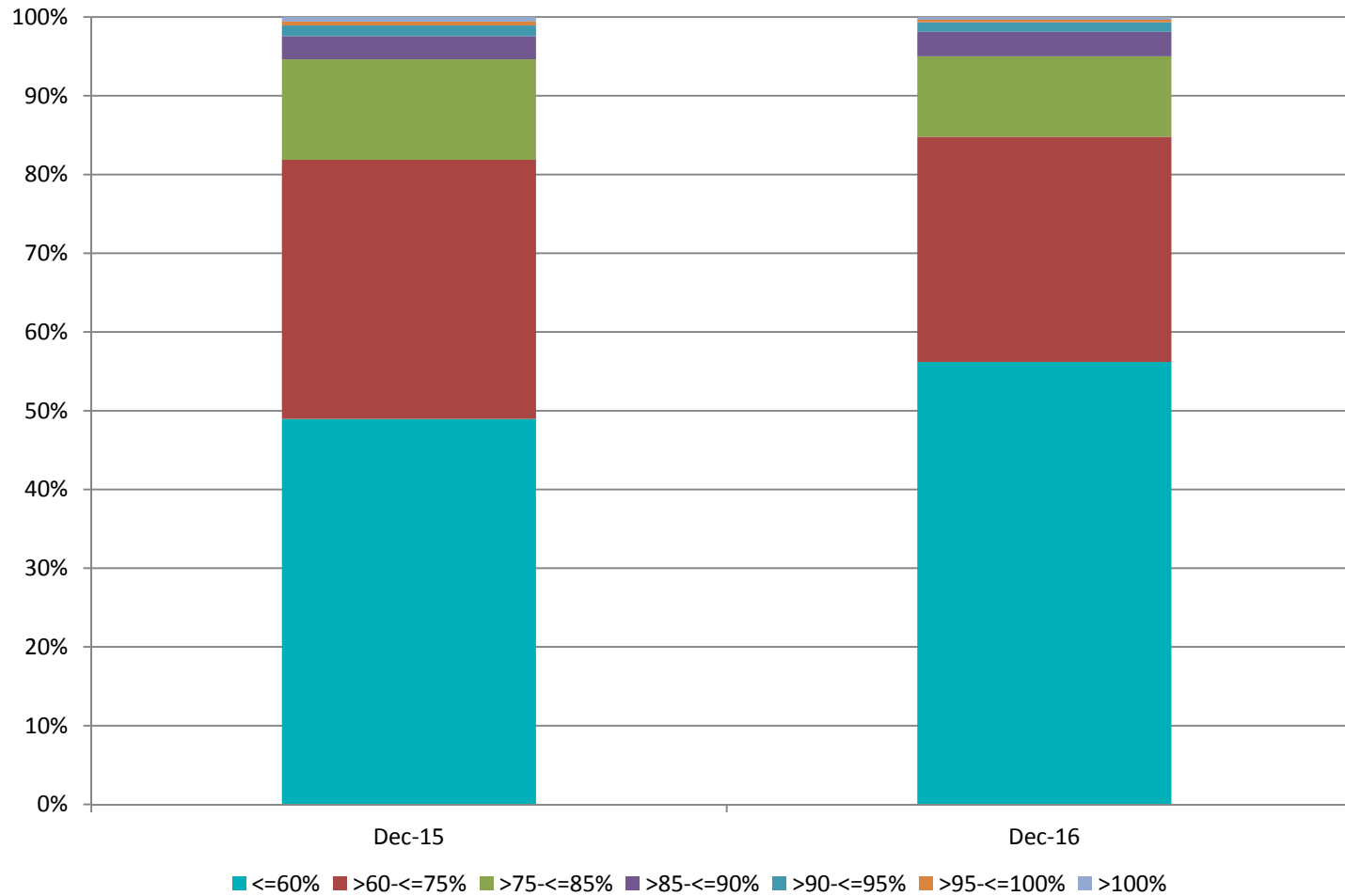
MORTGAGE TYPE BREAKDOWN



- Predominantly prime residential mortgage lender
- Sub-prime book in run-off down to 2.2% of balances (from 13% in 2009)
- BTL book currently below fair market share
- N&P Commercial loan book continues to grow within a risk appetite limit of 3%
- Limited involvement in Social Housing sector



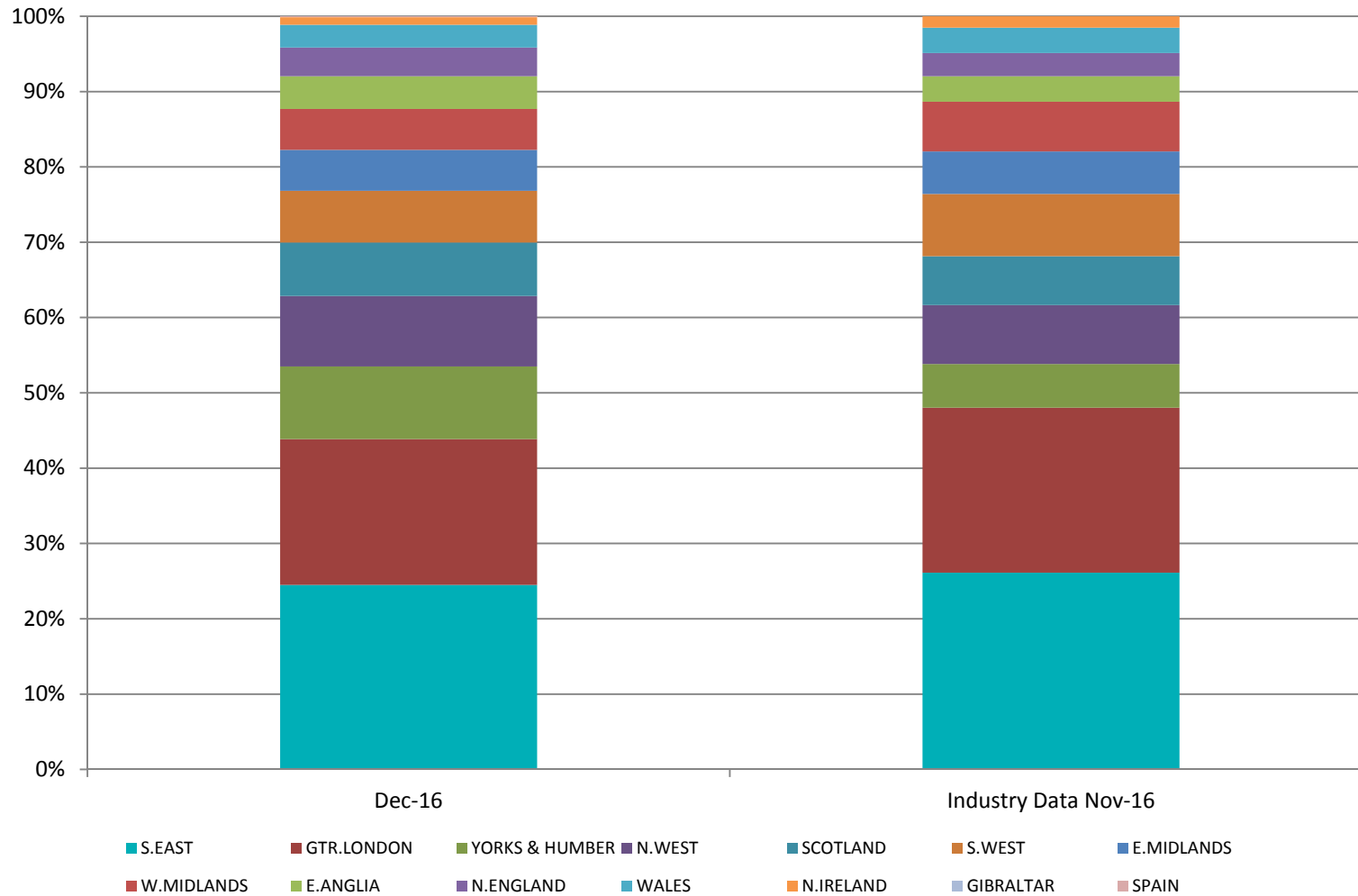
INDEXED LTV BREAKDOWN



- Proportion of book with >90% LTV has declined from 2.4% at Dec 2015 to 1.9% at Dec 2016



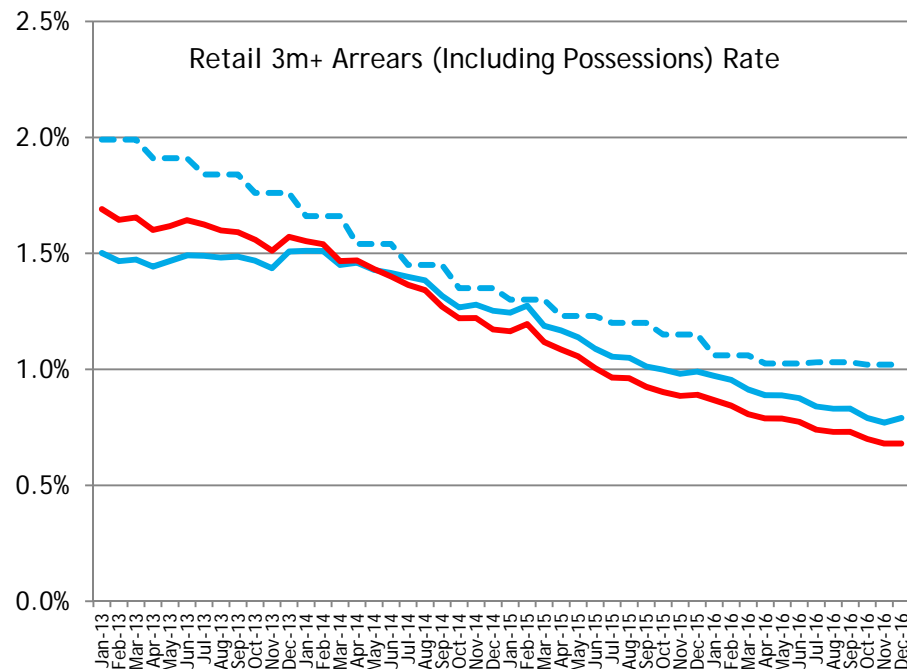
REGIONAL EXPOSURES



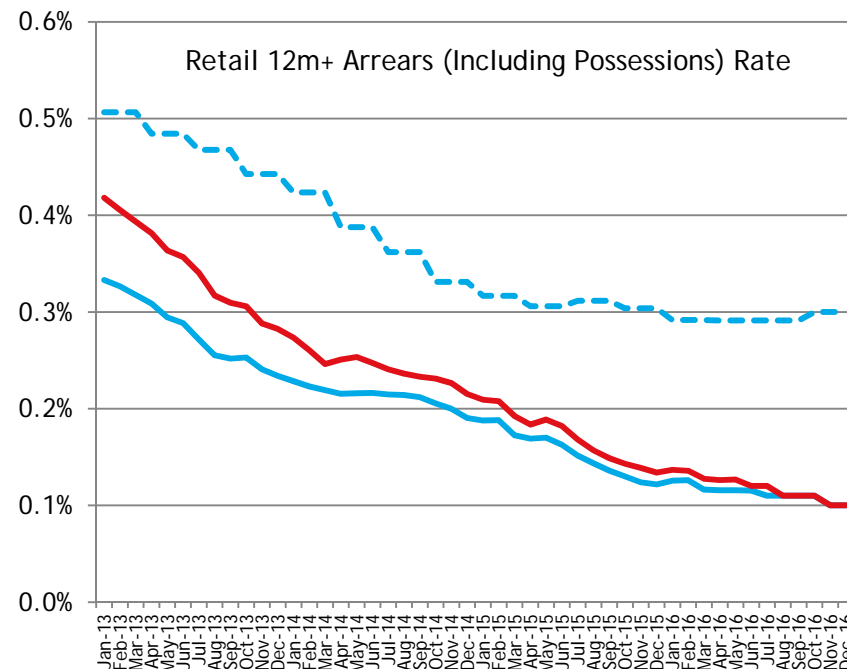
- YBS Group exposure broadly in line with UK averages



ARREARS ANALYSIS



— YBS Group >=3m Rate by Volume - - - CML >3m Rate by Volume
— YBS Group >=3m Rate by Value



— YBS Group >=12m Rate by Volume - - - CML >12m Rate by Volume
— YBS Group >=12m Rate by Value

- Arrears continue declining trend
- Year-end 2016 3m+ months in arrears rate by number = 0.79% versus CML 1.02%
- Year-end 2016 3m+ months in arrears rate by value = 0.68%
- Year-end 2016 impairment provisions charge of £0.1m (Dec 2015 £12.8m)



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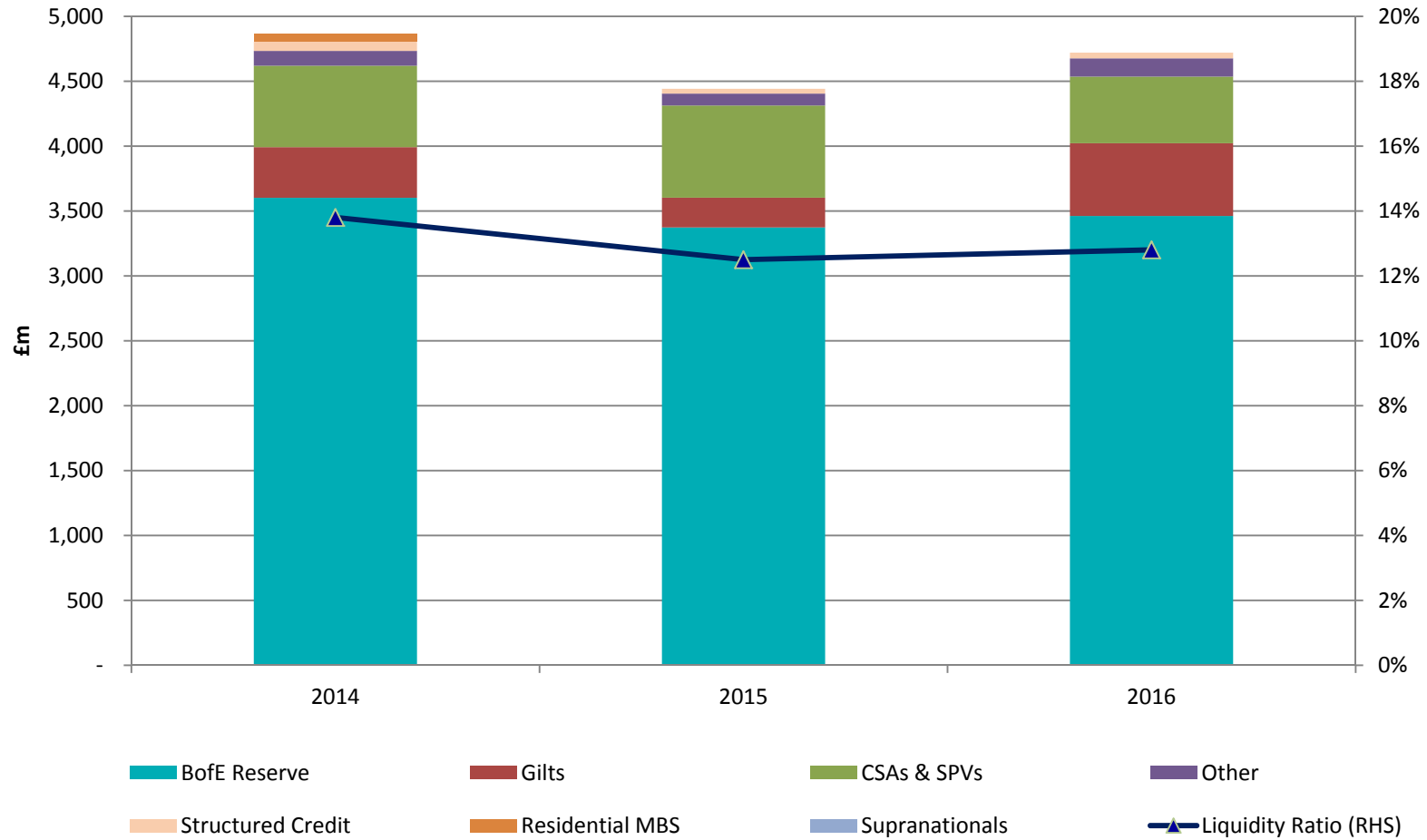
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YBS GROUP LIQUIDITY



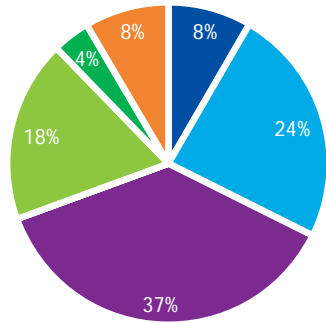
- LCR - 160%
- Contingent liquidity available via Bank of England



WHOLESALE FUNDING PROFILE

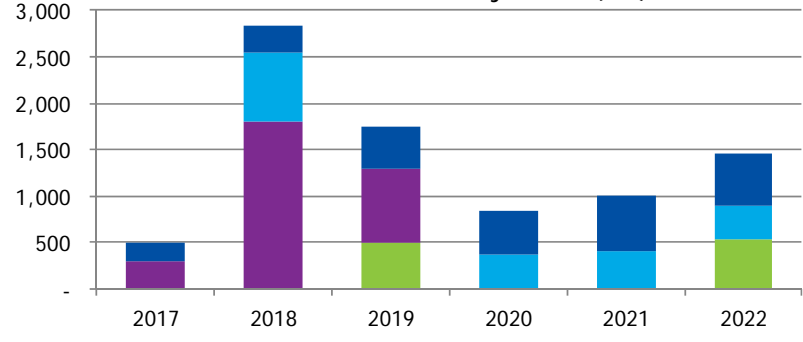
Wholesale Funding Mix

- Secured:
 - RMBS
 - COVERED BOND
- Government:
 - FLS
- Unsecured:
 - MTN
 - TIER 2 CAPITAL
- Other:
 - TOTAL OTHER

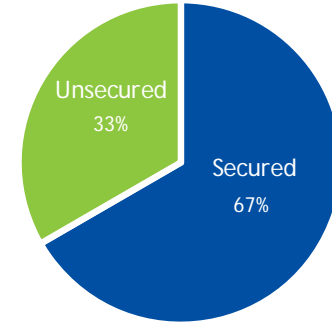


Dec 2016

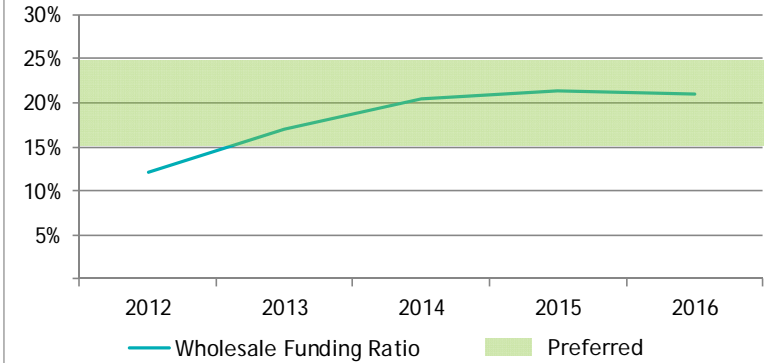
Maturities & RMBS Paydowns (£m)



Targeted Wholesale Mix



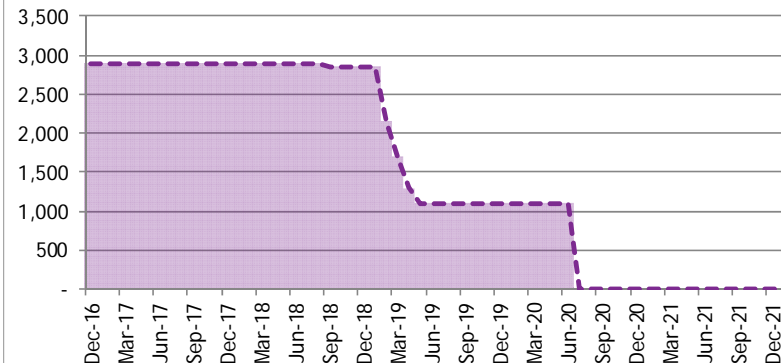
Wholesale Funding Ratio



Funding for Lending Scheme (FLS):

- £3.5bn drawn as at Sep-16
- £0.6bn repaid Oct-16
- 4-year maturity
- Cost - Fee 25bp (for net lenders)
- No penalty for early redemption
- T-bills versus collateral (off balance sheet)

FLS Contractual Repayments (£bn)

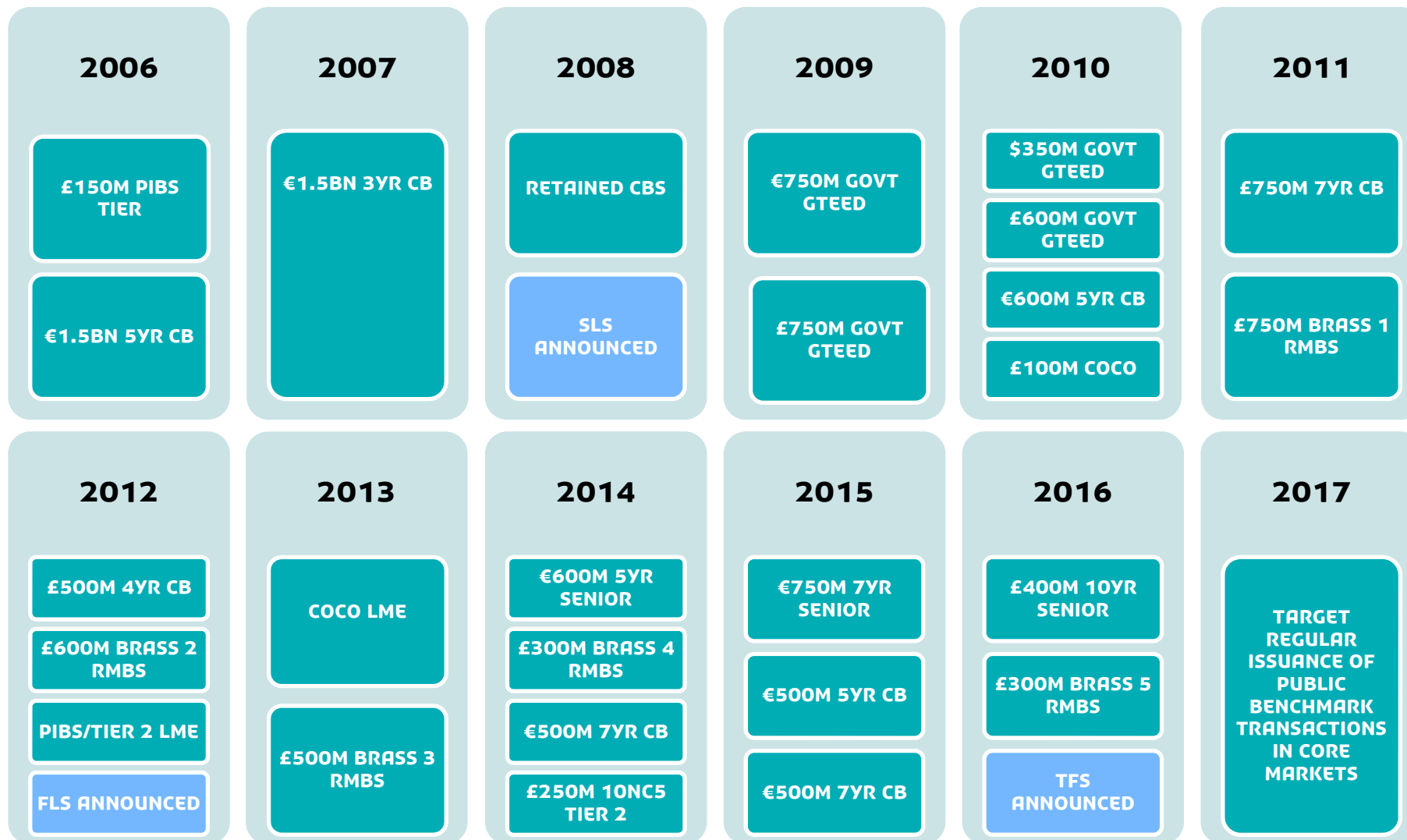


Term Funding Scheme (TFS):

- £0 drawn as at Dec-16 (Allowance: £1.7bn + net growth)
- 4-year maturity
- Cost - bank rate flat (for net lenders)
- No penalty for early redemption
- Cash reserve versus collateral (on balance sheet)



PUBLIC BOND ISSUANCE HISTORY





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