YORKSHIRE BUILDING SOCIETY ANNUAL GENERAL MEETING 2018
CHIEF FINANCE OFFICER'S PRESENTATION

Good afternoon ladies and gentlemen, and thank you Mike.

As Chief Finance Officer my focus is on safeguarding the strength and security of the Society, and on ensuring we can continue to provide the best possible value to our members through our products and services. This means ensuring we have a strong balance sheet and a core underlying profitability that allows us to price our products to deliver value whatever market conditions we face.

Before I turn to our 2017 financial performance in detail, it is worth looking at our business model. Our building society model is simple: we exist to provide a secure place for members to grow their savings which, as you can see on the slide, is where we get the majority of our funding. This allows us to lend primarily to people to buy their own homes, with some held in liquid reserves providing resilience and security for our members. That is the model we have operated for over 150 years and it's still every bit as relevant today.

Turning to our 2017 performance, as you have heard from Mike, we have responded well to the competitive and challenging market conditions, and recorded another year of strong financial performance, which was ahead of expectations in many areas, and we continued to invest in the business for the future.

We delivered a strong level of profit before tax at £166m and our core operating profit, which as it excludes non-core and one-off items we consider to be the clearer measure of underlying profitability, was £160m.

With no external shareholders to satisfy we make profits not to pay dividends, but to protect members' interests in three key areas;

- Resilience to enable us to prepare for any future economic stresses
- Creditworthiness which provides us with access to diverse funding sources, and
- Growth ensuring we are here not only for the current members but also future generations

Our profit is simply between the income we generate, less our costs. A key driver of income is the net interest margin which is the difference between the money we receive in interest from borrowers and that which we pay to savers.

Of course our savers want higher interest rates and our borrowers want lower rates and we have a responsibility to balance the two. As you have heard, the average rate we pay to our savers is 0.28% higher than the average paid in the market, but we cannot always pay the highest market rate. If we did we risk attracting more savings than we can safely lend on meaning we would need to invest them in the Bank of England where they will earn the Bank Rate of just 0.5 per cent, whilst the average rate we pay to savers is more than that this clearly would not be financially sustainable.

In 2017 our net interest margin was 1.23%, which provided net interest income of £502m. Other sources of income include commissions we earn from the third party products we provide such as insurance.

Our costs are the money we spend running the business and that which we put aside for bad debts and other provisions. In 2017 the charge for impairment on our loan portfolios fell from £nil in 2016 to a release of £10m, reflecting the continued improvement in the mortgage arrears positions and the ongoing reduction in mortgage write-offs and repossessions. Charges for other provisions included expected PPI claims and costs relating to the business and organisational changes.

The Group measures its overall cost efficiency through the management expense ratio, which measures the costs as a proportion of mean assets. I am pleased to report that this ratio decreased in 2017, to 0.83%, as we focus on simplifying our business and making it more efficient. The cost to income ratio also reduced to 63%.

Turning to the key measures of balance sheet strength, our core capital and liquidity ratios increased during the year with both measures being comfortably, but sensibly, above our regulatory requirements. Another measure of our capital position is the leverage ratio, which also increased in 2017. Whilst this is not a mandatory measure for the Group we are already well above the minimum regulatory requirement of 3.25%.

Capital requirements are however increasing, and by 2020 will be double those required today. Being strongly capitalised is an essential factor in maintaining our members' trust, since this is the element that protects savers against unexpected events impacting our business, and I'm pleased to say that we are well placed to respond to these increasing requirements.

Our trading performance in the year was strong, despite the fierce competition in the mortgage market driven primarily by new entrants, but also from the impact of the Term Funding Scheme which has provided low cost government funding for mortgage growth. Our record gross mortgage lending of £8.1bn supported the 2.8% growth in mortgage balances, with all new business remaining within our risk appetite.

As in previous years we have balanced the growth of the mortgage book with our ability to maintain good long-term value rates for our saving members.

At the end of the year our savings balances were £28.9bn, and our mortgages balances £35.1bn.

Looking forward, we will remain financially focused on a number of areas:

1. Ensuring that our capital position remains strong
2. Ensuring we have robust and profitable lending practices that remain within our risk appetite
3. Continuing our drive for efficiency
4. Ensuring we remain competitive and attractive, providing long-term value to members

Thank you for listening.

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