



**YBS  
GROUP**

# **YORKSHIRE BUILDING SOCIETY**

**2017 ANNUAL RESULTS UPDATE**



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## **1. INTRODUCTION**

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## INTRODUCTION

- Yorkshire Building Society (YBS) is the 3<sup>rd</sup> largest UK Building Society<sup>(1)</sup> with total assets of £42bn<sup>(2)</sup>
- Mutual organisation owned by circa 2.8<sup>(3)</sup> million members
- Operating under a multi-brand strategy
  - Direct lending via branches & internet
  - Intermediary lending via Accord Mortgages (web based)
- Simple, traditional building society model with a predominantly retail balance sheet
  - Residential mortgage lending in UK - £35bn<sup>(2)</sup>
  - Large retail deposit base - £29bn<sup>(2)</sup>
- Strong capital position - CET1 15.8%<sup>(2)</sup> (under a standardised approach for RWAs)
- Robust leverage ratio - 5.7% <sup>(2)</sup>
- Strengthened liquidity ratio - 15.7%<sup>(2)</sup>

Brand	Timeline
 <b>YORKSHIRE BUILDING SOCIETY</b>	Established 1864
 <b>ACCORD MORTGAGES</b>	Established 2003
 <b>CHELSEA BUILDING SOCIETY</b>	Merged 2010
 <b>NORWICH &amp; PETERBOROUGH BUILDING SOCIETY</b>	Merged 2011

Agency	Short Term	Long Term	Outlook	Last change
Fitch	F1	A-	Stable	Upgrade Sep 2014
Moody's	P-2	A3 (senior)	Stable	Upgrade Sep 2017

Source: Fitch Ratings, Moody's Investors Service



## OUR CORPORATE PLAN REMAINS UNCHANGED

Our VISION tells us WHAT we want to be:	<p style="text-align: center;"><b>To be the most trusted provider of financial services in the UK</b> (measured by our Customer Trust Ranking )</p>			
Underpinned by our values:	<p style="text-align: center;"><b>Being Passionate, Trustworthy and Personal, with Customers at Our Heart</b></p>			
Our AIM is HOW we will achieve this:	<p style="text-align: center;"><b>We will be Simply Brilliant at Mortgages and Savings</b></p>			
Our STRATEGIC PRIORITIES will lead us there and are				
	<b>Customer Experience</b>	<b>People Experience</b>	<b>Easy &amp; Simple</b>	<b>Business Sustainability</b>
This means	We will offer market leading products and services, delivered through customers' preferred channels	We will be recognised as a great employer with a lasting, positive impact on society	We will be simple to use, an effective and efficient business that our customers & colleagues can easily engage with	We will be a sustainable, responsible and ethical business from a financial, risk and broader perspective
Which we will do by	<p>C1: Delivering outstanding customer experience through our direct and introduced channels</p> <p>C2: Developing propositions that work for our customers in our core and growth markets</p> <p>C3: Ensuring our distribution strategy meets evolving customer preferences</p>	<p>P1: Offering a distinctive proposition to attract and retain the right talent</p> <p>P2: Growing capability &amp; culture to meet future business strategy</p> <p>P3: Increasing the impact of our work in our communities and broader society</p>	<p>E1: Improving the quality and efficiency of our business processes</p> <p>E2: Developing the capabilities we need to support our delivery and distribution model</p> <p>E3: Embedding a lean and efficient decision making process that promotes empowerment and accountability</p>	<p>F1: Focusing our business model on delivering sustainable profitability</p> <p>F2: Actively managing the generation and distribution of leeway value to our customers</p> <p>F3: Managing the business within our risk appetite</p>



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## 2017 FULL YEAR RESULTS KEY HIGHLIGHTS

Strong Performance	<ul style="list-style-type: none"><li>▪ YBS is maintaining its position as a leading UK mortgages and savings provider</li><li>▪ Statutory profit before tax of £166m (YE 2016 £152m) and core operating profit of £160m (YE 2016 £128m)</li></ul>
Asset Growth & Market Share	<ul style="list-style-type: none"><li>▪ Increased total asset base to £42bn from £39.6bn at YE 2016</li><li>▪ Gross mortgage lending of £8.1bn (£1bn net lending) - performance in line with plans as YBS continues to take a measured approach to lending in a competitive market</li><li>▪ Savings balances £29bn - balancing savings flow versus mortgage lending</li></ul>
Consistent Performance	<ul style="list-style-type: none"><li>▪ Asset quality remains strong 3m+ arrears (including possessions) at 0.46% (further reduced from 0.68% at YE 2016)</li></ul>
Improved Liquidity Position	<ul style="list-style-type: none"><li>▪ Liquidity holdings increasing to £6.1bn (15.7%) - increased from £4.7bn (12.8%) at YE 2016</li><li>▪ Significantly in excess of regulatory requirements. Liquidity Coverage Ratio at 165% (up from 160% at YE 2016)</li><li>▪ Contingent liquidity available via Bank of England</li><li>▪ Liquidity predominately Bank of England Reserve Account, Gilts, SSA and T-Bills</li></ul>
Capital Position & Leverage Ratio	<ul style="list-style-type: none"><li>▪ Strengthened CET1 capital ratio to 15.8% from 14.9% at YE 2016 (pre-IRB)</li><li>▪ Increased leverage ratio to 5.1% (5.7% excluding central bank deposits)</li></ul>
Putting The Customer First	<ul style="list-style-type: none"><li>▪ Achieved a Net Promoter Score of +41 up from +34 at YE 2016<sup>(1)</sup></li></ul>



## STATUTORY AND CORE OPERATING PROFIT

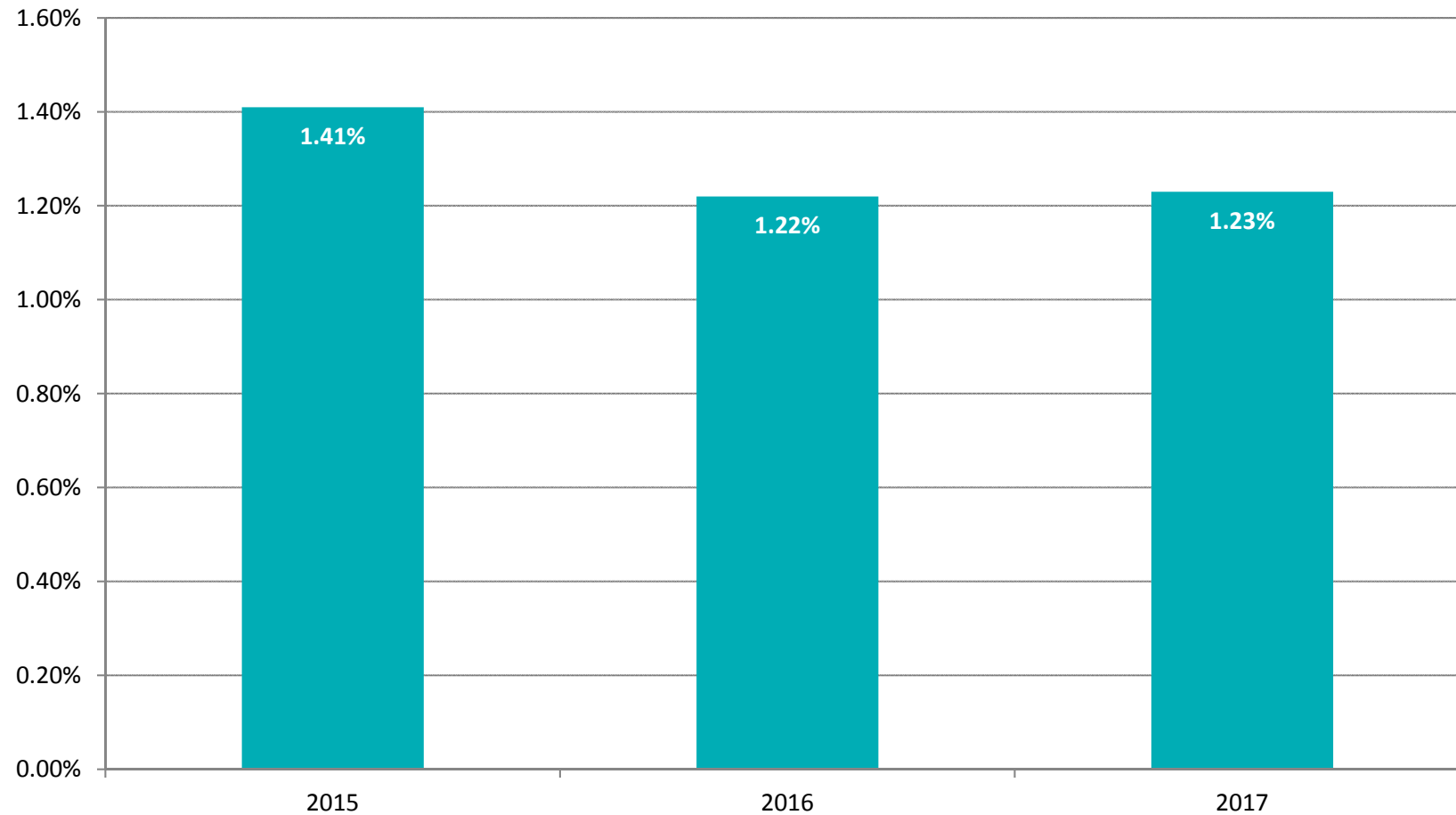
	2015	2016	2017
Net Interest Income	535	476	502
Fair Value Movements	(7)	1	13
Profit/ (loss) from sale of assets (debt securities)	2	2	6
Profit/ (loss) on capital repurchase	-	-	-
Other Income	18	36	15
	548	515	536
Management Expenses	(346)	(346)	(340)
	202	169	196
Provisions	(29)	(17)	(30)
<b>Statutory Profit before tax</b>	<b>173</b>	<b>152</b>	<b>166</b>
Add back:			
FSCS levy <sup>1</sup>	11	5	2
Non-core investments <sup>2</sup>	1	(1)	(6)
Timing differences - fair value volatility <sup>3</sup>	6	(1)	(7)
Mergers - adjustments to balances acquired <sup>4</sup>	(4)	(3)	(4)
Restructuring costs <sup>5</sup>			14
Other non-core items <sup>6</sup>	(2)	(24)	(5)
<b>Core Operating Profit</b>	<b>185</b>	<b>128</b>	<b>160</b>

- 1) UK Depositor Protection Scheme
- 2) Structured Credit (in run off - £4m)
- 3) Accounting volatility on hedging

- (4) Release of merger Fair Value
- (5) Restructuring costs due to organisational changes
- (6) Proceeds from property sale & Visa shares



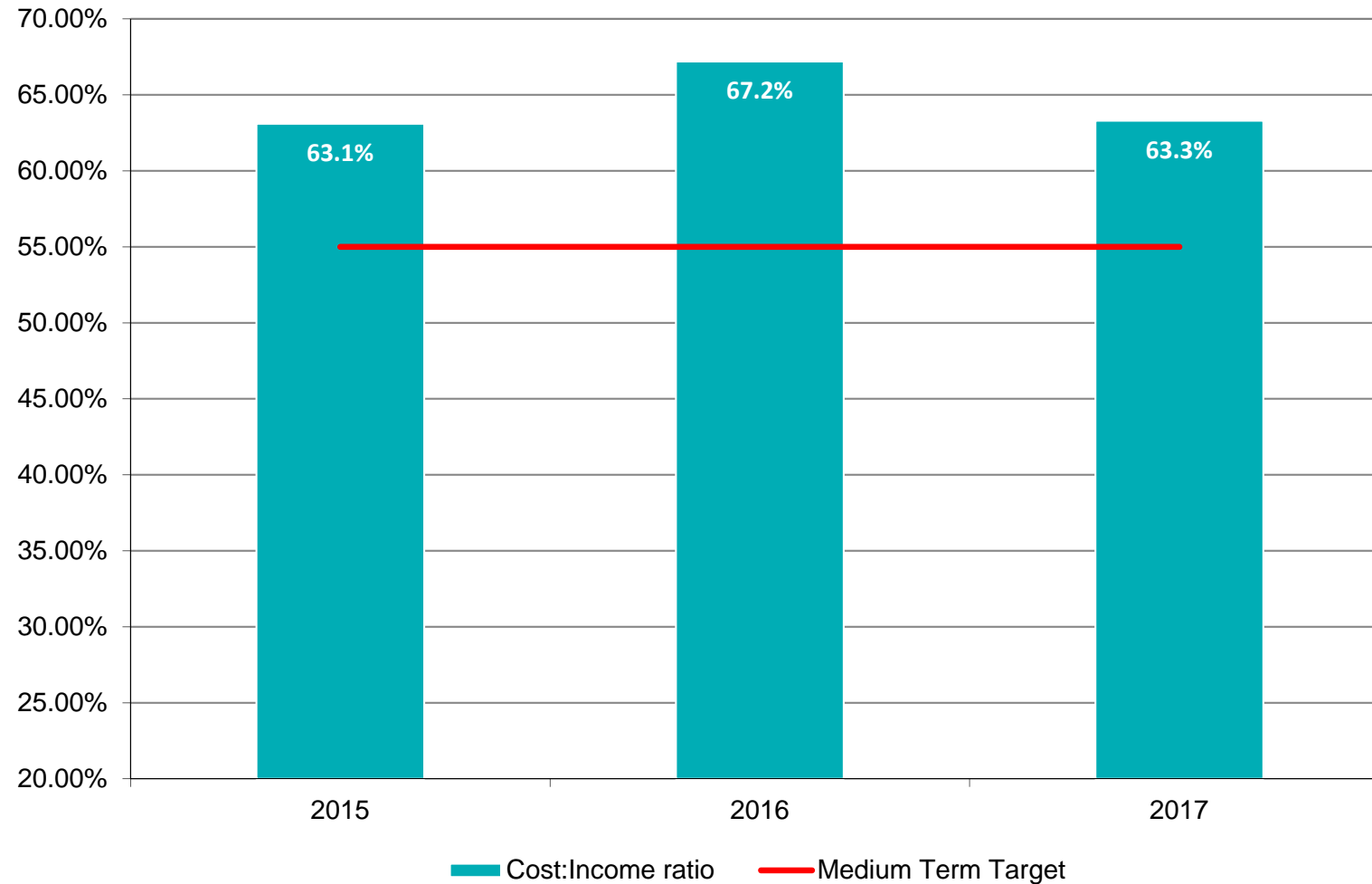
## INCOME STATEMENT – NET INTEREST MARGIN



- Net interest margin remains stable
- Reduction in mortgage margins (competitive low rate environment & increased re-mortgage activity)
- Availability of low cost funding (government schemes)



## INCOME STATEMENT – COSTS



- Major cost initiatives continuing
- Still investing in change programme (£73m in 2017)
- Medium term goal Cost:Income ratio below 55%



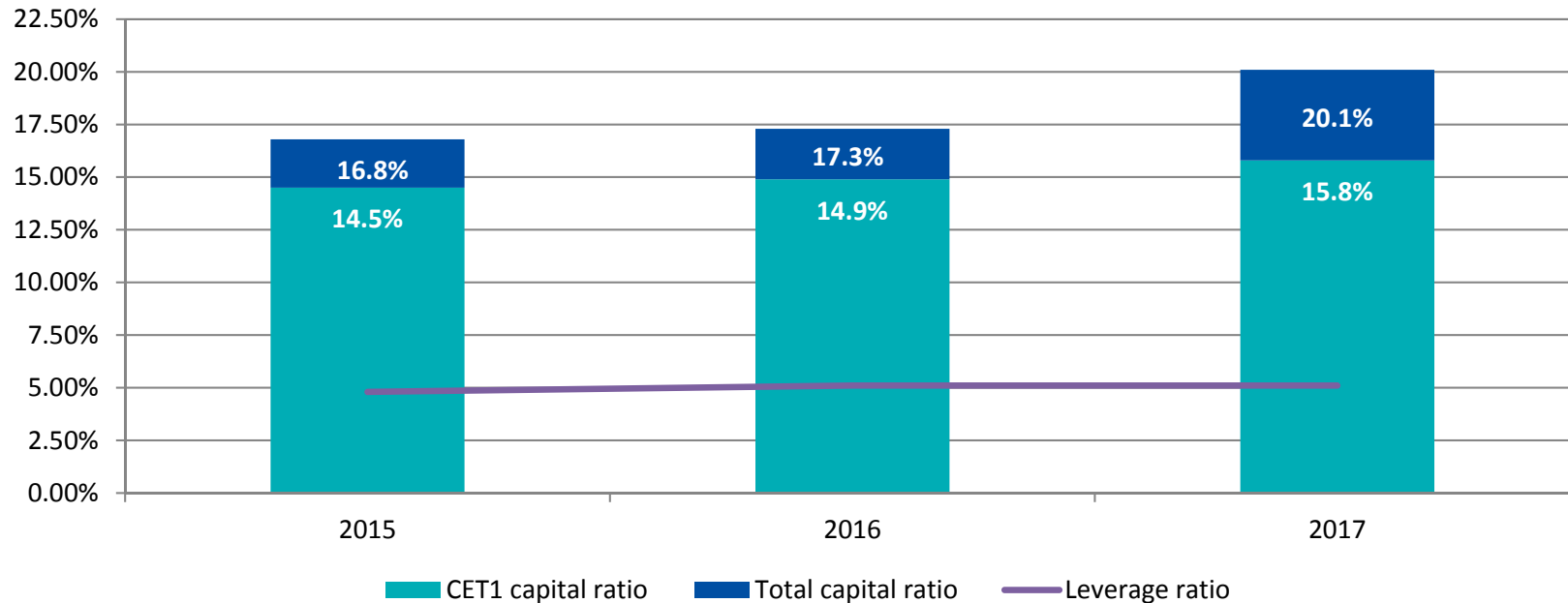
## BALANCE SHEET

Group Balance Sheet	£bn	2015	2016	2017
Liquid Assets		4.4	4.7	6.1
Mortgage and other loans		33.3	34.1	35.1
Other assets		0.5	0.8	0.8
<b>Total Assets</b>		<b>38.2</b>	<b>39.6</b>	<b>42.0</b>
Retail Savings		27.4	28.7	28.9
Wholesale funding		7.9	7.9	9.8
Other liabilities		0.5	0.5	0.3
		35.8	37.1	39.0
Remunerated capital		0.3	0.3	0.6
Reserves		2.1	2.2	2.4
<b>Total Liabilities</b>		<b>38.2</b>	<b>39.6</b>	<b>42.0</b>

- Balance sheet growth 6.2%
- Mortgage growth 2.8%



## CAPITAL (STANDARDISED RWA) POSITION AND LEVERAGE



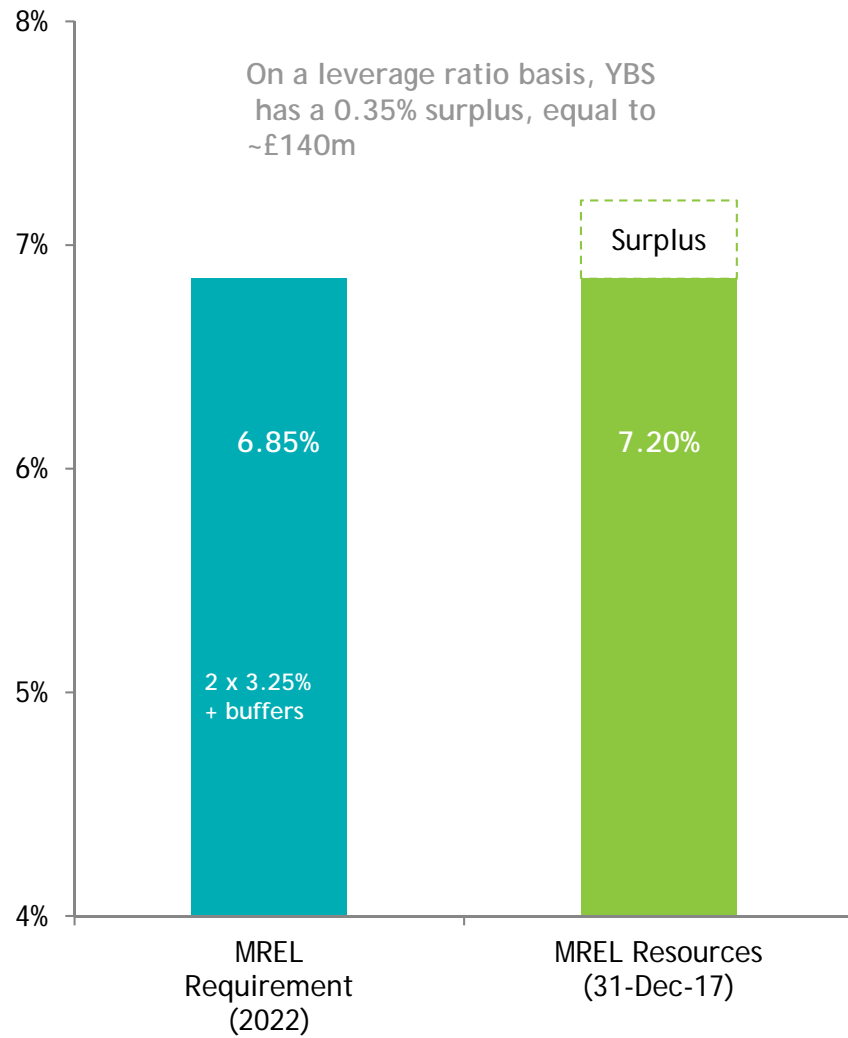
- CET1 capital ratio - 15.8% / Total capital ratio - 20.1% (calculated under standardised RWA approach and fully loaded) well in excess of current prudential minimums
- Leverage ratio - 5.1% (on an end point Tier 1 and CRD IV leverage exposure measure) or 5.7% excluding central bank deposits
- YBS currently working towards **Internal Ratings Based (IRB)** approach and is on track to apply for IRB in March 2018. Assuming IRB we would expect to be leverage constrained going forward
- Following this application, the PRA will review the Group's IRB systems. The Group anticipates a period of circa 18 months for this review before IRB permissions are granted
- This timescale depends on the outcome of the PRA's reviews, in particular the model review. Any significant issues identified by the PRA could extend this timescale

Source - YBS ARA 2015, 2016 & 2017

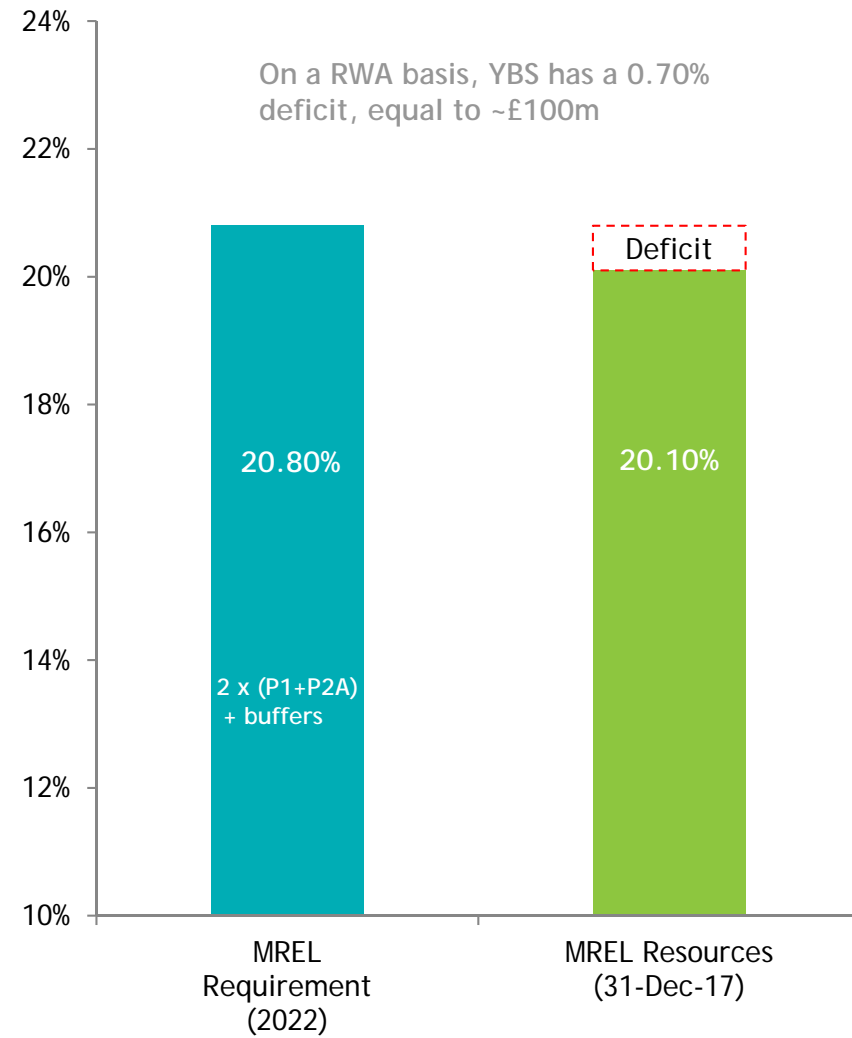
(1)- T1 capital requirement consists of Pillar 1 & Pillar 2A T1 minimums and phase in of Capital Conservation Buffer



### Leverage Ratio Basis



### RWA Basis (standardised)





## KEY FINANCIAL METRICS

Metric	Dec-15 (%)	Dec-16 (%)	Dec-17 (%)
Group net interest margin	1.41	1.22	1.23
Group asset growth	1.7	3.6	6.2
Group loans and advances growth	3.4	2.4	2.8
Member savings balances growth	0.6	4.7	0.9
Liquidity ratio	12.5	12.8	15.7
CET1 capital ratio	14.5	14.9	15.8
Total capital ratio	16.8	17.3	20.1
Leverage ratio	5.0	5.1	5.1
Cost : Income ratio	63.1	67.2	63.3
Management expenses ratio (cost to mean assets)	0.91	0.89	0.83





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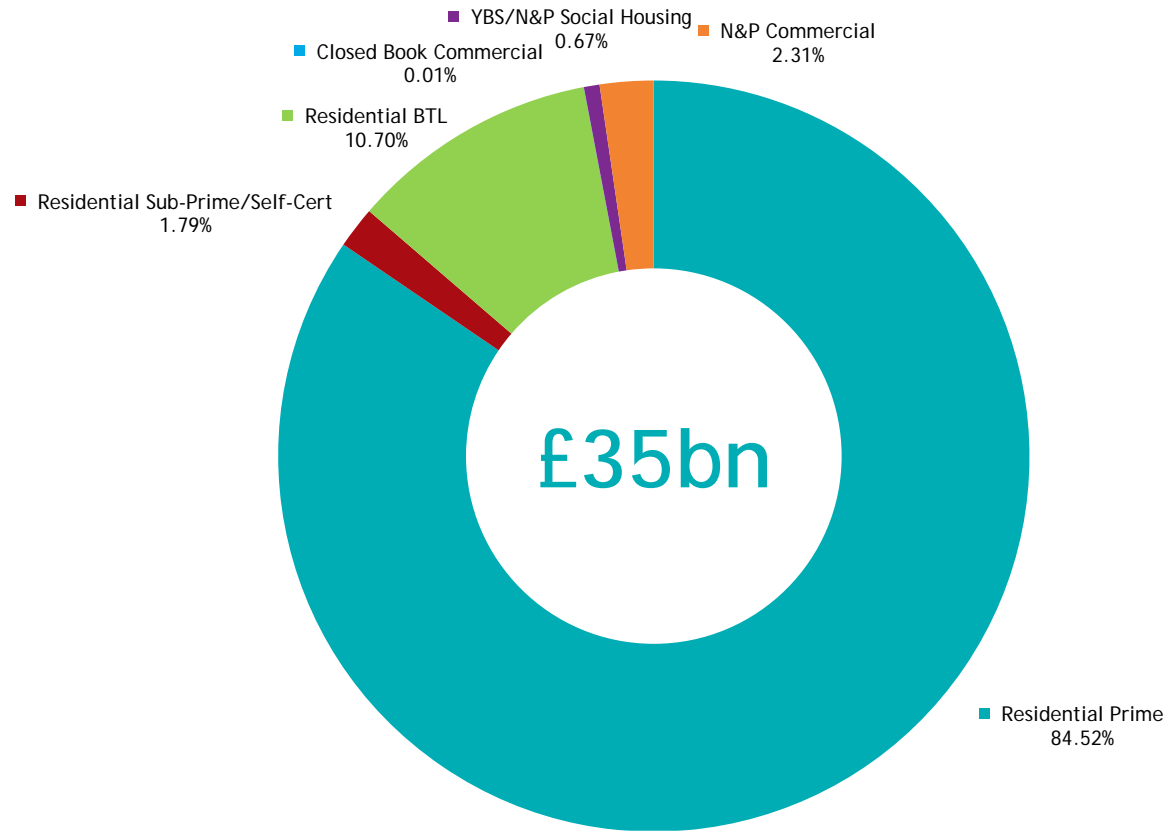
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## YBS GROUP MORTGAGE TYPE BREAKDOWN

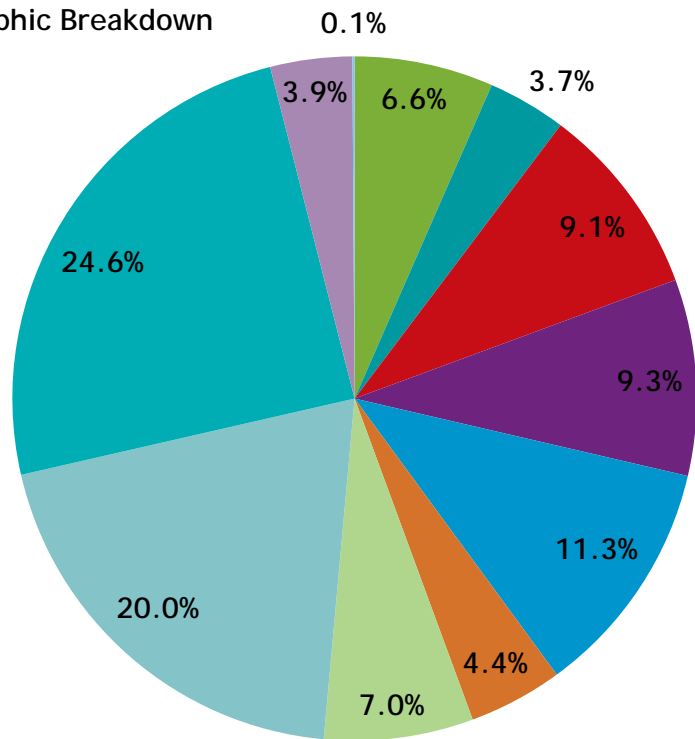


- Predominantly prime residential mortgage lender
- Sub-prime book closed and in run-off, circa 1.8% of total balances
- BTL book currently below fair market share
- N&P Commercial loan book continues to grow within a risk appetite limit of 3%
- Limited involvement in Social Housing sector



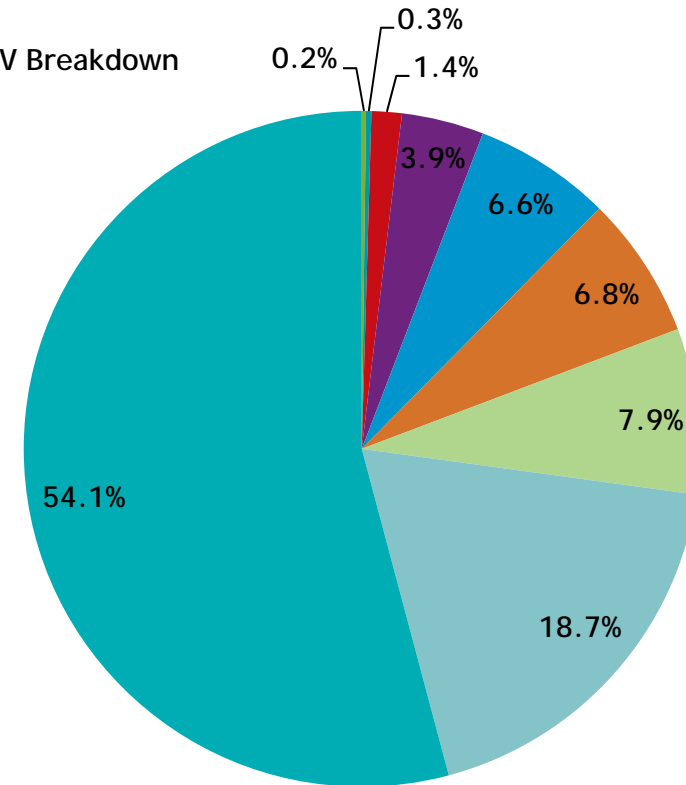
## GEOGRAPHIC AND LTV BREAKDOWN

Geographic Breakdown



- Scotland
- North East
- Yorkshire & Humberside
- North West
- Midlands
- East Anglia
- South West
- Greater London
- South East
- Wales & Northern Ireland
- Non UK

LTV Breakdown



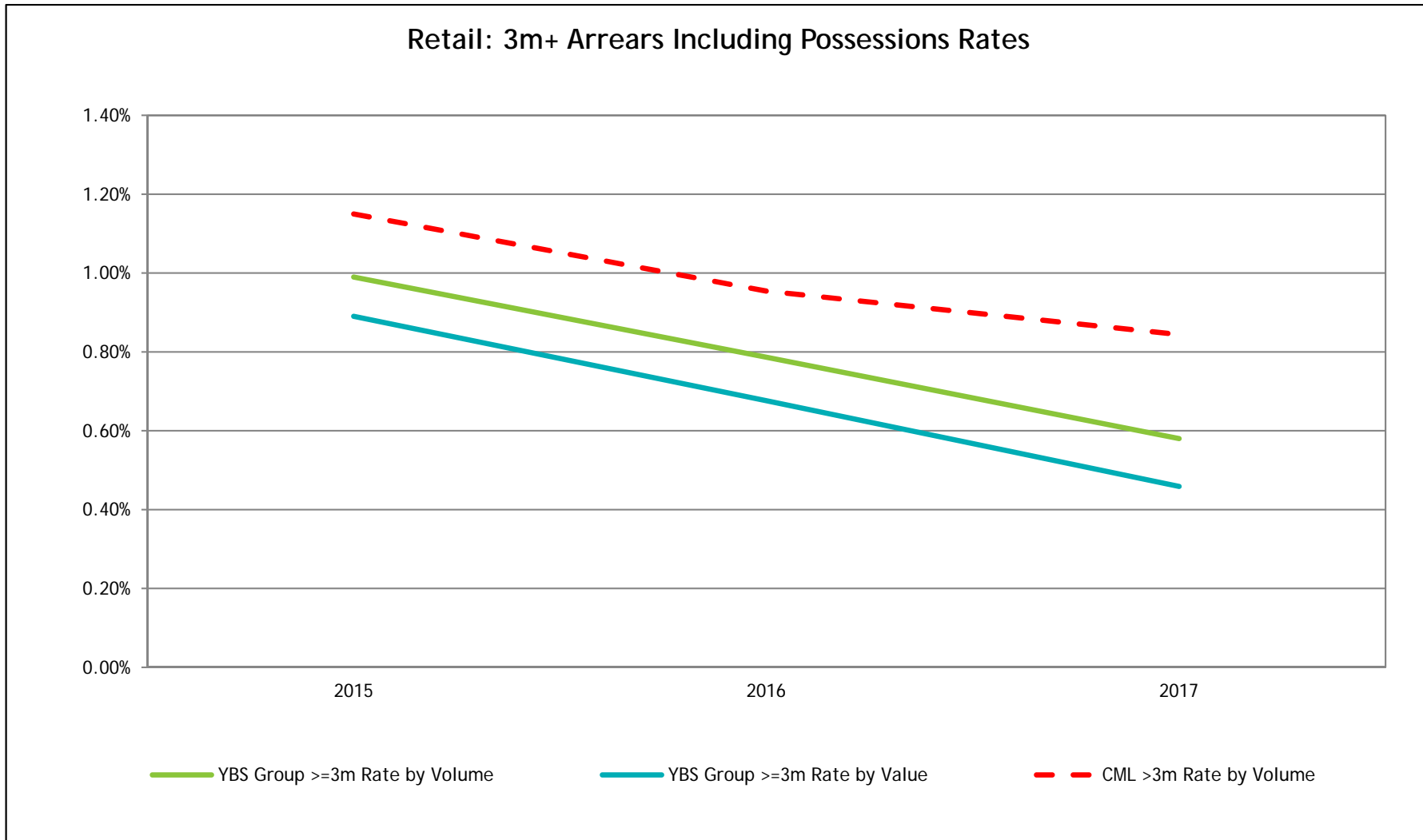
- >100%
- >95%-<=100%
- >90%-<=95%
- >85%-<=90%
- >80%-<=85%
- >75%-<=80%
- >70%-<=75%
- >60%-<=70%
- <=60%

- YBS Group exposure broadly in line with UK averages

- Proportion of book with >90% LTV has remained at 1.9% from Dec 2016 to Dec 2017



## YBS GROUP ARREARS ANALYSIS



- Arrears continue declining trend
- Continue to outperform industry (CML)



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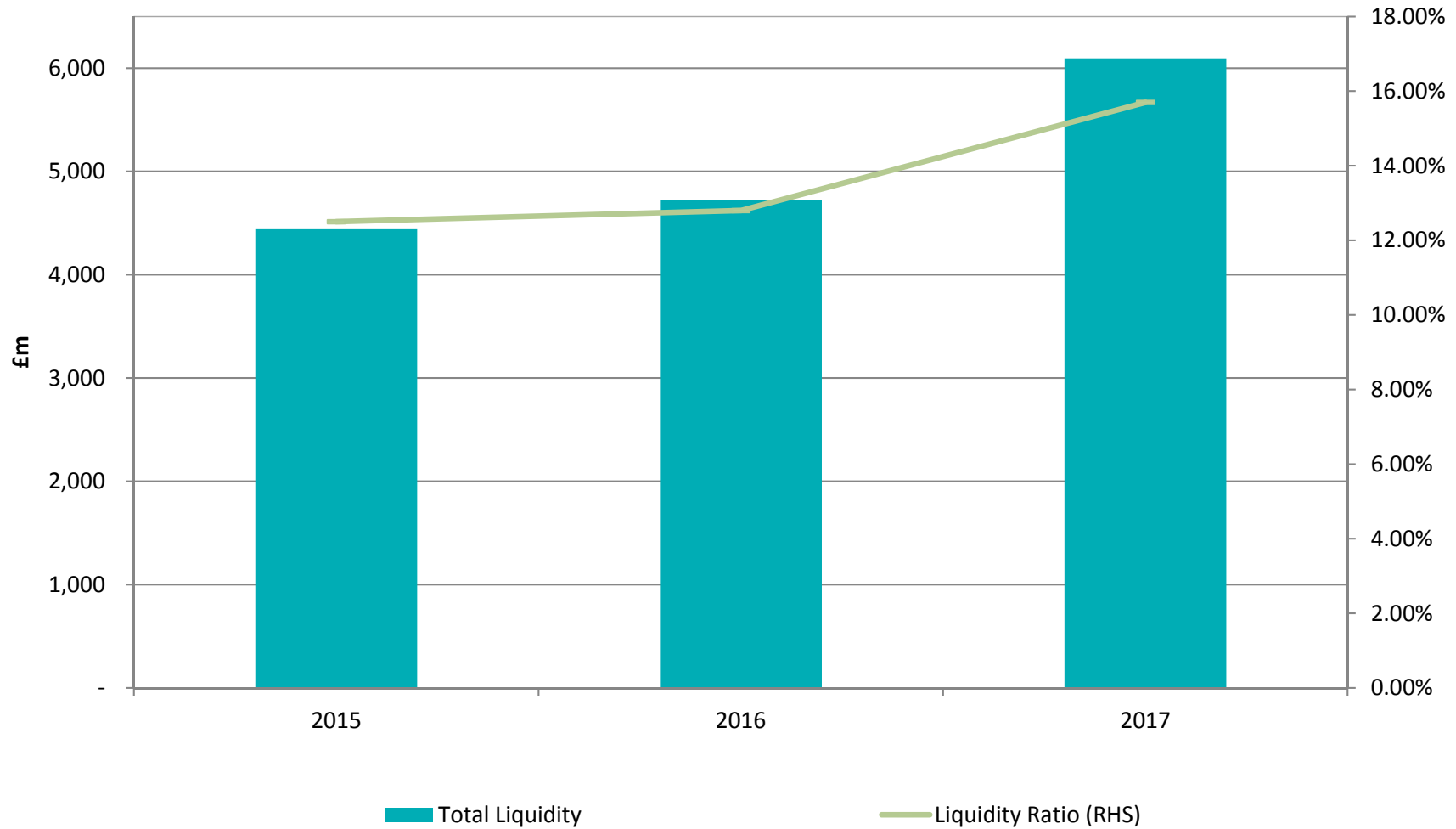
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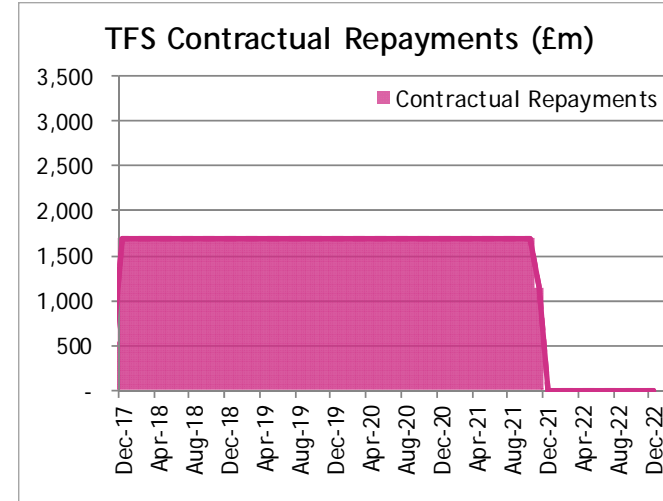
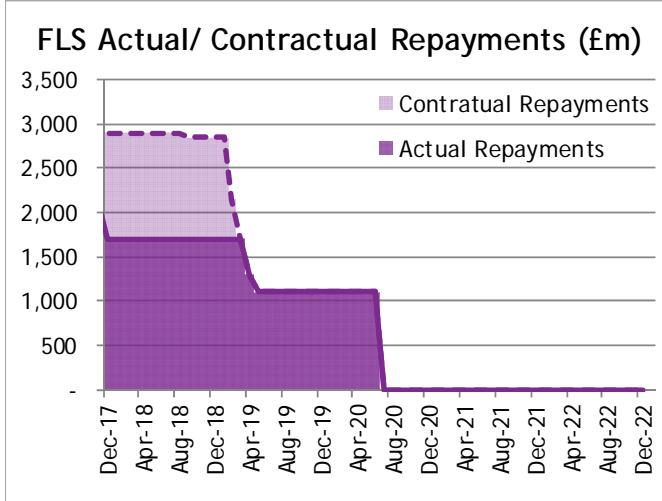
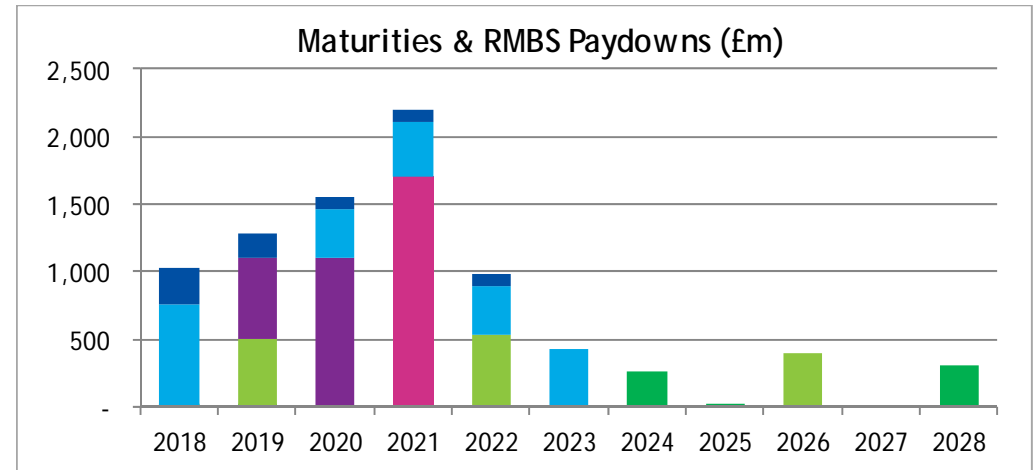
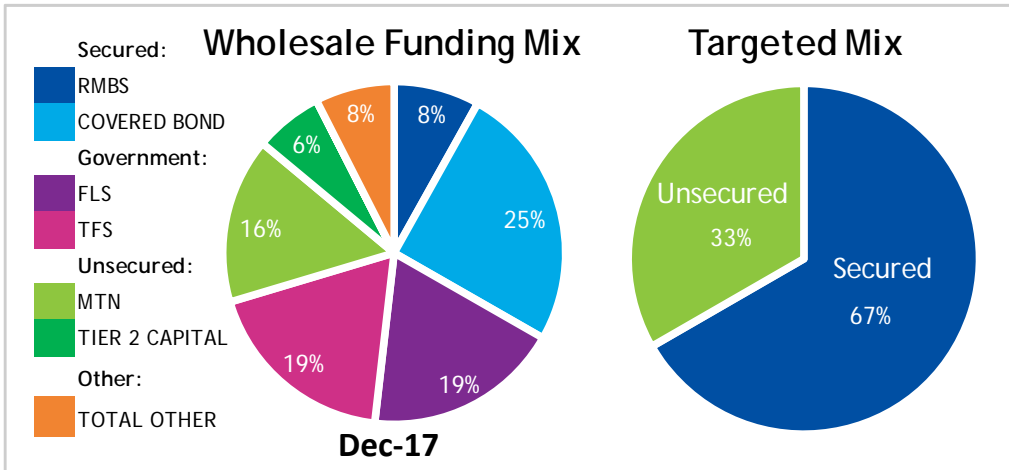
## YBS GROUP LIQUIDITY



- Predominantly Bank of England Reserves account & Gilts
- LCR - 165% increased from 160% at YE 2016
- Contingent liquidity available via Bank of England



# YBS GROUP WHOLESALE FUNDING PROFILE



Maturities & Paydowns are based on issuances to Dec-17, i.e. do not include planned issuances or actuals to date in 2018.

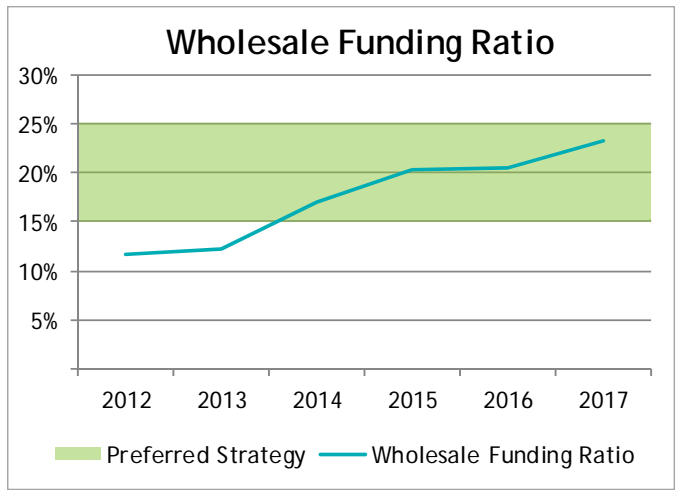
Wholesale Funding Ratio includes total wholesale and external capital as a % of the Group's SDLs (Shares, Deposits & Liabilities).

**Funding for Lending Scheme (FLS):**

- £3.5bn drawn; last draw down Jul-16
- £1.8bn repaid as at Dec-17
- 4-year maturity
- Cost - Fee 25bp (for net lenders)
- No penalty for early redemption
- T-bills versus collateral (off balance sheet)

**Term Funding Scheme (TFS):**

- £1.7bn drawn as at Dec-17
- 4-year maturity
- Cost - bank rate flat (for net lenders)
- No penalty for early redemption
- Cash reserve v. collateral (on balance sheet)





# WHOLESALE FUNDING MARKET ISSUANCE - HISTORY







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