YORKSHIRE BUILDING SOCIETY

INVESTOR PRESENTATION

MARCH 2019

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CONTENTS

INTRODUCTION

- Yorkshire Building Society (YBS) is the 3rd largest UK Building Society[1] with total assets of £43bn[2]
- Mutual organisation owned by circa 3.0[2] million members
- Operating under a dual-brand strategy
  - Direct lending via YBS branches & internet
  - Intermediary lending via Accord Mortgages
- Traditional building society model with a predominantly retail balance sheet. One of only three building societies operating under the highest regulatory status for both lending and treasury activities under SS20/15 (i.e. 'Mitigated' and 'Comprehensive')
  - Residential mortgage lending in UK - £37bn[2]
  - Large retail deposit base - £30bn[2]
- Strong capital position - CET1 16.3%[2] (under a standardised approach for RWAs)
- UK Leverage ratio – 5.8%[2]
- Liquidity ratio - 13.9%[2][3]

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	Outlook	Last change
Fitch	F1	A- (senior)	Stable[1]	Upgrade Sep 2014
Moody's	P-2	A3 (senior)	Stable	Upgrade Sep 2017

Source: Fitch Ratings, Moody's Investors Service
[1]On 01/03/2019 Fitch placed YBS (and 18 other UK banking groups) on Rating Watch Negative due to Brexit concerns

Source *(1) YBS 2018 Results Press Release, (2) YBS*
(3) Liquidity Ratio defined as - The total of cash and balances with the Bank of England, loans and advances to credit institutions, debt securities and other liquid assets as a percentage of shares and borrowings

OVERVIEW AND OUR PURPOSE & VISION

Purpose – what we are here to do	**To Deliver Real Help With Real Lives**
Mission – what this requires us to actually deliver	**Be Simply Brilliant at:** Helping people to have a place to call home Helping people save to meet life's challenges & opportunities
The What - our priorities for achieving this in the prevailing environment	Trading competitively Reducing the cost base Completing integration Developing capabilities Working better together

New Five to Thrive overlapping with delivery of Five to Drive

The How- how we'll need to be to deliver these priorities, our values	Personal Passionate Trustworthy Customers at our heart

TRANSITIONING FROM FIVE TO DRIVE TO FIVE TO THRIVE

The Five to Drive and Thrive for organisation-wide implementation of the Strategic Intents, to deliver Real Help With Real Lives

Current Five to Drive	
A reactive, in-year set of deliverables	
Trading Hard	We will have achieved total new lending of £9.1bn and growth in saving balances of £1.1bn. Also landing a new digital sales and originations platform for brokers (CET).
Reducing Cost Base	We will have revised, more efficient business structures in place and increased our use of automation. We will have established the roadmap to reduce the cost base further to c.£260m by 2020.
Completing Integration	We will have assisted all our current account members to move their banking elsewhere, retire the N&P brand from the High Street and complete full integration of all other activities.
Developing Capabilities	We will have transformed our digital capabilities and prepared ourselves to compete in an Open Banking world with innovative customer propositions. This will be supported by more effective internal processes and governance.
Working Better Together	We will be clear what is expected of us through accountable and engaging leadership. The behaviours that bring our values to life will be defined and we will be working together in alignment across all business areas.

1

2

3

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Towards Five to *Thrive*	
A proactive, forward-looking set of aims	
Help	Deliver more **targeted help** for our customers' real life needs.
Protect	Protect our income & member returns by **growing our higher margin lines** of business
Digitalise	Digitalise our business & become **more efficient via quick & agile change**
Expand	Expand our reach in the physical & virtual world & via **partnerships**
Unleash	Unleash our brilliant selves so everyone can contribute to **making a real difference**

CONTENTS

2018 FULL YEAR RESULTS KEY HIGHLIGHTS

Strong Performance	▪ YBS is maintaining its position as a leading UK mortgages and savings provider ▪ Statutory PBT +16% to £193m (YE 2017 £166m) and core operating profit +13% to £181m (YE 2017 £160m)
Asset Growth & Market Share	▪ Increased total asset base to £43bn from £42bn at YE 2017 ▪ Gross mortgage lending of £8.9bn (£1.6bn net lending) – performance in line with plans as YBS continues to take a measured approach to lending in a competitive market ▪ Savings balances £30bn – balancing savings flow versus mortgage lending
Consistent Performance	▪ Asset quality remains strong – 3m+ arrears, including possessions at 0.50% (from 0.58% at YE 2017)
Improved Liquidity Position	▪ Liquidity holdings managed down to £5.5bn (13.9%) – from £6.1bn (15.7%) at YE 2017 ▪ Significantly in excess of regulatory requirements. Liquidity Coverage Ratio at 159% (vs 165% at YE 2017) ▪ Contingent liquidity available via Bank of England ▪ Liquidity predominately Bank of England Reserve Account, Gilts, SSA, Covered Bonds and T-Bills
Capital Position & Leverage Ratio	▪ Strengthened CET1 capital ratio to 16.3% from 15.8% at YE 2017 (pre-IRB) ▪ Increased CRR leverage ratio to 5.4% (5.8% UK leverage ratio)
Putting The Customer First	▪ Maintained a stable Net Promoter Score of +41 in 2018 (versus +41 at YE 2017)[1]

Source - YBS ARA 2017 & YBS 2018 Annual Results Press Release
(1) KPMG Nunwood Customer Experience Excellence Annual Study

STATUTORY AND CORE OPERATING PROFIT

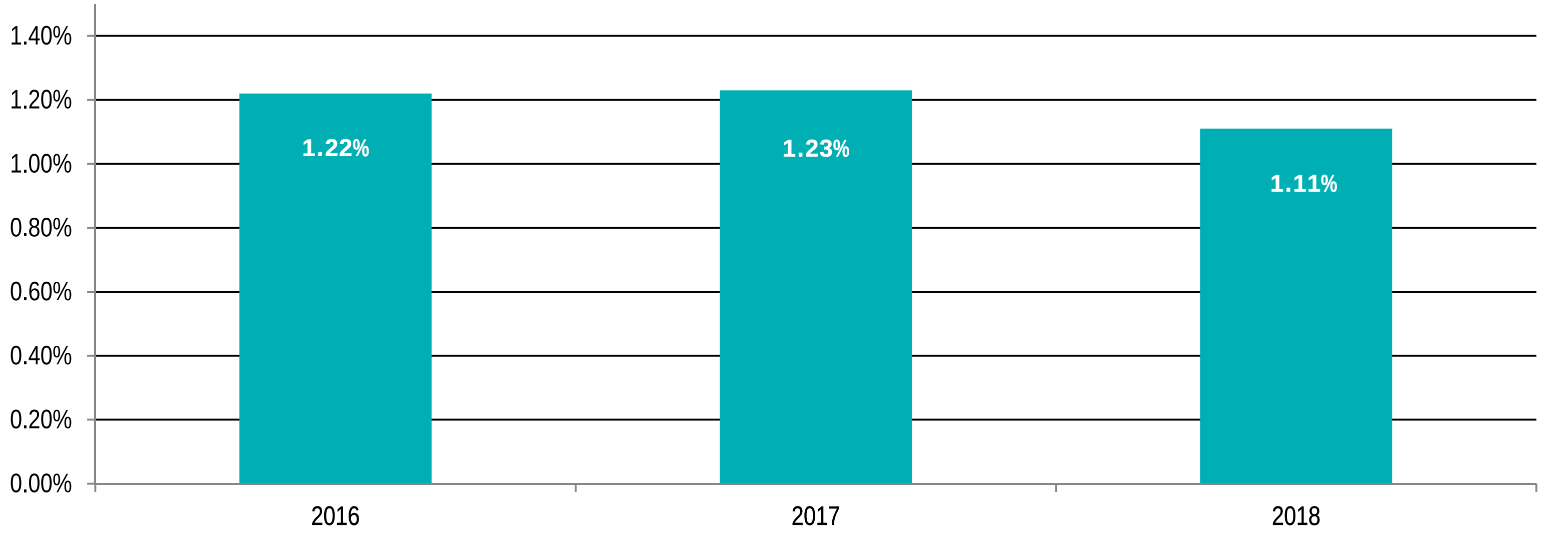
£m	2016	2017	2018
Net interest income	476	502	472
Fair value volatility	1	13	20
Net realised gains	2	6	8
Other income	36	15	10
Total income	**515**	**536**	**510**
Management expenses	(346)	(340)	(311)
	169	**196**	**199**
Loan loss provisions	-	10	1
Other provisions	(17)	(40)	(7)
Statutory profit before tax	**152**	**166**	**193**

Statutory profit before tax	2016	2017	2018
Add back:			
FSCS levy[1]	5	2	(1)
Non-core investments[2]	(1)	(6)	(7)
Timing differences - fair value volatility[3]	(1)	(7)	(13)
Credit Day 1 fair value[4]	(3)	(4)	(3)
Restructuring provision[5]	-	14	10
GMP equalisation[6]	-	-	2
Other non-core items	(24)	(5)	-
Core operating profit	**128**	**160**	**181**

1) UK Depositor Protection Scheme
2) Structured Credit
3) Accounting volatility on hedging
4) Release of merger Fair Value
5) Restructuring costs due to organisational changes
6) Costs of equalisation of pension scheme benefits

Source – YBS 2018 Annual Results Press Release

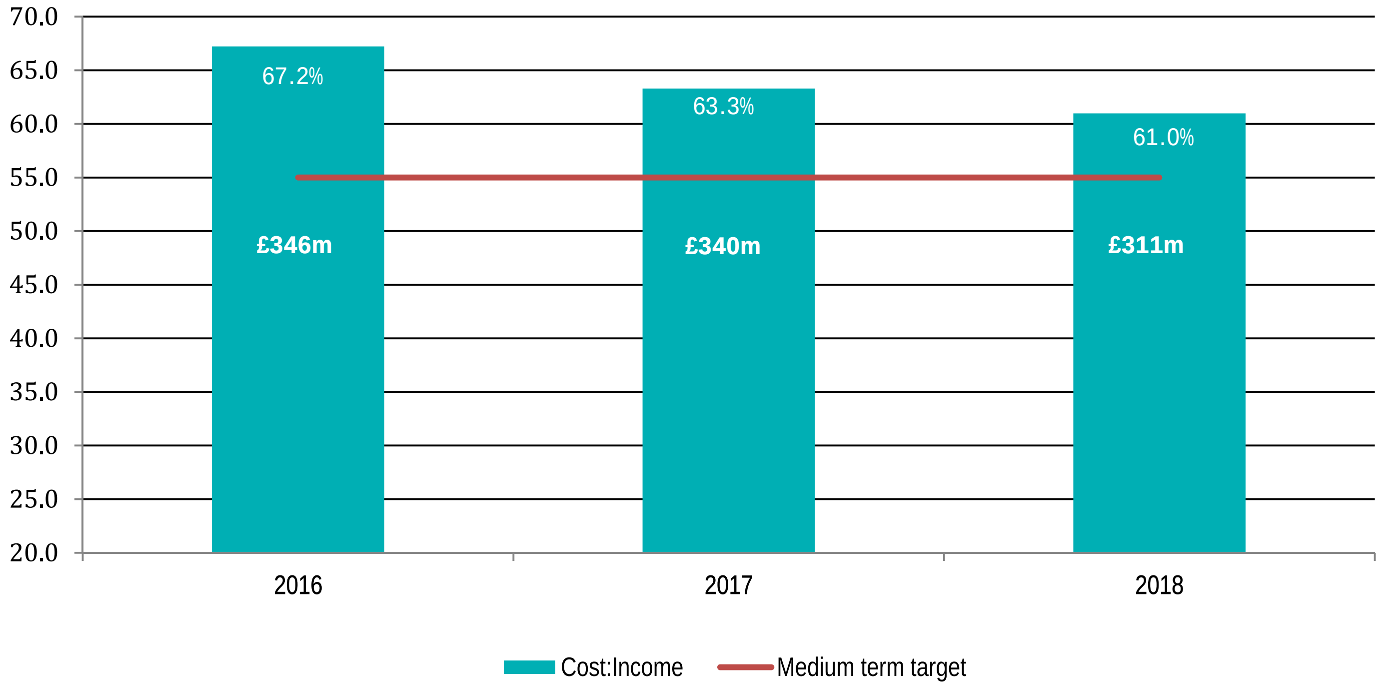
INCOME STATEMENT – NET INTEREST MARGIN



- Net interest margin has decreased in line with Strategic Plan
- Reduction in mortgage margins (competitive low rate environment & increased re-mortgage activity)
- Increased benefits provided to savings members in 2018 with savings rates on average 0.37% higher than market (2017: 0.28%)[1]
- Therefore the Society paid members more than £100m additional interest through higher savings rates

Source – YBS ARA 2016, 2017 & YBS 2018 Annual Results Press Release
[1] Based on CACI's Current Account & Savings Database period Jan to Nov 2018

INCOME STATEMENT – COSTS



- Major cost initiatives continuing
- Medium term goal Cost: Income ratio below 55%

Source – YBS ARA 2016, 2017 & YBS 2018 Annual Results Press Release

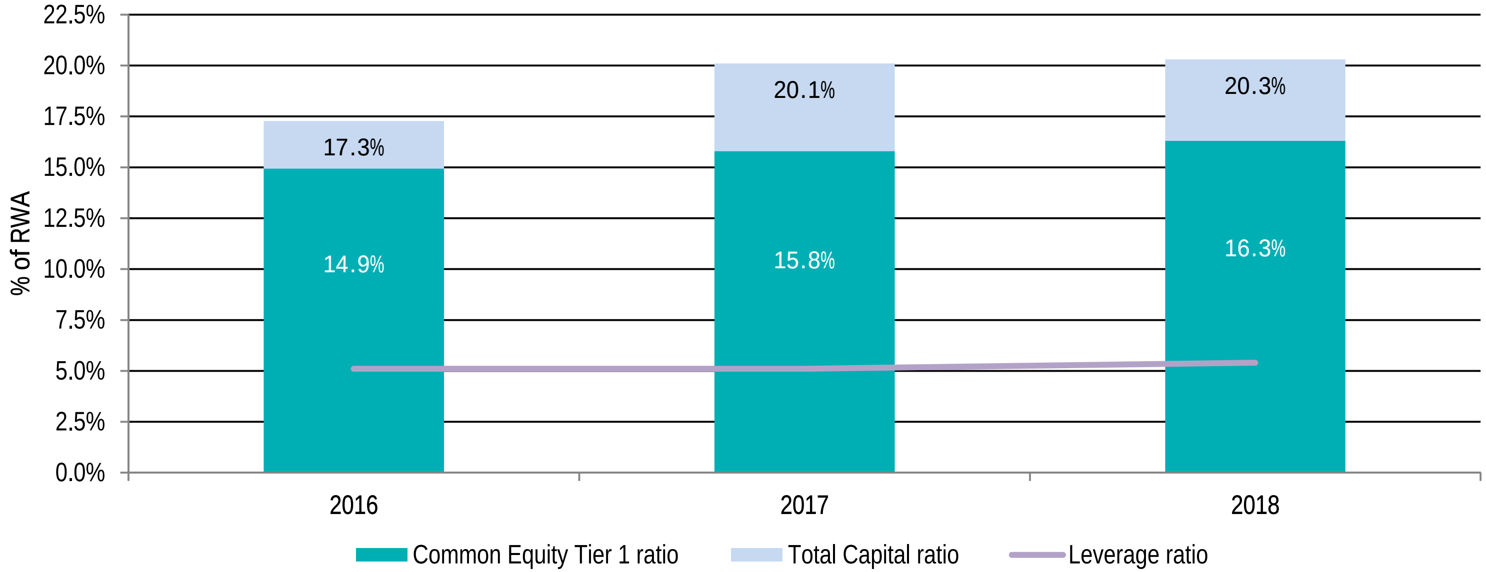
BALANCE SHEET

£bn	2016	2017	2018
Liquid Assets	4.7	6.1	5.5
Mortgage and other loans	34.1	35.1	36.7
Other Assets	0.8	0.8	0.9
Total Assets	**39.6**	**42.0**	**43.1**
Retail Savings	28.7	28.9	29.6
Wholesale Funding and Other Deposits	7.9	9.8	10.1
Other liabilities	0.5	0.3	0.3
	37.1	**39.0**	**40.0**
Remunerated Capital	0.3	0.6	0.6
Reserves	2.2	2.4	2.5
Total members' interest, Equity and Liabilities	**39.6**	**42.0**	**43.1**

- Steady balance sheet growth of 2.4%
- Mortgage growth 4.7%

Source – YBS ARA 2016, 2017 & YBS 2018 Annual Results Press Release

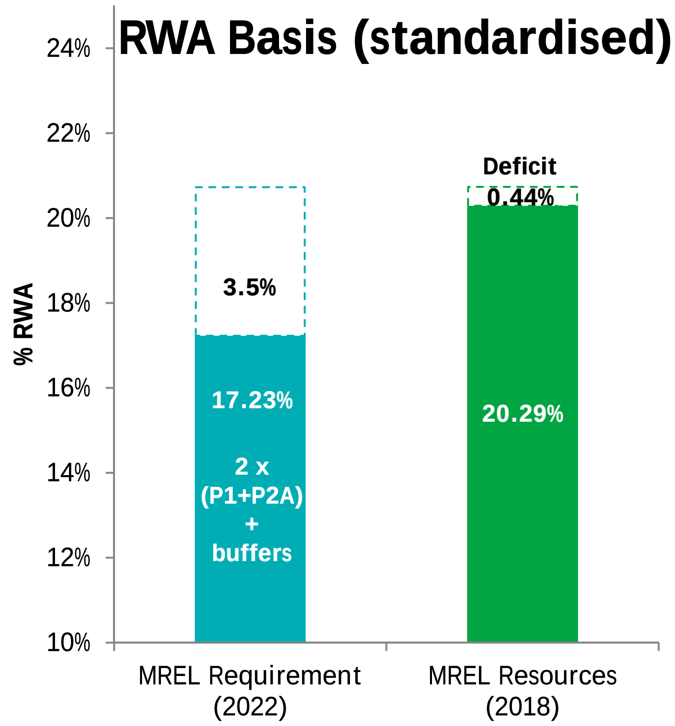
CAPITAL (STANDARDISED RWA) POSITION AND LEVERAGE

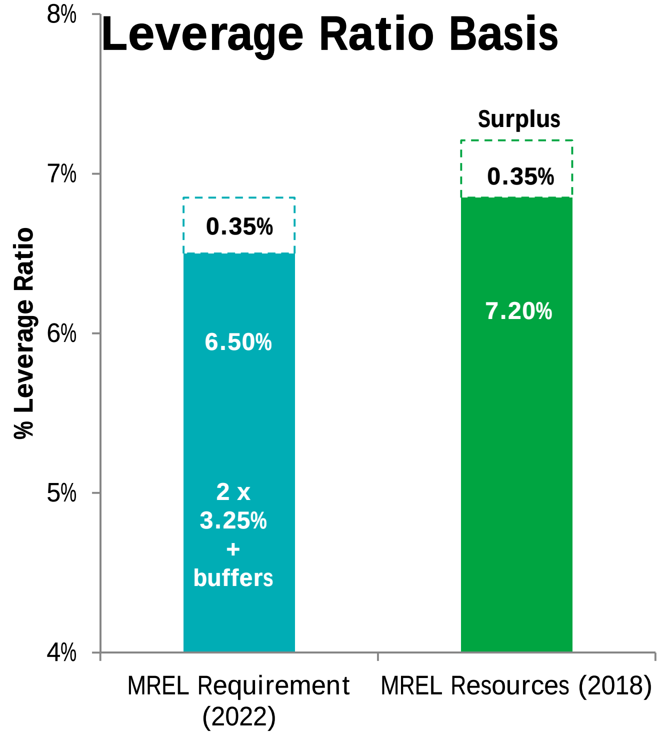


- **CET1 capital ratio** – **16.3%** **/ Total capital** ratio **- 20.3%** (standardised RWA approach & fully loaded) well in excess of current prudential minimums
- **CRR Leverage ratio - 5.4%** (on end point Tier 1 & CRD IV leverage measure) or **5.8%** UK leverage ratio

Source – YBS ARA 2016,2017 & 2018

MREL





- YBS is well positioned to meet the future **Minimum Requirement for Eligible Liabilities** (MREL) - on a 2022 End-State MREL requirements set with reference to RWA, YBS has a 0.44% deficit (RWA = £14,841.3m), equal to c£65m and on a leverage ratio basis YBS has a 0.35% surplus (Leverage exposure = £41,760.7m), equal to c£150m
- An application to use the **Internal Ratings Based** (IRB) approach to risk-weightings is in progress, however final approvals will need to incorporate the hybrid method for probability of default calculations which is likely to prolong the PRA's review period
- YBS to adopt end-state MREL in 2020 rather than interim 18% plus buffers (end state lower for YBS)
- A modest amount of **Senior Non-Preferred** (SNP) issuance is anticipated to bolster MREL resources, accommodate future balance sheet growth and demonstrate access to markets

Source - YBS

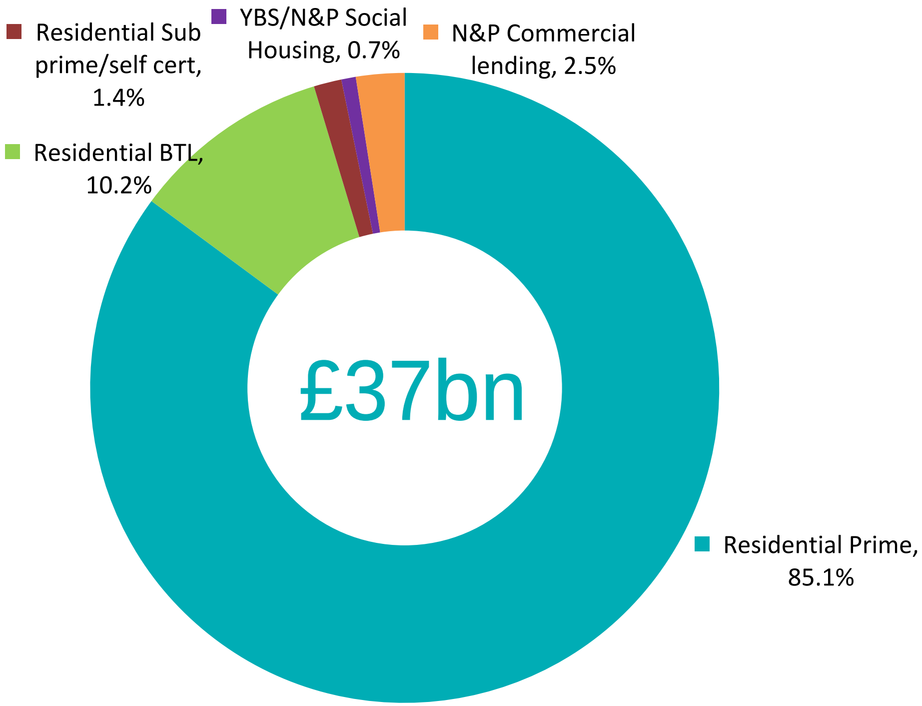
KEY FINANCIAL METRICS

Metric	Dec - 16 (%)	Dec - 17 (%)	Dec - 18 (%)
Group net interest margin	1.2	1.2	1.1
Group asset growth	3.6	6.2	2.4
Group loans and advances growth	2.4	2.8	4.7
Members savings balances growth	4.7	0.9	2.1
Liquidity ratio	12.8	15.7	13.9
CET1 capital ratio	14.9	15.8	16.3
Total capital ratio	17.3	20.1	20.3
CRR Leverage ratio	5.1	5.1	5.4
UK Leverage Ratio	5.6	5.7	5.8
Cost:income ratio	67.2	63.3	61.0
Management expenses ratio (costs to mean assets)	0.89	0.83	0.73

Source – YBS ARA 2016,2017 & YBS 2018 Annual Results Press Release

CONTENTS

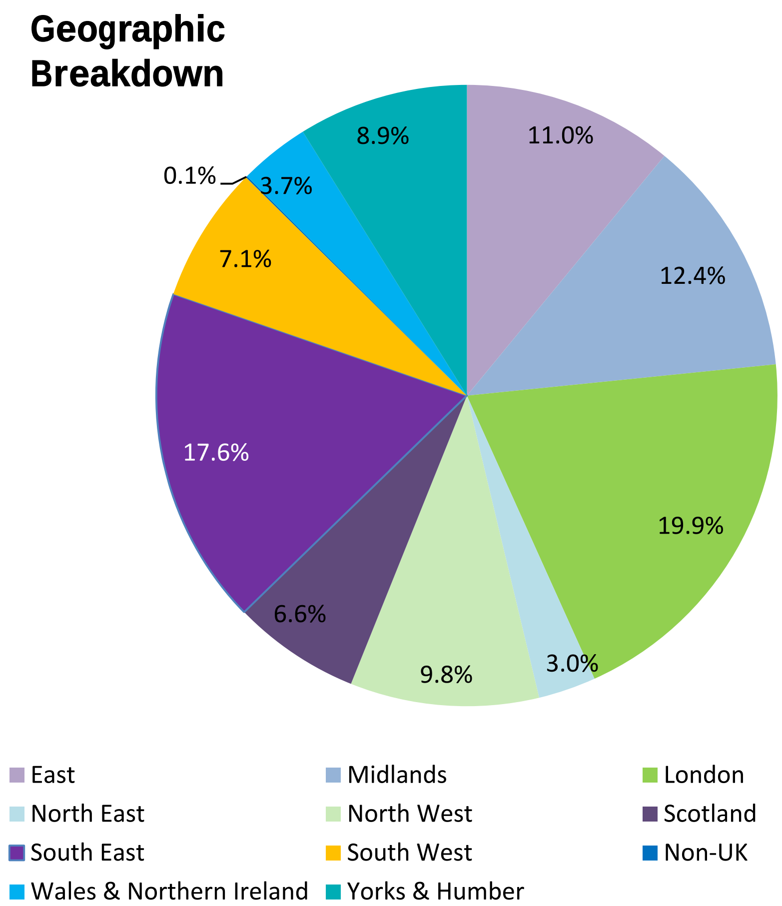
MORTGAGE TYPE BREAKDOWN

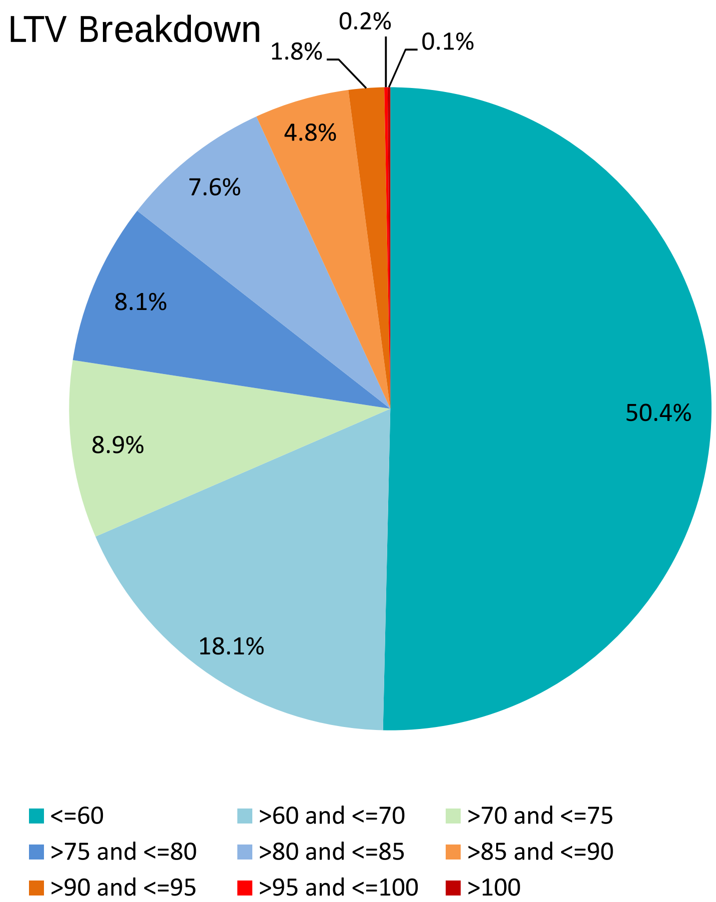


- **Predominantly prime residential mortgage lender**
- **Sub-prime book closed and in run-off, circa 1.4% of total balances**
- **BTL book currently below fair market share**
- **N&P Commercial loan book continues to grow within a risk appetite limit of 3%**
- **Limited involvement in Social Housing sector**

Source – YBS ARA 2018

GEOGRAPHIC AND LTV BREAKDOWN

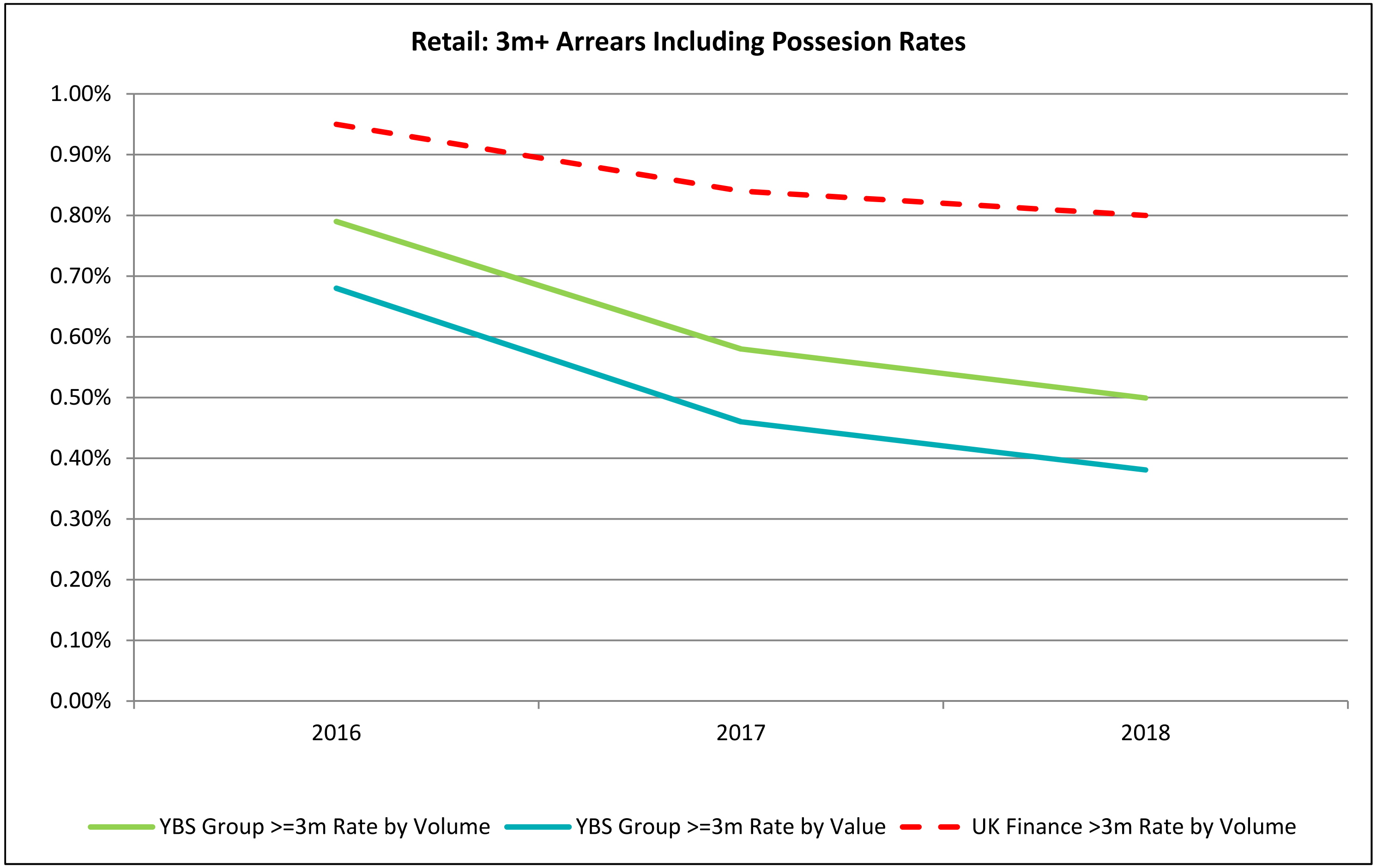




- YBS Group exposure is broadly in line with UK averages
- Proportion of book with >90% LTV equalled 2.1% in Dec 2018 (2017: 1.9%)

Source – YBS ARA 2018

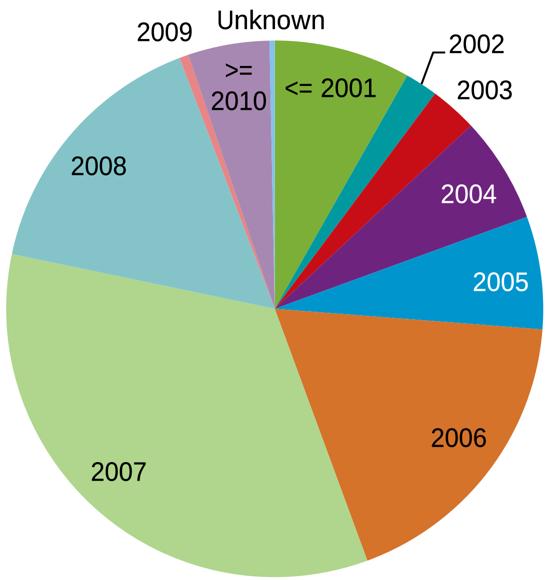
ARREARS ANALYSIS



- Arrears continue on a declining trend
- Arrears continue to outperform the industry average (UK Finance)

Source – YBS ARA 2018
UK Finance (formally CML)

Retail Mortgages: >=3 Months Arrears Including Possessions/Receivership Stock by Lending Cohort (% by Volume at December 2018)



- Current arrears are largely a legacy issue related to pre-2009 lending
- Lending criteria changes and underwriting policy improvements introduced during the credit crisis were subsequently further enhanced by UK mortgage market regulation in 2014

IFRS 9 DEVELOPMENTS

Subject	Key Metrics	Jun-18	Recent developments	Commentary	Dec-18
Book quality	Retail Mortgage Arrears Ratio *	0.58%	Reduction	- Overall reduction in arrears ratio continuing current trajectory - Remains materially below the relevant benchmark from CML	**0.50%**
	Write-offs *	£4.7m	Reduction	- Write-offs continue the current downward trajectory	**£3.0m**
	Retail Average book LTV *	48.2%	Similar	- Group risk appetite on LTV has remained broadly consistent year on year	**48.4%**
IFRS 9 Economic scenario	Scenario weighting & selection	60/30/10	Similar	- Scenarios relative to peers previously showed a large degree of conservatism - The scenarios have been reassessed to consider all economic outcomes (including upside scenarios) and the risks surrounding Brexit - Overall we expect to remain at the conservative end of peers with similar % ascribed to downside scenarios	**20/40/25/15**
IFRS 9 Staging	Stage 2 % balances	19.5%	Reduction	- %'s were higher than peers at half year - this was a result of good quality accounts being classified in stage 2 due to IRB gen 3 recalibration - The model has been recalibrated in H2 to address this issue to ensure only accounts with an true increase in credit risk being categorised in stage 2 - The proportion of accounts in stage 2 has fallen significantly but relatively low impact on provision as only impacted good quality accounts - The acquired/legacy portfolios are also a large contributor to the stage 2 %.	**10.7%**
	Stage 3 % balances	2.9%	Similar	- Due to the contribution from legacy/acquired portfolios, we expect these %'s to trend downwards in the absence of any significant economic shocks	**2.6%**
	POCI % balances	1.8%			**1.7%**
Provision	Total expected losses (impairment + FV)	£70.2m	Similar	- Several refinements to the IFRS 9 model have been made in H2 2018, the overall impact of these is broadly neutral on the impairment provision - Due to the contribution from legacy/acquired portfolios, we expect the fair value provision to run-off in the absence of any significant economic shocks	**£68.0m**
	Impairment provision	£28.2m			**£29.1m**
Provision coverage	Total book (ex. FV)	0.08%	Similar	- No significant changes to coverage - The provision coverage when including the FV provision is 0.20%	**0.08%**
	Stage 2 (incl. FV)	0.39%	Increase	- The change to stage 2 has left higher coverage for the remaining stage 2 loans	**0.68%**
	Stage 3 (incl. FV)	4.13%	Similar	- No significant changes to coverage	**4.11%**

Source – YBS

* Comparative is prior year as comparable data not disclosed at half year.

- The following table shows the average values of the key economic variables used by economic scenario for the period until December 2023.
- The table includes the four key parameters used to predict PD – Unemployment, HPI, Bank Rate and CPI. GDP is also presented as it is the key input for determining the economic parameters used and provides context to the nature of the overall scenario.
- The values in the table are calculated as either a simple average of the rate across the five year forecasting window (Unemployment, Bank Rate and CPI) or as the compound annual growth rate from start to finish (HPI and GDP).
- For the downturn and stress scenarios, the HPI assumption incorporates a peak to trough reduction of 22.0% and 38.5% respectively.

Economic Factor	Upside scenario 20% weighting	Core scenario 40% weighting	Downturn scenario 25% weighting	Stress scenario 15% weighting	Weighted average %
GDP	2.4	1.7	0.9	-0.2	1.4
Unemployment	3.1	4.4	6.5	7.8	5.2
HPI	6.2	1.9	-4.4	-9.2	-0.5
Bank Rate	3.6	1.2	0.1	3.4	1.7
CPI	2.8	1.5	-0.5	2.6	1.4

Source – YBS ARA 2018

STRESS TESTING

- Although the Society is not currently part of the Bank of England's concurrent stress testing regime; as part of its annual Capital Planning Stress Test, the Society undertook the **Bank of England's 2018 stress test scenario** based on results as at Dec 2017.

- This featured deep simultaneous recessions both globally and in the UK combined with falling house prices and escalating conduct costs. In the scenario, UK GDP falls by 4.7%; UK unemployment rises to 9.5% and residential property prices in the UK fall by 33%.

- At all times throughout the stress, the Society's CET1 ratio (before management actions) remained above both stressed and normal risk appetite, as well as regulatory requirements, meaning the Society would be able to continue with its lending plans even in a severe stress scenario.

- It was deemed that no management actions would be necessary to mitigate the impact of the stress.

Projected ratios in the 2018 BoE stress scenario	2017	Minimum stressed ratio before 'strategic' management actions
IFRS 9 Transitional		
CET1 Ratio	15.8%	14.8%
Tier 1 Ratio	15.8%	14.8%
Total Capital Ratio	19.9%	16.9%
Leverage Ratio	5.7%	6.4%
IFRS 9 Non-Transitional		
CET1 Ratio	15.8%	14.6%
Leverage Ratio	5.7%	6.3%

- Amongst the frequent stress testing activity undertaken for both regulatory and risk management purposes, the Society has also run testing in line with the Bank of England's disorderly **Brexit scenario**. The results of this stress testing showed that the Society would not face capital issues in such a scenario.

Source – YBS Pillar 3 disclosures, 2018

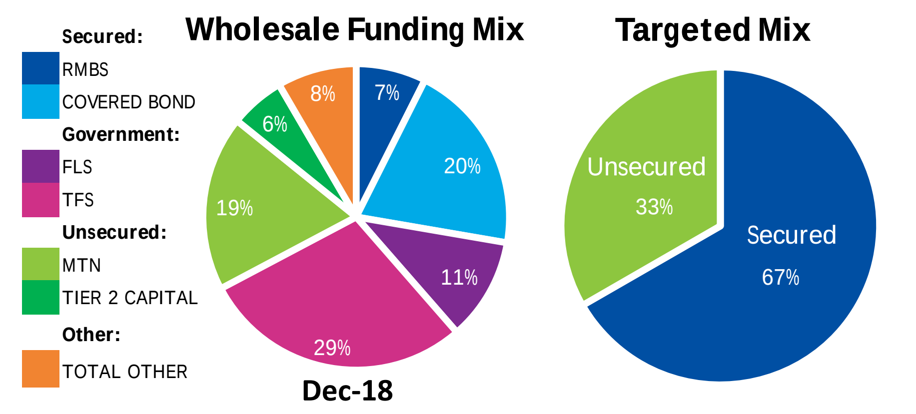
CONTENTS

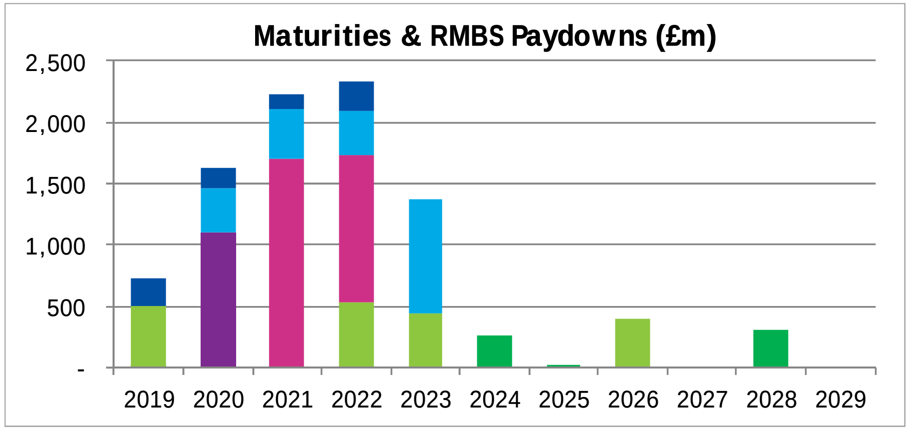
STRESS TESTING

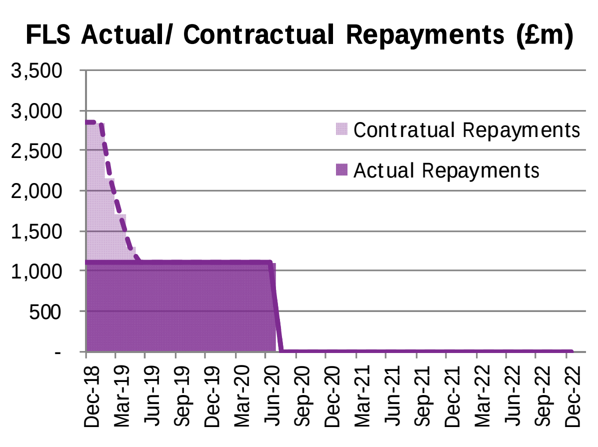
- High quality liquid assets (BoE Reserves, Gilts, SSA, Covered Bonds, T-Bills)
- Stable and predictable retail deposit base (c.80% branch based), therefore liquidity minimums driven by external stakeholder expectations
- Contingent liquidity available via Bank of England

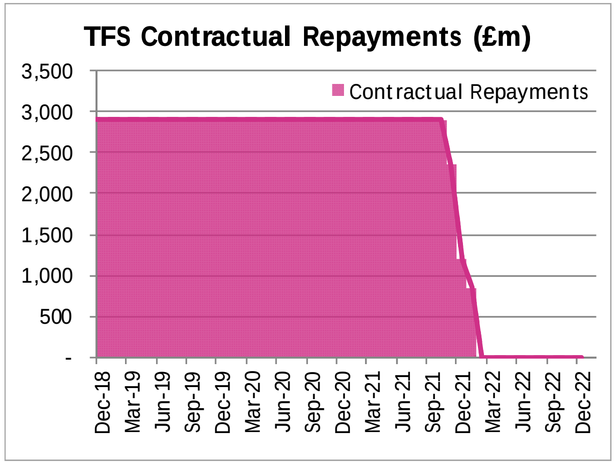
Source – YBS ARA 2016, 2017 & 2018

WHOLESALE FUNDING PROFILE



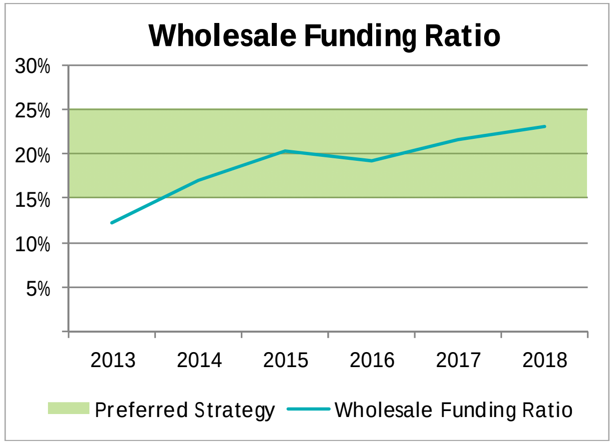






Maturities & Paydowns are based on issuances to date i.e. do not include planned issuances.

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
- £2.4bn repaid as at Dec-18
- 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):

- £2.9bn drawn; last draw down Feb-18
- 4-year maturity
- Cost – bank rate flat (for net lenders)
- No penalty for early redemption
- Cash reserve v. collateral (on balance sheet)

Source - YBS

WHOLESALE FUNDING MARKET ISSUANCE - HISTORY

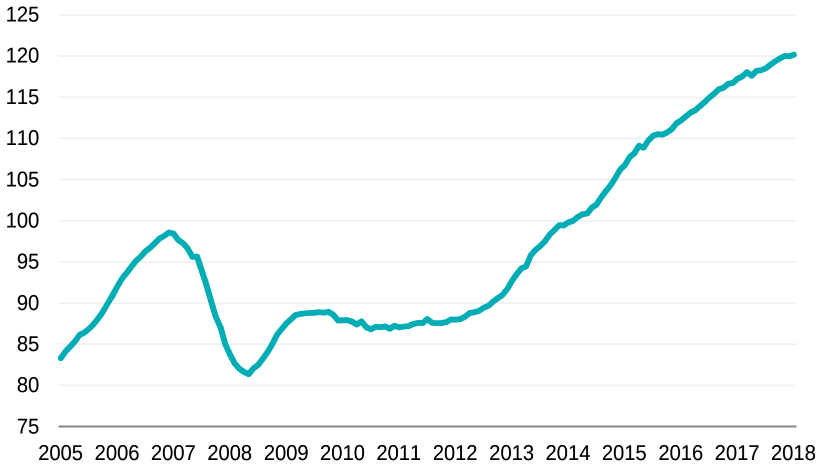
SLS: Special Liquidity Scheme, FLS: Funding for Lending Scheme, TFS: Term Funding Scheme

Source - YBS

CONTENTS

UK MORTGAGE MARKET OVERVIEW

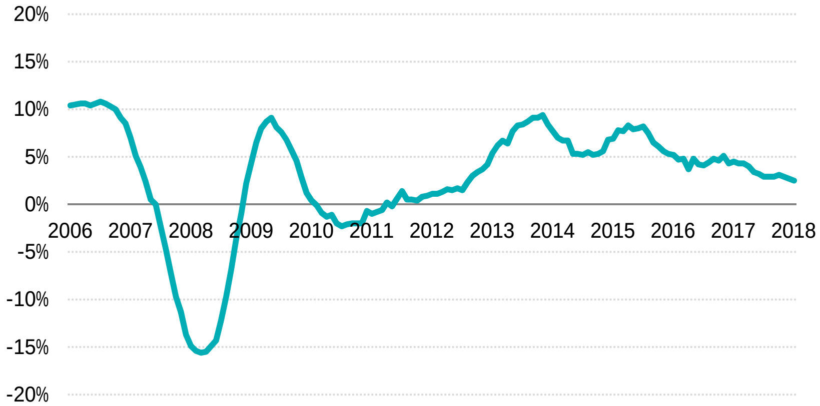
UK House Price Index[1]



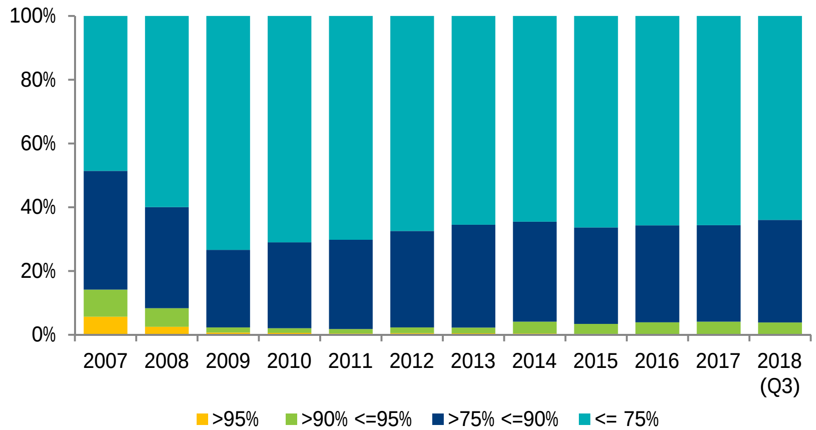
2018 Regional House Prices[2]

Regions	Average price Dec 2018	Monthly Avg. Price Change %	2018 Price Change %
North East	128,756	-0.07	-1.05
North West	164,352	0.29	3.45
Yorkshire and The Humber	165,119	0.35	4.22
East Midlands	192,748	0.35	4.22
West Midlands	184,802	0.43	5.32
East of England	289,602	0.02	0.20
London	473,822	-0.05	-0.63
South East	324,729	0.10	1.25
South West	256,427	0.24	2.86
Scotland	148,711	0.20	2.39
Wales	161,845	0.43	5.24

YoY House Price Change[1]



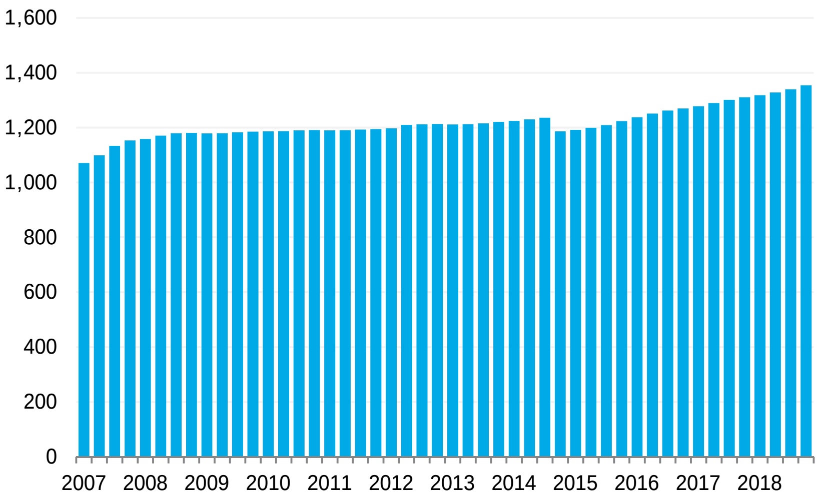
UK New Mortgage Lending LTVs (% total)[3]



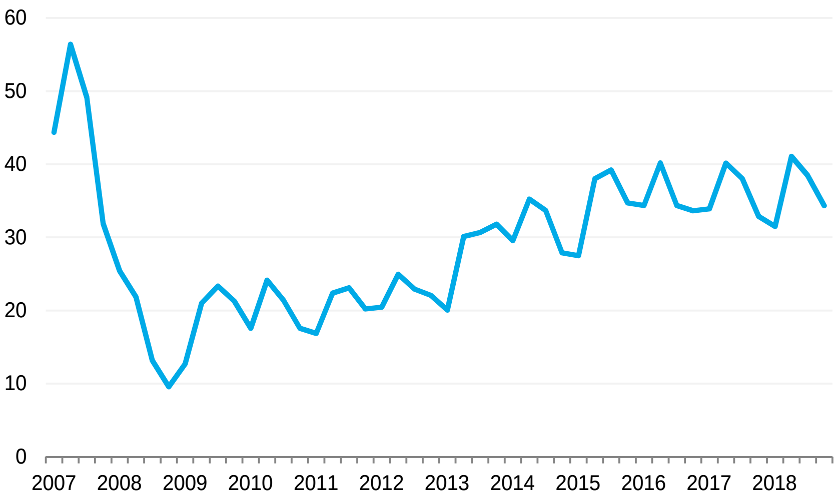
(1), (2) Source: HM Land Registry data © Crown copyright and database right 2017. This data is licensed under the Open Government Licence v3.0. Data published 13th February 2019
(3) Source: Prudential Regulation Authority (PRA)/Financial Conduct Authority (FCA) - formerly FSA, via Haver Analytics

UK MORTGAGE MARKET OVERVIEW

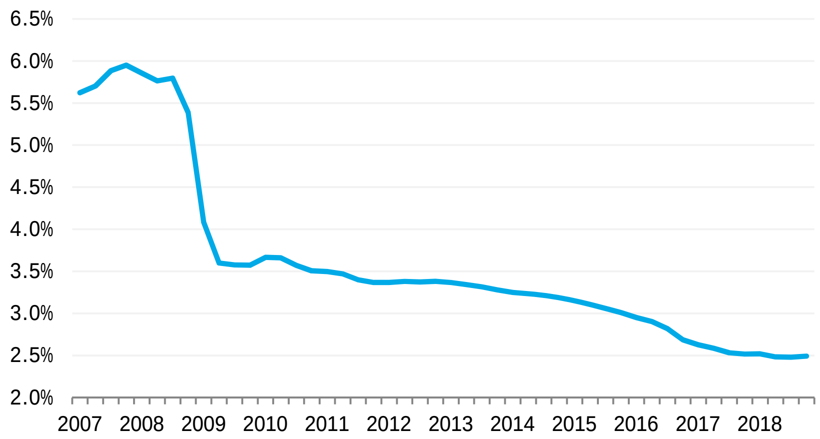
UK Mortgage Balance Outstanding (£bn)



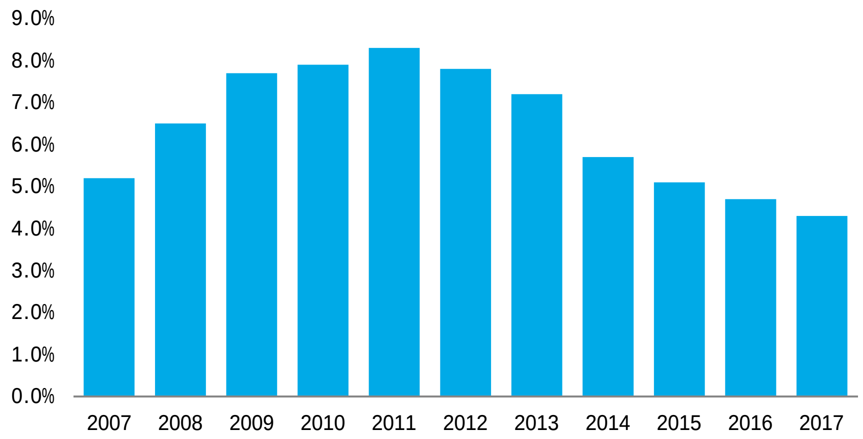
UK New Mortgage Approvals (£bn)



Mortgage Interest Rates (outstanding loans)



Annual Unemployment Rate (LFS)



Source: National Statistics, Bank of England via Haver Analytics. Data as of February 2019

CONTENTS

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