# Annual Results Presentation

For the year ended **31 December 2020**

YORKSHIRE BUILDING SOCIETY

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# Contents



YORKSHIRE BUILDING SOCIETY

# Business Overview, Purpose & Strategy

YORKSHIRE BUILDING SOCIETY

# Our business overview

- Yorkshire Building Society (YBS) is the 3rd largest UK Building Society with total assets of **£47.9bn**(1)
- Mutual organisation owned by circa **3m**(1) members
- Operating under a dual-brand strategy
  - Direct lending via YBS branches and the 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 **- £38.8bn**(1)
  - Large retail deposit base **- £33.4bn**(1)
- Strong capital position – CET 1, **16.7%**(1) (under a standardised approach for RWAs)
- UK Leverage ratio – **5.9%**(1)
- Liquidity ratio – **19.2%**(1)(2)

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

Source: *(1) YBS 2020 Results*
Source: *(2) 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*

*Source: Fitch Ratings, Moody's Investors Service*

# Our purpose and strategy

YORKSHIRE BUILDING SOCIETY

## OUR PURPOSE

**Our purpose is to provide Real Help with Real Life and we do this by:**

- Helping people to find a place called home
- Improving financial wellbeing
- Delivering long-term member value

These then combine with our purpose, priorities and behaviours to form the 'Strategic Blueprint'.

## NEW STRATEGIC BLUEPRINT

Stakeholder engagement and feedback tells us that clear ambitions and well defined outcomes are key to delivering our purpose. During the first half of 2020 we redefined our strategy with this in mind. 'The Blueprint' outlines four clear priorities that underpin our strategy, to be delivered over the next three years, and also sets out four required behaviours – articulating the cultural change required to deliver our purpose real help with real lives.

# Our purpose and strategy (continued)

## FOUR STRATEGIC PRIORITIES

### Savings rebooted

Help more people build financial resilience by redefining and re-engineering our savings business by:

- Optimising the basics
- Offering more than just price
- Reimagining savings

### Properly Personal Experience

Building a service proposition that tailors experiences in line with individual customer needs through:

- A face to face channel fit for the future
- Providing an exceptional personal experience
- Being digital ready and always making it personal

### Purposeful Analytics

Building analytics capability to better understand the needs of both existing and prospective customers by:

- Understanding our customer journeys
- Building insight for risk management
- Increasing trading capability

### Unbelievably Easy & Efficient

Making customers' lives easier and becoming unbelievably efficient through:

- Delivering a digitally capable and connected business
- Reshaping the organisation for the future
- Making a step change in our organisational culture

## OUR BEHAVIOURS

Our four new, simple clear behaviours to all of our colleagues are business by:

WE CARE ABOUT PEOPLE

WE MAKE IT HAPPEN

WE REACH FOR BETTER

WE SAY IT STRAIGHT

# Highlights

# Delivering member value

YORKSHIRE BUILDING SOCIETY

## Member value

**We are here to deliver long-term value to our members.**

This includes offering flexible products with attractive rates and providing the friendly, practical and efficient customer service they expect from us. In order to deliver value over the long term it is important for our Society to operate in a sustainable way.

### Statutory Profit before tax

**£156m**

**£167m in 2019**

This is the profit we earned from our ongoing business operations, excluding taxes.

### Core Operating Profit

**£170m**

**£185m in 2019**

This is the profit we earned, excluding taxes, fair value volatility and one-time charges.

### Cost to core income ratio

**59%**

**60% in 2019**

This ratio measures how efficiently we run our Society, by showing how much we are spending to generate every pound of our income.

### Impairments

**£12.2m**

**£0.2m in 2019**

Higher impairment charges resulting from expectations around future economic conditions

### Common Equity Tier 1 ratio

**16.7%**

**16.6% in 2019**

Maintaining this ratio above a certain minimum helps to protect ourselves against unexpected losses.

### Liquidity ratio

**19.2%**

**13.8% in 2019**

This ratio measures our ability to lend to borrowers, give money back to savers when they want it and pay our bills.

### Leverage ratio

**5.9%**

**5.8% in 2019**

This ratio highlights the capital we hold compared to our assets, showing our ability to cope with unexpected events.

### Asset Quality

**0.59%**

**of accounts 3 months or more in arrears (including possessions)**

**0.56% in 2019**

The UK finance market average for >3 months arrears by volume is currently 0.84%

### Average savings rate paid

**0.78%**

**1.09% over 2019**

This shows the benefit we are giving to our savings members.

### Net Promoter Score (NPS™)

**+53**

**+51 in 2019**

This measures how willing our customers are to recommend us to others.

### Carbon footprint

**+4%**

**-17% in 2019**

Carbon emissions increased to Covid-19 related impacts.

### Diversity & Inclusion

**46%**

**of Senior Leadership team consists of women**

**Up from 39% in 2019**

Good progress in the number of women in senior management positions, more to be done on inclusion and diversity at Board level.

# Financial Performance

# Stable profitability in a challenging environment

YORKSHIRE BUILDING SOCIETY

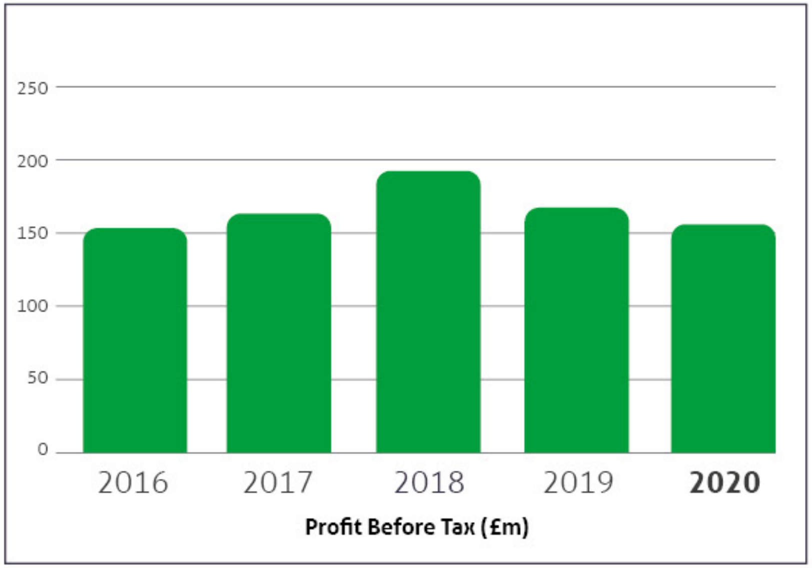
## Income statement

| £m | 2018 | 2019 | 2020 |
|---|---|---|---|
| Net interest income | 472 | 465 | 438 |
| Fair value volatility | 20 | (22) | (15) |
| Net realised gains | 8 | 6 | 13 |
| Other income | 10 | 8 | 14 |
| **Total income** | **510** | **457** | **450** |
| Management expenses | (311) | (290) | (274) |
| | **199** | **167** | **176** |
| Loan loss provisions | 1 | - | (15) |
| Other provisions | (7) | - | (5) |
| **Statutory profit before tax** | **193** | **167** | **156** |

| £m | 2018 | 2019 | 2020 |
|---|---|---|---|
| **Statutory profit before tax** | **193** | **167** | **156** |
| Reverse out: | | | |
| FSCS levy | (1) | - | - |
| Non-core investments | (7) | (2) | - |
| Timing differences - fair value volatility | (13) | (24) | 15 |
| Credit day 1 fair value | (3) | (2) | (2) |
| Restructuring provision | 10 | 1 | 4 |
| Other non-core items | 2 | (3) | (3) |
| **Core operating profit** | **181** | **185** | **170** |

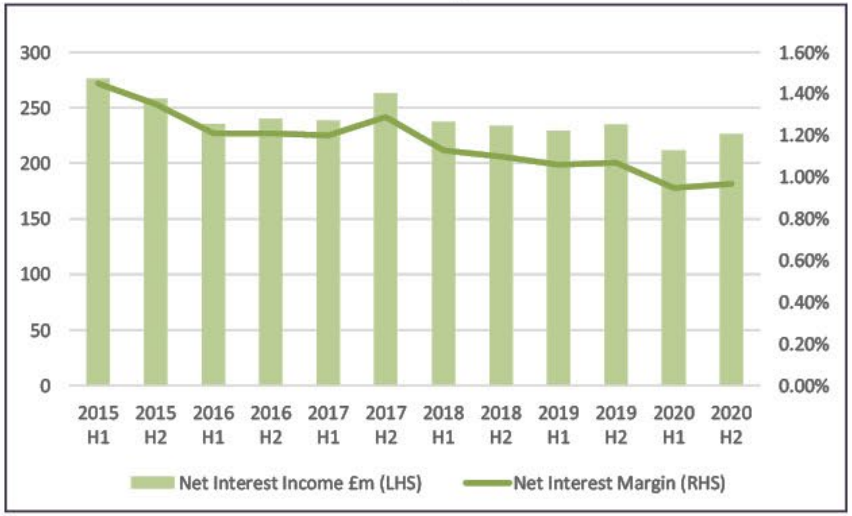
- Core operating profit reduced marginally on the previous year but a strong performance given the challenges
- Reduction in core operating profit is mainly a result of the external impacts of the COVID-19 pandemic including the Bank Base Rate reductions as well as higher impairment charges

**Highly Stable Profit Before Tax**

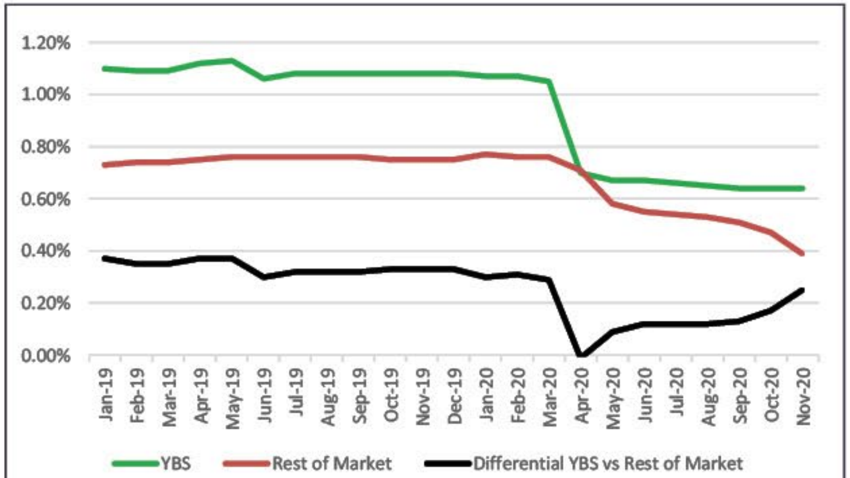


# Resilient income enables us to return value to members

Net Interest Income & Net Interest Margin




Savings rates vs Rest of Market



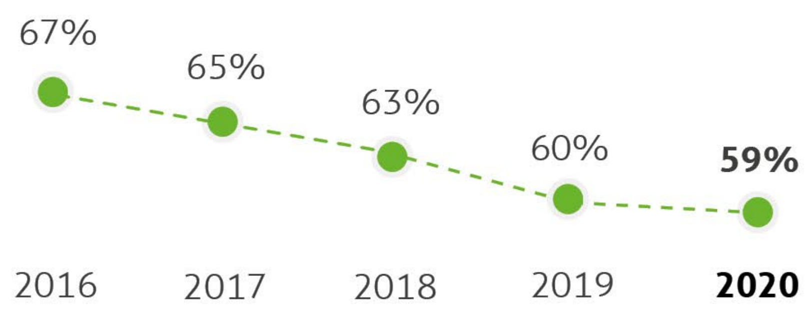

*Rest of Market data sourced from CACI

- NIM has fallen year-on-year reflecting competitive pressures that have characterised the market in recent years, however NIM improvement was seen in H2 2020 due to increased mortgage margins
- Purposeful analytics allows us to achieve sustainable income meaning we can return value to members through preferential savings rates
- In January 2021 we announced that we are investing £20m to increase the savings rates for 1.3m of our most loyal members, with the lowest rate payable now being 0.30%

# Further cost efficiency resulting from the successful delivery of transformational initiatives

YORKSHIRE BUILDING SOCIETY

## Cost to Core Income Ratio %




## Management Expenses (Cost to Mean Assets) %


- Costs have continued to fall due to strategic initiatives in recent years to improve efficiency. This includes reductions to headcount, closing branches in areas where we already had strong coverage, closure of the current account, consolidation of our direct brands and digitalisation which is helping to improve our processes
- Our Cost:Income ratio benchmarks competitively against the UK Retail Banking sector
- The cost reduction this year has been achieved even with unplanned expenditure required as a direct consequence of the COVID-19 pandemic.

# We maintain a low risk, well capitalised balance sheet

YORKSHIRE BUILDING SOCIETY

## Balance Sheet

| £bn | 2018 | 2019 | 2020 |
|---|---|---|---|
| Liquid assets | 5.5 | 5.6 | 8.4 |
| Mortgage and other loans | 36.7 | 38.0 | 38.8 |
| Other assets | 0.9 | 0.7 | 0.7 |
| **Total assets** | **43.1** | **44.3** | **47.9** |
| Retail savings | 29.6 | 30.7 | 33.4 |
| Wholesale funding and other deposits | 10.1 | 9.9 | 10.5 |
| Other liabilities | 0.3 | 0.4 | 0.6 |
| **Total liabilities** | **40.0** | **41.0** | **44.5** |
| Remunerated capital | 0.6 | 0.6 | 0.6 |
| Reserves | 2.5 | 2.7 | 2.8 |
| **Total members' interest, equity and liabilities** | **43.1** | **44.3** | **47.9** |

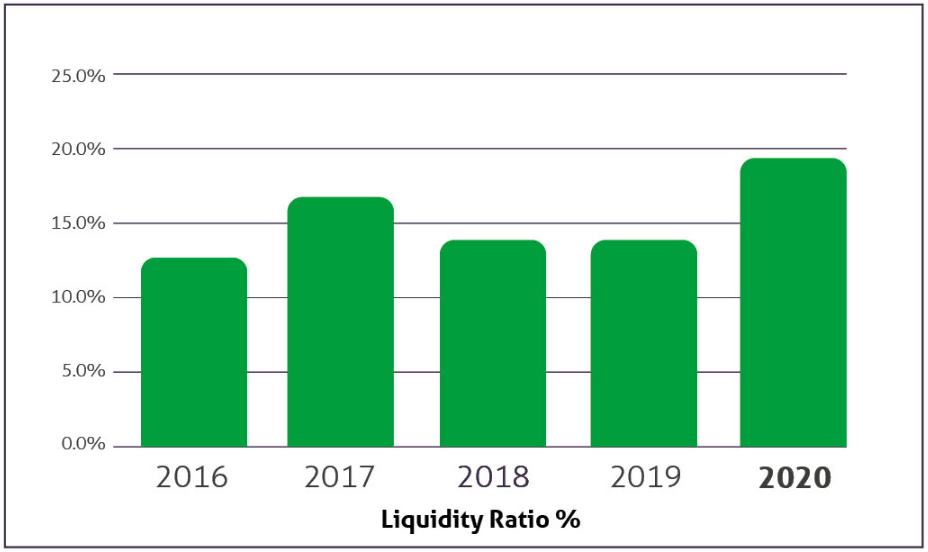
| | 2018 | 2019 | 2020 |
|---|---|---|---|
| CET1 Ratio | 16.3% | 16.6% | 16.8% |
| UK Leverage Ratio | 5.8% | 5.8% | 5.9% |
| 3 month arrears by value | 0.38% | 0.41% | 0.43% |

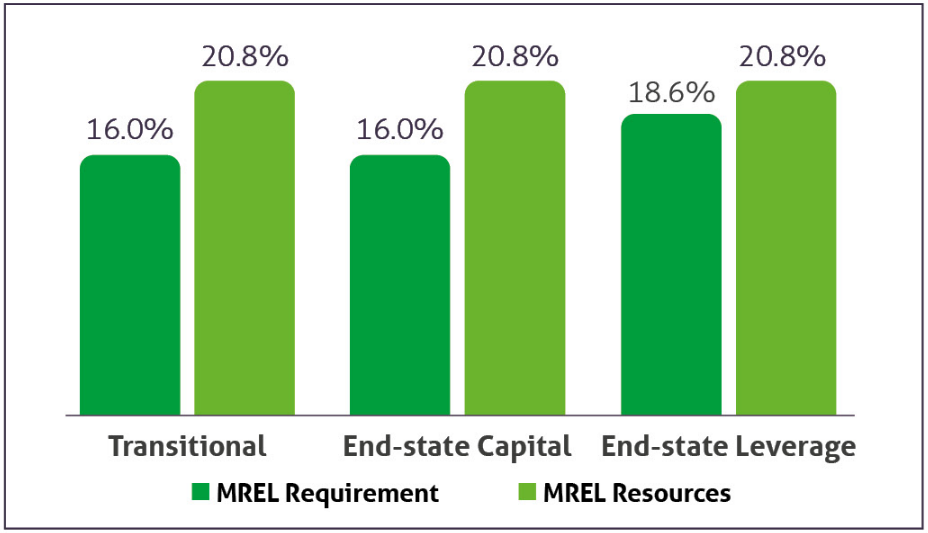
- Overall balance sheet growth of 8.2% was achieved in 2020, with positive growth on both sides, driven in particular by strong retail performance in the second half of the year
- Low risk balance sheet with the vast majority of lending secured against residential property
- The increased arrears figure is largely due to an increase in the 12m+ past due figures as a result of the possessions moratorium
- 3 month arrears by volume in 2020 was 0.59% versus the UK Finance market average of 0.84%

# Capital & Liquidity

YORKSHIRE BUILDING SOCIETY

# Strong capital and liquidity position underpins financial strength




- We chose to increase our liquidity position to support our prudential risk profile in an uncertain environment and to support current growth opportunities
- Liquidity has been supported by inflows from retail deposits and wholesale funding, reflected in a LCR ratio of 191.9%
- The Society is subject to end state MREL requirements (double pillar 1 and 2A) and comfortably met these requirements throughout 2020
- Progress is being made with the application to use the advanced IRB approach to calculate capital requirements for credit risk.

# Bank of England Stress Testing

YORKSHIRE BUILDING SOCIETY

| Projected ratios in the 2019 BoE Annual Cyclical Scenario (ACS) | Start Point % | Worst Point % |
|---|---|---|
| **IFRS 9 Transitional*** | | |
| CET1 Ratio | 16.6% | 16.6% |
| Tier 1 Ratio | 16.6% | 16.6% |
| Total Capital Ratio | 18.8% | 18.8% |
| Leverage Ratio | 5.8% | 5.8% |

*this does not change under a non-transitional basis

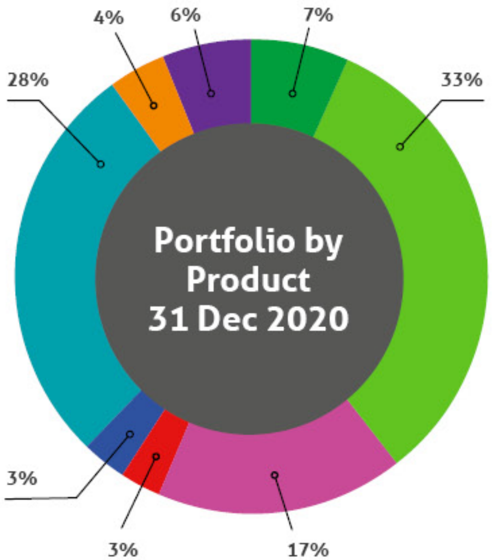
- Stress Testing is fundamental to the Society's risk management framework and is used to quantify and understand immediate risks and identify emerging risks on an ongoing basis. The Society performs stress testing on a regular and frequent basis which capture idiosyncratic, market wide and combined stress scenarios. Scenarios are guided and approved by senior management at the Asset & Liability Committee with results discussed at all levels including Group Risk Committee & Board

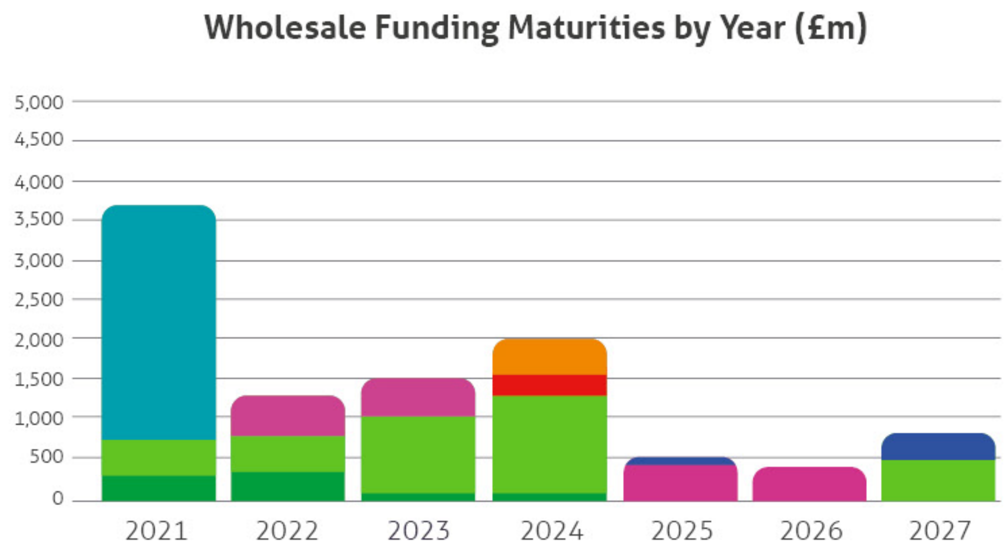
- The Society does not participate in the Bank of England's Concurrent Stress Testing regime (CST); however the Society has sufficient risk management capability to capture all material risks outlined in the Bank of England's Annual Cyclical Scenario (ACS). For that reason, the Society has modelled the 2020 ACS, through its stress testing framework, as a worst-case severe but plausible scenario

- Amongst other severely adverse economics, the stress features deep simultaneous recessions both globally and in the UK combined with falling property prices. In the scenario, UK unemployment peaks at 9.2% and residential property prices in the UK fall by 36%, peak to trough

- At all times throughout the stress, the Society's capital ratios remain within risk appetite and minimum regulatory requirements. No strategic management actions are required and no conversion triggers are reached on capital instruments.

# Wholesale Funding Strategy




RMBS · Covered Bond · Senior Preferred · Senior Non Preferred (SNP) · Tier 2 Capital · TFS · TFSME · Other

- As a building society, our funding mix primarily comprises retail deposits, however we maintain access to core wholesale funding markets in a range of currencies to diversify our funding base
- Despite the initial market disruption due to the COVID-19 pandemic, the Society made successful issuances in the Medium Term Note and Covered Bond markets in 2020
- In 2020, the Government also announced a new Term Funding Scheme (TFSME) to provide low-cost liquidity to the markets. The Society drew down £450m throughout the year
- The Society expects to draw down additional funds through 2021 and roll the £2.9m TFS repayments into the new scheme.

# Wholesale Funding Issuance History

## Regular issuance History, demonstrating commitment to core markets

# Asset Quality

YORKSHIRE BUILDING SOCIETY

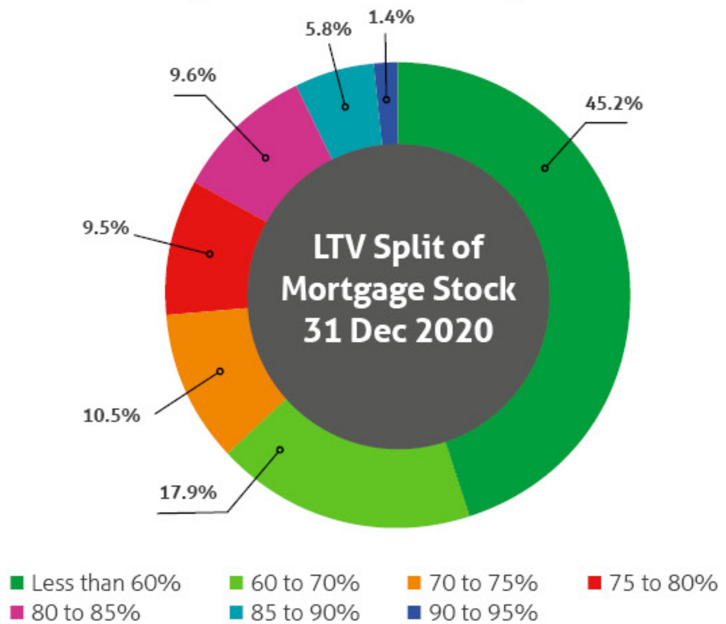
# Continued focus on low risk mortgage lending

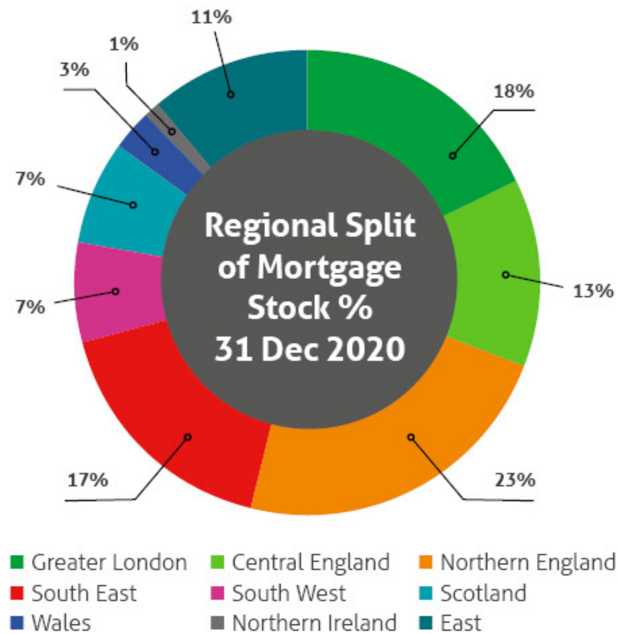
| Gross Lending by Brand £m | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| YBS Prime | 2,320 | 1,818 | 2,059 | 1,398 | 909 |
| Accord Prime | 3,847 | 5,076 | 5,862 | 5,432 | 5,313 |
| Accord BTL | 807 | 886 | 741 | 827 | 652 |
| Commercial | 232 | 294 | 254 | 151 | 232 |
| **Total** | **7,206** | **8,074** | **8,916** | **7,808** | **7,098** |

*YBS prime includes all Building Society brands now consolidated

- The Society adopts a low risk strategy with all retail mortgages secured against residential property
- Despite the challenging environment, mortgage balances grew by 2.1% in the year which represents a 2.8% market share of gross lending
- Importantly this growth was achieved in line with our purpose - 10,854 loans were advanced to first time buyers, helping them to find a place to call home.

Average LTV of Book 50.5%
Average LTV of 2020 New Lending 74.2%



# Impairment of Financial Assets – Economic Scenarios

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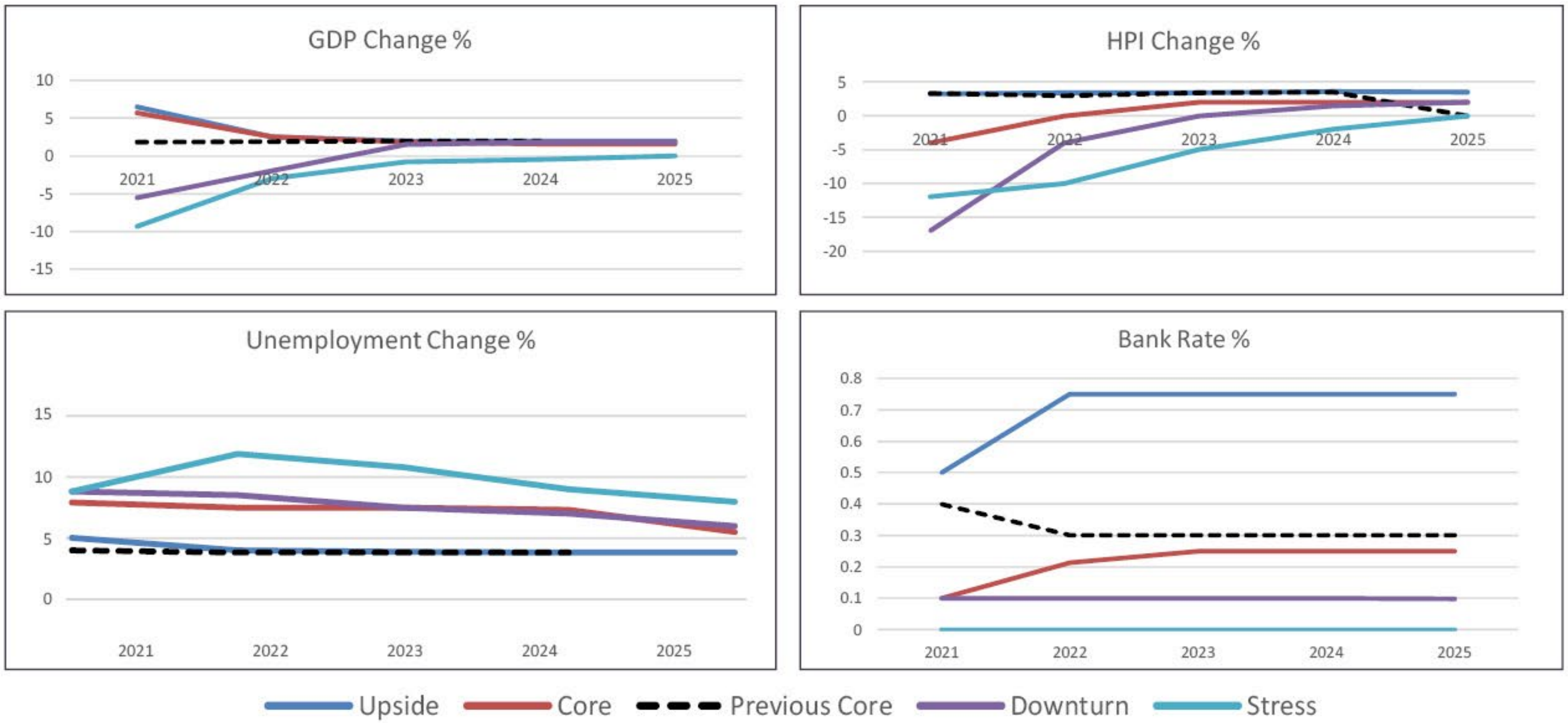



- The Society has assessed the uncertainty associated with the ongoing COVID-19 pandemic, the impact of the UK's trade deal with the EU, a possible end to the Stamp Duty freeze and impending budget announcement from the Chancellor, and determined that applying a combined 50% weighting to downside and stress scenarios as at the balance sheet date represents the best estimate of the impact on the UK economy
- A 5% weighting to upside, 45% to core, 35% to downside and 15% to stress has been used to derive the expected credit losses (ECL), deemed to be a prudent approach in the face of unprecedented uncertainty.

# IFRS 9 staging remains stable

| 31 Dec 20 | Balances | % Balance | PMA | Total ECL | Coverage | Average LTV | 2019 % Balance | 2019 Coverage |
|---|---|---|---|---|---|---|---|---|
| **Stage** | £m | % | £m | £m | % | % | % | % |
| Stage 1 | 34,488.3 | 89.3 | - | 4.0 | - | 50.9 | 90.4 | - |
| Stage 2 | 3,297.2 | 8.6 | 3.4 | 27.2 | 0.8 | 46.4 | 7.3 | 0.7 |
| Stage 3 | 308.7 | 0.8 | - | 15.4 | 5 | 47.9 | 0.8 | 4.8 |
| POCI | 515.4 | 1.3 | 0.1 | 26.4 | 5.1 | 50.9 | 1.5 | 5.0 |
| Unstaged PMA | - | - | 3.0 | 3.0 | - | - | - | - |
| **Total** | **38,609.6** | **100** | **6.5** | **76.0** | **0.2** | **49.8** | **100** | **0.2** |

- The Society has £515.4m of POCI loans. Of these, 87% are now considered performing loans but are not permitted to be classified as stage 1 or 2. "Problem loans" represent the total of the Group's stage 3 balances and non-performing portion of our POCI loans
- The POCI book is considered to be low risk with 60.0% of loans being <60% LTV, with only 3.0% of loans 90% LTV or greater

# Environmental, Social & Governance

YORKSHIRE BUILDING SOCIETY

# ESG ratings – upward trajectory with lots more work to be done

YORKSHIRE BUILDING SOCIETY

| | 2017 | 2018 | 2019 | 2020 | Trend |
|---|---|---|---|---|---|
| **Sustainalytics** | | | | | |
| **YBS overall score (0-40+)** | - | - | 17.4 | 20.9 | ↑ |
| Risk Level | - | - | Medium | Low | ↑ |
| Ranking in industry group (banks) | - | - | 10th percentile | 9th percentile | ↑ |
| Ranking in subindustry group (thrifts and mortgages) | - | - | 4th percentile | 2nd percentile | ↑ |
| **MSCI** | | | | | |
| **YBS overall score (CCC to AAA)** | - | **BBB** | **BBB** | **BBB** | → |
| Accounting & Governance Risk (AGR) | - | 25 | 76 | 99 | ↑ |
| **ISS** | | | | | |
| **YBS overall score (CCC to AAA)** | **-** | **C-** | **C-** | **C** | ↑ |
| **Imug** | | | | | |
| **YBS overall score (%)** | **36%** | **38%** | **48%** | **-** | ↑ |
| Ranking in bank type | 14/16 | 13/16 | 11/16 | - | ↑ |

- The Society actively engages with a number of specialist rating agencies that assess the quality of our Environmental, Social and Governance ('ESG') and sustainability performance and reporting
- Whilst rating agencies adopt different scoring methodologies, our trends show that we have made significant progress in recent years and rank highly among peers
- We are continuing to enhance our disclosures, focusing on transparency and availability of information.

# ESG Highlights

**In 2020 we continued to improve our ESG performance. This was also reflected in our Non-Financial Rating Agency scores, with some now positioning us as a top performer in our sector.**

## ENVIRONMENT

- Joined the **Leeds Climate Commission**, which was established to help one of our heartland cities make positive choices on issues relating to energy and climate
- Our Paper Reduction Scheme removed 4 million sheets of paper representing a 32% **paper usage reduction** on 2019
- We have **maintained our certificated Carbon Neutral® status** in line with the carbon neutral protocol for the 5th consecutive year
- At our Head Office in Bradford we have introduced programmes **to increase biodiversity, modernise air conditioning and cooling systems in our server rooms**, and we continue to generate electricity from our solar farm.

## SOCIAL

- Donated just under **£1m in charitable giving and volunteering** programmes and launched a **new £1m partnership with Age UK** to help older people achieve financial resilience
- Delivered **financial education** sessions to more than 27,000 young people since Money Minds launched in 2015. New digital content in 2020 allowed us to continue this support through the pandemic
- Achieved **35th in the 50 Inclusive Employers List** (up from 47th)
- Secured **Best Charity Partnership** category at the Third Sector Business Charity Awards for our **£1.1m partnership with End Youth Homelessness**
- Increased the **number of women in the Senior Leadership Team to 46%** (up from 39% in 2019).

## GOVERNANCE

- Published fifteen internal policies on our website to foster **greater transparency** about our approach to ESG. These include disclosures around Ethics, Financial Crime, Sales, Vulnerable Customers and Whistleblowing, amongst others
- Secured Board level support for an enhanced **commitment to social purpose activity directly linked to our strategic blueprint** and mandating an investment of over £1m in financial resilience and skills and employability programmes.

# Our response to Covid-19

YORKSHIRE BUILDING SOCIETY

# We have supported members, employees and communities throughout Covid-19

YORKSHIRE BUILDING SOCIETY

## Supported our members

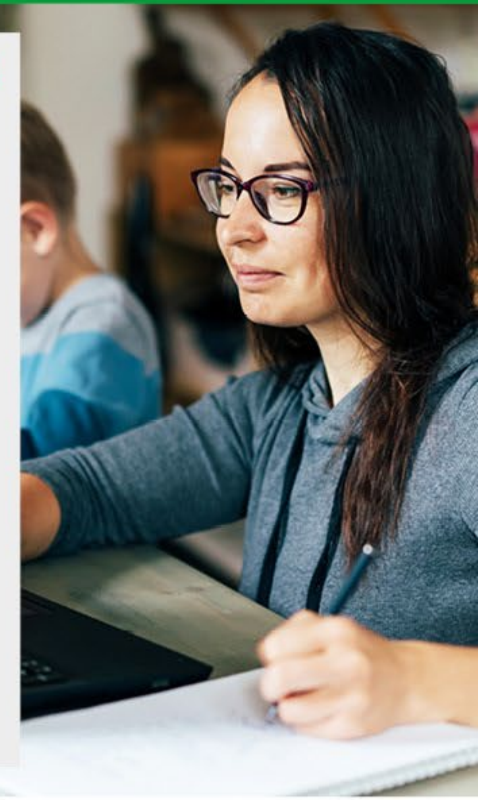
- Granted in excess of 40,000 payment deferrals
- Paused repossession proceedings until 31 March 2021
- Delivered rates which consistently beat the market on average of 0.17%, equating to £51m in additional interest to savers.

## Supported the housing market and economy

- We provided 10,854 mortgages to people buying their first home
- In November we were the first UK mortgage provider to re-enter the 90% LTV market for all buyer types
- We helped 1,400 new landlords in getting a loan and also provided £98.4m in finance to social housing companies

## Supported our employees and communities

- In March, 1,400 office based colleagues transitioned to working from home, continuing to provide essential financial services safely
- We changed our policies to offer colleagues unlimited dependents' and cares' leave
- In 2020, we also continued our work to help homeless young people raising a total for the charity during our three-and-a-half-year partnership to more than £1.1m and has so far helped 557 young people with 117 dependent children into a home.



- From the very beginning of the pandemic our priorities have been to support our customers, our colleagues and our communities. We have been able to do this because of the strong financial foundations
- We have prioritised helping customers to find and keep their homes, ensuring their savings are safe and accessible, and looking after the health and wellbeing of our colleagues

# Covid-19 Payment Deferrals

| Overall Payment Deferral Summary | Number | % of Payment Deferrals issued | % of Portfolio |
|---|---|---|---|
| Still on a Payment Deferral (initial or extension) | 3,483 | 8.7% | 1.4% |
| No longer on a Payment Deferral - no deterioration in performance | 35,294 | 87.9% | 13.7% |
| No longer on a Payment Deferral - deterioration in performance | 1,381 | 3.4% | 0.6% |
| **Total** | **40,158** | **100.0%** | **15.6%** |
| **Initial Payment Deferral Operational Summary** | **Number** | **% of Payment Deferrals Issued** | **% of Portfolio** |
| Initial Payment Deferral Still Active | 1,391 | 3.5% | 0.5% |
| Initial Payment Deferral Ended | 38,767 | 96.5% | 15.1% |
| **Total** | **40,158** | **100.0%** | **15.6%** |
| **Initial Payment Deferral Outcome Summary** | **Number** | **% of Payment Deferrals Issued** | **% of Portfolio** |
| Payment Deferral Extended | 12,914 | 33.3% | % of ended initial payment deferral |
| Resumed Payments - no deterioration in performance | 25,348 | 65.4% | |
| Resumed Payments - deterioration in performance | 505 | 1.3% | |
| **Total** | **38,767** | **100.0%** | |
| **Extended Payment Deferral Operational Summary** | **Number** | **% of Payment Deferrals Issued** | **% of Portfolio** |
| Extended Payment Deferral Still Active | 2,092 | 5.2% | 0.8% |
| Extended Payment Deferral Ended | 10,822 | 26.9% | 4.2% |
| **Total** | **12,914** | **32.0%** | **5.0%** |
| **Extended Payment Deferral Outcome Summary** | **Number** | **% of Payment Deferrals Issued** | **% of Portfolio** |
| Resumed Payments - no deterioration in performance | 9,946 | 91.9% | % of ended extended payment deferral |
| Resumed Payments - deterioration in performance | 876 | 8.1% | |
| **Total** | **10,822** | **100.0%** | |

*Data as at 24/02/2021

- We have seen a balance in terms of the number of customers that have deteriorated from a payment deferral and those that have cured from arrears at the end of the payment deferral

# Q&A

# Contacts

**Mike Regnier**
Chief Executive Officer
Email: mregnier@ybs.co.uk
Tel: +44 (0)1274 472262

**Alasdair Lenman**
Chief Finance Officer
Email: alenman@ybs.co.uk
Tel: +44 (0)1274 472279

**Duncan Asker**
Director of Treasury
Email: dasker@ybs.co.uk
Tel: +44 (0)1274 472319

**Richard Driver**
Senior Manager - Treasury
Email: rjdriver@ybs.co.uk
Tel: +44 (0)1274 472667

YORKSHIRE BUILDING SOCIETY

# Appendix

YORKSHIRE
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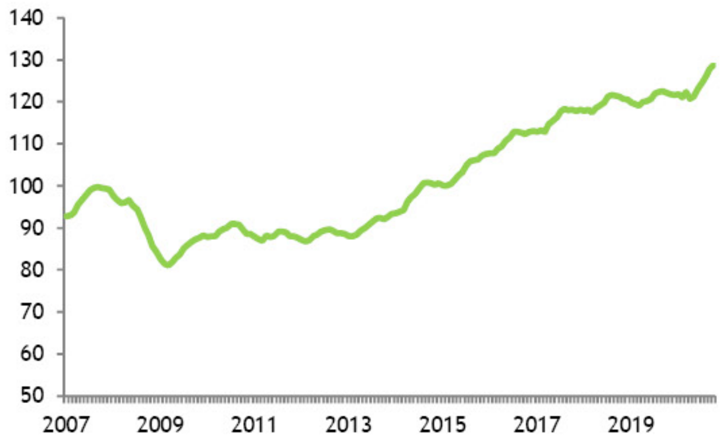
# UK Housing Market Overview

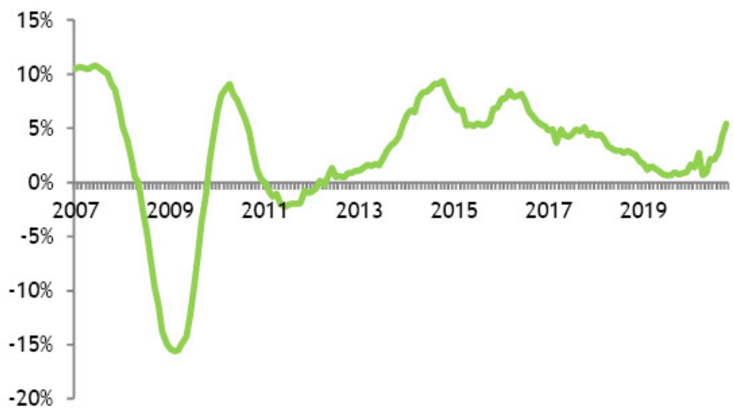
## UK House Price Index[1]



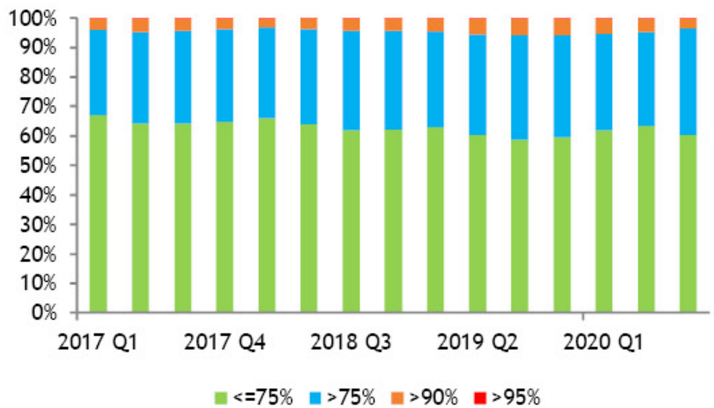

## 2020 Regional House Prices[1]

| Region | Average Price Oct 2020 | MoM Price Change | YoY Price Change |
|---|---|---|---|
| North East | 136,281 | -0.3% | 5.4% |
| North West | 177,796 | 1.2% | 6.6% |
| Yorkshire and The Humber | 177,115 | 2.4% | 6.6% |
| East Midlands | 207,604 | 2.0% | 6.6% |
| West Midlands | 193,039 | 0.7% | 2.7% |
| East of England | 300,744 | -0.9% | 3.4% |
| London | 490,936 | -1.2% | 3.9% |
| South East | 337,412 | 0.4% | 4.7% |
| South West | 274,319 | 0.4% | 6.1% |
| Scotland | 163,245 | 1.4% | 6.0% |
| Wales | 175,998 | 2.5% | 5.8% |

## YoY House Price Change[1]




## UK New Mortgage Lending LTVs (% total)[2]




*(1) Source: HM Land Registry data © Crown copyright and database right 2020 This data is licensed under the Open Government Licence v3.0. Data as at Oct 2020*
*(2) Source: Prudential Regulation Authority (PRA)/Financial Conduct Authority (FCA) - formerly FSA, via Haver Analytics*