Yorkshire Building Society **Annual Report and Accounts 2022**

YORKSHIRE BUILDING SOCIETY
Helping real life happen

WELCOME

Contents

PERFORMANCE AT A GLANCE

Member value

Statutory Profit Before Tax	Core Operating Profit[1]	Cost to Core Income Ratio[1]	Common Equity Tier 1 Ratio
£502.5m	£425.6m	41%	16.8%
£320.0m in 2021	£297.3m in 2021	50% in 2021	16.8% in 2021

Leverage Ratio	Liquidity Ratio	Average Savings Rate Differential[2]	Net Promoter Score (NPS®)[3]
6.2%	23.3%	0.56pp higher than the market average	+54
5.9% in 2021	20.7% in 2021	0.32pp higher in 2021	+51 in 2021

Place to call home

Gross Lending	Gross Mortgage Lending Market Share[4]	Growth in Mortgage Balances	New Residential Mortgages Provided
£10.3bn	3.1%	4.2%	47,000
£10.3bn in 2021	3.2% in 2021	8.1% in 2021	49,000 in 2021

Financial wellbeing

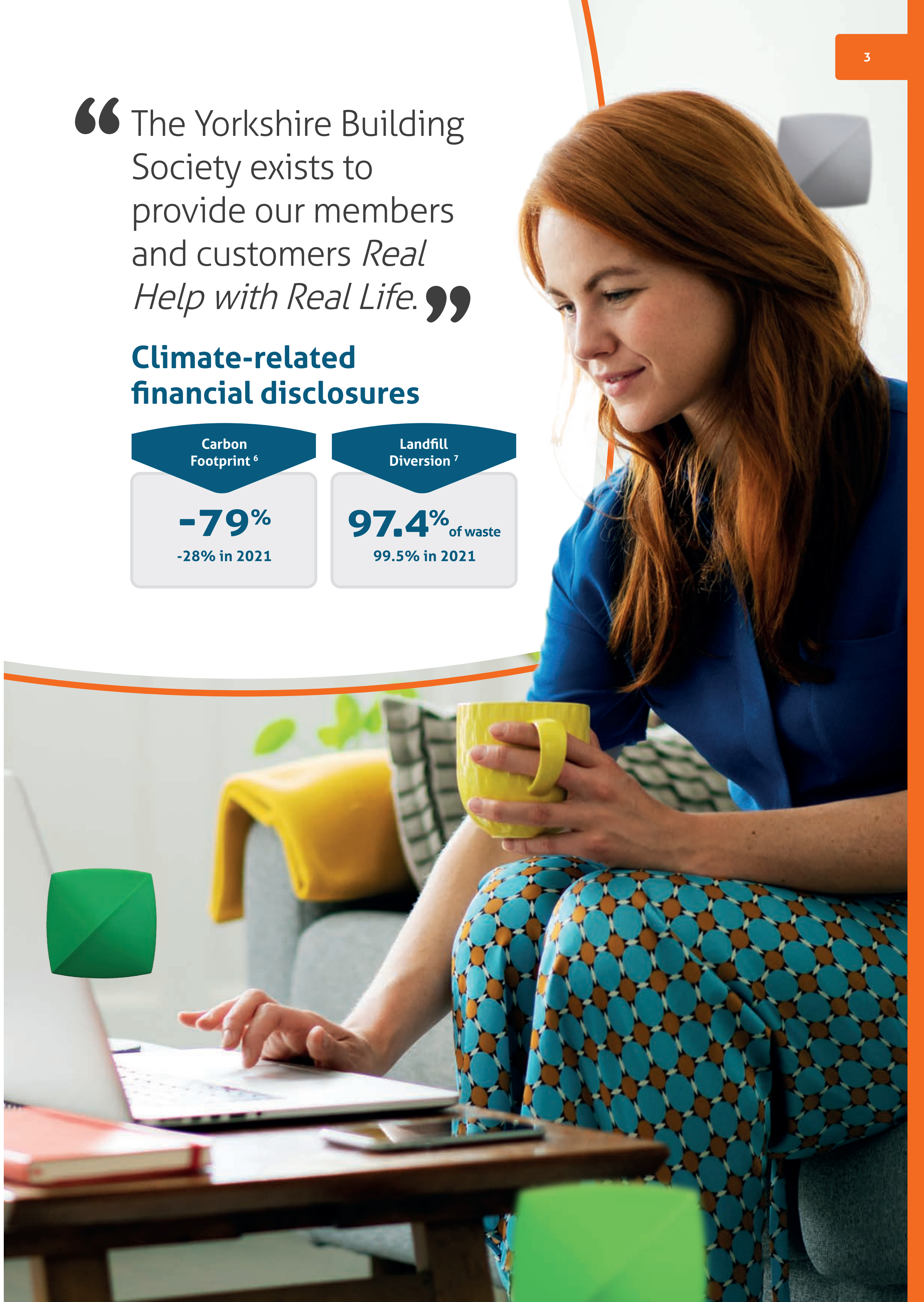
Savings Accounts Opened	Savings Balance Market Share[5]	Shares Balances	Average Savings Rate Paid
537,000	2.2%	£42.0bn	1.20% over 2022
203,000 in 2021	1.9% 2021	£35.5bn in 2021	0.60% over 2021

1 See the Glossary definitions for alternative performance measures.
2 YBS Group average savings rate compared to rest of market average rates. Source: CACI's Current Account and Savings Database (CSDB), Stock. Data period January – December 2022.
3 Net Promoter Score and NPS are trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc. Data period January – December 2022, based on 41,703 responses. Following a change in the calculation methodology for Group NPS in 2022, the comparative period 2021 has been restated on a consistent basis.
4 Based on Bank of England total industry gross lending. Data period January – December 2022.
5 Source: YBS analysis of BSA Household savings. Data period January – December 2022.
6 The 2021 carbon footprint has been updated to include actuals figures rather than the estimates for final month/quarter amounts included in the 2021 disclosures. Calculations were also altered to reflect the 2022 carbon footprint's calculation methodologies. See SECR in the Director's Report for more information.
7 In 2022, The Society collected additional data to include waste from capital projects which was not available in 2021. Excluding waste from capital projects, the landfill diversion rate was 99.9%.

> "The Yorkshire Building Society exists to provide our members and customers *Real Help with Real Life.*"

Climate-related financial disclosures

Carbon Footprint[6]	Landfill Diversion[7]
-79%	97.4% of waste
-28% in 2021	99.5% in 2021



WELCOME FROM THE CHAIR OF THE BOARD

Providing *Real Help with Real Life* when our members need it the most

Welcome to the 2022 Annual Report and Accounts for the Yorkshire Building Society. This year, I am able to report on a period in which the Society has performed strongly in the pursuit of our long-term objectives amidst uncertain market conditions.

The events we have experienced over the course of 2022 would have been difficult to predict as 2021 came to a close. Whilst some of the pre-existing challenges persisted – namely the impacts of the UK's exit from the European Union and residual pandemic-related disruption – new challenges have also emerged. The degree of change to which the economic and political environments have been subjected has been material in both scale and impact, including the devasting consequences of the military conflict in Ukraine, changes to UK political leadership, and inflation having risen to the highest rate for several decades.

The increasing cost-of-living has become a concern for much of the UK and these pressures appear to show little sign of abating. With the Bank of England having increased the benchmark interest rate on multiple occasions over the year, we have led with a strategy that saw our members benefit from this environment, demonstrating one of the features of our mutual business model by offering greater returns at a time when it could make all the difference.

Providing a better rate of return on our savings products is just one example of how we have remained true to our purpose in 2022 – a purpose which is as relevant today as it was when we were founded over 150 years ago. This purpose is to provide Real Help with Real Life. It underpins our every decision and is expressed today through our three main priorities: to help people have a place to call home, to support people toward greater financial wellbeing, and to deliver lasting value to our membership over the long term.

The continual development of our mortgage and savings products plays a key role in how we deliver against all aspects of our purpose. In 2022, we sustained a high volume of mortgage lending, launched targeted propositions to help underserved areas of the market like first-time buyers, and delivered increased savings balance growth as a result of our competitive rates and the continued success of our member loyalty programme. All of this, alongside the advancements made in our digital capabilities, contributed toward our robust commercial performance in the year.

Such strong performance in our core markets has been supported by our Strategic Blueprint and Transformation Roadmap, both of which launched in 2020. Taken together, these set out our aim to keep better pace with the evolving customer expectations for the products and services we offer and the way in which we offer them. Now two years on, we are part way though our roadmap and, despite the challenging backdrop, we can be pleased with what has been delivered so far. Our financial position has been further bolstered by our performance in 2022 and forms a stable base from which we will continue to build as we enhance our ability to meet the needs of a modern, increasingly digital world.

Changes to the Board

In August 2022, we were pleased to announce the appointment of Susan Allen OBE as our Chief Executive Officer, subject to regulatory approval. I very much look forward to welcoming Susan to the Board and to the Society as she assumes the role in early 2023. I have no doubt that the skills and expertise Susan brings will be of great benefit to our members, to our colleagues, and to our organisation as a whole as we continue to invest in our future.

The appointment of Susan marks the conclusion of the recruitment process for our Chief Executive after the departure of Stephen White, who served as Interim Chief Executive until June 2022. Stephen served the Society excellently over the course of his time here, as a Board member and as our Chief Operating Officer. My thanks also go to Alasdair Lenman, our Chief Finance Officer, for acting as Interim Chief Executive during this recruitment process.

Additionally, our Chief Commercial Officer, David Morris, was welcomed to the Board in January 2022 following his appointment as Executive Director, having been with the Society since 2018.

Succession planning for our Non-Executive Directors has continued to be a matter on which the Board has focused in 2022 to ensure the Board remains effective both presently and in the future. As a result of those succession plans, I would like to update you on the following changes to our Board during the year:

- Guy Parsons stepped down from the Board, and as Chair of the Remuneration Committee, at the Annual General Meeting (AGM) on 26 April 2022. Alison Hutchinson became Chair of the Remuneration Committee following Guy's departure.
- Neeta Atkar stepped down from the Board, and as Chair of the Group Risk Committee, on 22 June 2022. Angela Darlington, who joined the Society on 26 April 2022 as a Non-Executive Director and member of our Audit and Group Risk Committee, was appointed Chair of the Group Risk Committee following Neeta's stepping down.

I would like to thank both Guy and Neeta for their outstanding contributions to the success of the Society over their many years of service and I wish them both well for the future.

Our long-term sustainability

The key responsibilities I hold as Chair of the Board are to ensure that the Board is operating effectively and that its members possess the appropriate level of skills and experience. We place great importance on the composition of the Board being both inclusive and diverse and I am pleased to be able to say that our Board currently surpasses our medium-term target for female representation. A wider range of perspectives and experiences will serve to enrich the Board and support its continued effectiveness, and we will continue to hold these values in mind in the course of our succession planning and as we develop our talent pipelines.

The Society works to the highest standards of corporate governance and we are committed to maintaining this approach. As a member-owned mutual our members and customers entrust us with their savings and mortgages, and it is our duty to them to operate a financially secure, sustainable business with robust controls and risk management processes in place. This will enable us to continue serving our membership for many years to come.

Welcome from the Chair of the Board (continued)

Our long-term sustainability (continued)

In 2021, we redefined our Environmental, Social, and Governance (ESG) strategy and identified three additional responsible business priorities: investing in our people, building a greener society, and operating responsibly. Together with our three existing purpose priorities, these articulate our commitment to driving positive societal outcomes including those that extend beyond our membership to a broader range of stakeholders. More information on our ESG priorities is included later in this report.

As part of our 2021 Annual Report and Accounts we made our first disclosures on the topic of managing the risks posed by climate change, aligned to the principles of the Taskforce on Climate-related Financial Disclosures (TCFD). An update to these disclosures, and the progress made toward our targets, is provided in the *Building a greener society* section of this report.

Whilst our environmental standards and policies seek to minimise negative impacts on wider society, we have a long history of actively seeking to maximise the positive impact we can create. Our community investment is a great example of this at work, and our local, regional, and national initiatives are something of which I am personally very proud. Education around personal finances never ceases to be valuable, and as wider society becomes more and more reliant on digital technologies, the related skillsets are becoming essential for employability and for everyday life. Support relating to these key themes is delivered through numerous initiatives, from those focused in local communities like our founding city of Bradford, to those programmes with a national presence like Money Minds which continues to deliver educational sessions to younger generations. In 2022 we have continued to support our successful partnerships, including those with Age UK and Citizens Advice, and we have committed to investing more into our community programmes on an ongoing basis.

External factors

Developments in the external environment are monitored closely to determine the degree to which they may impact upon the Society and our ability to deliver against our purpose. We ensure that our actions are in the interests of our members and that they are in accordance with maintaining a strong and sustainable organisation over the long term.

Alongside the ongoing challenges around the growing cost-of-living and rate of inflation, September saw a period of significant volatility following the market perception of disharmony between government and central banking policy. This caused a substantial degree of disruption to currency valuations, the interest rate environment, and therefore the mortgage market. Later policy changes have reduced the level of volatility from the peak experienced, and though the market is now functioning closer to normal, uncertainty remains.

In line with our robust risk management capabilities, the Society will continue to monitor the environment in which we operate closely, taking corrective action where necessary. We are secure in our financial position, well-capitalised, and possess good levels of liquidity. Our capital generation and strong balance sheet mean that we are well-placed to withstand a potential economic downturn.

Regulatory factors

Updates from the regulatory environment this year include:

- A new Consumer Duty was introduced by the Financial Conduct Authority, which impacts the financial services sector as a whole. The duty aims to provide fundamental improvements to how firms serve their consumers and sets higher and clearer standards for protection. The Society positively embraces this new regulation and is currently taking the required steps toward compliance with the new rules, which begin to come into effect from July 2023.
- The Financial Services and Markets Bill, introduced to Parliament in July 2022, is an important piece of legislation seeking to make changes to the framework in which financial services regulators operate, in the context of the UK having separated from the European Union (EU). The Society will continue to monitor future developments as the bill progresses through the legislative process.

The challenges that lie ahead

Given that many of the factors which have driven inflation to such highs are global in nature, it is difficult to predict when or how these pressures will begin to subside. Heightened levels of uncertainty therefore look set to remain in 2023. There is a good deal of variability among the possible range of outcomes for many of the key macroeconomic indicators though, on balance, the outlook appears to be more pessimistic than this time last year. The outlook for the housing and mortgage markets is particularly uncertain, with recent indices having shown house price growth slowing over 2022 before beginning to reverse. Adverse house price movements appear likely to continue as the issues around affordability and the rising cost-of-living impact upon supply and demand.

In recent years the Society has demonstrated that our purpose and business model are resilient, and whilst there are signs to indicate that the economic environment will continue to be challenging, we face into these new challenges with the backing of a strong financial position, dedicated colleagues, and a clear roadmap for the future.

I would like to end on a note of thanks to our members for their continued trust and support.

John Heaps
Chair of the Board

“As a member-owned mutual our members and customers entrust us with their savings and mortgages, and it is our duty to them to operate a financially secure, sustainable business with robust controls and risk management processes in place.”

INTERIM CHIEF EXECUTIVE'S SUMMARY

A purposeful year, with real support for our members

I am pleased to present the 2022 Annual Report and Accounts for the Yorkshire Building Society. Our performance this year demonstrates our clear commitment to supporting our members and to delivering against our purpose of providing *Real Help with Real Life.*

I am proud to be able to report that this year represents some of the best outcomes we have seen as an organisation, across areas including the quality of customer service provided, the number of members and customers we have supported, and the robust set of financial results we have delivered – all while operating within a context of elevated unpredictability and uncertainty.

Having assumed the role of Interim Chief Executive in June 2022, it has been a pleasure to have overseen the great work undertaken by our colleagues and the positive impacts this has had on our organisation and our members. The recruitment process for our next Chief Executive has now concluded and I would like to extend a warm welcome to Susan Allen OBE, who is due to formally take up the role early in 2023.

When we refreshed our strategy in 2020, and launched our Strategic Blueprint, we also set out our Transformation Roadmap – an ambitious programme which aimed to enhance our digital capabilities and provide a step-change in the customer experience we offer. Our commitment to serving our members in our branches across the UK and by phone remains as strong as ever. The improvements in our digital service capability, complement the support we offer through more traditional channels, enabling us to support members through their channel of choice.

We are approaching the conclusion of our first phase of work under the roadmap, and in the last two years we have delivered some tangible improvements for our customers. Earlier in the year we streamlined the process for opening new savings accounts with us, and more recently much of our focus has been placed on addressing some of the known points of customer dissatisfaction. This included the implementation of a new, simplified login process, which allows our customers access to our online services with greater ease as well as the expansion of the range of services which are available online and through our app. The progress we have made is illustrated by the improvement in our digital Net Promoter Score (NPS), which exceeded our score in 2021 and reached our target for 2022.

We have also continued to invest in reducing operational risk, with cyber security, financial crime controls, GDPR compliance, and the upgrade of legacy systems having been among our key priorities in 2022. As ever, there remains much to do and we will invest further in transforming our capabilities, and in the resilience of our networks, data, controls, and payments systems in 2023 and the coming years as we enter the next phase of our transformation programme.

The progress we have made as an organisation is especially noteworthy given the context within which it has been achieved. We experienced the disruption of the pandemic in the two preceding years, and yet more challenges were posed in 2022 in the form of significant geopolitical and economic uncertainty. The onset of the tragic conflict in Ukraine, and related energy crisis, compounded already present global issues and served to heighten the levels of uncertainty present. All of these factors contributed to the steep rate at which inflation has risen over the year, the ramifications of which have been a major concern for the UK population, its government, and its regulators.

Many UK households are now facing difficulties in managing their finances as limited wage growth is outpaced by the rising cost of everyday essentials. In this context, our purpose of providing long-term value to our members is more important than ever before. When a change occurs in the interest rate environment, the Society carefully considers strategies of how best to balance the prospect of changing our customer rates with our long-term organisational sustainability. As our funding costs increased we increased our borrower standard variable rates to remain in step with the market, and we made sure that our savers benefitted by raising the lowest rates we pay across almost all of our variable rate savings accounts. Taking into account our responses to the Bank Rate increases effected up to and including December 2022, we increased our variable savings rates seven times; after these changes, the variable rate products we offer do not pay a rate lower than 2.55%[8].

Alongside the increases to our savings rates, we have continued to focus on delivering value to our savers through our member loyalty programme. This programme launched in 2021, and 2022 has seen us expand the reach of this successful programme as we enabled online applications and released four new loyalty propositions. These products featured some of our best rates and were available to those members who have been with us for 12 months or longer.

All of this purposeful activity in savings contributed to our members having opened over 537,000 accounts with us in 2022 (2021: 203,000), and the differential between the rates we offer and the average rate offered by the rest of the market has widened. Over 2022, we delivered rates which were on average 0.56 percentage points higher than the market average (2021: 0.32 percentage points higher), which equates to £198.6m additional interest paid to our savers.

Another key element of our purpose is to support people to have a place to call home through our mortgage lending. In 2022, we have helped 55,000 people reach this goal[9] (2021: 85,000) and though this total is lower than the preceding year, this has been achieved in the absence of the government incentives for house purchases which influenced the market in 2021. For much of 2022, the housing market was characterised by a sustained level of strong buyer demand and continued growth in house prices. As such, we received high volumes of mortgage applications over these periods and the peak observed in May represented our highest monthly volume on record.

As the year progressed, and the cost of borrowing climbed alongside Bank Rate, demand began to show signs of slowing. Toward the end of September, the period of turmoil experienced in the financial markets also had an acute impact on the mortgages market. During this period it was imperative that our principled and responsible approach to lending continued, and that pricing and affordability risks were carefully managed. We were unwilling to make any compromises in the assessment of risk and, given the magnitude of the uncertainty present, we temporarily withdrew our new lending product ranges.

8 Excluding offset savings accounts.

9 Place to call home measure based on average residents in properties against which loans have been advanced in the period (excluding re-mortgages and further advances but including buy-to-let and social housing).

Interim Chief Executive's Summary (continued)

By the close of 2022, relative stability had returned to the market and the vast majority of market segments had resumed lending activity. Though this period was short-lived, as a business we stay alert to the possibility for future disruptions.

Over this year and the last we have sustained a higher rate of growth in our mortgage book, and when setting these targets we were clear that our standard of customer service should not fall as a result. A key measure we use to track customer satisfaction is our overall Net Promoter Score (NPS), a measure of how willing our customers are to recommend us to others, which improved to +54 from +51 in 2021. Our ability to process these larger volumes whilst maintaining a high-quality service is a result of the efforts and teamwork of our colleagues, who once again featured highly in customer feedback.

All that we have accomplished would not have been possible without our colleagues and we remain committed to fostering their wellbeing and development. We have multiple means through which we maintain a regular, honest dialogue with our colleagues, and their opinions are highly valued. We were pleased to note that the Society's overall colleague engagement score increased once again, from 8.5 in 2021 to 8.6, which continues to place us in the upper quartile for financial organisations[10]. Having demonstrated strong levels of effectiveness and collaboration as an organisation since transitioning to flexible working during the pandemic, this approach was kept in place in 2022.

The Society remains committed to having our workforce reflect the values of inclusion and diversity. Embracing a broad range of perspectives, and the talents of people of differing backgrounds and characteristics will only help to support the creativity and innovation of the Society as a whole. The diversity of our workforce is monitored regularly, and the associated metrics show the continued strength of our performance in this area. We were also delighted to receive external recognition from the organisation Inclusive Companies, as we placed at number 10 in their list of the *Top 50 Inclusive Employers* for 2022.

At times this year, acquiring and retaining talent did prove challenging, especially for roles relating to technology, change, and data as higher demand was observed for these particular skillsets. As such, the reward and value propositions on offer were brought into clearer focus. We also know that the rising cost-of-living is a concern shared by many, and in September we made a one-off payment of £1,200 to each of our colleagues to go some way toward supporting them through the challenges they face.

The Society has always had a strong sense of social purpose and to this day we continue to embrace being a part of the communities in which we operate. Purpose-aligned causes like the promotion of financial wellbeing and resilience are more relevant than ever, and we are committed to doing what we can to see the benefits of saving extend to more areas of society. We have a range of active community and charitable initiatives which promote financial and digital education, and employability skills, which we have continued to expand in 2022.

Through donations and fundraising we continue to support our current charity partner, Age UK, as they deliver their important work to help older people with matters relating to financial resilience. In 2023, we are also expanding the scale of our award-winning partnership with Citizens Advice, an organisation that offers free, impartial advice covering a wide range of issues including financial wellbeing. The Society funds advisers from Citizens Advice to operate from a number of our branch locations, and from March 2023 we are making a further investment to increase the number of appointments offered. This collaboration continues to resonate strongly with our branch colleagues who feel it is making a real difference to people's lives and is particularly relevant in the context of the rising cost-of-living.

Our financial sustainability

The security of the Society's financial position has been further strengthened by our performance in 2022. We have achieved good levels of growth on both sides of our balance sheet, and our capital and liquidity positions comfortably exceed regulatory minimums.

The growth in our savings book in 2022 has been particularly strong, owing to the value we offer to our members, the impact of our transformation programme, and the remarkable support provided by our colleagues. Shares balances increased by £6.5bn in 2022 compared to the £2.1bn growth in 2021, and that much of this was driven through our online channel demonstrates the progress made in improving our digital capabilities.

Elevated external uncertainty and recent wholesale market disruptions have increased the refinancing risk associated with the maturity of the Bank of England's funding scheme, TFSME, in 2025. As a result, we chose to slow net mortgage lending in the second half of the year, alongside the acceleration of growth in retail savings. We have now repaid around half of our original drawings from the scheme, and by year end we had the excess funding in place to be able to repay the rest whilst remaining compliant with regulatory liquidity requirements.

Net lending in 2022 remained at a similar, elevated level to the preceding year as we continued to support our place to call home ambitions – reaching £3.0bn in the year (2021: £3.6bn). The level of growth achieved in our mortgage book, combined with the rising interest rate environment, has contributed to a material improvement in profitability in 2022. Core operating profit increased to £425.6m from £297.3m, and our net interest margin was 1.30% (2021: 1.07%). Despite higher costs as a result of inflationary pressures and increased investment in our ongoing transformation programme, our cost to core income ratio has continued its downward trajectory reducing from 50% in 2021 to 41% in 2022.

> *We have achieved good levels of growth on both sides of our balance sheet, and our capital and liquidity positions comfortably exceed regulatory minimums.*

On a statutory reporting basis, profit before tax was £502.5m in 2022 (2021: £320.0m), which will strengthen our capital reserves and aid our future sustainability. The effective generation of capital is important in ensuring our resilience in the event of an economic shock or downturn, and will support the Society in preparation for anticipated changes to capital regulations and requirements. The operational resilience of the Society also continues to be prioritised to protect the Society and our members from the evolving threats that we face.

Outlook

The observed deterioration in the outlook across a broad range of macroeconomic indicators signals that 2023 may bring with it many challenges. A key uncertainty looking forward is for how long inflationary pressures will persist, and what this will mean for the cost-of-living and the normal functioning of markets. The UK housing market is likely to be constrained to some degree as long as the cost-of-living pressures remain elevated, with economic tightening reducing demand and affordability criteria posing greater restrictions for prospective borrowers.

There is also potential for some existing mortgage holders to be negatively impacted. Adverse movements in house prices would increase the risk of negative equity, and borrowers may find their ability to continue to meet their monthly payments impaired. The Society has operated a policy of responsible lending for many years and the low risk profile of our mortgage book is reflected in the current level of arrears being much lower than the market average, as well as being one of the lowest we have observed historically. The credit performance of our mortgage book already forms a key measure as part of our established risk management processes and will continue to be monitored closely. Where possible we will be proactive in seeking to work with borrowers who are facing difficulties and offer support as they navigate their individual circumstances.

The challenges posed by the current environment may not exactly resemble those seen before, however the business model we operate is robust and we have demonstrated our ability to continue delivering value for our members across a variety of external contexts. The continued progress we make as each year passes speaks to our clear purpose and strategy, organisational resilience, and the hard work and dedication of our colleagues.

In 2023 we will continue to invest in transforming customer experience and building greater operational resilience, efficiency, and agility so that we can continue to deliver on our purpose.

Alasdair Lenman
Interim Chief Executive Officer

[10] Benchmark sourced from Peakon.

THE EXTERNAL ENVIRONMENT

The Society closely monitors the environment in which we operate. Factors beyond our control can have a significant bearing on our operations and may impact our ability to deliver sustainable value to our members over the long term. Identifying and understanding emerging risks and opportunities is how we can best prepare for, and adapt to, the changing external circumstances.

Economic and political overview

The economic and political environments in 2022 have been subject to much change and volatility. As the year opened, the trade consequences of the COVID-19 pandemic and the UK's exit from the European Union were present in the form of imbalances in the supply and demand for certain goods, services, and skillsets.

February saw the onset of the military conflict in Ukraine which is ongoing at the time of writing and remains a principal geopolitical concern. These events have had far-reaching consequences and include not only the devastating impacts on the lives of people, but also the worsening of global supply and logistical issues, and the disruption of markets for commodities like oil, gas, coal, and grains. This served to further elevate the levels of inflation which extended across national boundaries and began to affect a broader range of goods categories.

In the UK, the goods and services most impacted by rising prices included private rental costs, food, transport, and gas and electricity. Given the essential nature of these items, everyday living costs increased markedly for many, exacerbated by relatively modest compensation from wage growth. The worsening cost-of-living pressures precipitated interventions from the Government and the Bank of England. Energy costs were a particular area of concern in the year as the Ofgem energy price cap was scheduled to increase from October 2022, reflecting the rising underlying costs borne by suppliers. The proposed increase to the cap was superseded by the announcement in September of the Energy Price Guarantee, alongside a package of other measures, which would go some way to protecting individuals and businesses from a sudden, sharp increase in their energy bills.

A key lever the Bank of England use to control the rate of inflation is making a change to Bank Rate. At multiple points throughout the year the Monetary Policy Committee elected to increase Bank Rate, from 0.25% at the end of December 2021 to 3.50% at the end of December 2022.

Following a budgetary announcement in late September, the financial markets experienced an additional and significant bout of volatility. The reaction to the policy proposals was sizable, leading to a fall in the value of the British Pound as well as renewed speculation around whether a further, emergency increase to Bank Rate was needed. Given the magnitude of the market reaction, actions were taken to restore stability. The Bank of England stepped in with a bond-buying package to protect pension funds from falling asset values, and political policy and party changes were made, including the appointment of the new Prime Minister. Later announcements in the autumn statement brought a package of tax increases and spending reductions, and a level of relative stability appeared to return to the markets.

Key macroeconomic indicators show a challenging outlook for the UK as forecasts suggest that the threat of a prolonged recession is real[11] . Gross Domestic Product (GDP) growth, which slowed over 2022[12], is expected to decline as a result of the pressure on real incomes and reduced spending.

The historically high level of inflation, which rose to 10.5% over the 12 months to December, is expected to fall by some degree in 2023, though there is a strong likelihood that inflationary pressures will continue to exceed the Bank of England's 2%[13] target.

The latest estimate for the rate of unemployment remains relatively low at 3.7%, - 0.3 percentage points below the level prior to the pandemic[14] - given the volume of vacancies, with some mismatches also present between the supply and demand of certain skillsets. Looking forward, weakened demand and spending could place upward pressure on rates of unemployment.

The degree of uncertainty present, both domestically and internationally, could serve to undermine the predictability of the economy and financial markets, posing clear downside risks. Overall, the short- to medium-term outlook is relatively pessimistic, and a wide range of outcomes are possible.

The UK mortgages market

As 2022 began, the mortgage market saw a continuation of the high volume of activity which was observed over the preceding year. Demand for housing remained strong in the first half, fuelling growth in already elevated house price indices, even without the external incentives which supported the market in 2021. Some impacts of the pandemic remained evident, as the combination of high demand and constrained resources pressured service levels and conveyancing processes, lengthening the time taken for housing chains to complete.

As the year progressed, some of the factors which were previously driving housing demand began to fall away. Disposable incomes, which had been built up over the course of the pandemic, began to be eroded by the rising cost of goods and relatively limited salary growth, making the raising of housing deposits more challenging for prospective homeowners.

The changes in the interest rate environment also began to have a bearing on the market; Bank Rate was increased eight times over the course of the year and the cost of borrowing rose alongside it. The price at which mortgages could be taken out increased markedly, which in turn made clearing the necessary affordability criteria more difficult – especially for those seeking a place on the property ladder.

The context of the rising cost-of-living also impacts existing mortgage holders, with borrowers facing the prospect of increases to their monthly repayments. Some borrowers chose to leave their existing fixed deals ahead of their contractual end date in order to secure new terms and gain certainty around future monthly repayments sooner, with many accepting early repayment charges. The requirement for mortgage holders to absorb the increases to monthly repayments also highlights the risks relating to potential increases in levels of arrears.

Mortgage rates increased over much of the year, though increased more sharply around September, coinciding with a budgetary announcement from the Government. The period of material uncertainty that followed caused the pricing of financial instruments to elevate sharply and emphasised the risks inherent in product pricing decisions. Mortgage providers – which until this point in the year had operated in a relatively competitive market – reacted swiftly and a large number of lenders temporarily withdrew from the market. The majority of lenders have since relaunched their product ranges, though selected segments and product types remain in retrenchment. In the final months of the year, price competition was emphasised as lenders sought to capture share in what became a smaller marketplace.

The current outlook and the projections for the size of the UK mortgages market are subject to a higher than usual degree of uncertainty. Lower consumer and market confidence served to steadily lower housing demand as 2022 progressed, and much depends on the extent to which the cost-of-living pressures constrain the market. Average house prices in the UK increased by 10.3% over the year to November 2022[15], and absolute house prices continued on a strong upward trajectory until August. From September the rate of price growth slowed, and the first month-on-month decline was observed in November. The expectation is that this reversal of price growth will continue, at least in the short term, given the significant headwinds faced by the housing market. Material reductions to house prices would increase the potential for instances of negative equity and would likely impact the type of lending offered by the market as a whole.

The UK savings market

The market for savings has changed considerably over the course of 2022, with the cost-of-living pressures, and the consequent rising interest rate environment having had a significant bearing. At the opening of 2022, Bank Rate was 0.25%, after being increased to this level in December 2021. As the Bank of England moved to address the pressures relating to rising levels of inflation, Bank Rate was increased at each scheduled meeting of the Monetary Policy Committee in 2022, reaching 3.50% by the end of 2022[16].

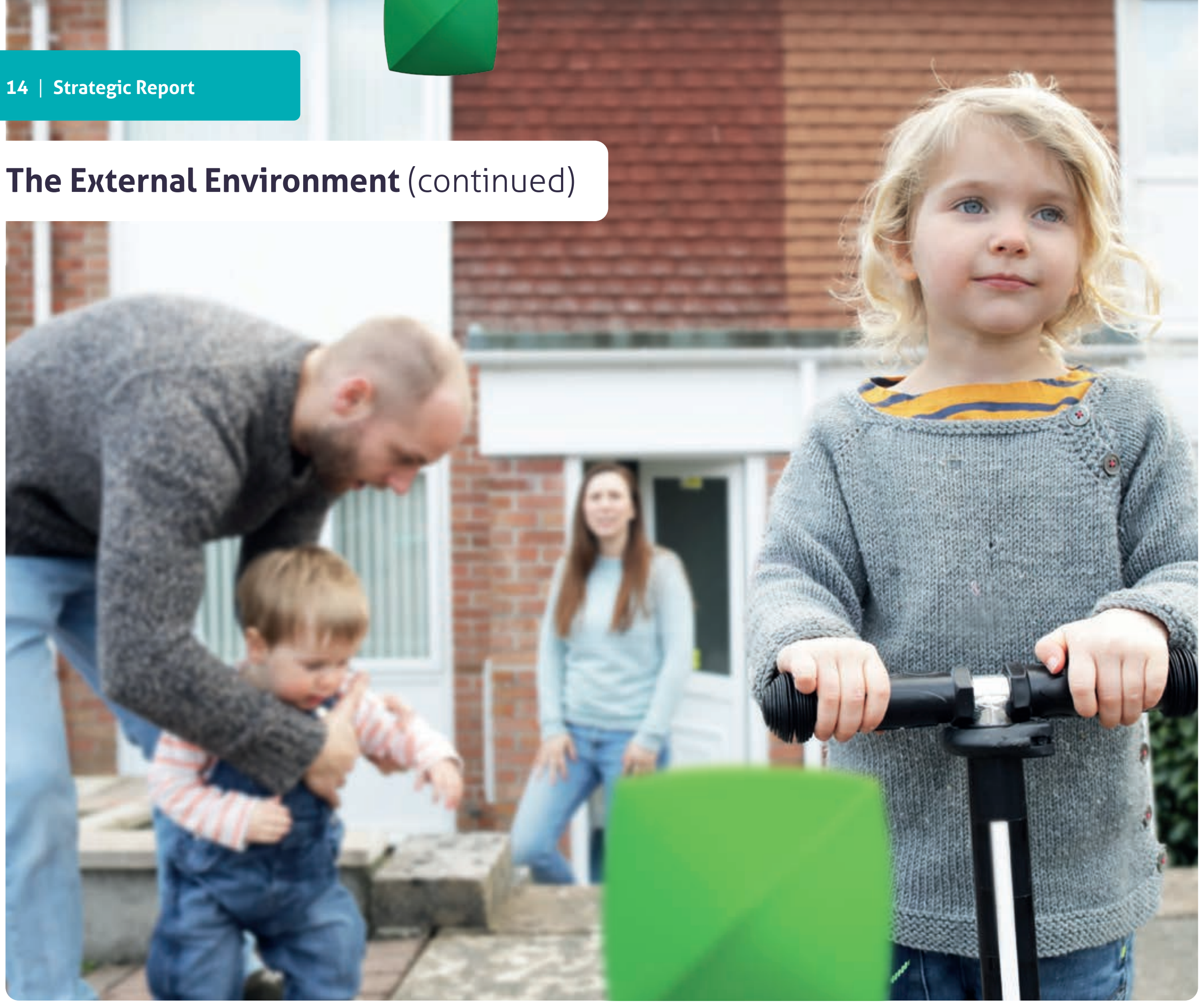
With the market for savings now operating in a rising interest rate environment, this is in stark contrast to recent years, particularly those that pre-date the pandemic. The level of competition for retail deposits in 2022 has been stimulated as a result and, as such, larger returns were available to customers, particularly through fixed-rate products. That said, even the market-leading product rates remained considerably below the rate of inflation.

The degree to which the interest rate rises have been passed on to customers varies institution by institution though, generally, a differential has emerged between the average rates paid by larger retail banks and those paid by building societies and smaller-scale providers – with the latter groups offering greater returns.

Looking forward, it is difficult to predict the future size of the UK savings market as the impact of multiple factors may offset one another to some degree.

[11] https://www.bankofengland.co.uk/monetary-policy-report/2022/november-2022
[12] https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/december2022
[13] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/december2022
[14] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/january2023
[15] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/november2022
[16] https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate

The External Environment (continued)



The UK savings market (continued)

The ongoing cost-of-living pressures may serve to reduce the overall size of the market as people begin to utilise savings balances to cover everyday expenses. Conversely, the recent volatility in the financial markets, combined with the greater returns now offered by lower risk cash savings, may have increased the size of the market having attracted balances which were previously held in non-cash or equity alternatives. Though, it is uncertain for how long this dynamic will persist. Additionally, the maturity of the latest government funding scheme, TFSME[17], which provided systemic liquidity to the banking sector during the pandemic, now falls within the medium-term planning window for participants. The need to refinance these drawings may result in increased competition for retail deposits in the future, particularly in the event that heightened volatility continues to feature in the wholesale markets.

The wholesale funding market

Wholesale funding markets saw distinct periods of volatility and disruption throughout the course of 2022. The conflict in Ukraine caused increased geopolitical uncertainty, amplified inflationary pressures, and decreased investor confidence. These impacts created unfavourable conditions for accessing wholesale funding markets in the weeks that followed.

In September 2022, the fiscal statement delivered by the then-Chancellor led to a negative reaction in the financial markets toward the UK, with government bond prices decreasing, yields increasing, and the value of Sterling falling against all major currencies. As a consequence, pension funds with leveraged positions faced pressure to raise liquidity in order to meet collateral requirements, placing further selling pressure on assets. Following a temporary, targeted intervention from the Bank of England, and the formation of a new government under Prime Minister Rishi Sunak, financial markets exhibited greater stability into the year end.

Regulatory overview

Relevant updates from the regulatory environment include:

Financial Conduct Authority (FCA) Consumer Duty

The FCA has now implemented a new Consumer Duty, a significant piece of regulation impacting the whole of the financial services sector. Fundamental improvements will be made to the manner in which firms serve their consumers by setting higher and clearer standards of protection; requiring firms, including YBS, to put the needs of customers first. The Duty comprises an overarching principle with new rules meaning that consumers should receive:

- communications they can understand,
- products and services that meet their needs and offer fair value, and
- the customer support they need at the time they need it.

[17] Term Funding Scheme with additional incentives for small- and medium-sized enterprises.

All financial services firms must ensure they are able to comply with the regulation in respect of their open book (on-sale) products and services by the end of July 2023, and closed book (off-sale) products and services by July 2024. In addition, firms were also expected to have their implementation plans agreed by their boards by the end of October 2022. The Consumer Duty is an Outcome-Based Regulation, meaning that each individual firm should determine their own path which can make implementation planning more challenging.

FCA Environmental, Social, & Governance (ESG) Strategy

Climate change creates financial risks and economic consequences, both of which are an area of ongoing focus for regulators. There is a growing expectation that firms adopt a strategic approach to managing climate risk going forward, with an expectation that the approach taken by firms to manage climate risk will mature over time. The FCA's ESG strategy supports this, setting out their target outcomes and the actions expected in reaching their delivery. The aim is to support the financial sector in driving positive change, including the transition to Net Zero. The work is based on five core themes:

- Transparency: Promoting transparency on climate change and wider sustainability along the value chain.
- Trust: Building trust and integrity in ESG-labelled instruments, products, and the supporting ecosystem.
- Tools: Working with others to enhance industry capabilities and support the management of climate-related and wider sustainability risks, opportunities, and impacts.
- Transition: Supporting the role of finance in delivering a market-led transition to a more sustainable economy.
- Team: Developing strategies, organisational structures, resources, and tools to support the integration of ESG into FCA activities.

Separately, UK Finance published a report entitled *COP26* and *Beyond 2021*, which sets out an industry policy statement in support of the Net-Zero Banking Alliance. It provides an overview of the steps being taken to put in place a comprehensive statutory and regulatory framework underpinning the greening of the economy. It also provides an analysis of the early steps being taken in support of Net-Zero banking including the embedding of climate responsibility into the governance and strategy of banking and finance firms, and the setting of clear definitions on ESG within a globally aligned framework. Considering the global desire to address environmental change, and the UK Government's commitment to achieve a Net-Zero economy by 2050, all financial services firms should expect further regulatory activity in this area.

Cost-of-living

The rising cost-of-living is a prominent issue for the UK financial services sector, its customers, and its regulators. It is likely that the level of scrutiny will increase across the sector as regulators not only seek to understand the consumer impacts, but also seek to ensure the stability of the financial services sector. This may result in additional information requests from regulators, and a potentially accelerated pace of regulatory change similar to that seen during the COVID-19 pandemic.

The conflict in Ukraine

The geopolitical events relating to the military action by Russia in Ukraine have had far-reaching ramifications for world governments, as well as their citizens, including the increases in food and fuel prices. The conflict has had implications for multiple industries and sectors due to the subsequent reaction from the public and the international community. The UK financial services sector moved quickly to implement the sanctions imposed by the international community. It is important to keep a watching brief on this situation as the conflict may be protracted and require the imposing of further sanctions.

The Financial Services and Markets bill

On 1 July 2021, the Government published a document titled *A new chapter for financial services* which set out their vision for the future of the financial services sector, set around four broad themes:

- An open and global financial hub,
- A sector at the forefront of technology and innovation,
- A world-leader in green finance, and
- A competitive marketplace promoting effective use of capital.

As a result, the UK Government will repeal most retained EU law in financial services in the Financial Services and Markets (FSM) bill. The FSM bill, was introduced to Parliament in July 2022. The FSM bill will implement the outcomes of the Future Regulatory Framework (FRF) Review and will enable the regulators to make new rules in relevant areas. The FCA and Prudential Regulation Authority (PRA) will be given greater responsibility in setting the requirements for financial services companies and will also be required to promote growth and competitiveness in the sector. The Bank of England has now set out a paper describing how the PRA intends to approach policymaking as they take on wider rulemaking responsibilities under the FSM. It is relevant for all PRA-regulated firms. These proposals were developed based on the FSM bill.

OUR PURPOSE AND STRATEGY

The Yorkshire Building Society exists to provide our members and customers *Real Help with Real Life*. All of our actions are ultimately aligned to, or in service of, achieving this purpose as best we can. Underpinning our purpose are three key priorities: helping people to have a place to call home, helping to support and build greater financial wellbeing, and delivering value for our members over the long term.

Our business model

The business model the Society operates is simple. As a member-owned mutual we exist to provide those saving with us a safe place to keep their deposits and build their financial resilience. These savings balances are then used to fund mortgage lending, enabling customers to secure a home of their own. Alongside savings deposits, we utilise the wholesale markets to diversify our funding base and support our stability.

We always act in the long-term interests of our membership. The level of profit we generate is required to be such that our financial position remains secure, that sufficient capital is generated to support our growth plans, and that we can continue developing products and services that fulfil the needs of our members and customers.

HOW OUR BUSINESS IS FUNDED

- Savings balances from members and customers are held, after being deposited through our branches or online (c.73%).
- Additional funding is raised through the wholesale markets by issuing bonds or debt securities (c.16%) as well as drawings from Government funding schemes where applicable (c.6%). This provides diversification and avoids overreliance on any one source of funding.
- Our capital reserves, predominantly profits generated from prior years (c.5%).

HOW THIS FUNDING IS USED

- Providing residential mortgages to owner-occupier and buy-to-let customers (c.75%), and providing commercial mortgages through our specialised lending channel (c.3%).
- Our lending strategy is to balance our lending across segments which serve a large proportion of the market as well as those which are aligned to our purpose and currently underserved. Being selective about the segments in which we choose to compete can be a source of value generation – value which can then be sustainably returned to our members.
- A proportion of our funding is held as liquidity and liquid asset investments (c.22%) to ensure that we can meet our obligations as they fall due, and generate returns higher than if only cash was held. The level of liquidity we hold is managed so as to comfortably exceed the minimum thresholds prescribed by regulators.

HOW OUR INCOME IS EARNED

- Income, in the form of interest, is received from our mortgage customers, as well as from the liquid asset investments held.
- The interest received is offset by the interest which is due to our depositors and investors to arrive at our net interest income.
- A small proportion of our income (c.1%) is non interest income, generated from secondary lines of business such as insurance products.

HOW WE SPEND AND INVEST

- Our reward and remuneration policies are designed to attract and retain colleagues who possess the skillsets required.
- To remain competitive, disciplined cost management is essential. Over the long term we aim to reduce our overall costs to improve our efficiency, accepting that additional investments will be made in the pursuit of our strategic objectives.

HOW WE MANAGE OUR LONG-TERM STABILITY AND SUSTAINABILITY

- We have robust systems and frameworks in place for the monitoring of risks. We ensure that our liquidity and capital positions are sufficient and above regulatory requirements.
- We invest in our strategically important capabilities, including our Transformation Roadmap. Strategic investment ensures that we evolve alongside the expectations of the market and its customers.
- A high standard of corporate governance is maintained, as is compliance with laws and regulations.
- Appropriate provisioning is held in the event that credit losses are realised.
- The Society embraces our social and environmental responsibilities and regularly engages with our wider stakeholder groups.

Our Purpose and Strategy (continued)

Our purpose

Our overarching purpose of providing Real Help with Real Life can be further broken down into our three key priorities.

Member value

Our mutual business model means that we are accountable to our membership rather than to external shareholders and, as such, the delivery of sustainable value to our members is at the very centre of our decisions. The means through which value is returned can vary, from the competitive pricing of our mortgages and savings products, to developing tailored propositions to address worthy problems like helping first-time buyers onto the property ladder.

In 2021, we launched our member loyalty programme to reward those members with whom we have enjoyed a longer relationship. Since the programme began, we have launched a total of seven savings loyalty propositions, four of which were in 2022, meaning that over 164,000 of our loyal members have benefitted from some of our best rates. Loyalty propositions are made available for a limited time period and span many product types; those launched in 2022 included a six-access saver, an ISA, a fixed-rate bond, and a regular saver.

We made sure to pass a meaningful proportion of the increases to Bank Rate on to our savers in the year. Future decisions around how we can best return value to our members will, as ever, be carefully weighed up alongside considerations relating to ensuring the long-term sustainability of the Society.

As a result of our loyalty programme and our pass-on activity, the rates paid to our savers over 2022 were on average 0.56 percentage points above the market average, which is an improvement on the previous year (0.32pp higher over 2021). This differential equates to an additional £198.6m of interest paid to our savers over 2022 (2021: additional £107.1m) – at a time when earning a higher rate of return can make all the difference to household finances.

We have also been working on our product proposition for our existing mortgage-holding members. New capability for the pricing of product transfers was implemented successfully in February 2022 across our Yorkshire and Chelsea brands. This is one of the most impactful changes we have made for our borrower members, enhancing our ability to offer transfer products which are tailored for each upcoming maturity cohort.

Customer expectations of a mortgage and savings provider encompass more than products alone which is why we set high standards for our interactions with our members and customers. One of the ways we track customer satisfaction is through our Net Promoter Score (NPS), which measures how willing customers are to recommend our products and services to others based on their experience. Our overall NPS for 2022 stands at +54, an increase of 3 points on our score in 2021. Yet again, a stand-out from the feedback received was the friendly, helpful, and efficient support provided by our frontline colleagues.

Our intention will always be to provide the best standard of service possible, but we recognise that we sometimes fall short of the quality that our customers expect and deserve. We encourage any customer who is unhappy with the service they have received to let us know. We try to resolve any issues as soon as we are made aware of them; should this not be possible for any reason our Customer Solutions Team steps in to make sure that problems are resolved in a manner that is fair and expedient.

We aim to resolve any payment issues within 15 days and all complaints within 28 days, or sooner when possible. Any customers unhappy with our final response can escalate their complaint to the Financial Ombudsman Service. In the second half of 2022, we received complaints from 4.32 out of every 1,000 mortgage customers (2022 H1: 4.48, 2021 H2: 4.68) and 0.65 out of every 1,000 savings customers (2022 H1: 0.62, 2021 H2: 0.39).

Our online and digital capabilities continue to be a priority.

Our Transformation Roadmap seeks to address the areas where our capabilities are not quite in line with current expectations or trends. In 2022, a key focus has been addressing known points of dissatisfaction, such as the issues with customer logins and password resets. We launched our mobile app in 2020 and have since been continually expanding its functionality. Many customers have told us that they find the app simple and easy to use, with some stating that it provides a useful alternative to visiting a branch.

The focus we place on serving our members and customers continues to be recognised externally. We were proud to have been named the winner of the Best Building Society Savings Provider in the Moneyfacts Awards 2022, for the third time in three years. And the Society was also named winner of the Mortgage Provider of the Year in the 2022 Moneynet Awards, for the fifth consecutive year.

Our aim is for our customers to receive the same high-quality service no matter the channel through which they choose to engage with us, whether in person, by telephone, through the website, or through our app. We can only continue to provide this value to our members by running a responsible organisation, focusing on maintaining sustainable positions both competitively and financially. Our levels of capital and liquidity have remained robust over 2022, providing the resources needed for reinvestment in our capabilities and equipping us for the challenging market conditions that may lie ahead.

Place to call home

Helping people to have a place to call home is a core tenet of our purpose. We have remained true to our established lending strategy, balancing our lending across segments that serve a large proportion of the market as well as those segments that are less well served.

We remain committed to lending responsibly and sustainably; we are clear that our purpose ambitions need to work in harmony and that helping people have a place to call home should not and cannot be at the expense of their financial wellbeing. As both interest rates and living costs have risen markedly, this issue has been brought into clearer focus. We constantly review our affordability models for new lending, and closely monitor the performance of our existing mortgage book through our risk management processes.

[18] Place to call home measure based on average residents in properties against which loans have been advanced in the period (excluding remortgages and further advances but including buy-to-let and social housing).

> *Helping people to have a place to call home is a core tenet of our purpose.*

In 2022, we have helped 55,000 people to have a place to call home through our residential mortgages, our buy-to-let mortgages to landlords, and social housing lending [18]. Whilst these figures show a decrease when compared to 2021 (2021: 85,000), the preceding year represented a period of exceptional housing demand, supported by external incentives like the Stamp Duty Land Tax relief.

Differentiated product propositions are a main way through which we can progress toward our place to call home ambitions. Our mortgage propositions team aim to find solutions to genuine, real-world problems which are faced by our customers and members, and it is for this reason that we are continuously exploring new products and reviewing our lending criteria.

2022 saw the launch of a number of new product propositions. *Cascade Score* launched in April and is designed for our customers who pass our standard credit scorecard requirements, but not those previously required for higher LTV lending. Boost LTI (loan to income) was launched in August, and offers mortgages to eligible customers up to the value of five-and-a-half times their income, providing more flexible options for those who need that extra boost. Both of these propositions utilise the progress made in our Purposeful Analytics priority and were launched for our customers through our intermediary channel.

Another successfully launched proposition was Deposit Unlock which launched in August. This partnership with reinsurance broker Gallagher Re, helps to provide new-build housing options to customers with a 5% deposit. The product is supported by a number of property developers and means that we join one of only a few lenders to offer 5% deposit lending on new builds. Given that the Government's Help to Buy scheme wound down from the end of October this year, propositions such as Deposit Unlock provide valuable support to the first-time buyer market.

The products offered to our mortgage customers reflect our purpose, and the progress in our Transformation Roadmap allows us to develop and launch new, better ways to support our place to call home ambitions. This journey is ongoing and further purpose-aligned propositions are being pursued for delivery in 2023 and beyond.

Financial wellbeing

The promotion of wellbeing and security in personal finances has long been a matter of great importance to us at YBS. The benefits of saving are many, including the resilience it provides to withstanding unplanned events, the reduced reliance on potentially expensive debt, and the support toward reaching savings goals whatever they may be. The importance of having savings to fall back on has only become more pronounced in the last couple of years, first as the pandemic disrupted livelihoods, and more recently through the sharp rises in the cost of everyday living.

Our range of savings products seeks to address a broad range of customer needs, with products for those who prefer easy access to their funds, those who are comfortable locking funds away for a fixed period, as well as those wishing to build up their savings through regular deposits. Our savings propositions team also develop purposeful additions to this core range. One such product was launched toward the beginning 2022: our *Make Me A Saver* account. This habit-building regular savings account also gives customers the chance to win one of ten monthly prizes of £1,500 – an amount close to the average monthly cost of household bills for a family.

In collaboration with the Building Societies Association and their members, we were proud to champion the launch of a new national awareness week: *UK Savings Week*. This event took place in the last week of September 2022 and is intended to become an annual fixture going forward. The aim is to raise awareness of the importance of saving and support people to find their ideal way to save, providing access to useful resources and information.

Financial wellbeing is likely to remain a critical issue for the UK in the coming years and the Society will continue to devote resources to supporting our members toward greater resilience and healthy saving habits. Our community programmes are also designed to deliver financial education and wellbeing support, including our charity partnership with Age UK, our award-winning collaboration with Citizens Advice, and the delivery of financial education through Money Minds.

Through our savings products and community initiatives, we have supported 248,000 people toward greater financial wellbeing this year, compared to 124,000 in 2021[19].

More information on these initiatives and our other community programmes can be found in the *Engaging with our stakeholders* section.

[19] Financial resilience measure based on number of new access savers and the impact of our community support programmes.

Our Purpose and Strategy (continued)

Our strategy

Where our purpose is fundamentally unchanged since our founding over 150 years ago, our strategy is adapted more closely to the current environment, focusing on the actions we will take over the next few years to enhance our products and services, improve our efficiency, and compete effectively in our chosen markets.

Our Strategic Blueprint

Our strategy was refreshed in 2020, culminating in the launch of our Strategic Blueprint. This set out four underpinning priorities in which we would be investing our time and resources. These are:

OUR STRATEGIC PRIORITIES

SAVINGS REBOOTED

To optimise the savings area of our business by getting the basics right, redefining our product range, and offering benefits more than price alone.

PURPOSEFUL ANALYTICS

To build upon our existing analytical capabilities, including enhanced behavioural, risk, and pricing tools which will help in better identifying and assessing potential areas of value.

PROPERLY PERSONAL EXPERIENCE

To evolve our service proposition, facilitating an efficient customer experience which is able to accommodate a wide range of individual needs.

UNBELIEVABLY EASY AND EFFICIENT

To deliver a digitally capable, connected business which will make the lives of our customers and colleagues easier through process improvements and cultural shifts.

> *We foster the ability to have straightforward conversations that get results.*

In addition to the four priorities on page 20, the Blueprint also set out our ambitions for optimising our behaviours. If our purpose is the why and our Strategic Blueprint is the what, our Behaviours are the how. They articulate the culture we wish to foster at YBS and guide the day-to-day actions and decisions taken by our colleagues. The progress made toward embedding these behaviours throughout our organisation is monitored through methods including engagement surveys and listening groups to support an effective, open dialogue.

OUR BEHAVIOURS

WE CARE ABOUT PEOPLE

This is about fostering human connection both within the Society and without. It means acting with empathy and being aware of the impact that action, or inaction, can have on others.

WE SAY IT STRAIGHT

The ability to have honest, straightforward conversations builds trust and gets results. This means speaking up with positive intent, and being open and prepared for feedback whether positive or negative.

WE REACH FOR BETTER

We should aim for continuous improvement across all levels of the organisation. Reaching for better invites colleagues to be innovative and empowers them to take responsibility for their own learning and development.

WE MAKE IT HAPPEN

This is about moving at pace and with purpose, focusing on removing any barriers that exist, adapting to challenges, and ultimately finding solutions.

For 2023, we have refined our Strategic Priorities from the four down to three. These will continue to underpin the Society's transformation and are now: Savings Supercharged, Purposeful Analytics, and Unbelievably Easy and Efficient. Though Properly Personal Experience will no longer be an individual priority, it will remain a key focus across all areas of our organisation as we know the value that this approach brings to our customers, members and brokers.

OUR ESG PRIORITIES

In 2021, we defined our strategy for matters relating to the Environment, Society, and Governance (ESG). Through engaging with our stakeholders we identified those topics which are most material to YBS, which in turn informed the development of our six ESG priorities. These encompass our three purpose priorities alongside our three additional responsible business priorities, which are investing in our people, building a greener society, and operating responsibly.

More information across all elements of our ESG priorities will be made available in our 2022 ESG Report.

Investing in our people

Investing in our colleagues is one of our foremost priorities. The great work we do in providing essential services to our customers and members would not be possible without the continued efforts of our colleagues. They are our greatest asset, and that they feel valued, listened to, and fairly rewarded for their hard work is vitally important to us.

The schedules and workloads of many of our colleagues have been impacted significantly over the last three years – especially during the pandemic as remote working became a temporary necessity. During this period, many of our colleagues recognised the benefits that a more flexible approach to working could bring. In 2022, this flexible working arrangement was maintained, and we empowered our teams to decide for themselves the mix of remote working and in-person attendance that best suited their needs and those of our customers. Since the pandemic we have demonstrated that our effectiveness was unhindered by working more flexibly, and as such we will continue to operate in this way.

We are committed to building on the relationship we have with our colleagues and will continue to support them as best we can. As part of these commitments to colleague wellbeing, we monitor levels of sickness and absence closely; we have seen a reduction in these measures as the impacts of COVID-19 have become less prevalent. The average sickness rate in 2022 was 4.6%, which compares to 5.0% seen in 2021, and the proportion which relates to mental health has also declined. We will continue to monitor these trends, alongside others, in order to ensure that our colleagues have access to the right level of support.

Engagement

Colleagues who find their work meaningful will more readily embody the behaviours set out in the Blueprint, proactively seek out solutions, and ultimately provide a better service for our customers. Understanding their perspective is critical in fostering this culture and we provide regular opportunities for our colleagues to have their voices heard, including our Board listening groups and engagement surveys. We also held Blueprint sessions at the end of 2022 to encourage all of our colleagues to reflect on the Society's achievements and appreciate the part they played in these and the part they will continue to play in the year ahead.

A key method of measuring the levels of engagement across our organisation is through an annual survey. In 2022, 90% of colleagues completed the survey, and the Society's overall engagement score increased by 0.1 points to 8.6 out of 10, which maintains our position in the top quartile for engagement amongst financial organisations. Our employee NPS (eNPS) also improved to 66, +2 from 2021, placing YBS in the top 5% of financial organisations for another year[20].

Inclusion and diversity

At YBS we are strongly committed to the principles of inclusion and diversity (I&D), aiming to foster a culture that we can all be proud of and comfortable working in. This is a continuous journey and though there is always more that can be done, the Society has made good progress against our targets and in furthering initiatives this year, including exceeding our Board diversity target for female representation.

We have embedded inclusion and diversity throughout many areas of our organisation and the I&D Forum receives quarterly updates to track the progress in delivering our plans.

Our 2022 Gender Pay Gap report is available on our website. The findings showed a narrowing of our gender pay gap against last year, with the mean difference in hourly rate falling from 28.1% to 25.7%. The make-up of our workforce continues to be the key driver of any pay gap, and a number of actions were taken following our 2021 report to address some of the imbalance. A major factor which contributed to the improvement year on year was through adapted recruitment processes, which saw an increase in the proportion of males occupying entry-level roles, particularly in our branch network.

YBS signed the Women in Finance Charter in 2018 and our Board agreed a target to achieve 50:50 female to male representation in senior management roles by June 2023. In December 2022 we reported 50% female representation across our senior manager and senior leadership roles, an increase of 1% over the previous 12 months. We now have a fully gender-balanced talent pipeline to Director level, and in December 2022 females occupy 44% of Board level roles.

In 2022 we signed the Race at Work Charter and with the support of Business in the Community (BITC) we will be working through the completion of the seven commitments throughout 2023. As a part of this commitment, we launched our Black, Asian, and ethnically diverse (BAED) leadership programme, REACH. There are 12 colleagues completing the programme, which includes workshops focused on the skills needed for career progression, as well as senior leader and external mentoring. In December 2022 we reported that 15.4% of our colleagues were BAED, an increase of 1.1 percentage points from 2021 and ahead of our target. Alongside tracking the diversity of our overall colleague population, we also monitor representation across levels of seniority. The proportion of our senior managers (grades E and above) who were BAED increased by 1.5 percentage points, from 6.0% in December 2021 to 7.5% in December 2022.

Our Colleague Networks are a valuable way for our colleagues to support one another and help to guide our policies and procedures. These networks have been in place since May 2021 and are now firmly embedded within the organisation. All five of our Colleague Networks (LGBTQIA+, Ethnicity, Women's, Disability, and Parents & Carers) have at least two members of the Senior Leadership Team (SLT) as sponsor or advocate. An additional two members of the SLT have monthly meetings with the co-chairs of the networks to raise any issues, which are then discussed at the I&D Forum.

Supported by the help of our Parents & Carers Network, the charity Working Families named YBS in their 10 *Top Employers for Working Families 2022*. Additionally, over the last 12 months we have worked hard to achieve the status of a Disability Confident level 2 employer and we are now working toward the next step of level 3.

[20] Benchmark sourced from Peakon.

Our ESG Priorities (continued)

Learning and development

Our approach to colleague learning was adapted in recent years, beginning to utilise a blend of in-person and online delivery methods. Most of our training in 2022 remained true to this approach as online learning and virtual workshops provide benefits in convenience and in reaching a greater number of colleagues. Over the past year we have also developed design standards in line with industry best practice to remove accessibility barriers by utilising dark mode, subtitles, and easy-to-navigate controls where possible.

Our organisation-wide prioritisation of our digital and online capabilities is reflected in our colleague training. We have started to deliver improved learning solutions to our most critical areas including Customer Services, Retail Distribution, Financial Crime, and IT. In our customer-facing teams we launched digital skills training, with a focus on improving literacy and promoting our online offering to customers.

We have also made a clear link between our performance development framework and our wider strategy, embedding our performance development process, 'My Blueprint', which focuses on ensuring our colleagues have a clear set of objectives. One of these objectives is based on one of our four behaviours: we care about people, we say it straight, we make it happen, and we reach for better, and a further objective is devoted to their own personal development.

We encourage our colleagues to pursue professional and technical training to enhance their skills and make progress toward their career goals. This applies across all levels of the Society, from the apprenticeship schemes that we provide, to specific programmes we have in place to develop our leaders.

Our apprenticeship schemes provide support toward achieving a professional qualification alongside the valuable experience that learning on the job provides. We are proud that 20 colleagues have completed their apprenticeship this year, with a further 38 colleagues either at the beginning or part way through their journey. This year, we have also supported 6 colleagues to develop their management capabilities by studying for the Building Societies Association (BSA) *Master's in Strategic Leadership* programme at Loughborough University; 2 colleagues completed their Master's degree in 2022 and a further 4 are continuing with their studies.

Reward and recognition

We want each and every colleague to feel properly valued and fairly rewarded for the contributions they make to the effective running of the Society. As part of their reward package, our colleagues have access to a range of benefits, including critical illness cover and private medical insurance. Colleague benefits can also be flexed depending on their individual circumstances.

In 2022, we maintained our commitment to paying all colleagues and contingent workers at or above the Real Living Wage. The pay landscape has been a rapidly changing one this year, and we have already taken a number of steps to support colleagues, including an early pay review for some of our colleagues in Retail, Customer Services, and Direct Mortgages teams, where salaries for some roles were becoming out of step with the market. As a result, around 740 colleagues received an average of a 10.6% pay increase.

For our annual Pay Review in May, we took a one-off approach and awarded a fixed pay uplift of £1,000 per colleague, which gave greater percentage increases to colleagues at the lower ends of the salary scale. This was followed by a one-off payment of £1,200 made to all colleagues, excluding the Senior Leadership Team, in September to support with the ongoing challenges related to the rising cost-of-living.

We were delighted to be able to host our annual recognition awards, Raising the Roof in November 2022 and celebrate the many achievements of our colleagues. Over 400 nominations were received for colleagues across the business, 86 of whom were selected to attend the event by a judging panel of their colleagues and senior leaders.

Operating responsibly

As a mutual, we have a duty to operate responsibly. Having robust governance and procedures in place allows us to meet regulatory requirements, and protect customers, colleagues, and the Society from potential risks.

Risk management

The Risk Management Report details our Enterprise Risk Management Framework, as well as articulating the principal risks to which we are exposed and how they are mitigated.

Human rights

Inherent within our purpose of *Real Help with Real Life* is a commitment that the way we conduct our business should not negatively impact the human rights of others. This includes how we interact with our customers, colleagues, and communities as well as the way we manage our supply chain. The Society's Modern Slavery Act Transparency Statement, which describes the steps put in place to prevent slavery and human trafficking in our supply chain, or any part of our business, can be found on our website.

Anti-bribery and anti-corruption

The Society is bound by the laws of the UK, including the Bribery Act 2010, and is regulated by the Financial Conduct Authority; both of which convey responsibilities for identifying and managing risks in respect of fraud, bribery, and corruption. The Society takes a zero-tolerance approach to such risks and enforces compliance via systems, processes, and our internal control framework. These include mandatory annual colleague training and awareness initiatives, a whistleblowing procedure, and regular reviews of our Financial Crime Policy, which includes our Anti-Bribery and Corruption Standard, our approach to the management of risks under the UK Corporate Criminal Offence of Failure to Prevent the Facilitation of Tax Evasion legislation, and other related policies.

Non-financial reporting measures

Our ratings from non-financial ratings agencies are available below:

Rating provider	Rating/Score	Scale (best to worst)
MSCI*	AAA	AAA-CCC
Sustainalytics**	13.3 (Low Risk)	0 – 100 (negligible to severe)
S&P Corporate Sustainability Assessment	50	100 - 0
Carbon Disclosure Project	C	A to D-

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Our ESG Priorities (continued)

Building a greener society

This section contains our 2022 Taskforce on Climate-related Financial Disclosures (TCFD) report and an update to our future climate transition plan: **Building a greener society**.

The financial services industry needs to act now to help to mitigate, and support the management of, the physical and transitional risks posed by present and future climate change.

The risks posed by climate change are wide reaching and will affect all areas of society. In 2021, we worked to meet the requirements of the PRA's Supervisory Statement 3/19 (SS3/19) – *Enhancing banks' and insurers' approaches to managing the financial risks from climate change*. In 2022, the Society has continued to embed processes and develop our capabilities to measure, monitor, and manage the impact of climate change. This report outlines our approach to climate, aligned to the recommended guidance of the TCFD initiative. As the Society is not considered to have immediate significant transition or physical risk, the option within the TCFD guidance to disclose a qualitative summary of our climate scenario modelling methodology and outputs has been applied. We will aim to introduce more quantitative disclosures as our modelling evolves over time.

The Society has closely followed TCFD principles in the creation of its climate and environmental disclosures and will continue on its journey towards full compliance. The following table shows how TCFD disclosures have been integrated throughout the Annual Report and Accounts:

Disclosure category		Reference
Governance Disclose the organisation's governance around climate-related risks and opportunities.	a. Describe the Board's oversight of climate-related risks and opportunities. b. Describe management's role in assessing and managing climate-related risks and opportunities.	See *Climate Governance* in the *Building a greener society* section of the *Strategic report* See the *Our approach to climate risk* section of the *Risk Management Report*
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	See *Climate Governance* in the *Building a greener society* section of the *Strategic report*
Risk management Disclose how the organisation identifies, assesses, and manages climate-related risks.	a. Describe the organisation's processes for identifying and assessing climate-related risks. b. Describe the organisation's processes for managing climate-related risks. c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	See the *Risk Management Report* See *Climate Governance* in the *Building a greener society* section of the *Strategic report*
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks. c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	See the *SECR* section of the *Directors' Report* See *Metrics and commitments* in the *Building a greener society* section of the *Strategic report*

Climate governance

Board and executive level oversight of climate-related risks and opportunities

The Board has ultimate accountability for all climate change risks and opportunities. The Board meets regularly and is supported through the existing governance structure which manages climate change risk on a day-to-day basis. The Board and its sub-committees are updated on progress against the Society's climate commitments and the measurement of climate risks.

YBS BOARD

Ultimate accountability for financial risks of climate change and associated responsibilities.

Regular updates and training are provided to support oversight.

The Board is supported in its role where appropriate by its Committees and the Society's Management Committees, including

GROUP RISK COMMITTEE

Climate Risk Oversight. Including Risk appetite

AUDIT COMMITTEE

Non-financial disclosure in relation to environment, social and governance agenda

EXECUTIVE RISK COMMITTEE

Management of the governance framework for the climate risk agenda

EXECUTIVE COMMITTEE

Oversight of implementation of environmental strategy and approval of climate risk matters for recommendation to the Board

ASSET AND LIABILITY COMMITTEE

Focus on financial risks arising from climate change

ENVIRONMENT, SOCIAL AND GOVERNANCE COMMITTEE

Delegated authority from the Executive Committee to support the Board in overseeing the delivery of the ESG strategy

Operational working groups

To help support the existing governance structure, a number of tactical working groups have been utilised to help deliver specific activities. These working groups have helped develop our ability to measure the impacts of climate change and capture data; inform new product development; and improve our operational emissions in line with our climate commitments and business strategy. The Society is now actively maturing and embedding these working groups to support the delivery of our longer-term climate goals and strategy. These working groups will also help identify and manage the short, medium and long term financial risks of climate change.

Our ESG Priorities (continued)

Building a greener society (continued)

Climate governance (continued)

Assigning senior management accountability

In 2020, the Society embedded climate change and environmental governance roles into our Senior Manager Function accountability documents. We have assigned key accountabilities on environment and climate change to ensure a clear understanding of ownership throughout the business. Accountabilities and responsibilities are shared between our Chief Finance Officer (CFO) and our Chief Risk Officer (CRO).

Chief Finance Officer

The CFO is responsible for managing the physical and transitional financial risks stemming from climate change. This includes accountability for leading the development and implementation of:	• Identification, measurement, monitoring and reporting of the financial risks of climate change, in line with our risk appetite including our risk exposure limits and thresholds. • Scenario analysis (including a catastrophe modelling approach) to determine long-term financial risks and assess the impacts on our balance sheet. • Disclosing the financial risks of climate change to the PRA. • The climate related inputs into the wider ESG reporting owned by the Chief People Officer.

Chief Risk Officer

The CRO has accountability for ensuring the development and implementation of:	• A governance framework to ensure that the Board understand and assess the financial risks from climate change which affect the Society, and address and oversee these risks within our overall business strategy and risk appetite.

Embedding climate into our policies

As part of our commitment to protecting the environment and reducing the impact our business activities have upon the natural world, we have developed a rigorous environmental policy and environmental management manual. These documents are reviewed annually at our Executive Risk Committee and explain the approach the Society takes to environmental and climate change risk, compliance and protection issues. They further describe the management framework behind the broader climate strategy. Our environmental policy can be viewed on our website. The Society has further enhanced our Enterprise Risk Management Framework to include climate change risk, more detail can be found in the *Risk Management Report*.

Identifying the risks

The financial risks arising from climate change can broadly be categorised into either physical or transitional. Physical risks are described as changes to the natural environment that may damage the integrity of a property. Transitional risks are described as resulting from changes in policy as the UK moves toward a lower carbon economy.

In the UK, the key physical risks are flooding, coastal erosion, and subsidence. Transition risks can be more varied and subtle, for example the proposed UK Government regulation 'Improving home energy performance through lenders'. These risks affect the losses experienced by the Society and its members on two different levels. Risks affecting the individual property or borrower are "micro" and, in contrast, "macro" risks are those operating through the broader economy. These risks are considered in our Corporate Plan and risk resilience scenarios.

FLOOD RISK

Flooding has been identified as one of the most important risks from climate change in the Government's Climate Change Risk Assesments and it is also the climate risk most associated with climate change in public perception. Flooding is a recurrent event with increasing frequency in a climate scenario.

- Fluvial - risk of rivers overtopping their banks.
- Pluvial - accumulation of surface water and normally associated with lowest levels of damage.
- Tidal - extreme tides and storm surges carrying seawater onto property. Saltwater normally associated with highest damage.
- FloodRe currently provides government backed reinsurance for flood risk for most properties but is due to stop in 2039.

SUBSIDENCE

Subsidence is caused by excessive drying of clay soil contents in drought conditions, leading to uneven shrinkage of the ground underlying buildings. Properties currently at risk of subsidence are concentrated in the south-east of England, with possible future risks extending into the north of the country in a climate scenario.

- Subsidence is assumed to be resolved as a one-off damage repair, with a 10 year period over which the success of the repair is viewed as uncertain by insurers.
- The costs of damage repair costs have been decreasing over time, with new resin based solutions emerging and reducing the need for expensive underpinnings.

COASTAL EROSION

Coastal erosion typically results in the complete loss of the property in question unless government intervention to build defences takes place. It requires specific geological conditions to be in place and will be exacerbated by rising sea levels and increased storm intensity in a climate change scenario.

- Coastal erosion is the risk showing the steepest rise in properties to be affected in a climate scenario, however the number of properties ultimately affected would remain low compared to subsidence and flood risk.

The Society has sourced a regular third-party data supply that allows for identification of physical risk attributes on our mortgage book. Benchmarking has demonstrated that the Society's exposure to flood risk, subsidence and coastal erosion is aligned with the UK average and has a similar distribution to the UK market for current Energy Performance Certificate (EPC) Ratings.

The table below displays the risks which we have been, or will be, considering as our disclosures advance in line with regulatory and non-financial ratings agency (NFRA) expectations.

The Group's principal risk exposure	Example key risk considerations
Strategic risk (Focused on the future viability of the business model)	• Adapting the Group's strategy to meet customers' green expectations. • The policies and processes that will be required to ensure that products are robust and support the Society in becoming environmentally sustainable.
Retail & commercial credit risk (Focused on the credit worthiness of the customer, the underlying value of the asset and probability of default)	• How the Group's mortgage book would respond to stricter energy efficiency policies. • The proportion of the mortgage book which is geographically located in areas which will be exposed to the impact of more frequent and severe weather events. • How lending criteria, focussed on energy efficiency and economic sector, could be deployed.
Compliance & conduct risk (Focused on the action / inaction of the society causing detriment to customers, to the market and to the competition)	• The proportion of customers that would be adversely affected by the industry standard moving toward stricter lending criteria based on physical risk metrics such as the probability of flood risk. • The proportion of customers that would be adversely affected by the industry standard moving toward stricter lending criteria based on energy efficiency.
Operational risk (Focused on the resilience of the Society's infrastructure, systems, procedures and policies, to events that could affect business continuity)	• The level of energy efficiency of the Group's property estate and its exposure to physical climate risk. • The extent of exposure of critical suppliers to more frequent and severe weather events under climate change. • The geographical location of critical suppliers and their exposure to physical climate risk. • The adaptations that will be required to be made to ensure the health and safety of customers and employees.

The Society continually engages with stakeholders to understand their changing expectations. Materiality analysis has been performed to help influence the way we shape our strategy, as discussed in the *Engaging with our stakeholders* section of the Strategic Report. In helping shape the ESG strategy, this also identifies which issues or risks concern our stakeholders the most and how the Society can help.

Our ESG Priorities (continued)

Building a greener society (continued)

Climate governance (continued)

Identifying the impacts

Our climate change model was designed to estimate the impact of physical and transition risks, operating at both the micro and macro levels, on the financial health of the mortgage portfolio. The methodology used to estimate the impacts of climate risk is designed to be compliant with the Bank of England's Climate Biennial Exploratory Scenario (CBES) guidance. The Society explored the economic impacts of climate change resulting from these emissions scenarios, as described in the below table.

	Overview	Economics	Transition risks	Physical risks
EARLY POLICY ACTION	The transition to a carbon-neutral economy starts early and is gradual and moderate. Carbon prices and other policies are introduced slowly and the increase in global warming stays below 2°C, in line with the Paris Agreement	• GDP growth slows down in 2025-2027 to 1.3% before returning to trend growth of 1.6% • Post covid, unemployment drops to 5% by 2025 and stays at that level for the rest of the scenario • Property prices grow at 3.4% throughout the scenario	• Properties are upgraded to potential EPC grade (spread out evenly through 2021-2050) • 65% of properties require a heat pump at a cost of £5,000 • Properties with a potential EPC grade below E are reduced to the value of the land only	• Some increase in the overall level of physical risk, but it will remain subdued • Assumed Met Office RCP 2.6 projections
LATE POLICY ACTION	The global climate goal is met but the transition is delayed until 2030 and is more sudden and substantial. This results in a material short-term macro disruption, with an economic recession, falls in property and equity prices and changes in interest rates	• GDP growth is negative between 2031-2033 with a trough of -2.7% in 2032. Following this recession, the economy bounces back • Unemployment peaks at 8.5% in 2033 • Property prices fall by about 20% during the 2031-2033 recession	• Properties are upgraded to the potential EPC grade (spread out evenly through 2031-2050) • 65% of properties require a heat pump at a cost of £5,000 • Properties with a potential EPC grade below E are reduced to the value of the land only	• Some increase in the overall level of physical risk, but it will remain subdued • Assumed Met Office RCP 2.6 projections
NO POLICY ACTION	No policy action beyond that which has already been enacted is delivered. The transition is insufficient for the world to meet its climate goal, leading to severe physical risks, materially lower trend growth rates and impact on asset prices	• GDP grows at a sub tend rate over the years of the scenario (1.3% growth), but does not turn negative • Unemployment stays at 5% throughout the scenario • Property prices grow at a sub trend level of 2.7%	• No actions to upgrade the energy efficiency of properties	• Severe increase in physical risks with the most material shocks crystalising 2050-80 • Assumed Met Office RCP 8.5 projections

Our scenario analysis and modelling has allowed the Society to create a baseline view of potential loss levels associated with climate change, with refreshed model runs (based on an up-to-date mortgage book and updated climate data) performed in 2022. The model projects the potential credit losses arising over a 30-year time horizon for all three of the above scenarios on a static-balance sheet basis. The outputs have provided the Society with confidence that it has minimal exposure to potential financial losses arising from climate change in the medium and long term. We have identified the financial risk of climate change as immaterial in the short term.

The colleague pension scheme is not under the Society's direct control and as such is having its climate risk and opportunities reviewed through a separate external workstream. You can view our qualitative analysis of the CBES and temperature alignment exercises in the *Metrics and targets* section below.

Management of climate risk

Climate risk is managed on an ongoing basis through relevant policies, governance arrangements (articulated above) and risk appetite statements that have been set in place to define the levels of acceptable risk to the Society, and to provide monitoring and reporting capability within the wider Enterprise Risk Management Framework (ERMF).

Policies

The Society's policy universe is regularly reviewed and updated to reflect our maturing understanding of climate risk. This has created enhancements to retail and commercial credit, compliance and conduct, and operational risks polices.

Risk appetite

The Society manages the risks arising from climate change through its risk appetite statements. For climate risk appetite specifically, it is recognised that this will mature and evolve as the Society develops its understanding of these risks; in turn this will lead to more granular statements and the proposal of further quantitative risk appetite metrics.

New risk appetite statements have been developed in relation to climate risk as part of the first stage of the Group's climate change plan. These have been developed within the context of the Society's Principal Risk exposures and are set out in the table below.

Principal risk	Risk appetite statement
Strategic risk	None of the Society's direct lending supports development in sectors of the economy which carry heightened risk*. The Group does not engage in project finance and would not support a project that directly harms the environment. However, the Group cannot indefinitely rule out indirect involvement through third-party investment.
Retail & commercial credit risk	The Society's level of exposure to transitional and physical risks will continue to be stress tested in compliance with PRA SS3/19 to ensure that it does not knowingly threaten the Society's financial sustainability.
Compliance & conduct risk	We will only offer products and services which meet customer needs, and where we can manage any conduct risks which arise including consideration of customer vulnerability and impacts on and of climate change. If failures occur, we proactively identify, establish root cause and remedy via our own actions.
Operational risk	We will seek to limit, understand and mitigate its exposure to climate change risk. The Society is committed to reducing its impact on the environment and this includes ensuring that, over time, its suppliers are also actively taking steps to reduce the impact they have on the environment.

*Automotive; power utilities; land transport and logistics; agriculture; construction; oil and gas; airlines and aerospace; building materials; shipping; chemicals, mining and metals.

Identifying the opportunities

In 2022, the Society established an ESG Committee, which has delegated authority to drive progress on the ESG strategy. The committee is responsible for identifying new opportunities arising from climate change and monitoring progress against the existing strategy and commitments.

The committee receives qualitative studies, to evaluate the opportunities climate change brings to our social purpose, ESG and commercial agendas. Our identified opportunities are designed around three pillars:

- Ensuring that YBS manages its operational carbon emissions year on year;
- Promoting and embedding knowledge and awareness of Carbon Literacy into the YBS working culture; and
- Understanding and supporting the risks and opportunities climate change presents to the Society's customers.

During the year, the committee has received regular progress updates against the Society's climate commitments, including updates on the changing regulatory landscape. In 2022, the ESG Committee also received analysis of financed emissions, temperature alignment and the Society's capabilities to monitor and manage climate risk across the balance sheet.

The goal of the climate strategy is to support our customers to have a place to call home whilst ensuring we reduce the impact our operations have on the environment. Fundamentally the Society believes the transition to a Net-Zero economy should be fair and accessible to all.

Ensuring that YBS manages its operational carbon emissions year on year

The road to operational Net-Zero

In 2022, the Society committed to reducing our direct operational carbon footprint to Net-Zero by 2025.Changes to the Science Based Targets Initiative (SBTi), the basis on which the target date was originally set, mean that the burning of biogenic fuels now counts towards carbon dioxide emissions, where this was not previously the case. On this basis, the target date of 2025 is no longer considered attainable. The Society has extended the target date to 2035 and will conduct a full review of its strategy in 2023 in order to ensure Net-Zero for scope 1 and 2 is achieved on or before this date. The new Net-Zero strategy will also investigate how the Society will achieve operational Net-Zero for scope 3.

YBS has also conducted a review of our property estate and, whilst air or geothermal heat pumps are not practical in many cases for a number of reasons, we will upgrade where feasible. We believe that moving to green gas and 100% renewable energy represents a positive step toward reducing our operational emissions.

Our ESG Priorities (continued)

Building a greener society (continued)

Ensuring that YBS manages its operational carbon emissions year on year (continued)

Supply chain

In 2021, an in-depth review of the environmental credentials of our supply chain was conducted. The outputs of this review allowed the Society to focus on the top 100 critical suppliers and create an input-output model to measure the emissions accrued from the outsourcing of systems, people, and purchases. This has enabled the Society to target areas of the business which rely heavily on physical goods, such as Property, with extra methods of calculating emissions on a capital project. The Society is further developing its capability and governance practices as to how it monitors and manages supply chain emissions. The new Net-Zero strategy being developed in 2023 will also help define how the Society will implement tactical and strategic solutions to improve supply chain emissions e.g. through developing internal carbon pricing framework.

Providing opportunities to colleagues

Our colleagues understand that they too have an important role to play in reducing the effects of climate change. The Society has actively worked to improve colleague engagement in this area. We launched an internal climate awareness strategy and tool pack, providing information as to how our colleagues can reduce their environmental impact whether they are working from home or from our office sites. In 2023, we seek to estimate the carbon emitted by colleagues when working from home and commuting to the office.

We remain on target for moving to a low emissions vehicle fleet. We will transition to a fully electric fleet as soon as it is operationally practical and will ensure that from 2025, all new vehicles acquired onto our fleet are hybrid or fully electric. To ensure we are reducing our impacts in line with our target, in 2021 we introduced an emission cap on our fossil-fuelled company vehicles of 160g C02/km. Other examples of our commitment to colleagues include a cycle-to-work scheme, 0% interest season ticket transport loans and electric vehicle (EV) leasing opportunities for those colleagues who do not drive a company car.

Promoting and embedding knowledge and awareness of Carbon Literacy into the YBS working culture

United Nations principles for responsible banking

The Principles for Responsible Banking (PRB)[21] is a unique framework created by the United Nations Environment Programme (UNEP) designed for financial organisations to identify and set targets against their areas of biggest impact, and align to the Sustainable Development Goals and the Paris Climate Agreement. The principles unite over 300 signatories, totalling 49% of global banking assets, toward a standardised and in-depth annual reporting framework.

Yorkshire Building Society will become a signatory of the PRB in 2023, committing the Society to become fully aligned to the framework by 2027. Over the next 12-24 months, the Society will undertake a thorough impact analysis process, enabling the areas of most significant impact to be identified, which will then have targets set against them. The Society's first PRB report will be published in 2024 which will document progress toward becoming compliant.

Improving tenant welfare

We are implementing, where financially viable and subject to listed-property restrictions, the Department for Business, Energy and Industrial Strategy's (BEIS) recommendation to upgrade all Society-owned properties which are let out across England and Wales to EPC grade C or above by 2028 (all new domestic tenancies from 1 April 2025 and all existing tenancies by 1 April 2028). After which it is the Society's intention to work towards the proposed minimum energy efficiency standard requirement for rented non-domestic property to A or B by 2030.

Understanding the risks and opportunities climate change presents to the Society's customers

Operational climate risk

Operational climate risk is an area in which we are committed to furthering our understanding and building resilience. To address this, climate risk has been incorporated into our operational risk appetite.

Strategic risk

The Society is committed to reducing its lending exposure to heightened climate risk sectors of the UK and global economy, and has developed a risk statement which can be viewed in the Risk appetite section of this Building a greener society section of the Strategic Report. Following a review, the Society can confirm that it does not directly lend to the Oil and Gas sector or other heightened climate risk sectors.

This will be a progressive journey for the Society, and we plan to introduce more restrictions to enhance our climate action in the coming years. However, given our business model of lending on UK property, we can confirm that our strategy does not directly lend support to heightened climate risk development, and the Society does not support project finance.

Credit risk

The Society has developed a qualitative statement which can be viewed in our Risk Appetite Statement (see the *Risk appetite* part of this section). It commits the Society to a robust climate risk modelling framework in line with SS3/19 regulatory requirements. The modelling framework allows the Society to quantify physical and transitional risks that could threaten long-term financial sustainability. Alongside the qualitative credit risk statement there is a quantitative metric which measures the quantum of lending against properties with low EPC ratings (identified as below grade E).

Conduct risk

As awareness of climate considerations grow, we have a responsibility as a business to ensure that the potential impacts of climate change are considered when making decisions and engaging with customers. The considerations due are varied, but include the use of sustainable materials when developing green products, ensuring customers are made aware of climate change-related risks (such as flooding), and ensuring customers are prepared for potential costs associated with decarbonising our society when taking out borrowing (such as the need to improve the EPC rating of properties).

Financial planning

The Society understands that climate change will play an important role in our future financial planning and commercial strategy. The Society intends to use the CBES and temperature alignment outputs to inform our future direction. The focus for the time being however is ensuring that our response to climate change risk is proportionate and supports our purpose to provide *Real Help with Real Life*.

Helping our customers transition to Net-Zero

The Society believes that the transition to a Net-Zero economy should be fair for all customers. The pace at which UK climate regulation is progressing, in order to meet the Government's 2050 Net-Zero target, has the potential to outpace customers' ability to improve the energy efficiency of their homes. The Society anticipates a situation where customers, through no fault of their own, may not be able to afford the improvements needed to re-mortgage or sell their home.

To understand the impacts and opportunities that moving towards a Net-Zero economy may have on our customers, the Society performs temperature alignment exercises. We use the Intergovernmental Panel on Climate Change (IPCC) scenarios in combination with guidance provided by the Science Based Target initiative. This analysis was updated in 2022 and demonstrated that our mortgage portfolio is expected to perform well from an environmental perspective over the coming decades if proactively managed by launching socially minded green lending propositions and supporting customers to improve the energy efficiency of their homes.

However, the exercise also demonstrated that the placement of immediate severe emission reduction targets on our mortgaged properties would present our customers with significant social and financial consequences on top of the inflationary pressures they are presently facing. The exercise concluded that while a Science Based Target may represent well in overall ESG ratings, the business does not think this initiative is well suited for the provision of *Real Help with Real Life*. The Society exists to support our customers to have a place to call home. YBS will not implement activities that could possibly harm our customers' social and financial wellbeing. Over time however, as the social and financial consequences of customer-based emission reduction targets are resolved at the regulatory level, it is conceivable the Society may commit to targets.

The Society is committed to helping all of our customers transition to Net-Zero and improve the energy efficiency of their homes. To do this, YBS will work to create a customer Net-Zero transition plan that aims to support those with the highest transitional risk exposure. To get started on this journey, YBS launched our first mortgage proposition in 2022 to help customers to improve energy efficiency within their homes. Furthermore, the Society has partnered with the Energy Savings Trust to help inform members and customers how to use less energy.

[21] https://www.unepfi.org/banking/bankingprinciples/

Our ESG Priorities (continued)

Building a greener society (continued)

Understanding the risks and opportunities climate change presents to the Society's customers

Supporting our communities

We will take direct action on climate change and seek to reduce our environmental impacts on wider society wherever it is viable to do so. A cornerstone of this commitment is our proactive engagement with our local communities and policy makers. The Society joined the Yorkshire and Humber Climate Commission (YHCC) in 2021 and continues to support the Leeds Climate Commission.

The YHCC is the largest of its kind in the UK and brings together a team of climate leaders from across the public, private and third sectors. It aims to help the region reduce its carbon emissions as quickly as possible and ensure that people in Yorkshire are prepared to cope with the growing physical and transitional risks of climate change. The YHCC also encourage a just and inclusive transition and climate actions that leave no-one and nowhere behind.

The journey so far

Since first publishing our carbon footprint in 2012, we have successfully reduced our emissions by 96%. The below summary shows the progress the Society has made since our first environmental disclosure in 2012:

2012 - 2016	2018 - 2020	2021 - 2022
First disclosed our environmental impact (scopes 1 and 2). Prior to 2012, we always recycled and donated old furnishings resulting from branch and head office refit projects to local charities and schools. Procured 100% renewable electricity to power our operations. Installed solar panels at our head office sites. Achieved 100% carbon neutral status for the first time (including scope 3 emissions). Achieved ISO 14064-1 accreditation for our carbon footprint calculations.	We committed to reducing energy consumption and heat output across our IT function. Began anaerobically digesting our food waste. Installed two sustainable, sedum green roofs. We agreed a target to remove all single-use plastic items from our head office sites. In the first year, we removed 700,000 single-use plastic items. A further 132,000 single-use plastic items have been removed from our canteen in the second year. Reduced water consumption by installing 19 PropelAir toilet systems. Developed a new carbon emission calculator to begin capturing the environmental impacts of our capital works projects, allowing the business to better assess our estate improvements. Launched the Environmental Working Group to devise our future environmental and climate strategy. Disclosed our first scope 3 emissions in 2019. Launched the beginnings of our environmental strategy *Building a greener society*. Achieved 5 years of carbon neutrality. Introduced a target to reduce paper usage and consumption by 15%. Committed to understanding the impacts of our supply chain. YBS joined the Leeds Climate Commission. We achieved our first success on the IT energy consumption reduction journey, reducing the number of hard drives and replacing with solid state drives.	We joined the Yorkshire and the Humber climate commission. We are working to help build up the climate resilience of the region over the coming years. Committed to moving towards 100% renewable energy consumption. The Society secured a renewable gas contract in 2021. This was replaced in 2022 to ensure our energy supply is ethically sourced. YBS voluntarily participated in the Bank of England's Climate Biennial Scenario in accordance with PRA SS 3/19 regulations. Since 2012, we have achieved an overall 90% operational carbon reduction. Supply chain emissions are now internally fully understood. We have introduced new rules that restricts lending to environmentally harming sectors of the economy. Signed the UN's Principles for Responsible Banking (PRB). Improved branch infrastructure reducing carbon emissions by c60% in 25 branches. Implemented the ability to measure and monitor Financed Emissions.

Metrics and commitments

Climate change metrics and future commitments are anchored to our ambition of building a greener society. We have an expectation that our metrics will develop over time as our climate plan is delivered. Therefore, our current metrics focus on operational aspects and non-financial ratings agency measures, alongside a qualitative review of the CBES climate scenario analysis. You can view the Society's carbon intensity ratios per colleagues and per £m income, in the Streamlined Energy Carbon Report (SECR) in the *Directors' Report*.

SS3/19 CBES outputs

May 2022 saw the Bank of England publish the first CBES results which captures c70% of UK bank lending to UK households and businesses. This publication gave firms opportunity to compare their results against an industry benchmark. Whilst comparisons of results are subject to considerable uncertainty, the Society is using this publication as an opportunity to understand, compare and contrast its current climate modelling capabilities and outputs.

Our approach to climate risk modelling was originally built in 2021 to meet the modelling requirements of SS3/19 per CBES requirements. In 2022, a dynamic balance sheet model was developed which allows the Society to project the impact of forecasted business on potential climate related losses. Stress testing outputs were also considered within the ICAAP for the first time in 2022, and the Society advanced its Scope 3 financed emissions and temperature alignment analysis and understanding. The Society's climate risk modelling and analysis capability, and its use in shaping climate strategy, will continue to mature over time.

Objectives for further improvement

The Society's climate model is a first-generation model and, as such, is subject to certain limitations and areas for potential enhancement in the future. These are summarised below:

Accumulating defaults	Credit losses are calculated in line with CBES guidance with no accounts leaving the portfolio and default accounts accumulating over time. This approach leads to additional conservatism in the results.
Model complexity and infrastructure constraints	The climate model is complex, relying on new climate data and additional climate algorithms. Due to the resource limitations of the model machinery, expected losses have been calculated on residential portfolios and extrapolated to the remaining accounts.
Climate data	Climate data, including EPC ratings, is new and evolving and may not fully capture all the underlying physical and transition risks.
IFRS 9 expected credit losses	IFRS 9 is designed to account for expected credit losses. The climate model estimates losses from the proportion of each account that is placed within the repossession risk grade at the end of 30 years of transition matrices. It does not apply staging and 12 month or lifetime losses per IFRS 9. Modelled losses are therefore those crystallised over time rather than IFRS 9 expected credit losses. This is a known limitation in the existing stress testing infrastructure and is being assessed through model risk governance. Whilst the Society's climate risk models have not yet been used to directly drive expected credit losses, comparisons of the results from the dynamic versus static balance sheet model will be highly informative in shaping future expected credit loss assessments. Consideration of this will be recognised as the Society further embeds its climate modelling capability. Note 32 of the Notes to the Financial Statements sets out how we are currently incorporating climate risk into our expected credit loss assessment.
Vulnerable industry sectors or regions	Physical and transition risks to employers in vulnerable industry sectors or geographic regions that would have translated into variations across regions in probability of default were not in scope of the generation 1 model. The approach for climate modelling is aligned to the current approach for economic stress testing, however the intention is to enhance this analysis as more data around sector of employment is captured.

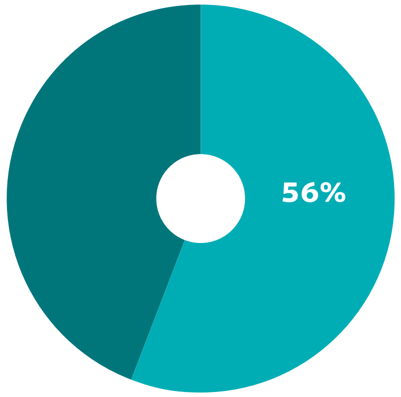
Our ESG Priorities (continued)

Building a greener society (continued)

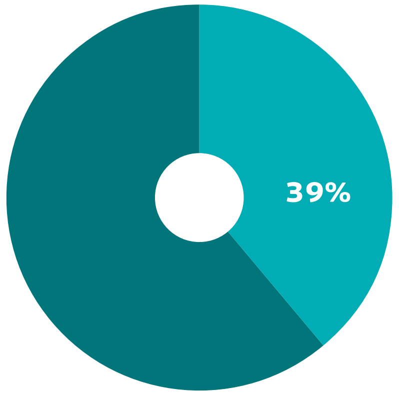
Energy Performance Certificates (EPCs)

In 2021, the Society began to capture EPC data to assist in the measurement of properties on the mortgage book. In 2022, we have EPC data for 56% of our residential mortgage book. The UK Government (Department for Levelling Up, Housing & Communities) estimates that 60% of dwellings in England and Wales have a recorded EPC. Of the EPC data captured by YBS, 39% of residential properties have an EPC grade of C or above. This compares to the 42% of active EPCs recorded by the UK Government.

The Society will continue to identify methods of improving EPC data and use the information. This will help us to understand the financial impact of climate change; our scope 3 financed emissions; and the ways through which the Society can help customers.



56% Residential EPC Data Captured



39% EPC Grade C or above

Carbon reduction targets

Using Science Based Targets, the Society set an ambitious commitment to achieve operational Net-Zero on Scopes 1 and 2 by 2025. Since setting this target, the Society has continued its journey to Net-Zero by reducing Scopes 1 and 2 to 8 tonnes of carbon dioxide equivalent (tCO2e). The Society has made a reduction of 99% year-on-year as a result of transitioning to a green gas supply. However, our strategy to achieve a 2025 target is no longer attainable alongside the Society's purpose to provide *Real Help with Real Life*. Changes to guidelines which restrict offsetting of biogenic fuels means the Society would need to bear extreme cost in order to deliver the 2025 commitment. In 2023, the Society will develop a detailed Net-Zero strategy which will achieve operational Net-Zero for Scopes 1 and 2 by no later than 2035 and set out steps to achieve operational Net-Zero in Scope 3.

The Society also performed an additional assessment of heightened climate risk on commercial business and treasury activities. The exposure review illustrated that most of the financial elements required under the Science Based Target framework are not applicable to the Society's business model, for example we do not engage in project finance or business to business loans in sectors with heightened environmental risk. However, to ensure the Society takes proportionate steps to reduce our impact, we introduced commercial lending controls which confirm the economic sectors to which the Society lends directly.

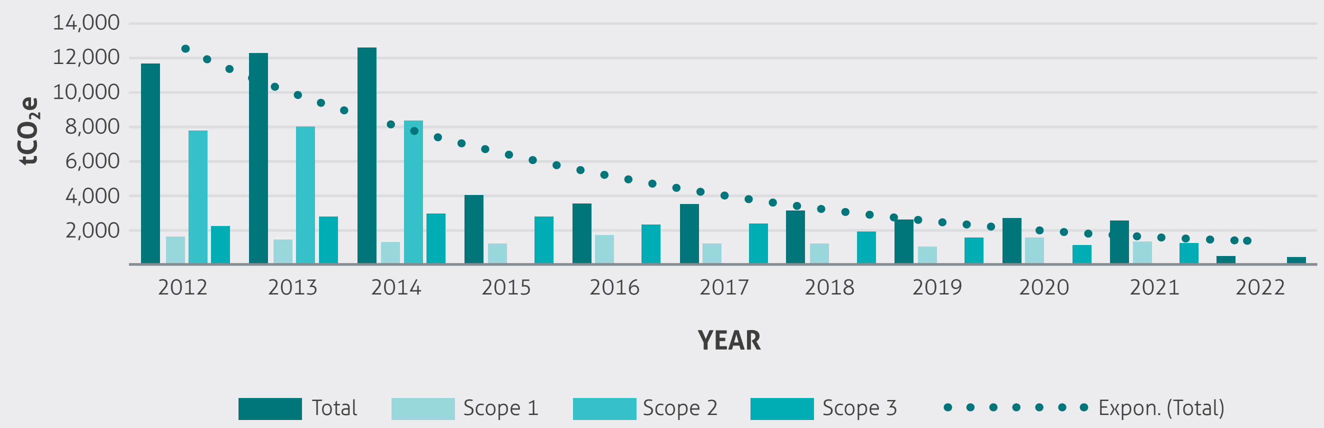
As discussed in the *Our climate strategy* section earlier, a temperature alignment review of residential mortgages was originally performed in 2021, and refreshed in 2022. It was concluded that the book is expected to perform well if managed correctly through the creation of and take up of green mortgage propositions. The Society reaffirms its commitment to supporting our customers to have a place to call home and cannot presently lend support to an initiative that may place additional financial and social anxieties on customers. However, the Society fully understands that it is important to reduce its scope 3 financed emissions. In 2022 the Society expanded its capabilities to measure scope 3 financed emissions and seeks to understand how we can manage these emissions without detriment to providing *Real Help with Real Life*. However, in the short term it is likely that financed emissions will grow as the business continues to grow its mortgage book to deliver the Strategic Blueprint.

Our operational carbon footprint and further disclosure

The Society's 2022 carbon footprint is 416 tonnes of carbon dioxide equivalent (tCO2e), this represents a 79% reduction on that in 2021. Overall, since our first disclosure in 2012 we have delivered an overall 96% reduction through proactive action across our operations. This is a great achievement, however, we understand there is still more that we can do to transform our carbon reporting into a meaningful metric in managing the effects of climate change.

Scope 1	Scope 2	Scope 3	Outside of GHG Protocol scope
Direct emissions from owned sources such as emissions from the Society's fuel usages.	Indirect emissions from the generation and consumption of purchased electricity.	All other indirect emissions that occur in our value chain such as emissions from using the National Grid to power our estate.	Emissions resulting from the combustion of bioenergy for power and heating.

Operational carbon footprint (inc. scope 3) 2012-2012



Our operational footprint[1]	2012[2] tCO_2e	2013 tCO_2e	2014 tCO_2e	2015 tCO_2e	2016 tCO_2e	2017 tCO_2e	2018 tCO_2e	2019 tCO_2e	2020 tCO_2e	2021[3] tCO_2e	2022 tCO_2e
Scope 1	1,662	1,480	1,315	1,290	1,233	1,133	1,235	1,029	1,613[4]	1,309	**8**
Scope 2	7,868	8,076	8,439	-	-	-	-	-	-	-	**-**
Scope 3[5]	2,264	2,877	3,009	2,811	2,318	2,367	1,932	1,598	1,094	645	**408**
Total	**11,794**	**12,433**	**12,763**	**4,101**	**3,551**	**3,500**	**3,167**	**2,627**	**2,707**	**1,954**	**416**

[1] The Society uses the market-based methodology to report its carbon emissions however you can find our location-based carbon footprint within the *Directors' Report*.

[2] To set the carbon reduction benchmark, the pre-2019 carbon footprint figures have been updated to include current modelled Scope 3 data. All previously reported carbon emissions have increased as a result of this exercise.

[3] 2021's carbon footprint has been updated to include actuals figures rather than the estimates for final month/quarter amounts included in the 2021 disclosures. Calculations were also altered reflect the 2022 carbon footprint's calculation methodologies. See SECR in the Director's Report for more information.

[4] 2020 scope 1 emissions were higher due to the additional ventilation and heating requirements of making our offices and branches COVID-safe.

[5] You can find a full breakdown of scope 3 emissions within the SECR section of the Directors' Report. See below for the Society's progress on modelling scope 3 emissions.

Our ESG Priorities (continued)

Building a greener society (continued)

Progress on scope 3 disclosures

The Society is committed to producing high-quality information that has integrity and proves useful to our stakeholders. We are pleased to share our scope 3 disclosure gaps and pathway toward fuller disclosure.

Scope 3 category	Sub-category	Status
Business travel	All	Externally published
Upstream transportation and distribution	Transmission and distribution	Externally published
	Supplier delivery emissions	Initial understanding
Fuel and energy related activities	All	Externally published
Waste generated in operations	Waste disposal	Externally published
	Capital project waste	Initial understanding
	End of life customer communications	Initial understanding
Supply chain	All	Initial understanding
Investments and lending (financed emissions)	Listed equity and bonds	Initial understanding
	Residential and commercial mortgages	Initial understanding
	Project finance/automotive industry loans	Not applicable
Colleague/employee	Working from home (WFH) emissions	Initial understanding
	Employee commuting	Not yet started

It is understood that there are significant challenges in data collection and verification for scope 3 disclosures, particularly given the current heavy reliance on third party suppliers. The Society continues to investigate opportunities to improve data collection in order to measure, disclose and reduce emissions. In 2022, the Society enhanced its capabilities to measure financed emissions, supply chain and capital project waste (property and IT).

Managing our waste

In 2022, the Society generated 402.6 tonnes of waste. The Society now includes capital project waste within the scope 3 disclosure. As a result, there is an increase in waste of 77.1 tonnes. Of the waste generated from operations and capital projects, 2.6% was sent to landfill. 97.4% of our waste was either recycled, recovered or re-used.

Waste Totals – Head Office and Branch	Weight Tonnes	Landfill diversion %
Landfill	10.4	2.6%
Recycling	206.9	51.4%
Recovery	150.1	37.3%
Food[1]	9.9	2.5%
Re-use[2]	25.3	6.2%
Total	**402.6**	**100.0%**

[1] The Society anaerobically digests its food waste.
[2] The Society was able to re-use materials from capital projects

OUR TOP10 CLIMATE COMMITMENTS

1 Achieve Net-Zero scope 1 and scope 2 emissions by 2035 and Net-Zero scope 3 operational emissions by 2050.

2 Maintain a 100% renewable operational energy supply in line with RE100 requirements. The Society will move towards non-burning green energy and install heat pump systems in all properties where this is feasible.

3 Add only hybrid or electric vehicles to our fleet from 2025 and working towards a full electric fleet as soon as operationally possible.

4 Improve climate change resilience across all areas.

5 Target and maintain a minimum annual landfill diversion rate of 97%.

6 Implement further policies to prevent lending or investing in economic sectors that have a heightened climate risk and/or are environmentally damaging.

7 Launch a customer Net-Zero transition plan, increase understanding of our financed emissions and support our customers with their Net-Zero transition.

8 Support customers to make better environmental choices by helping them understand climate change and how it impacts housing.

9 Launch a member-focused Net-Zero transition plan, which will include green savings product initiatives.

10 Continue to align our TCFD with best practice and create a platform on the Society's website to showcase our progress and future plans on climate thinking.

ENGAGING WITH OUR STAKEHOLDERS

Our key stakeholder groups are set out in the table below. These groups either have an interest in, or are impacted by, the Society's operations. As such, we actively consider the needs of these groups in the course of our decision-making. We make use of a variety of means to ensure that we continue to meet the changing expectations they have of us.

More information on our stakeholder engagement and our ESG priorities will be made available in our 2022 ESG Report.

Key stakeholder	Who they are	How we listen and engage	What they expect from YBS	Material ESG topics identified
Members and customers	• Members • Mortgages and savings customers • Commercial lending customers • Registered Providers of Social Housing	• Member events (Your Time to Talk sessions, in-branch events) • Annual General Meeting • Our Member Panel, My Voice, and regular surveys on customer experience and brand • Direct engagement through specialist teams (face-to-face, online web chat, telephone calls, letters, emails and social media)	• Offer good value and flexible savings accounts and mortgages • Deliver helpful, effective, approachable, friendly and efficient service • Invest in the products and services they need to gain better financial resilience or secure a mortgage • Run a strong, secure and sustainable business in their long term interests • Demonstrate action to support a wider societal purpose • Provide adapted support to customers in vulnerable situations • Invest in transforming our digital offering	• Affordable housing and home ownership • Attractive products • Business continuity and performance • Climate change, including carbon footprint reduction and Net Zero emissions • Data privacy and security • Digital transformation • Executive remuneration • Financial inclusion • Financial resilience • Local community support • Responsible customer relations • Vulnerable member support
Colleagues	• All colleagues • Contractors • Agency colleagues	• Colleague Forum, attended by a Non-Executive Director appointed to lead on colleague representation • Focus groups and surveys • Chat Pack strategy updates. • Colleague events and virtual conferences • Intranet (live Q&As, news, blogs) • People Experience Forum • Direct engagement through leadership teams • Colleague listening groups with Non-Executive Directors • Colleague networks	• Provide a forum where views are heard both in terms of their experience at YBS and also business strategy • Treat people with empathy, respect and fairness • Encourage and support their development and training • Provide fair reward and remuneration policies • Support a good work-life balance • Care about their physical, mental and financial wellbeing • Provide an inclusive culture where diversity is valued and celebrated	• Business continuity & performance • Climate change, including carbon footprint reduction and Net Zero emissions • Inclusion and diversity • Fair reward and benefits • Health & wellbeing • Local community support • Talent attraction, training and retention • Flexible working arrangements
Government and regulators	• Central and Local Governments • Financial Conduct Authority • Prudential Regulation Authority • Information Commissioner's Office • Payment Systems Regulator	• Direct engagement through specialist teams (face-to- face, telephone calls, letters, emails) • Engaging with consultations, including through industry bodies • Monitoring, engaging and complying with regulatory change and reporting	• Act within the law and regulation and in the interests of our customers • Operational resilience • Swiftly and proactively resolve customer issues • Be financially strong and secure by maintaining adequate resources including capital and liquidity • Act with integrity and transparency	• Business continuity & performance • Climate change, including carbon footprint reduction and Net Zero emissions • Data privacy and security • Ethics and accountability • Financial crime and whistleblowing • Inclusion and diversity • Sustainable finance

Engaging with our Stakeholders (continued)

Key stakeholder	Who they are	How we listen and engage	What they expect from YBS	Material ESG topics identified
Investors	• Wholesale investors • Ratings agencies	• Direct engagement through face-to-face meetings and events • Annual Report and Accounts • Regulatory News Service announcements • Investor reporting	• Offer appropriately priced debt securities in the wholesale markets which adequately reward them for the level of risk • Operate in a prudent manner, protecting our financial sustainability and ability to service our debt • Act responsibly in wholesale markets • Provide regular information and updates on our strategy, financial performance, and principal risks • Share details of our funding strategy and the expected volumes of securities being issued • Demonstrate good ESG practices, validated by Non-Financial Ratings Agencies	• Affordable housing and home ownership • Business continuity & performance • Climate change, including carbon footprint reduction and Net Zero emissions • Inclusion and diversity • Ethics and accountability • Financial inclusion • Financial resilience • Sustainable finance
Partners	• Brokers • Agency proprietors • Suppliers • Trade unions • Industry bodies	• Direct engagement through specialist relationship management teams (face-to-face meetings and events, telephone calls, letters, emails)	• Be simple and straightforward to deal with • Collaborate with them as trusted partners to achieve mutual success • Deliver helpful, effective, approachable and efficient service • Demonstrate action to support a wider societal purpose	• Business continuity & performance • Responsible supply chain
Communities	• The local, regional, and national communities in which we operate • Charities and community groups	• Charitable partnerships. • A range of initiatives to support the Bradford community at a local level. • Financial education initiatives including Money Minds	• Invest resources in support of the social economic welfare of communities • Demonstrate action to support a wider societal purpose • Provide an inclusive culture where diversity is valued and celebrated	• Affordable housing and home ownership • Campaigning on issues that matter to stakeholders • Climate change, including carbon footprint reduction and Net Zero emissions • Financial inclusion • Financial resilience • Local community support

> *Our community initiatives operate at the local, regional, and national levels and provide targeted support for people of all ages.*

Our communities

We are committed to delivering our purpose in the communities within which we operate. The majority of our community programmes are specifically designed to support people with their financial wellbeing, which includes financial education, digital education, and employability skills. Our community initiatives operate at local, regional, and national levels and provide targeted support for people of all ages. Our colleagues can volunteer for a number of our programmes from an allowance of up to 31 hours each year; in 2022 our colleagues gave 5,467 volunteering hours.

In 2022, we continued to develop our community programmes as part of a planned £1.8 million investment across 2021 and 2022. Given the current economic environment, and the success of the programmes already in progress, we have approved ongoing investment to continue running programmes in 2023 and beyond.

Money Minds

In 2022, the number of Money Minds sessions delivered in schools surpassed pre-pandemic levels, delivering 756 financial and employability education sessions to over 16,000 children aged five to nineteen. In May, we expanded this to include an online platform so as to reach a greater number of people. The new online platform provides interactive, flexible learning that is suitable for inside and outside the classroom, aimed toward children aged eleven to nineteen. Since its launch, we have had over 8,200 unique users to the site and over 850 downloads of teacher and parent/carer packs. We have also refreshed the content for colleagues to deliver as part of in-person sessions in secondary schools.

Employability skills

2022 saw our support for the people in our Bradford heartland continue. The aim of our Bradford-focused programmes is to raise aspirations and help people expand their skills as they progress in their journey toward further education and employment. We trialled in-person workplace visits and virtual work experience sessions with two schools and one university this year, the feedback from these sessions will inform the development of our offering in 2023.

Engaging with our Stakeholders (continued)

Our communities (continued)

Good Things Foundation

A lack of digital skills, and the technology required to access digital channels, can negatively impact the lives of people in a number of ways. As digital adoption becomes more prevalent for consumers and businesses alike, there is a risk that digital inequality contributes to wider inequality and poverty. In 2021, we piloted a programme with Good Things Foundation, supported by local community partners who deliver essential digital skills training. Our Bradford-based programme is designed to help people acquire and improve their digital skills and is targeted toward socially excluded ethnic minority communities where the skills gap is more pronounced. The programme has been a success, so far helping over 550 people develop the skills required for them in the workplace and will continue in 2023.

Citizens Advice

In 2022 we have continued to build on our successful partnership with Citizens Advice – an organisation which offers free, impartial advice online, over the phone, and in person, on a wide range of issues.

This initiative sees the Society fund generalist advisers from Citizens Advice inside our participating branch locations. The advisers provide free, face-to-face independent advice and support across a wide range of issues, including financial wellbeing, and appointments are available for YBS members and non-members alike.

After a very successful pilot, this year, we increased the scale of this initiative to reach more people, going from 6 branch locations to a total of 17 branches and one agency across Yorkshire and the North West. Feedback from our branch colleagues has been overwhelmingly positive, and the service has supported 2,151 people so far, unlocking £883,538 of expected income gains. As a response to increasing cost-of-living challenges, from March 2023 we are increasing our investment to be able to offer more appointments across 9 of the existing 18 locations. We were delighted to receive awards in the Third Sector Business Charity Awards in the *Charity Partnership: Banks and Financial Services* category and the *Collaboration Award* at the Collaboration Network Annual Awards.

Age UK

Our current charity partner, Age UK, is the leading charity for older people and aims to be there for them when they need it most. We have been supporting Age UK since 2020 by raising money to help improve the financial resilience of older people across the country. The need for this kind of support has never been greater as the challenges in navigating the cost-of-living challenges come into focus.

Everyday life is fast becoming unaffordable for many older households on low and modest incomes, with millions struggling or unable to pay for basic items. Older people need a trusted place to which they can turn for impartial advice and support. Whether they are facing the loss of a partner, a health diagnosis, or a change in care needs, significant life events can lead to financial difficulties which, if not addressed, can soon spiral into crisis.

Since our partnership commenced, the Society's colleagues and members have raised over £555,000 and, combined with a £350,000 donation from YBS, the total raised stands at just over £905,000. This funding has enabled Age UK to launch the *Building Better Lives* programme, which provides intensive one-to-one support sessions, local workshops, and tailored, expert advice to older people in eight communities across the UK. In 2022 Age UK supported 2,463 people, meaning that since the beginning of the partnership Age UK have supported more than 4,100 older people and unlocked more than £6.5m worth of benefits – an average of around £1,700 in extra annual income for each person who received the help. The difference this makes could be life changing, especially as they see their day-to-day costs increasing.

In addition to fundraising, YBS colleagues have helped to signpost Age UK's services to our members and have taken part in Age UK's *Digital Buddies* initiative, learning how to best support older people to improve their digital skills.

Charitable Foundation

In 2021, YBS donated £100,000 to the Yorkshire Building Society Charitable Foundation (the Foundation), which funded four projects. These projects continued into 2022, with the following successes:

- Refugee Action delivered the Pathways to Work project, supporting a total of 104 refugees in 2021 and 2022 to achieve aspirational employment in the UK. So far 15 of the participants who enrolled on the programme went on to secure employment and 25 have gone on to enter further training courses or higher education. Based on a sample of 50, 70% of participants reported transformational outcomes.
- Canopy Housing delivered employability training to 104 people in 2021 and 2022 who were not in employment, education, or training. 96% of those who received training reported positive outcomes.
- Smart Works Leeds delivered employability coaching to 110 women and formed partnerships with 36 organisations to establish outreach in marginalised communities in 2021 and 2022. 68% of those who received coaching reported positive outcomes.
- Groundwork North East & Cumbria delivered employability training to 212 young people in 2021 and 2022. 95% of people who received training reported positive outcomes; of these, 51 young people entered further education and 31 went on to secure employment.

In 2022, YBS donated a further £100,000 to the Foundation to launch the recently renamed *Real Help with Real Life Fund* for a second year. Four charities benefited from the £100,000 fund to support projects working with vulnerable young people and people from minority ethnic communities in 2022 and 2023:

- Refugee Action – providing an employability skills course for refugees. Colleagues are also mentoring refugees to help them into secure employment after re-settling in the UK, helping them toward independence. This funding is on top of the previous two-year funding, supporting the project into its third year up until 2024.
- Vulcan Learning Centre – helping vulnerable individuals move toward employment and training opportunities in a deprived area of Hull.
- Bradford Foodbank – providing an IT Help Hub for people who are at risk of digital and financial exclusion.
- Albert Kennedy Trust – helping homeless and vulnerable LGBTQIA+ individuals in Manchester to access emergency support and accommodation.

Alongside the *Real Help with Real Life Fund*, the Foundation, which is an independent registered charity governed by a board of external and internal trustees, continued to make donations of up to £2,000 each quarter to charities nominated by members and colleagues.

- Donations are made possible thanks to Yorkshire Building Society members who take part in the Small Change Big Difference® scheme. This scheme allows members to donate pennies from the interest they earn on their savings accounts or round up their mortgage payment to the next pound and donate the difference to the Foundation once a year.
- In 2022, the Foundation donated over £315,000 to 230 charities focused on improving health, alleviating poverty, and saving lives around the UK.

More information on our community programmes will be made available in our 2022 ESG Report.

> *"The total raised for Age UK stands at just over £905,000."*

Engaging with our Stakeholders (continued)

Our communities (continued)

Charitable Foundation (continued)

We use the following methodology to calculate our total community contribution, using three distinct categories:

- YBS donations – includes cash contributions (the monetary amount donated to charities and good causes and the money spent to fund community projects with partners), employee time (the cost of the time that an employee spends on volunteering) and in-kind giving (contributions of products, equipment and services and other non-cash items to charities and good causes) directly paid by YBS.
- Customer and colleague donations (leverage) – includes cash contributions (the monetary amount donated to charities and good causes) and in-kind giving (contributions of products, equipment and services and other non-cash items to charities and good causes) from colleagues and customers, facilitated by YBS.
- YBS costs – includes the costs incurred by the Society to facilitate our community programmes, including staff costs and other management overheads.

	2022					2021				
	YBS Donations					YBS Donations				
	Charitable £000	Community £000	Customer/ colleague £000	YBS costs £000	Total £000	Charitable £000	Community £000	Customer/ colleague £000	YBS costs £000	Total £000
Age UK	**272**	**-**	**139**	**18**	**429**	344	-	134	14	492
The Foundation	**100**	**-**	**308**	**12**	**420**	100	-	297	4	401
Other charity	**100**	**-**	**66**	**-**	**166**	10	-	19	-	29
Citizens Advice	**299**	**-**	**-**	**-**	**299**	94	-	-	-	94
Employability/digital skills*	**109**	**64**	**-**	**18**	**191**	67	183	-	23	273
In kind donations	**-**	**92**	**19**	**-**	**111**	-	92	10	-	102
Volunteering time	**-**	**110**	**-**	**1**	**111**	-	50	-	4	54
Other	**-**	**-**	**-**	**624**	**624**	-	-	-	429	429
TOTAL	**880**	**266**	**532**	**673**	**2,351**	**615**	**325**	**460**	**474**	**1,874**

*Charitable donations paid to MyBnk (2021) and Good Things Foundation (2021 and 2022)

OUR FINANCIAL REVIEW

Our Financial Review (continued)

Mortgages performance

Mortgages	2022	2021
Gross lending	**£10.3bn**	£10.3bn
Net lending	**£3.0bn**	£3.6bn
Growth in mortgage balances	**4.2%**	8.1%
Market share of residential gross lending	**3.1%**	3.2%

Our mortgage lending strategy has remained consistent in 2022 and continues to serve us well. Our gross and net lending volumes have remained high at £10.3bn and £3.0bn respectively (2021: £10.3bn and £3.6bn) – especially given the context that 2021 volumes were elevated by the presence of heightened levels of housing demand from the Stamp Duty Land Tax relief incentive.

The buy-to-let arm of our intermediary lender, Accord Mortgages Limited (Accord), was relaunched in the first quarter of the year, bringing changes to lending criteria and a newly expanded product range. Coupled with the high service levels for which Accord is known, this relaunch was well-received by brokers, and the marked increase in market share and lending volumes achieved supported overall group performance.

We placed importance on our ability to manage these higher volumes without sacrificing a high-quality customer experience. At times, the strength of the demand in the market exerted pressure on service levels across the industry, and though this presented challenges to our operational teams, our quality and speed of service held up well, as evidenced by our NPS of +54 (2021: +51). This is a testament to the flexibility of our colleague resourcing, our ability to work closely with brokers, and the efficiency benefits provided by our mortgage sales and origination system.

Our commercial lending business has continued to grow; gross commercial lending was £0.6bn in 2022, compared to £0.3bn in 2021. The commercial lending market was heavily impacted by the pandemic. This remains a growing area and will serve to add both value and diversity to our lending business.

In the early months of the year, asset margins began to compress as the degree of competition in the market intensified. We moved our pricing upward in line with the market in order to maintain a positive return on our lending. The competitive environment has fluctuated a great deal over the course of the year, influenced by the actual and speculated changes to Bank Rate. In Q4, amidst the volatility related to government policymaking, the UK mortgage market was disrupted and the majority of lenders, including YBS, temporarily withdrew from the residential lending market so as not to be overwhelmed with volumes and to ensure that product pricing accurately reflected the risks in the market outlook. This period of turbulence impacted different markets to different degrees, with buy-to-let and commercial lending markets more adversely impacted. We took a phased approach to our return to the market in early November and by year end we had returned to the majority of the market segments. This pause in lending led to reduced levels of applications in the final months of the year.

Looking forward, heightened levels of uncertainty may continue. Key indicators signal tougher trading conditions may lie ahead as economic factors including the increased cost-of-living, and possible reductions to house prices, will impact upon housing supply and demand.

More information on the external mortgages market can be found in *The external environment* section, and more information on our place to call home priority can be found in the *Our purpose* section.

Savings performance

Savings	2022	2021
Retail savings balance growth	**18.3%**	6.4%
Retail savings balance growth	**£6.5bn**	£2.1bn
Average savings rate differential to the market	**0.56pp**	0.32pp
Market share of retail savings balances	**2.2%**	1.9%

We have stayed true to our purpose of supporting the financial wellbeing of our members this year, offering competitive rates, continuing to enhance our successful loyalty propositions, and we have been proactive in passing on the benefit of the Bank Rate increases. In response to the Bank Rate increases made up to and including December 2022, we have increased the variable rates we pay seven times, and after these changes no variable product we offer pays a rate lower than 2.55%[22]. The benefits to our variable rate savers are highlighted by our instant access rate differential which stands at 0.77 percentage points higher than the market average over 2022 (over 2021: 0.35pp higher).

Our overall average rate differential to the market has also improved, from 0.32 percentage points higher than the market over 2021 to 0.56pp higher over 2022. This equates to c.£198.6m of additional value having been returned to members. The widening of this differential year on year reflects our support for members at a time when they need it most.

Growing our savings book at a higher rate in 2022 allowed the Society to review our overall funding strategy, and as a result we were able to make further repayments of our TFSME drawings ahead of its contractual maturity in 2025. In doing so, this reduces the refinancing risk associated with the concentrated maturity of this funding in the market.

The competitive positions we have held throughout the year led to good levels of growth in both our market share and in the value of balances held. Owing to our continued investment in developing and enhancing our digital services, a large proportion of the savings growth was achieved through our online channel. Our fixed-rate products also gained popularity over the year as the Bank Rate environment increased the returns available to customers.

The savings growth strategy has delivered a level of liquidity comfortably ahead of regulatory requirements. This provides a greater degree of optionality and flexibility with regard to the actions we are able to take in responding to future opportunities or challenges.

More information on the external savings market can be found in *The external environment* section, and more information on our financial wellbeing priority can be found in the *Our purpose* section.

[22] Excludes offset savings accounts.

Our Financial Review (continued)

Financial performance

The figures below are consolidated amounts in respect of Yorkshire Building Society and its controlled entities (the Group).

The set of financial results achieved in 2022 reflect the impacts of the rising interest rate environment as well as the strategic decisions the Society made to accelerate the rate of growth in savings by rewarding our members with competitive rates, as well as continuing the growth in our mortgage book. In addition to this strategy providing the means to repay a further instalment of government funding, this also generated higher profitability. This strong financial performance will support the Society through what may continue to be a challenging external context, and also strengthens our capital position in light of anticipated changes to regulations and requirements.

	2022	2021
Statutory profit before tax	**£502.5m**	£320.0m
Core operating profit	**£425.6m**	£297.3m
Net interest margin	**1.30%**	1.07%
Cost to core income ratio	**41%**	50%
Management expense ratio	**0.54%**	0.55%
Liquidity ratio	**23.3%**	20.7%
Common equity tier 1 capital ratio	**16.8%**	16.8%
Leverage ratio (UK)	**6.2%**	5.9%

Summary Income Statement

		2022			2021		
£m		**Statutory**	**Remove non-core items**	**Core**	**Statutory**	**Remove non-core items**	**Core**
Net interest income	i	**724.1**	**(2.4)**	**721.7**	537.4	(3.2)	534.2
Other income		**8.8**	**0.3**	**9.1**	12.7	(2.5)	10.2
Fair value gains and losses	ii	**75.6**	**(74.9)**	**0.7**	26.7	(19.1)	7.6
Net realised gains		**2.9**	**-**	**2.9**	0.8	-	0.8
Total income/core income		**811.4**	**(77.0)**	**734.4**	**577.6**	**(24.8)**	**552.8**
Management expenses		**(298.7)**	**-**	**(298.7)**	(274.5)	-	(274.5)
Impairment of financial assets		**(6.0)**	**-**	**(6.0)**	19.2	-	19.2
Movement in provisions	iii	**(4.2)**	**0.1**	**(4.1)**	(2.3)	2.1	(0.2)
Profit before tax/core operating profit		**502.5**	**(76.9)**	**425.6**	**320.0**	**(22.7)**	**297.3**

The notes below explain the adjustments made to statutory profit before tax to arrive at core operating profit:

i) Historical fair value credit adjustments on acquired loans.

ii) Removed fair value volatility i.e. gains and losses on derivatives not qualifying for hedge accounting, and on non-core equity investments.

iii) Non-core elements of the restructuring provision.

Core operating profit

Our financial performance is reviewed regularly by our Board using a number of measures, including statutory profit before tax and core operating profit. Core operating profit is an alternative performance measure which excludes items such as fair value volatility and material one-time charges that do not reflect the Group's day-to-day activities. Our Board considers core operating profit to be an appropriate measure of the underlying performance of the business.

Statutory profit before tax in 2022 was £502.5m (2021: £320.0m) and core operating profit was £425.6m (2021: £297.3m). The main difference between statutory profit before tax and core operating profit is a £74.9m gain on fair value volatility (2021: £19.1m gain) which was largely driven by conditions that have prevailed in the economic and interest rate environments.

Net interest income

Net interest income was £724.1m in 2022, increasing £186.7m year on year (2021: £537.4m), and represents an improved net interest margin of 1.30% (2021: 1.07%). Despite actively increasing our savings balances and savings customer rates in response to the Bank Rate increases, the impacts of a larger mortgage book and increased liquid asset and swap income have driven a material increase in year-on-year net interest income.

Our structural hedging portfolio contributed £67.6m of gross interest income in 2022 (2021: £35.6m). Gross structural hedge contributions represent the income earned from the fixed receipts on the swaps within the portfolios.

Fair value gains and losses

A fair value gain of £75.6m was recorded in 2022 (2021: £26.7m gain). The most significant driver of the recorded gain continues to relate to unmatched swaps. This includes swaps taken out to hedge the mortgage pipeline, which experienced gains in value with the increase of market interest rates during 2022, as well as short-term swaps to hedge fixed rate savings. Total unmatched swaps account for £109.5m of the total fair value gain in the period (2021: £30.2m). More detail on the fair value gains and losses in the period is available in Note 5.

Other income

Other income received in the year was £8.8m (2021: £12.7m) and includes income from our secondary lines of business, including commission from insurance brokering, which are less material in nature.

Management expenses

Overall management expenses were £298.7m in 2022 (2021: £274.5m) owing to greater investments made in our transformation programme, as well as the impacts of inflationary rises on the cost of resources. Additionally, a one-off payment was made to all staff to support them with the increased cost-of-living in September 2022, amounting to £3.6m in total.

When launched, our first-phase transformation business case represented a total investment of c.£85.0m to be made over five-years to 2025. Having now reached the end of the third year of the programme, we remain on track to invest the same amount in total, though we have accelerated the pace of the investment. Inclusive of capital expenditure, £25.9m was invested in 2022, up from £18.3m in 2021.

Impairment of financial assets

A total net impairment charge of £6.0m (2021: £19.2m release) was recorded in the period. Whilst the latest economic scenario assumptions reflect a more pessimistic outlook than in 2021, significant gains in house price indices observed throughout 2022 resulted in a decrease in modelled credit losses (ECL). After incorporating post-model adjustments (PMAs) relating to affordability and future house price volatility, a net charge of £6.1m has been recognised in respect of ECL (2021: £19.5m release). Note 32 contains a breakdown of the PMAs applied.

Provisions

A charge of £4.2m was recognised in the period relating to provisions which include customer redress, restructuring and other specific items (2021: £2.3m charge). Restructuring charges unrelated to branch closures or branch-to-agency conversions, £0.1m release (2021: £2.1m release), are excluded from core operating profit, due to their one-off nature.

Our Financial Review (continued)

Summary Balance Sheet

Good levels of growth were achieved in both mortgage and savings balances. In contrast to 2021, which saw more balanced growth, the growth in 2022 was asymmetric, with net savings flows exceeding mortgages net lending.

	2022 £bn	2021 £bn
Liquid assets	**12.5**	10.0
Loans and advances to customers	**43.7**	41.9
Other assets	**2.6**	0.8
Total assets	**58.8**	**52.7**
Shares	**42.0**	35.5
Wholesale funding and other deposits	**11.6**	12.9
Subordinated liabilities	**1.0**	0.9
Other liabilities	**0.8**	0.3
Total liabilities	**55.4**	**49.6**
Members' interest and equity	**3.4**	3.1
Total members' interest, equity and liabilities	**58.8**	**52.7**

Liquidity

Our liquidity levels remain robust at 23.3% (2021: 20.7%), largely supported by the increased savings flows in the year, partially offset by the repayment of TFSME.

Sufficient headroom to regulatory requirements for liquidity was maintained throughout 2022. Our portfolio of High-Quality Liquid Assets (HQLA) was expanded in the year, in line with our balance sheet strategy.

Loans and advances to customers

The rate of mortgage book growth achieved was 4.2% (2021: 8.1%). The credit quality of our mortgage book is monitored using a number of indicators on a regular monthly basis. An important indicator is the percentage of outstanding retail mortgage balances in arrears by three months or more (including possessions). The quality of our loan book has remained strong; the proportion of loans meeting these criteria now stands at 0.31% by value (2021: 0.36%).

The industry average for mortgage arrears is measured as the number of accounts which are more than three months in arrears (including possessions). At 0.44% (2021: 0.50%) our performance continues to remain better than the industry average of 0.74% (2021: 0.79%). More information on arrears can be found in the *Directors' Report* and in note 32 to the financial statements.

Whilst no deterioration in the credit performance of our mortgage book has been observed, risks are present, and the level of arrears will continue to be monitored closely through our established risk management processes. There also exists the potential for affordability and cost-of-living challenges to influence our mortgage book through future house price movements. As at December 2022, the average indexed loan to value of our mortgage book is 46.8% (December 2021: 49.6%).

Wholesale funding

The Society successfully issued within the covered bond and senior non-preferred markets in the first half of the year. However, as the year progressed, the degree of volatility and uncertainty in the financial markets increased substantially, and as such our wholesale funding strategy was adapted.

Given the strength of our overall funding position and the higher risk and costs associated with pursuing further issuances we felt that it was not in the interests of our membership to do so at that point in time.

In 2022, we repaid £2.6bn in respect of the government funding scheme, TFSME, after having also repaid a portion in 2021 (2021: £0.5bn). The amount outstanding now represents 51% of the original amount drawn.

Movement in members' interest and equity

General reserves constitute the vast majority of the Society's equity. In 2022, total equity increased by £307.9m, which includes post-tax profits of £379.3m, a £51.5m reduction in the pension surplus, as well as a £19.2m decrease in fair value through other comprehensive income.

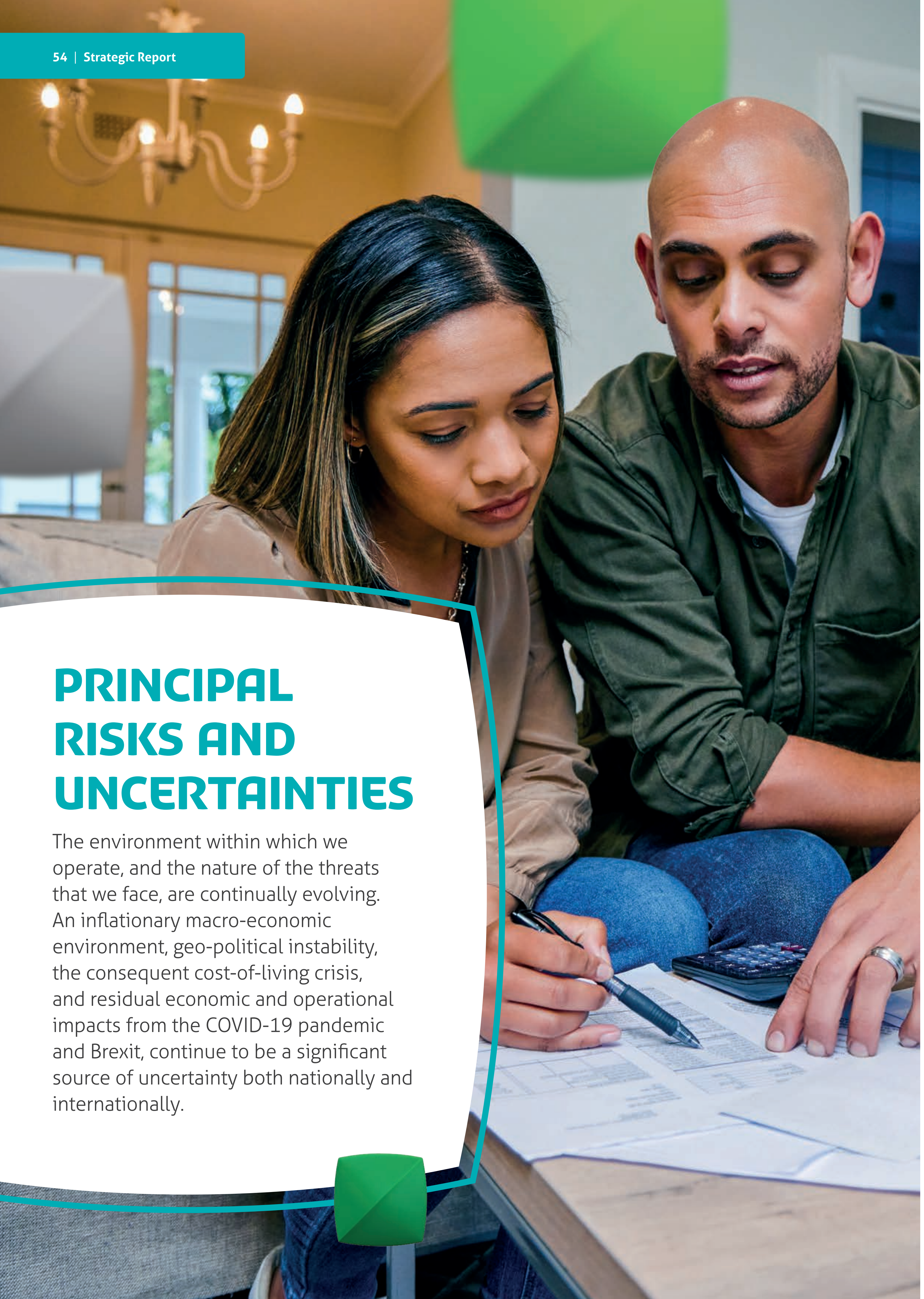
The pension scheme assets and liabilities are impacted by market movements, and the decrease in the year was driven by lower asset returns. This impact was offset partially by the reduction in liabilities, as a result of transfers out of the scheme, and changes in financial assumptions in particular the increase in discount rate. Compared to 2021, a larger movement has been recorded in fair value through other comprehensive income in 2022 due to the prevailing volatility in the external markets as well as an increase in the size of this asset portfolio.

Capital

The Group is subject to regulatory capital requirements regulated in the United Kingdom (UK) by the Prudential Regulation Authority (PRA). Our capital position remains strong, as demonstrated by our key capital ratios. Our Common Equity Tier 1 ratio is 16.8% in 2022 (2021: 16.8%), which represents the relationship between the strongest form of capital (largely accumulated reserves) and risk weighted assets. Our UK leverage ratio, which compares Tier 1 capital with total assets, has seen a modest increase to 6.2% (2021: 5.9%). As at the 31 December 2022, and throughout the year, the Group complied in full with the capital requirements that were in force. Further details of our capital position can be found in the 2022 Pillar 3 Disclosures for 2022 on our website ybs.co.uk.

Tier 1 **Common Equity Tier 1 (CET1)**	2022 £m	2021 £m
General reserve[23]	**3,379.2**	3,051.3
Fair value through other comprehensive income reserve	**1.9**	21.1
Cash flow hedge reserve	**9.9**	10.4
Common Equity Tier 1 prior to regulatory adjustments	**3,391.0**	**3,082.8**
Common Equity Tier 1 regulatory adjustments		
IFRS 9 transitional arrangements	**-**	-
Pension fund adjustments	**(23.3)**	(80.9)
Intangible fixed assets	**(20.2)**	(16.5)
Prudent valuation adjustment	**(7.3)**	(4.8)
Cash flow hedge reserve	**(9.9)**	(10.4)
Total Common Equity Tier 1 capital	**3,330.2**	**2,970.2**
Tier 2		
Subordinated liabilities	**278.7**	324.7
Collective provisions for impairment	-	-
Total Tier 2 Capital	**278.7**	**324.7**
Total capital (audited)	**3,609.0**	**3,294.9**
MREL Resources		
Secondary Non-Preferential Liabilities	**739.4**	522.5
Tier 2 MREL Eligible	**16.9**	10.6
Total MREL Resources (unaudited)	**4,365.3**	**3,828.0**
Risk weighted assets (unaudited)	**19,846.6**	17,631.0
Common Equity Tier 1 capital ratio	**16.8%**	16.8%
Tier 1 ratio	**16.8%**	16.8%
Total capital ratio	**18.2%**	18.7%
Total MREL Resources ratio	**22.0%**	21.7%
CRR Leverage ratio	**5.6%**	5.3%
UK Leverage ratio (excluding claims on central banks)	**6.2%**	5.9%

[23] Includes all entities in the YBS Group, as disclosed in note 8 to these financial statements, with the exception of the subsidiary Yorkshire Key Services Limited (YKS). YKS is a non-trading subsidiary and, as its operations were non-financial in nature, it is outside the scope of CRD IV for capital purposes.



PRINCIPAL RISKS AND UNCERTAINTIES

The environment within which we operate, and the nature of the threats that we face, are continually evolving. An inflationary macro-economic environment, geo-political instability, the consequent cost-of-living crisis, and residual economic and operational impacts from the COVID-19 pandemic and Brexit, continue to be a significant source of uncertainty both nationally and internationally.

A description of the principal risks and uncertainties to which we are exposed is included in the table below, and further commentary on how these risks have evolved is included after the table. We have performed stress tests to assess the impact of a range of risk scenarios. It is our assessment that, while they each bring their individual challenges, we are well placed to manage them.

We continue to invest in our risk management capability to ensure that emerging and evolving risks are closely monitored, and that timely and appropriate action is taken to protect the interests of Yorkshire Building Society and its controlled entities (the Group) and its customers. Significant emerging risks are regularly reviewed through the senior risk committees and are considered as part of our planning process.

We have a robust risk management framework, strong capital position, diverse funding sources and high liquidity levels; and we remain confident in the financial resilience, operational resilience, and the sustainability of the Group.

Risk	Description	Principal mitigation
Strategic risk	The risk to the Society's earnings or sustainability which arises from changes in the business environment (Political, Economic, Social and Technological), or from the effectiveness of decisions and actions relating to our strategic response to those changes.	We mitigate risks relating to the business environment and our strategic choices through horizon scanning, corporate planning, scenario analysis and stress testing, and ongoing monitoring and reporting activity.
Retail & commercial cedit risk	The risk to the Group of credit losses as a result of failure to design, implement and monitor an appropriate credit risk appetite.	We set a stress-tested risk appetite for retail and commercial lending activities which manages exposure to higher risk lending areas, and monitors adherence to this.
Treasury risk	The risk of losses following default on exposures arising from balances with other financial institutions, liquid asset holdings and from derivative instruments used to manage interest rate and foreign exchange risk.	We set a stress-tested risk appetite for treasury risk and monitor adherence to this. We adopt a low-risk approach to our treasury activities, investing most of its liquidity in the highest quality assets.
Funding & liquidity risk	The risk of the Group having inadequate cash flow to meet current or future requirements and expectations.	We set a stress-tested risk appetite and monitor our positions against this. We operate a diversified funding base, primarily through retail savings, supported by a strong wholesale funding franchise.
Market risk	The risk to the Group's earnings or the value of its assets and liabilities due to changes in external market rates.	We adopt a low-risk approach to market risk, and stress test all positions against a range of scenarios.
Capital risk	The risk that the Group is not able to meet regulatory capital requirements or deliver on its strategic plans due to insufficient capital resources.	We maintain a stress-tested capital risk appetite and regularly stress test its positions against severe scenarios.
Model risk	The risk that the Group's models used to manage the business are inaccurate, perform inadequately or are incorrectly used.	We operate a Model Risk Management Maturity framework which includes monitoring of model suitability and performance within agreed risk appetite.
Operational risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk includes cyber, people and third-party risk.	We operate an internal control framework in line with the Board risk appetite and monitor adherence through our three lines of defence model.
Compliance & conduct risk	The risk of direct or indirect loss as a result of a failure to comply with regulations (such as money laundering) or to ensure fair customer outcomes. Compliance and conduct risk includes financial crime risk.	We operate an internal control framework in line with the Board risk appetite and monitor adherence through our three lines of defence model.

Principal risks and uncertainties (continued)

Evolution of principal risk exposures

The principal risks and uncertainties continue to evolve. The key areas of focus during 2022 were rising inflation and interest rates, creating greater cost-of-living concerns for our customers, members and colleagues; market turbulence, arising from geo-political conflict, falling sterling, and government macro-economic policy; labour shortages, arising from increased demand for skills such as digital; the ongoing impacts of the COVID-19 pandemic; and the UK's withdrawal from the European Union.

Economic, social and geo-political uncertainties (retail and commercial credit and market risks)

Pressure on mortgage affordability remains prevalent, with a range of contributing economic, social, and geo-political factors. Inflation has risen significantly over the past year, and in response, interest rates are rising. Together, these will place affordability stresses on mortgage borrowers, as well as tenants of buy-to-let and commercial landlords.

The ramifications of both the Russian military action in Ukraine and the response from the international community have had implications for the global economy and, in turn, have compounded economic uncertainties in the UK. It is a contributing factor to inflationary pressures and is leading to wider economic impacts. We have a responsibility to consider the specific risk exposures that these implications create and will continue to closely monitor these.

Market volatility also increased during the year because of political uncertainty in the UK, with forecast interest rates rising considerably. This has required disciplined hedging and ensuring our products are carefully priced so that our risk appetites are not exceeded.

Additionally, while the UK has now officially left the EU with a trade deal in place, the ongoing economic impacts remain unclear. Our economic scenarios cover a range of impacts that reflect different levels of productivity and output of the UK and the subsequent impact on the broader economy. Most of our exposure relates to UK-based residential and commercial property values, and so risk arises from any potential economic downturn stemming from the new trading relationship rather than any specific risks to any particular business sector.

Affordability for our new lending is assessed using a sophisticated model, which currently incorporates a stressed interest rate, and is reviewed every six months (as a minimum) to ensure it remains an appropriate level of stress. Recent changes have been made to this model to ensure that various cost-of-living factors are accounted for, including the temporary National Insurance rise and the impact of inflation on monthly expenditure. Equally, comprehensive activity has taken place to understand the impact of, and mitigate where appropriate, cost-of-living on our new and existing portfolio. This has included reviewing the lending policy and standards and updating the mortgage advice journey.

We continue to consider lending criteria carefully using an approach that is intended to balance the level of risk we take against our purpose of providing *Real Help with Real Life*. At all times we focus on our lending being responsible to protect customers and to minimise arrears.

Attracting and retaining skills and talent in high demand areas (operational risk)

We are increasingly recognising that social changes brought about by the COVID-19 pandemic, such as removal of geographical barriers, have accelerated changes in employee expectations. These are resulting in increased competition in the recruitment and retention of colleagues across all areas of the business, but particularly those areas with high demand skills such as change, digital, technology and data functions.

We continue to review our value proposition in relation to talent acquisition and retention and undertake continual monitoring of the recruitment market. We do not expect candidate expectations around flexible working to return to pre-pandemic norms and so we continually review how we attract, retain and support new and existing colleagues to work flexibly. We expect the recruitment market to remain candidate-driven over the next 12 months, and will therefore continue to leverage our refreshed Employee Value Proposition and proactively source talent to fulfil business requirements. Effective resource planning and forecasting is a priority, and our resourcing practices are regularly reviewed to ensure we proactively manage associated risks to deliver our Strategic Blueprint.

Model risk (model risk)

We continue to monitor and address, via the Society's Model Risk Committee, the risks associated with the use of models and, specifically, the use of models that rely on historical data being applied to less predictable future scenarios. We continue to adapt and develop our approach to Model Risk management and the underlying models themselves in line with industry good practice and regulatory guidance.

Regulation and fair customer outcomes (compliance and conduct risk)

Compliance and conduct are central to our values and behaviours, with an internal control framework that operates in line with the Board risk appetite, and which monitors adherence. However, ongoing focus and robust challenge is required to keep pace with the rapidly changing legal and regulatory environment. This is also vitally important as we continue with our ambitious transformation programme which explores new initiatives, customer journeys and ways of working.

Dialogue with our regulators continues to be open and constructive, and we continue to work with regulators and industry bodies to contribute to the developing regulatory agenda. This includes matters such as the FCA's introduction of new Consumer Duty regulation which sets higher expectations for the standard of care that firms provide to consumers. As a mutual organisation, fair customer treatment is intrinsic to everything we do and is aligned to our purpose to provide *Real Help with Real Life*.

Climate change risk (credit and operational risks)

We recognise that climate change is one of the most critical issues facing the UK and global economy. The main climate change risks impacting us are how physical risks such as flooding, subsidence and coastal erosion affect our customers' homes. Additionally, we recognise the risks posed by the transition to a low-carbon economy such as energy efficiency regulation and any exposure to sectors most affected by this change.

During 2022, we reviewed and updated our Environmental and Climate Change Risk Policy in order to integrate the associated financial and operational risks; define how we govern environmental and climate risks; and, to incorporate our climate commitments.

We continue to develop our environmental and climate change risk management capabilities to integrate these within our risk management framework, ensure that we align with best practice, and can meet reporting and disclosure requirements.

Increased competition and new technology (operational risk)

Our digitalisation programme continues to develop wider access to our products and services through expanded digital channels. Challenger banks, FinTech firms and the digital transformation of direct competitors continue to heighten the need to remain competitive in these areas.

We continue to successfully deliver the first phase of our programme and have maintained strong governance and extensive oversight of the management of associated risks. There is, however, a residual risk that securing the resource to deliver the change necessary for some customer groups to keep pace with rapidly changing technology may also prove unsustainable, and require investment choices which may not fully meet customer expectations.

We are also modernising our IT infrastructure to improve resilience and reduce risk. As IT components age, their fit and value often deteriorate, while cost and risk often conversely grow. We have embedded an approach to managing and mitigating our legacy IT risks, including those relating to third parties, and progress is reported to the Board at least annually.

Further phases of our digitalisation and technology modernisation programmes will create additional risks, and we will continue to identify, assess, and manage these as appropriate.

Financial crime threats (compliance and conduct risk)

We already operate in a hostile and constantly evolving financial crime environment, including phishing and spam attempts that seek to take advantage of customers during this time of uncertainty.

Whilst we have not seen a meaningful increase in financial crime incidents directly attributable to these threats, the business remains on high alert. Our continued focus on our financial crime capability remains paramount to keep these evolving financial crime exposures within our risk appetite. The Society continues to invest to deliver and implement proportionate and effective monitoring, enhance our ability to identify threats and invest in financial crime controls.

New and evolving cyber security threats (operational risk)

The increasing use of technology, and the pace of technological change, exposes the UK financial services sector to ever-increasing and evolving cyber security risks. Geo-political threats such as the war in Ukraine have elevated the threat landscape, with ransomware a continued threat. Resilience to such threats and an ability to effectively respond in the event of an attack remains essential to protect the Society, maintain the trust of customers and the confidence of regulators. Good progress has been made in improving the Society's security monitoring capabilities.

Material outsourcing (operational risk)

The Society has several material outsource arrangements in place with third parties to deliver critical services to its customers and members. We frequently and regularly monitor both the effectiveness of the services we receive, and the risks the third parties pose to the Society.

Continued risk management effectiveness

We continue to invest in this area to ensure that our key controls are appropriately maintained. A new security monitoring team has been established to perform holistic monitoring across the estate and we regularly review network upgrade requirements.

Good progress has been made during 2022, with the continued embedding of our risk management framework across the business, evidenced by our ability to continue to adapt and respond to rapid change in our operating environment and ongoing support in the delivery of our Strategic Blueprint.

To further support the Strategic Blueprint, we defined a set of risk management priorities. These priorities set out the role that risk management plays to deliver the Strategic Blueprint and, in turn, long-term sustainability for the benefit of our customers and colleagues. Priorities include, but are not limited to: ensuring operational resilience vulnerabilities are identified and evaluated; improving our cyber security capabilities; building on existing capabilities to enhance understanding of risks arising from climate change; and delivering robust financial crime identification, prevention, mitigation, and reporting that will protect the Society and its customers.

OUR BOARD AND EXECUTIVE TEAM

Details of our Board and Executive Team are set out in the following section.

For information regarding our Board and any changes during 2022 see the *Corporate Governance Report*, pages 64 to 80

Committee membership key:

- AC Audit Committee
- BGNC Board Governance and Nominations Committee
- GRC Group Risk Committee
- RC Remuneration Committee

Chair of the Board

John Heaps LLB

CHAIR OF THE BOARD

BGNC Chair

Joined our Board in 2014 as Chairman Designate and became Chair of the Board in 2015.

Background and career

A qualified lawyer, John worked in the legal profession for 40 years and joined the senior management team of corporate law firm Eversheds in 1999. He was appointed Chairman of Eversheds in 2010 for a four-year term and retired from the law firm in 2015.

Skills and experience

John has extensive commercial and legal experience in his leadership role in shaping Eversheds' long-term strategy as it grew into a major international law firm. In the last few years he has contributed to the development and success of both the Society and the various financial bodies of which he had been a member.

Other roles

Member of the board of The CityUK and also of its Audit and Risk Committee. Member of the Audit, Constitutional and Governance Committees of the International Bar Association. Member of the Advisory Board of the International Business and Diplomatic Exchange.

Non-Executive Directors

Alison Hutchinson BSc, CBE

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR, VICE CHAIR AND NON-EXECUTIVE DIRECTOR FOR WORKFORCE ENGAGEMENT

RC Chair BGNC GRC

Joined our Board in 2015 and became Vice Chair and Senior Independent Director in October 2020.

Background and career

Alison started her career at IBM, progressing to the role of Global Director of Online Financial Services. She joined Barclays Bank in 2000 holding a number of senior management positions. Alison moved to specialist mortgage provider Kensington Group plc in 2004 as Managing Director and then Group Chief Executive, leading the successful sale of the business to Investec in 2008. She left Investec in 2008 and launched The Pennies Foundation, a registered charity which supports digital donations to good causes. She has been the Chief Executive of the Foundation since 2009. Over the last 10 years Alison has also developed a portfolio of non-executive positions.

Skills and experience

Alison has a strong background in the technology, retail and charity sectors as well as extensive experience in retail financial services. She has more than 35 years of management and Board level experience. Alison was awarded a CBE in 2016 for services to the economy and charities.

Other roles

Chief Executive of The Pennies Foundation, Senior Independent Director of DFS Furniture plc and Senior Independent Director of Foresight Group Holdings.

Guy Bainbridge MA (Cantab), ACA

INDEPENDENT NON-EXECUTIVE DIRECTOR

AC Chair GRC BGNC

Joined our Board in 2019.

Background and career

Guy worked in the audit profession for 36 years with KPMG, including 24 as a partner. He was also a member of KPMG's UK Board for seven years and its European Board for five years. He was the Lead Audit Partner for a number of banking clients including Barclays, ING and HSBC.

Skills and experience

Guy is a banking expert and brings recent and relevant experience of the UK banking sector. He has comprehensive knowledge of the regulatory environment in which we operate.

Other roles

Non-Executive Director and Chair of the Audit Committee at ICE Clear Europe Limited and a Non-Executive Director, Chair of the Audit Committee and a member of the Corporate Governance and Nominating Committee at Manulife Financial Corporation.

Our Board and Executive Team (continued)

Non-Executive Directors

Angela Darlington BSc, FIA

INDEPENDENT NON-EXECUTIVE DIRECTOR

GRC Chair AC

Joined our Board in 2022.

Background and career

Angela spent 20 years working for Aviva in a variety of senior roles – culminating in her serving as Chief Executive Officer (CEO) of UK Life following a period as Interim CEO of UK Insurance, where she was responsible for leading the UK Insurance business and a member of the Aviva Leadership Team. Prior to her CEO roles, Angela was the Group Chief Risk Officer for Aviva PLC for four years, responsible for leading the Risk Function at Group level.

Skills and experience

Angela has significant experience of the financial services sector with a deep technical expertise in risk as well as the ability to contribute to a wider strategic agenda.

Other roles

Non-Executive Director of Rothesay Life and Member of Council for the London School of Hygiene and Tropical Medicine.

Dina Matta BSc, BA (Hons)

INDEPENDENT NON-EXECUTIVE DIRECTOR

RC

Joined our Board in April 2021.

Background and career

Dina began her career in strategy and technology consulting prior to joining HSBC/Midland Bank in London. She subsequently worked with UBS, British Telecom and ING Bank in a transformation capacity across their retail, corporate and wholesale segments. More recently, Dina joined the European Bank for Reconstruction and Development in October 2021 as the Vice President and Chief Transformation Officer overseeing the Bank's digital transformation and its planned move to a new London Headquarters.

Skills and experience

Dina is an engineer and economist and has over 30 years' experience in transformation, operations and technological innovation working across industries both in Europe and the US.

Other roles

Vice President and Chief Transformation Officer at the European Bank for Reconstruction and Development.

Mark Parsons BA, FCMA

INDEPENDENT NON-EXECUTIVE DIRECTOR

GRC AC

Joined our Board in 2020.

Background and career

Mark was Chief Executive of Coventry Building Society from 2014 until his retirement in April 2020. Mark has significant experience working within retail financial services including roles at Barclays and Abbey National, as well as time at PricewaterhouseCoopers. At Barclays he was the Chief Financial Officer for Retail and Business Banking and also served as the Deputy Chief Executive of Barclays UK Retail Bank.

Skills and experience

Mark has over 35 years' experience in financial services and has a range of executive experience across finance, human resources, product, retail management, risk management and investor relations.

Other roles

Non-Executive Director of Fairstone Capital Group Limited.

Non-Executive Directors

Jennelle Tilling B.Bus, BA

INDEPENDENT NON-EXECUTIVE DIRECTOR

RC

Joined our Board in November 2021.

Background and career

Jennelle spent over 17 years working for Yum! Restaurants International in a variety of senior marketing roles – culminating in her serving as the Global Chief Marketing Officer for KFC, responsible for the company's marketing, communications, innovation, digital presence and reputation in over 125 countries. Jennelle is the Founder and Chief Brand Strategist at London-based brand consultancy Marketing with Insight.

Skills and experience

Jennelle has over 25 years' consumer marketing, digital and innovation experience with leading global FMCG and food retail brands.

Other roles

Non-Executive Director of Shaftesbury Plc and Camelot and Trustee for The Guide Dogs for the Blind Association.

Executive Directors

Alasdair Lenman MA, ACMA

INTERIM CHIEF EXECUTIVE OFFICER / CHIEF FINANCE OFFICER

Joined our Board in 2017.

Background and career

Alasdair began his career on the management training programme at Mars Inc. where he spent a number of years working in sales, before deciding to move into finance. Since then, he's gained significant experience in the financial services sector, including as Finance Director of Retail Products for Lloyds Banking Group and Group Chief Finance Officer for BGL Group (owners of comparethemarket).

Skills and experience

Alasdair has over 20 years of experience in Finance working in a variety of Board level roles, both non-executive and executive. These include CFO and Interim CEO of YBS, Audit Committee Chair for both Sainsbury's Bank and Coventry Building Society and a number of roles at Lloyds Banking Group.

David Morris BA, MA

CHIEF COMMERCIAL OFFICER

Joined the Society in 2018 and our Board in 2022

Background and career

David began his career at Citigroup and has subsequently worked at various Financial Services institutions across the UK and abroad. Prior to joining YBS David was the Head of Products at Coventry Building Society. He is responsible for the innovation, development and on-going management of the Society's mortgages and savings products, YBS's marketing and its digital channels, mortgage distribution and the Society's branch network. David is also responsible for our Commercial Lending and is Chair of Accord Mortgages Limited.

Skills and experience

David has over 15 years of experience in retail banking and has a strong track record of driving commercial performance in financial services organisations, including the mutual sector.

Our Board and Executive Team (continued)

Chief Officers

Orlagh Hunt BA, FCIPD
CHIEF PEOPLE OFFICER

Joined the Society in 2019.

Background and career

Orlagh is an experienced human resources professional who has held senior roles across a range of industries including fast-moving consumer goods and retail, as well as having significant experience in financial services. Orlagh is responsible for the People Division including reward, recognition, training and development, diversity and inclusion, internal communications and social purpose and sustainability.

Skills and experience

Orlagh was previously Head of Human Resources for AXA Sunlife, Group Human Resources Director for FTSE-100 insurer Royal Sun Alliance as well as Group Human Resources Director for AIB in Dublin.

Kate Ireland* BSc, FCA
CHIEF INTERNAL AUDIT OFFICER

Joined the Society in 2022.

Background and career

Kate was most recently Head of European Governance at Vanguard, leading a cross functional programme of work to improve their governance, risk and regulatory frameworks. Prior to this she was the European Head of Audit (SMF 5) for their UK, Irish and German Regulated entities having previously been a Senior Manager at Ernst and Young.

Skills and experience

Kate has a broad range of audit, risk and financial experience within the financial services industry. She is responsible for our 'third Line of Defence' in the Society's risk management model, including evaluating how we manage our capital, liquidity, credit, operational and regulatory risks.

*Also known as Katherine Remington

Richard Wells FCIB
CHIEF RISK OFFICER

Joined the Society in 2010.

Background and career

Richard has held a number of senior risk management roles at several of the UK's major banks and building societies. He is responsible for ensuring that there are appropriate procedures and capability for the management of all risks whether planned or unplanned. In addition to Risk, he is also responsible for the Legal, Compliance and Secretariat functions as well as regulatory relationships.

Skills and experience

Richard has extensive experience of risk management within the financial services industry across a wide enterprise of risks including, Prudential, Operational and Conduct Risks. He is also a director of Accord Mortgages Limited.

CHANGES TO THE BOARD AFTER YEAR END

In August 2022 we announced that Susan Allen OBE had been appointed as Chief Executive Officer, subject to regulatory approval, and will be joining the Society in 2023

Introducing our new Chief Executive – Susan Allen OBE

Susan has more than 25 years of experience in financial services having held senior executive positions at a number of large retail banks in the UK. She was most recently Head of Customer Transformation at Barclays where she is responsible for leading and supporting all colleagues in frontline teams to deliver a differentiated customer experience.

Prior to that Susan was responsible for all of Santander's UK Retail and Business banking businesses, supporting 15 million customers and with a nationwide network of branches and customer contact centres, following her role as Chief Transformation Officer.

Susan is also a former Board member of UK Finance and has been a proud champion of diversity and inclusivity throughout her career.

CORPORATE GOVERNANCE REPORT

A word from the Chair of our Board

I am pleased to present our Corporate Governance Report for 2022, which sets out the role of the Board, its Committees, and their key activities during the year.

Once again, our robust governance framework has helped us to manage the ongoing challenges created by external events in the UK and wider world. During difficult times created by the rising cost-of-living, we have been able to continue to support our colleagues, customers and members by delivering on our purpose to provide *Real Help with Real Life*.

Our approach to Corporate Governance

Corporate governance is the framework of rules, practices and processes we use to manage our Society and our approach is based on the principles and provisions of the UK Corporate Governance Code (the Code) published by the Financial Reporting Council (FRC).

For the 2022 financial year we have applied the Principles and complied with the Provisions of the Code published in July 2018 (available on the Financial Reporting Council's website frc.org.uk) as far as they apply to building societies (as set out in the Building Societies Association (BSA) Guidance available at bsa.org.uk). As a mutual organisation we do not have shares or shareholders therefore references to long-term shareholdings in relation to remuneration (Provision 36) do not apply. We do, however, seek to apply the provisions of the Code that reference shareholders as appropriate to our members and in accordance with the BSA's guidance. The report sets out how we have done this during 2022.

Our commitment to operate to this standard helps to ensure the long-term success and a sustainable future for the Society and for the benefit of our current and future members, customers, colleagues and all other stakeholders.

External events

During 2022 we have seen many significant events and issues arising both in the UK and the wider world; for example, including rising interest rates and, cost-of-living, including fuel costs and record inflation and the invasion of Ukraine as well as the ongoing effects of the COVID-19 pandemic.

As a Board we have maintained oversight of and supported management in addressing those external events which could impact the Society and its stakeholders. An important part of our role is to work our way through these challenges and ensure we continue to deliver our Strategy whilst supporting our colleagues, members and customers.

Changes to the Board

There has been a number of changes to our Board during 2022 which have been managed in accordance with our succession plans to ensure that the Board remains effective and has the appropriate mix of skills and experience to oversee the delivery of our strategy.

In June 2022 we announced that our Interim Chief Executive, Stephen White, would be leaving the Society and confirmed in accordance with our succession plans that Alasdair Lenman, our Chief Finance Officer was appointed as Interim Chief Executive with effect from 17 June 2022 pending the completion of the process to appoint a permanent Chief Executive. Stephen stepped down from our Board in July 2022 and I would like to take the opportunity to thank him for his contribution as Chief Operating Officer and Interim Chief Executive and wish him well in his new role.

We were pleased to announce in August 2022 that the Society had appointed Susan Allen OBE as our new Chief Executive Officer, subject to regulatory approval. I am looking forward to welcoming Susan to the Society and working with her to ensure we continue to provide real and meaningful benefits to our members and customers. Susan has more than 25 years of experience in financial services and her skills and expertise will be a significant benefit to our Society as we continue to deliver our strategy.

As reported in the Annual Report and Accounts for 2021, David Morris, our Chief Commercial Officer was appointed as an Executive Director in January 2022, having been with the Society since 2018, and has brought his experience in retail banking, in particular the mutual sector, to the Board.

There has continued to be a significant focus on Non-Executive Director succession planning for our Board during 2022 to ensure it remains effective now and in the future. As a result of those succession plans, I would like to update you on the following changes to our Board during the year:

- Guy Parsons stepped down from the Board and as Chair of the Remuneration Committee at the Annual General Meeting ('AGM') on 26 April 2022. Alison Hutchinson became Chair of our Remuneration Committee following his retirement.
- Neeta Atkar stepped down from the Board and her role as Chair of Group Risk Committee on 22 June 2022.
- Angela Darlington joined the Society on 26 April 2022 as a Non-Executive Director and member of our Audit and Group Risk Committees. Angela became Chair of the Group Risk Committee on 22 June 2022 after Neeta Atkar stepped down.

I would like to thank Guy and Neeta for their outstanding contribution to the Society's success and wish them both well for the future.

Further details can be found in the *Board Governance and Nominations Committee Report* on pages 81 to 87.

Engaging with our members

After a challenging period for everyone as a result of the COVID-19 pandemic, I was delighted that we were able to make a very welcome step forward and meet some of our members in person at our Annual General Meeting (AGM) for the first time in three years.

The safety of our members and colleagues always remained a priority in our organisation of the event and, recognising the ongoing impact of the pandemic would mean some would still be unable to attend in person, for the first time we also welcomed some of our members via a livestream. This ensured as many of our members as possible could experience the AGM in a way that worked for them. For those that could not be involved on the day, we also made a recording available on our website until the end of May 2022.

In November 2022 I was pleased to be able to attend our first Your Time to Talk event since the start of the COVID-19 pandemic and have the opportunity to meet with some of our members and answer their questions about the Society. For more information see the *Our members and customers* section of this report on page 72.

Corporate Governance Report (continued)

Environment, Social and Governance (ESG)

I was very pleased to present our first ESG report in 2022 which set out the progress we have made.

Climate change remains an area of increasing focus and as a Board we have set our intended direction of travel as our approach to climate change management evolves over time. We will continue to work with teams across the Society in the years ahead to build on the progress we have made.

I am particularly proud of our investment in the communities in which we operate, including our range of community programmes which operate on a local, regional or national level.

This report sets out some of the key corporate governance developments during 2022. We also established an ESG Committee as a sub-committee of our Executive Committee, from which it has delegated authority to drive progress on the ESG strategy. The role of the ESG Committee is to support the Board in overseeing the delivery of our ESG strategy, and to drive progress against both our purpose ambitions and responsible business priority areas.

Further details in relation to our approach and commitments can be found in the *Our stakeholders* section of *Our purpose, strategy and stakeholders* in the *Strategic Report*.

Board evaluation

Following the external evaluation conducted in 2020, in accordance with the Code, the Board and its Committees undertook an internal review of their effectiveness in 2022. Further details can be found in the *Corporate Governance Report* on page 78.

Board priorities in 2023

Together with the senior leadership team, we will continue to focus on the delivery of our strategy in 2023 through our strategic runway. As well as keeping up to date on key changes and influences in the external environment we will be undertaking deep dives into key areas of our business such as our savings vision and how our distribution channels work as well as key issues such as Consumer Duty. We will continue our oversight of Consumer Duty following on from the training and updates we have received during 2022 and the appointment of our Consumer Duty Champion.

We look forward to welcoming our new Chief Executive to the Board in 2023 and will be working with Susan to continue the delivery of the next phase of our strategy.

As the outcomes of the Government response to the Department for Business Energy and Industrial Strategy (BEIS) consultation in relation to Restoring Trust in Audit and Corporate Governance start to be developed during 2023 we will be looking to ensure that those areas relating to the Society are addressed. We will also consider any other best practice identified to ensure we continue to uphold the highest standards of corporate governance. As many changes will come into place on a phased basis, this is an area which will remain a focus for the Board throughout 2023 and beyond.

John Heaps
Chair of the Board

BOARD LEADERSHIP AND COMPANY PURPOSE

Our Board and Committee structure

BOARD
Chair: John Heaps

Collectively responsible for the long-term success of the Society.

Board Committees

The Board delegates certain matters to Board Committees so that they can be considered in more detail by those directors who have the most relevant skills and experience to do so.

CHAIR'S COMMITTEE
Chair: John Heaps

Considers ad hoc matters specifically delegated to it by the Board.

Members are the Chair of the Board, Vice Chair and Chief Executive or any other Director appointed by the Board.

REMUNERATION COMMITTEE
Chair: Alison Hutchinson

Oversees the development and implementation of the remuneration policy for all colleagues.

See *Directors' Remuneration Report* for more details.

AUDIT COMMITTEE
Chair: Guy Bainbridge

Reports to the Board on financial reporting, internal controls and risk management systems, Internal Audit and External Audit.

See Audit *Committee Report* for more details.

GROUP RISK COMITTEE
Chair: Angela Darlington

Oversees Prudential Risk, Operational Risk and Conduct Risk Strategy, Appetite and Oversight.

See *Risk Management Report* for more details.

BOARD GOVERNANCE AND NOMINATIONS COMMITTE
Chair: John Heaps

Oversees Board governance, including composition, succession and appointment processes for the Board.

See *Board Governance and Nominations Committee Report* for more details.

Management Committees

EXECUTIVE COMMITTEE (EXCO)
Chair: Chief Executive Officer

Oversees and directs the management of all aspects of the Society with delegated authority from the Board. All Chief Officers are members.

EXECUTIVE RISK COMMITTEE (ERC)
Chair: Chief Risk Officer

Oversees day to day risk management activity with delegated authority from the Group Risk Committee.

See *Risk Management Report* for more details.

The Board and each of its Committees have terms of reference which set out their roles and responsibilities. You can find the terms of reference of the Board, Remuneration, Audit, Group Risk and Board Governance and Nominations Committees on our website at ybs.co.uk/board.

The Board agreed to establish a Chair of the Board Succession Committee in October 2022 as a Committee of the Board to manage the process for the succession of the Chair of the Board on behalf of it and the Board Governance and Nominations Committee. Further details can be found in the *Board Governance and Nominations Committee Report* on page 85.

Corporate Governance Report (continued)

Climate and environmental governance

In line with the Prudential Regulation Authority (PRA) expectations (SS3/19) and our commitment to aligning our operations to Task Force on Climate Related Financial Disclosures (TCFD) principles, the Society has created a robust governance process for environment and climate change.

You can read more about our climate governance in the *Strategic Report* on pages 27 to 31.

Board's responsibilities

The Board is accountable to our members and its role and responsibilities are set out in its Terms of Reference. These include:

- **Collective responsibility for the Society's long-term sustainability;**
- **Maintenance of a sustainable business model;**
- **Continuous development of culture;**
- **Approval of strategy and setting of Corporate Plan;**
- **Oversight of the Society's operations;**
- **Overall management of Society within a framework of risk management (including approval of risk appetite);**
- **Review and oversight of performance;**
- **Acting in the best interests of members.**

The Board retains certain key matters for its own approval which it does not delegate to any of its committees or any individual. These are set out in a Schedule of Matters Reserved which can be found on our website at ybs.co.uk/board.

Setting our purpose and generating long term success

The Board is committed to delivering our purpose of providing *Real Help with Real Life* as well as creating long-term value for our stakeholders through good governance and keeps the Society's purpose and long-term success under review.

Examples of how the Board is supported in its role in delivery our purpose include:

Our strategy and culture	Our Strategic Blueprint outlines our four priorities, along with four behaviours, that will allow us to develop our culture and deliver against our purpose.
Composition and effectiveness	The ongoing monitoring of the composition of the Board, together with Performance Reviews, ensure it continues to be effective and able to support the ongoing and long term success of the Society.
Strong and robust governance structure	A strong governance structure, both at Board and Management Committee level, supports quicker and more effective decision making which is in line with the Society's purpose and strategy.
Environment Social Governance (ESG) strategy	Our ESG commitments and goals support the delivery of our purpose including our three ESG priority areas: investing in our people, building a greener society, and operating responsibly.
Brand and reputation	A clear and effective framework of corporate governance provides confidence to our stakeholders, supporting a positive brand reputation.
Relationship with the executive and senior leadership teams	Maintaining ongoing discussions and two-way feedback, including an up to date understanding of industry trends and the internal environment, are key to the Board's ability to ensure the Society's long-term success.
Risk management	Ensuring continuous identification and review of principal business risks and how those risks could affect the Society's purpose and long-term success, taking into account the agreed risk appetite.
Compliance	Good corporate governance ensures that we meet legal and regulatory requirements and avoid any consequences of not doing so.
Good quality reporting	The quality of information provided to the Board ensures it is able to make informed decisions which can improve value creation and reduce costs, this includes details of any impact on stakeholders, the wider community and the environment.

Further information on our priorities, purpose and behaviours can be found in the *Strategic Report*.

Corporate Governance Report (continued)

Board activities in 2022

Our Board's activities during the year are based around an annual cycle to make sure it meets its responsibilities and oversees overall management of our operations.

The key matters considered by the Board are planned on a rolling 12-month basis with additional items included through the year as appropriate. At each meeting the Board receives:

- Report of the Chair of the Board;
- Member, Market and Competitor Update;
- Chief Executive's Report including an update on key issues;
- Comprehensive management information including financial and non-financial;
- Updates from and minutes of Board Committee meetings and Executive Committee meeting minutes.

Examples of some of the topics discussed and principal decisions made by the Board during the year are set out below together with any stakeholder implications:

Principal decision examples	Stakeholder implications
Approval of key policies, such as the Retail and Commercial Lending Policy	C M&C G&R I
Approval of Operational Resilience Self-Assessment	C M&C G&R I
Approval of Annual Report and Accounts and Interim Financial Statements	C M&C G&R I CO
Approval of appointment of Non-Executive Directors and Chief Executive (Interim and Permanent)	C M&C G&R
Approval of the Society's Modern Slavery Statement	C M&C G&R I CO
Approval of Consumer Duty Implementation Plan	C M&C G&R

Key topic examples	Stakeholder implications
Strategic Roadmap	C M&C G&R I
Economic Updates and Planning Scenarios	C M&C G&R I
Member Engagement Updates	M&C
Colleague Engagement Updates	C
Transformation Programme Update	C M&C
Cyber Security Updates	C M&C G&R

C - Colleagues	G&R - Government and Regulators	P - Partners
M&C - Member & Customers	I - Investors	CO - Communities

Strategy sessions in 2022

The Board also holds two separate strategy sessions each year covering items such as customer needs and expectations, future of service, market current and future landscape, YBS Vision and the Transformation Roadmap.

Our Board's engagement with stakeholders

The Board recognises the importance of maintaining a strong relationship with its stakeholders and its contribution to achieving the Society's purpose and delivering its strategy.

It is important that our Board understands the areas of interest or concern for our key stakeholders when it makes decisions. As such, each report to the Board includes, where appropriate, details of any consultation undertaken with stakeholders together with details of the impact or potential impact of a decision on these stakeholders.

Our Board engages with, and obtains the views of, its key stakeholders in a variety of ways, including (but not limited to):

MEMBERS / CUSTOMERS

For further details see the Our member section below and the *Strategic Report*

- Non-Executive Director 'Member Voice' Champion
- Consumer Duty Champion
- Annual General Meeting
- My Voice Online Member Forum
- Customer Voice Programme and NPS tracking
- Your Time to Talk Events
- Branch visits
- Brand Tracker
- Member case studies (based on interviews with members on specific topics)
- Analysis of profile and behaviour of YBS customer segments
- Ad hoc research with members through on line surveys or focus groups
- Ad hoc insight such as commissioned research

COLLEAGUES

For further details see the Our colleague section and the *Strategic Report*

- Non-Executive Director for Workforce Engagement
- Regular Board updates in relation to colleague engagement
- Colleague Forum
- Colleague Listening Groups
- Engagement surveys
- Operational site visits, including branches

OTHERS

Including Investors, Regulators, Partners (such as brokers, agency proprietors, trade unions, industry bodies) and communities

- Updates in relation to regulatory matters
- Response to consultations
- Membership of industry bodies and involvement in industry conferences and forums
- Regular updates in relation to key stakeholder activities, such as in relation to our community interest strategy and resilience of key suppliers
- Feedback from trade unions (through the Remuneration Committee)
- Visits to brokers

All Board papers set out any impacts or areas to consider in relation to the Society's stakeholders
Board Performance Information covers key areas relevant to the Society's stakeholders

For more details on how the wider Society engages with its key stakeholders see the *Engaging with our stakeholders* section in the *Strategic Report*.

Corporate Governance Report (continued)

Our Board's engagement with stakeholders (continued)

Our members and customers

As a mutual we have no external shareholders – we are owned by our members and we are committed to ensuring the Society is run effectively on their behalf. We encourage feedback from them and our customers on any aspect of our activities and use this feedback to inform the Board's decisions. Examples of how we get this feedback include:

My Voice

Our My Voice panel has over 1,000 customers who are part of our online community. Its members interact with YBS through a range of channels and as such they can comment on a broad range of services and customer journeys so we can continue to improve and make sure we are getting things right. Research through My Voice is done in a variety of ways, such as quick polls, surveys and discussions with other members.

Insights from the My Voice panel are included in the Member Updates provided at each Board meeting.

MEMBER CHAMPION

In 2021 the Board established a Member Champion role on the Board to ensure the continued prominence of our members voice in discussions and support all directors in their duty to act in the best interests of our customers.

Our current Member Champion is Non-Executive Director Mark Parsons who has also been appointed as the Board's Consumer Duty Champion.

OPERATIONAL VISITS

The Board recognises the contribution these visits make to the continued understanding of what is most important to our customers.

YOUR TIME TO TALK EVENTS

We hold Your Time to Talk Events to enable members to hear first-hand how we are looking after their interests.

In November 2022 we were able to hold our first in person event since the start of the COVID-19 pandemic. The event was held in Cardiff and members were able to listen to a presentation on Digital Services and Online followed by a question-and-answer session with our senior team. The event also included a reception which provided the opportunity for further informal discussion between our members and senior team.

The Board and Leadership Team also have access to a wide range of member insight, which is used to support and inform decision making. This includes both routine and tracking activity, a summary of which is set out in the Our Board's engagement with stakeholder's section above. Where commissioned by YBS, the approach is designed to reflect a cross section of our customers and the Society's products, including demographics and geographic locations.

Our members and the Annual General Meeting

Our Annual General Meeting (AGM) provides the Board with the opportunity to present to our members details of how we performed during the previous year, our plans for the future and, where circumstances allow, to give them an opportunity to ask questions and provide feedback.

Due to the COVID-19 pandemic, our AGM in 2022 was the first time since 2019 that we awere able to welcome some of our members in person. As always, our commitment to the health and safety of our members and colleagues remained a priority and as such we minimised the amount of time those attending were in contact with each other by keeping the content of the meeting briefer and making a donation to our charity partner in lieu of refreshments.

For the first time we also made our AGM available online for our members to watch live as well as making a recording available on our website for those who were unable to watch the meeting live.

It remained important that our members were able to have their say at the AGM even if they were unable to attend in person. As such, we strongly encouraged all our eligible members to exercise their voting rights either through voting online or returning their postal vote. In addition, members were able to call, email or write in with their questions, and responses were issued in a timely manner.

The Code expects that if there is a vote of 20 per cent or more against any resolution put forward by our Board at the AGM, we should give details of how we will consult our members to understand the reason why. The Society has a process in place if this happens. There were no votes of 20 per cent or more against any of the resolutions our Board put forward at the 2022 AGM.

Our colleagues

The Board is committed to ensuring that there is effective engagement with our colleagues and an important part of our engagement framework is the quarterly Colleague Forum, that has colleague representation from across the society and the Workforce Engagement Non-Executive Director attends. Alison Hutchinson has held the role of Non-Executive Director for Workforce Engagement since 2019.

A key function of the Colleague Forum is to help inform better board discussions and decisions and to ensure colleagues views are considered. It is designed to discuss feedback from colleagues on specific Board topics and to enable unstructured discussion to capture other colleague concerns.

Following a move to virtual meetings throughout the pandemic, the first return to an in-person meeting took place in June 2022 and was used to celebrate the value of the meeting with recognition from the Chair of the Board and Senior Leaders. In addition, we welcomed the Director of Marketing and Digital Channels to the role of Chair for the forum. The forum continues to be well attended, by colleagues that are well prepared, passionate and bring quality feedback to fully participate in discussions. A focus on diversity and representation led to the Chairs of each Colleague Network now attending the Colleague Forum to create closer alignment and to invite in views from a truly diverse cross section of YBS.

The agenda has been informed by the Executive Committee and Board strategic runway, where possible, and topics this year have included our survey results, workload, how our behaviours are showing up, our experience of learning at YBS, and the cost-of-living challenges. The Workforce Engagement Non-Executive Director provides a summary of colleague views to board following each quarterly Colleague Forum. The forum Chair shares outputs with the Executive Committee and any actions are fed back at the next Colleague Forum. The effectiveness of this feedback loop is an area that continues to strengthen, particularly as members of the Senior Leadership Team are also rotating their attendance to directly hear colleague views.

Colleague feedback continues to be strong and confirms we are creating an open and trusting environment.

"The focus on being able to 'say it straight' in the room means that we can and do discuss some challenging topics, and are able to give our opinions truthfully, whether that is positive or constructive."

"We can see changes that are made, or new ideas proposed that were influenced by the feedback during the forum. It really shows how YBS listens to colleagues and takes their views seriously."

"The forum is also really beneficial for hearing different views from the wider business – understanding if our thoughts are shared or learning about ways to try and resolve issues – it's a great community for sharing ideas and providing reassurances."

"The questions for Colleague Forum are designed as open questions and this has enabled some great discussion when gathering feedback."

Corporate Governance Report (continued)

Our Board's engagement with stakeholders (continued)

Our colleagues (continued)

There are many tangible examples that demonstrate the influence of colleague views, continuing to demonstrate that feedback is being heard. Colleagues wanted to understand more clearly how their work connects to the overall YBS Purpose ambitions at the end of 2021. Our approach to communicating our Purpose and community programmes has undergone a complete refresh following Colleague Forum feedback. The strategy chat pack in June 2022 shared an update on progress against our purpose for the first time. In another example, the insight from the forum has also helped shape our 2022 plans to embed our behaviours – specifically the need to build on existing activity, share more of the great examples we heard of our behaviours in action and make sure we are aligned with our learning, leadership, and inclusion messages.

One of our conversations with colleague representatives showed that there was a clear appetite for learning and for leaders to create a culture where learning is important, prioritised and critically, not separate to people's jobs. There have been changes to how learning is encouraged, managed, and supported across YBS in the last two years and the forum recognised that this is starting to feel different. To continue to embed LinkedIn Learning as a tool for development, we are actively integrating modules within our blended programmes (e.g. Leadership Immersions and RAM upskilling), use campaigns such as Black History Month to encourage colleagues to access the tool and also utilise our learning champions to engage with colleagues. Learning champions are active in ensuring relevant content for their areas and have also launched a toolkit to help colleagues consider their learning ambitions and identify solutions and approaches to address them.

Colleagues expressed some apprehension about what Digital Transformation means for them, requiring help to join the dots and understand the future, not just what is happening now. A digital download is now shared bi-monthly, summarising transformation activity and bringing this to life for colleagues. As we build up a clear picture of the colleague impacts of projects and therefore what training and communication needs will be, we have been exploring options to provide colleagues with a view of what's coming up for them and their role.

Our discussions around inclusion and diversity have helped to shape our communication strategy. Colleague blogs, driven by our Colleague Networks have proven to be an effective way for colleagues across the organisation to talk openly and honestly and we have seen very positive feedback as a result e.g. Global Accessibility Awareness Day and Ramadan. Colleagues also shared with us that there is some concern around how and why we collect personal data around Inclusion and Diversity. As a result, we launched a new module within our colleague survey tool in 2022 that focuses on Inclusion and Diversity and gives colleagues a trusted way to share their insights.

Board papers are structured to ensure they include how they have taken colleagues' views into account to inform decisions and recommendations. The Board also receives an annual assessment and update on the framework for colleague engagement.

The Board understands the importance of colleagues having the opportunity to engage with other Board members in addition to the structure provided by the Colleague Forum. 50 colleagues attended Board listening sessions across January and July 2022 enabling a wider number of our Board to hear directly from the colleagues attending. The same key issues and themes from Colleague Forum discussions were woven throughout, in addition to other topical items, including changes to our Senior Leadership Team, and cost-of-living and pay challenges. As outlined in the Colleague Section, we have also continued to engage with our colleagues through Reward Listening Groups, People Leader calls and through the colleague survey tool with new questions tailored to feedback on Diversity and Inclusion, and follow up measures.

Our culture

Our People Ambition for 2023 to 'be a high-performance organisation where people are clear on what is expected of them and accountable for delivering it, and with great leaders who inspire their people to achieve more than they ever thought they could'.

As part of our Strategic Blueprint we have a set of behaviours which are an important driver of the Society's culture:

WE CARE ABOUT PEOPLE

WE SAY IT STRAIGHT

WE REACH FOR BETTER

WE MAKE IT HAPPEN

Our culture is also promoted throughout the organisation by our Board and Senior Leadership Team, learning and development as well as through a range of activities such as workforce engagement, performance engagement, remuneration policies, recruitment and inclusion and diversity.

The Board is key in overseeing and monitoring the development of our culture as part of the wider Blueprint.

Whistleblowing

We are committed to making sure that anyone, including our colleagues, can be confident that any concerns raised with us will be taken seriously and treated as confidential. Nobody will be the subject of victimisation, subsequent discrimination or disadvantage for reporting their concerns, whatever the outcome.

The Society has a Whistleblowing Policy which sets out our approach to whistleblowing. The processes it sets out aim to ensure that the Society investigates and deals with disclosures fairly, promptly and properly. This enables the Society to be informed at an early stage about fraudulent, immoral or malicious activities or misconduct, in order to enable appropriate actions to be initiated.

We advocate a culture of openness, accountability and integrity whereby individuals feel confident to report and raise genuine concerns, without the risk of experiencing any retribution as a result, even if the concern turns out to be mistaken.

Our Board approves the Whistleblowing Policy on an annual basis and oversees its implementation.

In 2022 our three year independent review, which was conducted by Grant Thornton, confirmed very effective Whistleblowing governance and framework.

Our Whistleblowing Champion

The Board's commitment to our Whistleblowing Policy is supported by the appointment of a Non-Executive Director, Alison Hutchinson, as our Whistleblowing Champion*. As well as championing whistleblowing with our Board of Directors and making sure we have a strong Policy, a key part of the role is ensuring reports are properly investigated and whistle-blowers protected.

* In 2023, following approval by the Board, the role has moved to Guy Bainbridge.

Directors' duties

Section 172 of the Companies Act 2006 describes the duties of company directors in respect to promoting the business and considering other stakeholders. This does not apply to the Society's Directors as we are a mutual building society not a company, but the Code expects boards to report on how they have considered the matters set out in Section 172 in decision making.

Our Section 172 Statement is set out in the *Directors' Report* on pages 125 to 126.

Conflicts of interest

Our Board has a Conflicts of Interest Policy for Directors and Chief Officers which sets out how we will review and, where appropriate, approve any conflicts or potential conflicts of interest. These are recorded in a Register of Interests which is reviewed and approved by our Board Governance and Nominations Committee at each meeting. If any director wants to take on a new external position it must first be approved by our Board, which will consider whether there could be any conflicts of interest and / or an impact on the time they commit to their role with the Society.

Division of responsibilities

Board roles and division of responsibilities

Non-Executive Directors	
Chair of the Board	• Leadership of the Board • Ensures the Board acts effectively, promoting high standards of corporate governance • Leads annual review of the performance of the Board, its committees and directors • Identifies ongoing development needs of the Board • Leads the Board in the development of the Society's culture
Vice Chair / Senior Independent Director	• Deputises for and provides support and guidance to the Chair of the Board • Acts as an intermediary for other directors • Leads the performance evaluation of the Chair of the Board • Acts as the main point of contact for the Society's members should the normal channels of communication fail
Non-Executive Director	• Responsible for bringing independent judgement to Board decisions and debate • Uses their own experience and skills to constructively challenge the Executive Team
Executive Directors	
Chief Executive	• Overall responsibility for managing the Society • Implements the strategies and policies agreed by the Board, supported by the Executive Team, through a number of management and risk committees
Executive Director	• Responsible for the day-to-day management of specific areas of the business including maintaining the Society's financial strength and sustainability • Brings associated skills and knowledge to the Board

The Group Secretary, Robert Moorhouse, provides advice on all governance matters and is available to advise all of the directors.

Independence

The Board has confirmed that all the Non-Executive Directors continue to be independent based on the guidance set out in the Code, including the Chair of the Board, who was independent on appointment.

Corporate Governance Report (continued)

Division of responsibilities (continued)

Attendance at Board and Committee meetings

The table below shows our directors and the scheduled Board and Committee meetings they attended during 2022 (where they were a member during the year) followed by the number of meetings the director was eligible to attend.

Director	Board	Board strategy	Board Committees: Chairs	Audit	Board Governance and Nominations	Remuneration	Group risk
Non-Executive Directors							
John Heaps	9/9	2/2	No meetings required in 2022[1]	–	4/4	–	–
Alison Hutchinson	9/9	2/2	No meetings required in 2022[1]	–	4/4	5/5	4/4
Neeta Atkar[2]	5/5	1/1	–	1/1	–	–	2/2
Guy Bainbridge[3]	9/9	2/2	–	4/4	2/2	–	4/4
Angela Darlington[4]	6/6	2/2	–	3/3	–	–	2/2
Dina Matta	9/9	2/2	–	–	–	5/5	–
Guy Parsons[5]	4/4	–	–	–	2/2	2/2	–
Mark Parsons	9/9	2/2	–	4/4	–	–	4/4
Jennelle Tilling	8/9	2/2	–	–	–	5/5	–
Executive Directors							
Alasdair Lenman	9/9	2/2	No meetings required in 2022[1]	–	–	–	–
Stephen White[6]	4/5	–	–	–	–	–	–
David Morris[7]	8/9	2/2	–	–	–	–	–

1. Meetings only held when required to consider ad hoc matters specifically delegated to it by the Board.
2. Member of the Board, Group Risk Committee and Audit Committee until 22 June 2022.
3. Joined the Board Governance and Nominations Committee in April 2022.
4. Joined the Board, Group Risk Committee and Audit Committee on 26 April 2022.
5. Member of the Board, Remuneration Committee and Board Governance and Nominations Committee until 26 April 2022.
6. Resigned from the Board in July 2022.
7. Joined the Board on 1 January 2022.

In 2022, four ad hoc meetings of the Board Governance and Nominations Committee were held at short notice in relation to the recruitment of Non-Executive Directors and the Chief Executive role. The Remuneration Committee held six ad hoc meetings in 2022.

If a director cannot attend a meeting they will receive the papers and provide any comments they have to the Chair of the meeting beforehand.

The Chair of the Board and Chief Executive have the right to attend all committee meetings and the Chief Risk Officer is invited to attend all Board meetings.

If an urgent decision is needed when there is not a Board meeting a decision can be taken in writing (known as a written resolution) if there is approval from all directors (or members in the case of a committee). Our Rules set out the procedure for written resolutions and this was used during the year:

- two times by the Board
- two times by the Board Governance and Nominations Committee

Directors' time commitment and other directorships

All Non-Executive Directors have to make sure that they have enough time for the responsibilities of their role and to support this:

- Availability and other commitments are reviewed and taken into account when recruiting new Non-Executive Directors.
- Each Non-Executive Director has a letter of appointment which sets out the expected time commitment for the role.
- If a Director is intending to take on an additional external appointment this is reviewed and, if appropriate, approved before it is taken up. Our Board will consider the impact any additional role would have on the time they could commit to their role with the Society.
- A review of time commitment is also included as part of the one-to-one sessions held each year with individual directors.

Prior to her appointment in April 2022, the significant commitments (including the time involved) for Angela Darlington were disclosed and reviewed.

During the year, the Board considered and approved the following significant appointments for existing Non-Executive Directors:

Non-Executive Director	External appointment	Date	Reason for approval
Angela Darlington	Rothesay	June 2022	There were no conflicts of interest or time commitment issues arising as a result of the appointment.

Composition, Succession and Evaluation

Election and Re-Election of Directors

All of our directors are subject to election on appointment and annual re-election by our members at the AGM based on the best practice set out in the Code (our Rules require the re-election of our directors to take place at least once every three years). Details of each individual director's contribution are set out in the booklet accompanying the Notice of AGM sent to all qualifying members.

Board composition

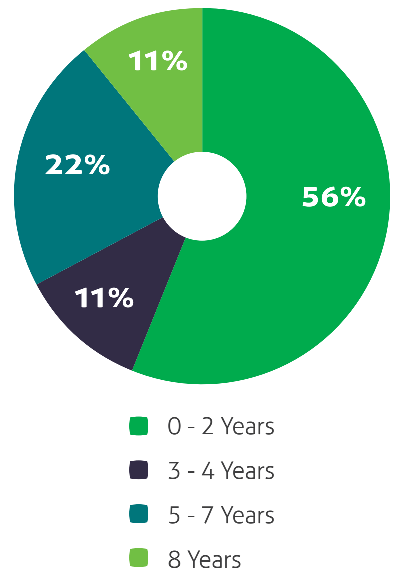
The diagrams set out the current composition of the Board in respect of tenure, age, gender and the number of Executive and Non-Executive Directors as at 31 December 2022.

Further information in relation to Inclusion and Diversity can be found in the Board Governance and Nominations Committee Report on page 86.

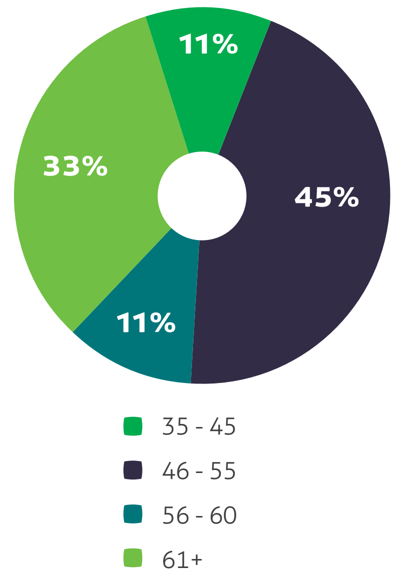
Tenure

The Chair of the Board, John Heaps, was appointed as a Non-Executive Director and Chair designate in 2014 and became Chair of the Board in 2015. His current time on the Board does not exceed the provision in the Code that states that the Chair should not remain in post beyond nine years from their first date of appointment, and our succession plans take this into account.

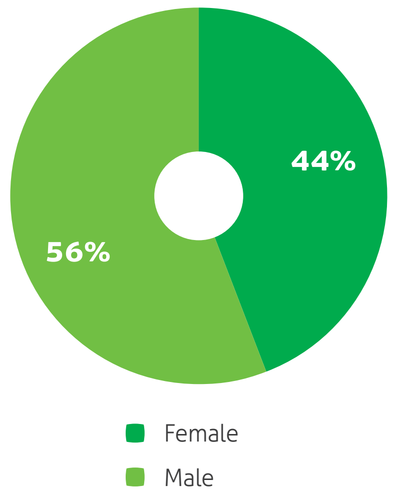
TENURE



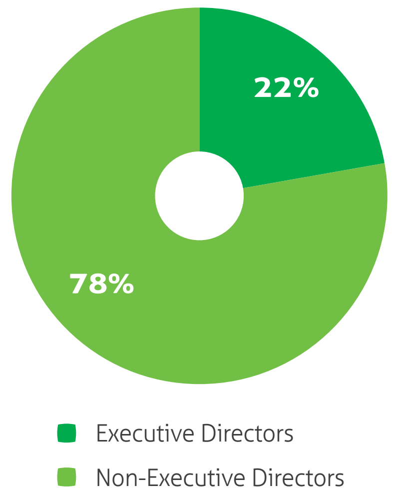
AGE



GENDER



NON-EXECUTIVE / EXECUTIVE DIRECTORS



Corporate Governance Report (continued)

Composition, Succession and Evaluation (continued)

Board evaluation 2021

As reported in the Annual Report and Accounts for 2021, an internal evaluation was completed for the Board and its Committees in 2021. The outcomes were discussed by the Board at its meeting in January 2022 and were used to inform the Board Effectiveness Review Action Plan for 2022. Key themes for 2022 included:

Theme	Background	Additional information
Succession planning	Ensuring that effective planning was in place for key roles to maintain the stability and effectiveness of the Board.	Further details in relation to succession planning can be found in the *Board Governance and Nominations Committee Report* on pages 82 to 85.
Strategy	Maintaining oversight of the delivery of the Society's strategy journey.	Further details on the Society's strategy can be found in the *Strategic Report* on pages 20 to 21.
Board training	Ensuring that the Board has access to appropriate external speakers to support strategy discussions and provide an external perspective to support decision making.	Further details on the Board's approach to training and development can be found in the *Board Training and Development* section on page 78.
Stakeholder engagement	Continuing to seek opportunities to ensure that workforce engagement and the 'member voice' support Board decision making.	Further details on the Board's stakeholder engagement can be found in the *Stakeholder Sections* on pages 71 to 75.

Board evaluation 2022

As an external evaluation was completed during 2020 in accordance with the Code, an internal performance review was undertaken once again in 2022 through an internal online survey.

The outcomes of the internal reviews were discussed at the Board meeting in January 2023 with feedback regarding the effectiveness of each Board Committee being discussed by the relevant Committee.

The findings and key themes will be used to inform the Board Effectiveness Review Action Plan for 2023 the progress of which will be monitored during 2023 by the Board Governance and Nominations Committee.

For further details on the process followed for the Board and Committee evaluations please see the *Board Governance and Nominations Committee Report.*

Board training and development

The Board has a formal Training Plan to ensure that there is an overarching plan in place for the Board as a whole setting out the training and development requirements for the year. The Training Plan is agreed and overseen by the Board Governance and Nominations Committee on behalf of the Board.

The Training Plan for 2022 was developed taking account of:

- Future strategy and any relevant training requirements arising as a result;
- Key topics in relation to areas where the Board would benefit from gaining an external perspective, such as climate change;
- Any training or development requirements arising from the annual Board Effectiveness Review;
- Latest review of the Board Skills Matrix and succession plans completed by the Board Governance and Nominations Committee;
- Any areas identified as a result of ongoing reviews of Board composition and future succession plans;
- Current regulatory and governance expectations;
- Topics covered by internal specialists through standing agenda items which provide an ongoing refresh of knowledge in relation to key subject areas.

The Training Plan covers those development areas which are required for the Board as a whole with individual training and development incorporated into personal development plans.

As part of the Board Training Plan, a range of topics are identified for external speakers to provide the Board with an external perspective to support strategy discussions and Board decision making. During 2022 topics included:

- Digital Transformation in the Financial Services Industry
- Inclusion and Diversity
- Global Economic Update
- Consumer Duty
- Specific training on the Resolvability Assessment Framework

Induction of a Non-Executive Director

All directors have a full, formal and tailored induction programme on joining the Board, based on their skills and experience, including where appropriate a specific induction to any Committee's they will be joining. Role specific inductions are also arranged where a director takes on a new role or committee membership.

As reported in the Annual Report and Accounts a tailored induction plan was put in place for Jennelle Tilling when she joined the Board as a Non-Executive Director in November 2021. The progress of that induction plan was monitored by the Board Governance and Nominations Committee and completed during 2022.

NON-EXECUTIVE DIRECTOR INDUCTION

Jennelle Tilling

> *What a delight it has been to meet so many talented and passionate team members during my induction to the society. Everyone is fully aligned and motivated to delivering the transformation roadmap and open to suggestions on how we might deliver more value to members for many years to come. I feel privileged to be part of a team with such a strong sense of purpose.*

Angela Darlington joined the Board as a Non-Executive Director in April 2022 and a tailored induction programme was put in place based on her existing experience, key areas of the Society and those relating to her areas of expertise. A comprehensive induction and handover place was also put into place in relation to the Group Risk Committee and her succession to the Chair role following the resignation of Neeta Atkar in accordance with agreed succession plans.

NEW NON-EXECUTIVE DIRECTOR

Angela Darlington

> *I have been so impressed by the people I have met during my induction into YBS. Everyone has been knowledgeable, passionate and genuinely focussed on looking after our customers. I've really been made to feel welcome and it makes me proud to be part of such a purposeful organisation that provides Real Help with Real Life.*

More information on our Board is available in other sections of this document:

Subject	Where to find this information
Succession planning for the Board	**See the *Board Governance and Nominations Committee Report.***
Skills and experience of our Board and Committees	**See the *Leadership Team* biographies.**
Recruitment and appointment of Directors	**See the *Board Governance and Nominations Committee Report.***
Board diversity and inclusion	**See the *Board Governance and Nominations Committee Report.***

Corporate Governance Report (continued)

Audit, risk and internal control

Our Board has overall responsibility for audit, risk and internal control, and delegation oversight to its committees:

Subject	Where to find this information
Ensuring that both internal and external audit are effective	**More information can be found in the *Audit Committee Report*.**
Setting our risk appetite	**More information can be found in the *Risk Management Report*.**
Our systems of internal controls	**More information about the internal controls framework can be found in the *Audit Committee Report*.**

Remuneration

Our Board has a Remuneration Committee which has delegated responsibility for setting the policy on the remuneration of Executive Directors as well as setting the remuneration for the Chair of the Board, Executive Directors and other members of the Leadership Team.

For further details please see the *Directors Remuneration Report*.

The remuneration of Non-Executive Directors is a decision reserved for our Board's approval and is reviewed by the Executive Directors and the Chair of the Board only.

John Heaps
Chair of the Board
1 March 2023

BOARD GOVERNANCE AND NOMINATIONS COMMITTEE REPORT

A word from the Chair of the Board Governance and Nominations Committee

I am pleased to introduce the annual report of the Board Governance and Nominations Committee for 2022 which sets out a summary of the Committee's activities during the year. A key focus for the Committee has been the rigorous recruitment process undertaken to identify a new Chief Executive following the resignation of Mike Regnier in November 2021. As a result of the process we are pleased to have appointed Susan Allen as our new Chief Executive subject to regulatory approval.

Our work in relation to succession planning and recruitment for our Non-Executive Directors has continued and we were pleased to be able to support the appointment of Angela Darlington as our new Group Risk Committee Chair as a successor to the outgoing chair, Neeta Atkar.

John Heaps
Chair of the Board Governance and Nominations Committee

Board Governance and Nominations Committee members and meetings

The members of the Committee are:

John Heaps
Committee Chair

Alison Hutchinson
Independent Non-Executive Director

Guy Bainbridge
Independent Non-Executive Director
(joined the Committee in April 2022)

Guy Parsons stepped down as a member of the Committee when he retired from the Board in April 2022.

Only members of the Board Governance and Nominations Committee are entitled to attend its meetings, although others may be asked to attend all or part of a meeting. The Chief Executive, Chief People Officer and Group Secretary are usually invited to attend each meeting.

The Committee met four times in 2022 and held four additional meetings in relation to Chief Executive and Non-Executive Director recruitment and future succession planning.

Details of the number of scheduled Committee meetings attended by each member is available on page 76.

Board Governance and Nominations Committee Report (continued)

BOARD GOVERNANCE AND NOMINATIONS COMMITTEE RESPONSIBILITIES

The responsibilities of the Board Governance and Nominations Committee include

- Reviewing the structure, size and composition of the Board taking into account succession plans and the Board's Diversity Statement
- Overseeing succession planning for directors and other senior executives and the development of diverse pipelines
- Reviewing the approach to the annual evaluation process for the Board and its Committees
- Overseeing the appointment process for Non-Executive Directors and Executive Directors
- Reviewing the training and development plan for the Board on at least an annual basis
- Recommending to the Board the election and re-election of Directors, including the ongoing assessment of independence
- Reviewing governance arrangements and monitoring corporate governance developments, making recommendations to the Board where appropriate
- Reviewing and recommending to the Board the Directors and Chief Officers Conflicts of Interest Policy for approval and monitoring potential conflicts
- Reviewing and recommending to the Board the Board Diversity Statement for approval

Further detail on the role and responsibilities of the Committee can be found in the terms of reference which are available on the Your Society section of our website, at **ybs.co.uk/board**.

Corporate Governance

A key aspect of the Committee's role is the oversight of Board governance which includes ensuring we work with a strong corporate governance framework. This includes, but is not limited to:

- Review of the Society's compliance with the UK Corporate Governance (as it applies to a building society).
- Review and recommendation to the Audit Committee and Board of the Corporate Governance Report and the Committee's Report included in this Annual Report and Accounts.
- Regular review of corporate governance developments with any changes required as a result recommended to the Board to ensure we continue to have a framework based on best practice.

During 2022, the Committee has continued to monitor the progress of the consultation on Restoring Trust in Audit and Corporate Governance, including reviewing the Government's response published in June 2022. The Committee will continue to monitor the progress and implementation of changes into 2023 ensuring that where required legal and regulatory requirements are implemented and any best practice is considered in the context of the Society.

Succession planning for directors

The Board is committed to ensuring it has the right composition both now and in the future, to support the delivery of our strategy and ensure the long term success of the Society. The Board Governance and Nominations Committee supports the Board by ensuring that it keeps under review the structure, size and composition of the Board and its Committees and ensures that effective succession plans are maintained.

The Committee carries out a detailed review of succession planning for Directors at its annual strategy session in March each year and keeps the plan under review at each subsequent meeting during the year. It also plans ahead for future recruitment of Non-Executive Directors to make sure that the Board continues to have the skills and experience it needs.

The Board Governance and Nominations Committee has access to a range of information to support succession planning including:

BOARD SKILLS MATRIX AND SKILLS MAP	NON-EXECUTIVE DIRECTOR SUCCESSION TIMELINE	BOARD COMMITTEE MEMBERSHIP AND KEY NON-EXECUTIVE DIRECTOR ROLES	BOARD DIVERSITY STATEMENT
Based on an annual self-evaluation by our directors of their skills and experience.	Setting out appointment dates, terms of office and expected retirement dates including key roles such as the Board and Committee Chairs.	Setting out current Board Committee membership, composition and any future requirements, together with other key roles held by Non-Executive Directors, such as the Non-Executive Director for Workforce Engagement.	Setting out our Board's commitments to inclusion and diversity.

Throughout 2022 the Committee continued to work to ensure that short, medium and long-term succession planning takes account of future changes on the Board as a result of Non-Executive Director terms of office coming to an end.

The work of the Committee will support the ongoing stability and effectiveness of the Board now and in the future.

Each year the Board Governance and Nominations Committee also reviews the succession and talent pipeline for all our senior roles to understand the skills required to manage the business and assess any risks or potential gaps. This is used to identify any of our current colleagues who may have high potential for future roles on the Board.

Recruiting Non-Executive Directors

The Committee leads the recruitment of any new Non-Executive Directors on behalf of the Board, based on a thorough and inclusive process:

1 SUCCESSION PLANNING	2 ROLE REQUIREMENTS	3 EXTERNAL SEARCH AGENCY	4 SHORTLISTING AND INTERVIEW PROCESS	5 APPOINTMENT
As part of its oversight of Board succession, the Committee plans ahead for future recruitment exercises taking into account expected terms of office	A role description including the key skills and experience required, is agreed taking into account succession plans and the Board Skills Matrix	An external search agency is appointed to support the process from our Preferred Recruitment Supplier List to ensure access to the widest possible pool of diverse candidates	A shortlising and interview process is completed based on objective criteria having due regard for the benefits of diversity on the Board	Once a preferred candidate has been identified, the Board Governance and Nominations Committee will make a recommendation for appointment to the Board*

* subject to regulatory approval where the appointment relates to an approved role under the Senior Managers and Certification Regime

Our Preferred Recruitment Supplier List ensures that there is clarity in terms of the standard of service to be provided by the supplier and the requirements and expectations of the Society. The purpose of the list is to ensure that the Committee has access to a range of search firms to provide the widest possible pool of diverse potential candidates. All the search firms are expected to adhere to the Board's Diversity Statement and ensure it is part of their search process.

Board Governance and Nominations Committee Report (continued)

Recruiting Non-Executive Directors (continued)

Recruitment and succession in 2022

Executive Directors

The Committee is also responsible for supporting the recruitment of any new Executive Director. As reported in the Annual Report and Accounts for 2021, as a result of the changes to the Executive Team the Committee considered the revised responsibilities together with succession planning for the Executive Directors. Following this the Committe recommended to the Board the appointment of David Morris, Chief Commercial Officer, as an Executive Director. David Morris was appointed with effect from 1 January 2022 and as an Executive Director has brought his significant skills and experience in relation to retail banking and the mutual model.

Following the resignation of Mike Regnier as Chief Executive in November 2021, the Committee worked to ensure continuity for the Society using our existing succession plans whilst completing the process to appoint a permanent Chief Executive:

PROCESS FOR SUCCESSION OF CHIEF EXECUTIVE

RESIGNATION OF CHIEF EXECUTIVE	APPOINTMENT OF INTERIM CHIEF EXECUTIVE	COMMENCEMENT OF SEARCH PROCESS	CHANGE OF INTERIM CHIEF EXECUTIVE	RECRUITMENT PROCESS
As reported in the Annual Report and Accounts for 2021, in November 2021, the Chief Executive Mike Regnier tendered his resignation to take on a new challenge	Following a review of succession plans Stephen White, Chief Operating Officer, was appointed as the Interim Chief Executive in November 2021	The Board Governance and Nominations Committe commenced a search for a new Chief Executive Officer	In June 2022 it was announced Stephen White was leaving the Society to take up a new role, and Alasdair Lenman, Chief Finance Officer, was appointed as Interim Chief Executive in June 2022 pending the completion of the process to appoint a permanent Chief Executive	A comprehensive recruitment process was undertaken led by the Board Governance and Nominations Committee supported by Korn Ferry (who have no other connections to the Society)

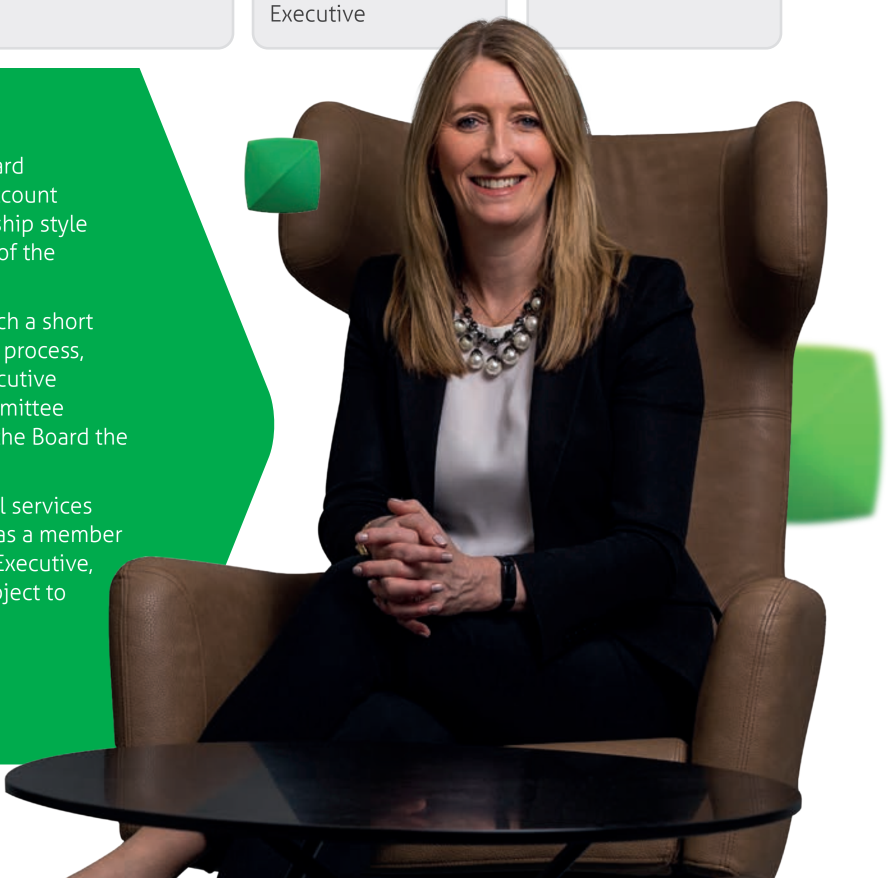
APPOINTMENT OF CHIEF EXECUTIVE

The recruitment process was undertaken led by the Board Governance and Nominations Committee taking into account the prospective Chief Executive's expertise and leadership style together with the strategic direction and requirements of the Society and its Board.

The search produced a long list of candidates from which a short list was agreed. Following an interview and assessment process, together with meetings with all Executive and Non-Executive Directors, the Board Governance and Nominations Committee identified a preferred candidate and recommended to the Board the appointment of Susan Allen OBE.

Susan has more than 25 years of experience in financial services which she will bring to her role as Chief Executive and as a member of our Board. She will take over from our Interim Chief Executive, Alasdair Lenman, early in 2023. Her appointment is subject to regulatory approval.

The Board Governance and Nominations Committee is developing a comprehensive induction plan to support Susan in her new role.



Non-Executive Directors

As part of ongoing succession planning, the Committee has been involved in work to ensure the effective transition of the following key Non- Executive Director roles:

Role	Timeline	Process
Chair of Group Risk Committee	Succession planning 2021 Recruitment 2021 to 2022 Appointment of new Chair of Group Risk Committee – June 2022	In preparation for Neeta Atkar stepping down from the Board in 2022, as reported in the 2021 Annual Report and Accounts, the Committee began a new Non-Executive Director recruitment process in 2021 with a view to identifying a future successor for the Chair of Group Risk Committee. The external search agency Egon Zhender were appointed to support the search. Egon Zhender have provided search services for previous appointment processes. Following a robust process, taking into account the Board's commitment to diversity and future composition requirements, the appointment of Angela Darlington as a Non-Executive Director was agreed from 26 April 2022. Angela has brought to the Board over 30 years experience in financial services, including extensive experience in relation to risk, regulation and climate change. In June 2022 Angela became the Chair of the Group Risk Committee when Neeta Atkar stepped down from the Board following a comprehensive induction and handover process.
Chair of Remuneration Committee	Succession planning 2021 / 2022 Appointment of Chair of Remuneration Committee April 2022 Recruitment process commenced Quarter 3 2022	As reported in the Annual Report and Accounts 2021, Guy Parsons reached the end of his term of office in 2022 and stood down from the Board and as Chair of the Remuneration Committee at the Annual General Meeting in April 2022. Following a review of succession plans, and taking into account the timing of Mr Parsons retirement at a time the Society was transitioning to be a Tier 1 remuneration firm, it was agreed that Alison Hutchinson would be appointed as Chair of the Remuneration Committee. In recommending the approach to the Board, the Committee took into account Mrs Hutchinson's significant experience both with the Society and also as a Remuneration Committee Chair. In Quarter 3 2022 the Committee agreed to commence a recruitment process to identify a permanent successor to the role. Details of the process and outcomes will be included in the Annual Report and Accounts for 2023.
Chair of the Board	Succession planning 2021 / 2022 Recruitment process commenced Quarter 3 2022	The term of office for the current Chair of the Board is due to end in November 2023 based on a nine year term. As such the Board Governance and Nominations Committee agreed that the succession process for the role should commence in Quarter 3/4 2022. To ensure robust governance the Board agreed to establish a Chair of the Board Succession Committee as a Committee of the Board to manage the process on behalf of it and the Board Governance and Nominations Committee. Details of the process and outcomes will be included in the Annual Report and Accounts for 2023.

Board Governance and Nominations Committee Report (continued)

Board diversity

We place great importance on having an inclusive and diverse Board and workforce generally. Our Board has agreed a Diversity Statement to support this ambition, which is reviewed by the Board Governance and Nominations Committee and approved by the Board each year.

The table below provides an update on progress during 2022 against our Diversity Statement ambitions:

Diversity statement ambitions	Progress 2022
Only candidate search and specialist recruitment agencies that have signed up to the Standard Voluntary Code of Conduct for Executive Search Firms will be used for the appointment of Directors, and we prefer to use those signed up to the Enhanced Code.	The Voluntary Code of Conduct was created by executive search firms themselves with the aim of raising the standards of professionalism and conduct in the recruitment of women to the boards of FTSE350 companies (the largest 350 companies listed on the London Stock Exchange). Egon Zehnder was appointed to support the search for a new Non-Executive Director which commenced in 2021. Egon Zehnder are a signatory to the Code. Korn Ferry were appointed to support the search for a new Chief Executive and are a signatory to the Code.
On gender diversity the Board is committed to a target of at least 30% female representation on the Board.	In 2016 our Board agreed our target of achieving 30% of female representation in the medium term, taking into account the Hampton Alexander Review* recommendation of 33%. The percentage of women on the Board as at 31 December 2022 was 44.4% and exceeded the target.
We will continue to work to further increase Board diversity in order to sustain and enrich our effectiveness. We want to embrace the talents of people from all backgrounds including BAED (Black, Asian and Ethnically Diverse), and with differing characteristics, for example those who identify as LGBTQIA+ (Lesbian, Gay, Transgender, Queer (or Questioning), Intersex and Asexual (or Allies, Aromantic, or Agender) +) and those with a Disability, be that physical or hidden.	Our Board seeks to ensure that its composition reflects a wide range of different skills, experience and perspectives. It also believes that all appointments should be based on merit and the skills and experience an individual can bring to our Board as a whole. The Committee regularly reviews the composition of the Board to ensure that it has the balance of skills, experience, independence and knowledge through its diverse composition to remain effective.
The Board also wishes to nurture high-potential and high-performing candidates to ensure progression occurs at all levels of the organisation. The Board is committed to removing barriers to increase the pipeline of diverse talent within YBS, and to increasing diversity overall by regularly reviewing management succession and talent plans.	Our inclusion and diversity ambition is to support an inclusive environment where everyone can contribute to our success. The Board believes investing in this culture is key to making sure it achieves its target. The importance of having a diverse workforce is recognised because it reflects the composition of our membership and the wider community. A review of talent takes place at least annually.

* Hampton Alexander Review was an independent review set up to increase the number of women on the boards of the FTSE350 (the largest 350 public companies on the London Stock Exchange).

The Committee will continue to monitor progress against the Board Diversity Statement and provide an annual update on progress.

Diverse talent pipelines

An important role for the Committee is to oversee the process which ensures a diverse talent pool exists for future vacancies. The Committee ensures that diverse talent is encouraged and in place for our Leadership Team, as part of its work on succession planning.

We have signed the HM Treasury's Women in Finance Charter and are committed to improving gender balance, particularly at senior levels in our organisation.

By way of further information, we had the following percentages of women colleagues at 31 December 2022 (and for comparison 2021):

Executive Committee
The Leadership Team immediately below our Board (as set out in the UK Corporate Governance Code)

33% **31 December 2022** — 20% 31 December 2021

Senior Managers
Our colleagues in roles Grade E or above (in accordance with our commitments under the Women in Finance Charter)

50% **31 December 2022** — 50% 31 December 2021

All Colleagues

63% **31 December 2022** — 62% 31 December 2021

For more details on our colleagues and inclusion and diversity please see the Strategic Report on page 23.

Evaluation of the Board and its Committees

The Board Governance and Nominations Committee agrees and recommends to the Board the process for the annual review of the Board's performance and that of its Committees in accordance with the UK Corporate Governance Code. The Code recommends the evaluation of the Board be externally facilitated every three years.

As an external review was completed in 2020, in 2022 it was agreed that an internal review would be completed based on an internal questionnaire the outcomes of which would be used to inform the Board Effectiveness Action Plan for 2023.

For an update on the outcomes of the Board evaluation process for 2021 and progress in relation to the 2022 evaluation process please see the *Corporate Governance Report*. Details of the individual Board Committee reviews can be found in their individual reports.

Chair of the Board

Our Senior Independent Director, Alison Hutchinson, meets with our Chair twice a year on behalf of our Board to review the Chair's performance including the annual review which took place in January 2023, taking into account feedback from key stakeholders.

The outcomes of the review were discussed at the Board meeting in January 2023 without the Chair present. As Chair he has continued to provide strong and effective leadership to our Board and has been pivotal in managing the changes that have taken place during the last year. Consistently with previous years it was agreed that he was an appreciated and valued Chair by all Board members and the considerable time and care which he invests to help the Society be the best it can be, was recognised.

Non-Executive Directors

Our Chair has twice yearly meetings with each Non-Executive Director to review their performance, discuss any areas for development and review ongoing time commitment.

Executive Directors

Executive Director evaluations are carried out by our Chief Executive, (or the Chair of the Board in the case of the Chief Executive), against agreed objectives on an annual basis.

Evaluation of the Board Governance and Nominations Committee

The outcomes of the review were discussed at the meeting in January 2023 and it was agreed that the Committee remained effective and continued to act in accordance with its terms of reference.

John Heaps
Chair of the Board Governance and Nominations Committee
1 March 2023

AUDIT COMMITTEE REPORT

A word from the Chair of the Audit Committee

I am pleased to present our 2022 Audit Committee Report which sets out the Audit Committee's role and its key activities during the year, including its review of financial reporting matters, oversight of the Group's internal controls, and its internal and external auditors.

During the year we have spent much time considering the impacts of global and national economic trends, labour and housing markets and regulatory developments on our business. We have also continued to be focused on forthcoming legislative, regulatory, business and control environment changes which will likely impact us in the future.

In 2023, the Audit Committee will continue its work to protect the interests of all of the Group's stakeholders.

Guy Bainbridge
Chair of the Audit Committee

Audit Committee membership

The members of the Committee* are:

Only members of the Audit Committee are entitled to attend its meetings, although others may be asked to attend all or part of a meeting. Our Chair of the Board, Chief Executive, Chief Finance Officer, Chief Internal Audit Officer and the external auditor were invited to attend all meetings in 2022, along with other members of our Leadership Team and Senior Managers where the Audit Committee felt it was beneficial.

We had four Audit Committee meetings in 2022. The meetings began with a private session between the invited members of the Leadership Team and the Audit Committee members and generally finished with a private session between the Audit Committee members and our internal and external auditors. These private sessions allow the Audit Committee to discuss confidential matters, which may not be appropriate to discuss in the main Audit Committee itself.

Details on the number of meetings attended by each of the Audit Committee members during 2022 are shown in the *Corporate Governance Report.*

Guy Bainbridge
Committee Chair
Independent
Non-Executive Director

Angela Darlington
Independent
Non-Executive Director

Mark Parsons
Independent
Non-Executive Director

*Neeta Atkar stepped down as a member of the Audit Committeewhen she left the Board on 22 June 2022.

Our Board appoints members to the Audit Committee and takes into account the requirements of the UK Corporate Governance Code (the Code), as far as they apply to building societies, when considering who should be a member. In line with the Code, all members have to be independent Non-Executive Directors, at least one member must have 'recent and relevant financial experience' and the Audit Committee as a whole should have experience in the financial services sector.

You can find out more about the Code, and how it applies to building societies, in the *Corporate Governance Report*.

In 2022, all the members of the Audit Committee were independent Non-Executive Directors, and all have recent and relevant financial experience gained through the qualifications they hold and the roles they have held or currently hold with other organisations. We would like to take the opportunity to thank Neeta Atkar for her commitment and service on the Audit Committee. Neeta joined the Audit Committee in April 2017 and retired from the Board in June 2022. As part of the Board's ongoing succession planning it ensured the Audit Committee maintained the skills and experience required, when Neeta stepped down, with the appointment of Angela Darlington, who joined the Audit Committee in April 2022. Angela's recent and relevant financial services experience will ensure our continuing strong compliance with the Code requirement, bringing significant experience of the financial services sector, with a deep technical expertise in relation to risk as well as the ability to contribute to a wider strategic agenda.

The Audit Committee benefits from a diverse range of expertise in the areas of auditing, finance and risk, with particular emphasis on the financial services sector. Altogether, this ensures that the Audit Committee has the required competence in the financial services sector.

You can find out more about the skills, qualifications and experience of the Audit Committee members in the directors' biographies in the *Our leadership team* section.

The roles and responsibilities of the Audit Committee are explained in its Terms of Reference, which set out the areas on which it provides oversight or guidance to the Board. The Audit Committee reviews its Terms of Reference every year to ensure it continues to meet regulatory requirements and good practice and both the Audit Committee and Board approve the Terms of Reference each year. You can find them on our website ybs.co.uk/your-society/inside-your-society/corporate-governance/committees

Audit Committee Report (continued)

Key financial reporting matters

Providing our stakeholders with complete, accurate and relevant financial information is critical to ensuring that the Society maintains their trust. The Audit Committee is responsible for ensuring that the key accounting policies, estimates and judgements used in our financial statements are appropriate. To help the Audit Committee achieve this, it receives reports from management and our external auditor, PwC.

Significant financial reporting matters considered by the Audit Committee since the last Annual Report and Accounts

Matters considered	Progress 2022
Expected credit losses	The calculation of impairment for a portfolio of mortgage loans is inherently uncertain. Expected credit losses (ECL) are calculated using historical default and loss experience but require judgement to be applied in predicting future economic conditions (e.g. interest rates and house prices) and customer behaviour (e.g. default rates). Understanding the Group's exposure to credit risk and ensuring that the assumptions feeding into our ECL models are appropriate, are key priorities for the Audit Committee. This continued to have additional significance throughout 2022 in light of the heightened uncertainty, and shifting economic outlook, resulting from increasing inflation, interest rates and cost-of-living. The selection of economic assumptions, and the relative weighing of the range of economic scenarios, have a material impact on ECL and the Audit Committee vigorously challenged management to demonstrate that these decisions appropriately reflected the uncertainty in the economic outlook. HPI, being a parameter with the highest impact on ECL and viewed by the Audit Committee as critical, required particular attention. Post model adjustments (PMA) are applied when a change in credit risk is identified that is not effectively captured in the core ECL models. The rapidly changing macro-economic environment over 2022 required management to identify and quantify a number of PMAs to reflect these risks and exposures. Again, as these are material to the ECL balance, the Audit Committee reviewed and challenged the rationale and calculation methodology for each of these PMAs. This challenge was ongoing throughout the period, but particular focus was given to the ECL calculations and disclosures reported in the 30 June 2022 Half-Yearly Financial Report, and those included in this 31 December 2022 Annual Report and Accounts. At half year and thereafter, the main points of discussion with the Audit Committee were around the challenges in modelling future economic stresses given they may look different from those experienced in the last couple of decades for which data is more readily available and used to train our ECL models. In particular, the unprecedented increase in inflation drew the Audit Committee's attention at half year. Further acceleration of inflation and accompanying increase in interest rates gained even more prominence in the second half of the year. The resultant cost-of-living issues focused the Committee's attention to the development of the Group's affordability and inflation PMAs whose merit and methodology were constructively challenged. Furthermore, the benchmarking of economic scenarios parameters and weightings as well as ECL staging and provision coverage ratios against our peers were presented to and reviewed by the Committee. Throughout 2022, the Audit Committee received regular narrative updates from first and second Line of Defence credit risk leads regarding the performance and trends in mortgage portfolios. The numerical representation of these trends was provided by the Finance department and assurance obtained from external auditors. Given the rising prominence of climate risk, the Committee considered both physical and transition risks in relation to the Group's mortgage portfolio and noted the challenges with underlying data and long-term nature of expected impacts of climate risk as part of the ARA review and approval process. Being key to the accurate provisioning, the ECL model performance is constantly monitored and the results of these monitoring are communicated to the Committee. Noting the growing prominence of the Group's BTL portfolio and emerging risks in this segment of lending, the Audit Committee developed an ongoing focus on BTL lending in general and more recent lending cohorts in particular, given they do not benefit so much from recent large HPI uplifts and are more exposed to regulatory and tax changes and renters' cost-of-living squeeze. Increasing levels of risk and uncertainty have been noted in the BTL sector and whilst the Society has not experienced an increase in BTL defaults over the preceding 12 months, it was assumed that this had been due to landlords meeting mortgage obligations by means other than rental and there is a latent risk that defaults are masked behind the lack of arrears. A new affordability PMA focusing on BTL lending has been introduced to reflect this risk.
Acquisition fair value adjustment run-off	The Audit Committee reviewed the run-off profile of the fair value adjustments made on the acquisition of the Chelsea, Norwich & Peterborough and Egg portfolios and approved changes where the actual run-off experience is either quicker or slower than that anticipated on initial recognition. The Audit Committee is comfortable that the carrying amounts reflect the remaining expected life of the acquired loans and savings balances.
Hedge accounting	The Audit Committee continued to review the methodology and key assumptions applied to the hedge accounting models over the period, including consideration of new hedge strategies. This allows the Audit Committee to be confident that the amounts set out in the Income Statement are fairly stated and that appropriate disclosures have been made. The Committee discussed expanding disclosures around fair value volatility in the year given the magnitude of the volatility experienced due to rate volatility in the wider economic environment. The Committee requested analysis of the key drivers of the volatility in the year given the magnitude compared to recent years, this was shared with the Committee in January 2023. The most significant source of fair value gains and losses in the income statement continue to relate to hedging of the mortgage pipeline for which the interest rate swaps cannot be placed into a hedge accounting relationship for a short amount of time after they have been transacted, partially offset by the swaps that hedge fixed rate savings. The adequacy of disclosures of fair value and hedge ineffectiveness was also considered by the Committee as part of the ARA review and approval process.

Matters considered	Progress 2022
Effective interest rate (EIR)	The Audit Committee considered the results of management's detailed reviews of the methods and assumptions used in the calculation of interest income under the Effective Interest Rate (EIR) methodology, as required under IFRS, and concluded that the amounts recognised were fairly stated.
Pensions	The Group operates one employee benefit scheme (the Scheme) with both defined benefit and defined contribution sections. The defined benefit scheme is accounted for by the Group under IAS 19, with the key assumptions presented to, and approved by, the Audit Committee. During the period the Audit Committee reviewed the assumptions proposed by management and the scheme administrators (Willis Towers Watson), with challenge on how the pension surplus will be impacted given the volatility in the market this year and reviewed how they benchmark against the rest of the industry.
Tax	Papers setting out the judgements applied in the recognition of deferred tax balances and the level of transfer pricing adjustments applied between Group entities were presented to the Audit Committee over the period. The Audit Committee is satisfied that the recognised amounts of deferred tax are reasonable given the substantive enactment of scheduled changes in UK corporation tax rates and the transfer pricing assumptions are reasonable.
Provisions	The Audit Committee reviewed and considered the provisions and disclosures for liabilities and charges, being those relating to restructuring, customer redress and property related costs, and agreed with the overall amount held. More information on these provisions can be found in note 24 to the financial statements.
Viability and going concern	The Audit Committee reviewed papers prepared by management and recommended to the Board that the financial statements should be prepared on a going concern basis. The Audit Committee confirmed that, whilst there is no guarantee, there is a reasonable expectation that the Society will be able to continue to be viable, i.e. operate and meet its liabilities as they become due, to 31 December 2025. Having reviewed papers prepared by management throughout the year, the Audit committee was also satisfied that the Going Concern and Viability statements are appropriate. More information can be found in our Directors' Report.
Disclosures	The Audit Committee reviewed papers prepared by management and agreed that the disclosures included within this Annual Report and Accounts met all statutory requirements under *the Building Societies Act 1986*, the disclosure and transparency rules of the FCA and applicable international financial reporting standards. The Audit Committee confirmed that disclosures in the Half-Yearly Financial Report met the requirements of the disclosure and transparency rules of the FCA and international financial reporting standards. The Audit Committee also reviewed the Group's regulatory Pillar 3 quarterly disclosures included in full on the Society's website. The Committee approved the quarter two and quarter three Pillar 3 disclosures for publication.

To enable the Board to approve the Letter of Representation to the external auditor at both year end and half year, the Audit Committee reviewed the specific representations and the basis on which members of the Leadership team have evidenced them.

Oversight of the external auditor and external audit process

The Audit Committee oversees the audit process and the relationship with our external auditor. The Audit Committee begins each annual audit cycle by reviewing and approving the proposed audit plan presented by our external auditor, PwC. This process includes a discussion between the Audit Committee and our external auditor around key risk areas to ensure that there is agreement on the focus of the external auditor's work and their assessment of materiality for the financial statements. The Committee's discussion of the external auditor's risk assessment was informed this year by the latter's enhanced procedures under ISA (UK) 315 (Revised).
For further information about materiality and how it is calculated, please refer to the Independent Auditors' Report.

The Audit Committee has assessed PwC's risk assessments, planned work, resources and audit fees throughout the year and monitored the progress of PwC's audit work through discussions with PwC and management. The external auditor provides regular updates to the Audit Committee on their work on the Half-Yearly Financial Report and the Annual Report and Accounts before the Audit Committee approves them.

Throughout the year the Audit Committee assesses the effectiveness of the external audit process, an assessment which is based on guidance from the Financial Reporting Council (FRC). The Audit Committee's assessment includes a survey sent following completion of the audit to members of the Audit Committee and senior managers in the Society's Finance Division. This helps the Audit Committee review the quality of the external audit team and process. The Audit Committee concluded that the overall external audit process in 2021 was effective, and believe it remains so through the 2022 audit.

External auditor independence

The Audit Committee monitors and annually assesses the external auditor's independence and objectivity, taking into account relevant laws, professional and regulatory requirements and the relationship with the external auditor as a whole. To fulfil the responsibilities set out in its Terms of Reference, the Audit Committee considers, as described below, the external auditor's non-audit work, the fees paid in respect of such non-audit work, the employment of former employees of the external auditor, and the external auditor's tenure.

Audit Committee Report (continued)

Oversight of the external auditor and external audit process (continued)

External auditor independence (continued)

The Group has a policy on the use of the external auditor for non-audit work, and the application of this policy is overseen by the Audit Committee. The policy is designed to ensure the external auditor's continued independence and objectivity.

Fees for individual assignments that exceed a set threshold are reviewed by the Audit Committee. Fees for those assignments under the threshold are approved by the Chief Finance Officer under delegated authority. All non-audit services are approved in advance of the work commencing. Our external auditor's fee is reviewed regularly. The Audit Committee is satisfied that the Group has operated in line with the policy during 2022.

The total amount of fees paid to our external auditor for both audit and non-audit work is disclosed in note 6 to the financial statements.

The Group also has a policy on the employment of employees of the Group's external auditor, and the Audit Committee monitors the implementation of this policy. In summary this restricts the Society from offering employment to named individuals from the external audit firm for key management positions within a two-year period from working on the Group statutory audit and ensures any such offers of employment are vetted by the Audit Committee to ensure on-going independence of the external auditor. The Audit Committee also reviewed the independence position of the Committee members and relevant senior members of the Finance Division, and it remains satisfied there are no conflicts or independence issues.

The Audit Committee takes into account the performance of the external auditor when considering their reappointment as well as their length of tenure and the date of rotation of the audit partner. PwC were appointed as external auditor following a competitive tender process in 2018 and their appointment was approved by members at the 2019 AGM. The Audit Committee was satisfied with the performance of PwC during 2021 and they were therefore reappointed at the 2022 AGM. The Audit Committee remained satisfied with the performance of PwC over 2022 and has recommended to the Board that they be approved for reappointment as external auditor at the 2023 AGM.

Review of internal controls

Our Board recognises that to manage risks effectively we need good internal controls. These help us to achieve our purpose of providing *Real Help with Real Life* by protecting our customers' and other stakeholders' interests and looking after our Group's assets. They also enable us to become more efficient and effective at what we do, produce reliable information and reports, and comply with laws and regulations.

The risks that we face change over time, so the Audit Committee regularly reviews how our Group's internal controls are working and whether our Group needs to strengthen what it does to manage the nature and extent of those risks, including the risk of fraud (what we call our internal control framework). Our Board develops our policies on risk and control, but all of our Society's colleagues have a responsibility to carry out those policies as part of helping our organisation achieve its objectives. So that they can do that, our Leadership Team provides training and coaching, and then monitors how colleagues are managing risks.

To support the Audit Committee's review of internal controls our Internal Audit function provides reports to every meeting and our external auditors also provide their own independent opinions to us. The Audit Committee also receives reports on significant control weaknesses from the Leadership Team. The Audit Committee works closely with the Group Risk Committee to make sure that the risk management framework is operating effectively across our business.

You can find further details of risk management practices in the *Risk Management Report*.

The main types of information the Audit Committee considered during 2022 were:

- **Internal Audit reports:** The Audit Committee reviewed and approved the Internal Audit plan for the year, the proposed revisions to the plan, and the resources needed to support it. In doing this the Audit Committee considered the ongoing appropriateness of Internal Audit's coverage of the Group's risks, processes, systems and controls and the balance of assurance between the Group's transformation programme and other business activities. The Audit Committee also considered reports on the plan's progress, including Internal Audit's findings, their root causes and the Leadership Team's responses. Where Internal Audit reports are rated as 'Unsatisfactory' the accountable members of the Leadership Team are asked to attend the Audit Committee and explain why the identified control weaknesses have arisen and what actions are being taken to address them. The Audit Committee also considered reports from the Leadership Team, the Risk Division and Internal Audit assessing the effectiveness of internal controls, including focus on those areas not yet at target levels of maturity.
- **External auditor reports:** The Audit Committee reviewed reports from our external auditors, PwC, about recommendations in relation to internal controls for key financial reporting processes and systems. No significant weaknesses were noted but points raised were prioritised by management according to impact and areas for improvement are being addressed to. The Audit Committee considered regular updates on the status of control issues identified by both Internal Audit and PwC, and the volume and age profile of those issues remained within tolerable limits. Because our total assets now exceed £50bn, our external auditor was for the first time requested to provide the PRA with a Written Auditor Report on selected aspects of their 2021 audit and this, too, was considered by the Audit Committee, together with non-firm specific feedback from the PRA.
- **The Audit Committee** considered whether any recommendation should be made to the Remuneration Committee to adjust the variable remuneration of the Leadership Team, in respect of internal control weaknesses.

Taken together, the information the Audit Committee reviewed provided assurance that, in 2022, the Group maintained an adequate internal control framework and there were no significant breaches of control or regulatory standards. This supports our aim of complying with the principles and provisions of the Code where they apply to building societies. The Leadership Team proactively took action to tackle control weaknesses where it was reasonable to do so, thereby improving the maturity of the internal control environment, so that our Group remains financially and operationally resilient.

Oversight of the Internal Audit function

Our Internal Audit function is governed by a charter, which the Audit Committee reviews and approves annually. The Audit Committee reapproved the charter in September 2022 and you can find a copy of it on our website ybs.co.uk/your-society/inside-your-society/corporate-governance/committees

Our Chief Internal Audit Officer reports directly to the Chair of the Audit Committee and Internal Audit has full and unrestricted access to all of our Group's functions, systems, records and colleagues. The Chair of the Audit Committee meets regularly with the Chief Internal Audit Officer to review the performance of the Internal Audit function and discuss any matters emerging from Internal Audit activities. The Chair of the Audit Committee also provides input to the appraisal of the Chief Internal Audit Officer's performance.

In addition to receiving reports on the outcomes of Internal Audit activities, as described above, the Audit Committee receives regular reports on the performance of Internal Audit against an agreed set of measures. Internal Audit also reports to the Audit Committee annually on the strategy for the function, the skills and resources it has, and what it needs to effectively discharge its role. The Audit Committee reviews and approves any proposed changes to the strategy and resources. During 2022 this has included consideration of the resources the Internal Audit function may need over the next five years, and the progress made in developing the function's data analysis capability. The Audit Committee is satisfied that Internal Audit has the appropriate resources, using external third-party support where necessary, to fulfil its responsibilities.

Internal Audit continues to operate its own quality assurance and improvement programme. In 2022, this programme included a self-assessment of the function against relevant professional standards and codes. The Audit Committee considered the results of this programme and the actions taken by the Chief Internal Audit Officer to enhance the function's approach, effectiveness, quality, skills and experience.

The Audit Committee will continue to oversee Internal Audit's development, including the monitoring of action plans resulting from external and internal assessments, to make sure the function remains equipped for the role it plays in helping our Society achieve its purpose.

Audit Committee effectiveness

The effectiveness of the Audit Committee is assessed annually, and the 2022 evaluations were incorporated into the Board's internal evaluation process. A self-assessment exercise was performed, co-ordinated by Group Secretariat, and a summary of the results was reported to the Committee and discussed in January 2023. The Board discussed the overall findings of the review of all the Board Committees in January 2023 and there were no common themes or issues arising across the Committees which would require further action. The 2022 review therefore concluded that the Audit Committee operated effectively during the year and that there were no significant areas for improvement.

Details on the wider Board and Committee evaluation process for 2022 can be found in the *Board Governance and Nominations Committee Report*.

The Audit Committee undertakes a detailed review annually of its Terms of Reference to ensure it meets all its responsibilities and confirmed that in 2022 it had met all of its responsibilities.

Audit Committee members also take part in training and receive briefings on areas that concern not only their roles on the Committee, but also their roles on the Board. In 2022 the Audit Committee set aside additional time to be briefed on the developments and anticipated outcomes of the Department for Business Energy and Industrial Strategy's (BEIS) consultation in relation to Restoring Trust in Audit and Governance. The Society and the Audit Committee will be considering the BEIS developments in more detail in 2023 to ensure that any requirements or relevant areas of good practice identified will be implemented by the Society as appropriate. Preparatory work continues to ensure the Society is prepared on a number of topics.

Our Chair of the Board oversees the training and development of the full Board and you can find more information on this in the *Composition, succession and evaluation* section of the *Corporate Governance Report*.

Guy Bainbridge
Chair of the Audit Committee
1 March 2023

RISK MANAGEMENT REPORT

A word from the Chair of the Group Risk Committee

As the Chair of the YBS Board's Group Risk Committee (GRC), I am pleased to present our Risk Management Report for 2022 which describes our approach to the management of risk through our Enterprise Risk Management Framework (ERMF). It also sets out the principal risks to which we are exposed, including how those risks are mitigated, along with emerging risks and highlights of progress that has been made during 2022.

We have also finalised our approach to climate risk management within the context of our ERMF and a summary of this approach is provided within this report.

The GRC oversees the Group's risk management framework and assists the Board by providing an enterprise-wide perspective on all risk matters. It usually meets four times a year but will meet more frequently when the need arises. As the Chair of the GRC, I provide regular updates to the Board on matters considered by the Committee.

Our attention in 2022 has been drawn to the risks resulting from the inflationary macro-economic environment, the cost-of-living challenges, and residual economic and operational impacts from the COVID-19 pandemic and Brexit. As a result, the GRC has continued to press for increasing levels of insight into our credit risks, our financial resilience, our operational resilience and our protections for customers.

As Chair of the GRC, I am satisfied that the Group:

- has a clear risk appetite to ensure that it has contained the impact of those risks that it has chosen to take;
- has appropriate controls in place to identify the risk of deviation from that risk appetite or to identify unplanned risks that the Group encounters; and
- appropriately balances the risks it takes between being purposeful for our current and future customers, whilst simultaneously protecting the resilience and sustainability of the Group.

My GRC colleagues and I will continue to press for a purposeful, prudent, customer-focused and capability led approach to risk management so that I can continue to report my overall satisfaction with our risk positions including when considered against the range of potential outcomes for them.

Angela Darlington
Chair of the Group Risk Committee

Group Risk Committee Membership

The members of the GRC* are:

Angela Darlington
GRC Chair Independent Non-Executive Director

Guy Bainbridge
Independent Non-Executive Director

Alison Hutchinson
Vice Chair and Senior Independent Non-Executive Director

Mark Parsons
Independent Non-Executive Director

It is also attended by the Chair of the Board, John Heaps, and members of the Executive Team including the Chief Executive Officer, the Chief Finance Officer, the Chief Operating Officer, the Chief Internal Audit Officer, the Chief Commercial Officer and the Chief Risk Officer.

The GRC also invites certain members of the Leadership Team when it is felt that this would help it discharge its duties.

The GRC's Terms of Reference are available from the Corporate Governance section of our website at ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.

The GRC Chair ensures the Committee effectively oversees and advises on how risks, including emerging risks, are being managed across the Group in line with our agreed appetite for those risks.

* Neeta Atkar stepped down as the Chair and as a member of the GRC when she left the Board on 22 June 2022.

Matters considered during 2022

The GRC met four times in 2022 and considered all of the matters relating to its responsibilities as summarised in its terms of reference. A wide range of topics were considered throughout the year:

- Overseeing the Group's response to the political, economic and market volatility of 2022. This included reviewing an assessment of the effect on the UK mortgage and savings markets; the Group's customers, members and brokers; and the Group's competitors. It also included reviewing an assessment of the strength of the Group's controls over credit, treasury, model and prudential risks.
- Reviewing and approving the stress scenarios to be used in the 2022 Individual Liquidity Adequacy Assessment Process (ILAAP). The scenarios define the stress situation that informs the level of liquidity that may be needed in the event of that stress event occurring. This allows the Group to be able to withstand a recoverable shock but also support the Group's sustainability in a business-as-usual environment.
- Reviewing and recommending approval by the Board of the 2022 Internal Capital Adequacy Assessment Process (ICAAP). The assessment determines the Group's view of the level of capital it should hold under the Basel framework to protect against the risks it faces.
- Reviewing and approving the risk appetite exposure limits for 2023. Risk appetite defines how much risk the Group is prepared to take in pursuit of value across all its risk categories.
- Reviewing a new product proposition using the new 'risk-based pricing' capabilities implemented by the transformation programme.
- Reviewing and approving the 'resolution packs' to comply with the PRA's Supervisory Statement SS9/13. The resolution packs contain the necessary information for the supervisory authorities to prepare for an orderly resolution of the Group in the event it is required.
- Reviewing the annual report of the Group's Money Laundering Reporting Officer (MLRO), which covered his assessment of the operation and effectiveness of the Group's controls for anti-money laundering and counter-terrorist financing.
- Reviewing the progress of the Group's work to improve its operational resilience, including reviewing the appropriateness of the impact tolerances set for the Group's important business services.
- Approving the scenarios for use in the Group's reverse stress testing. Reverse stress testing requires firms to assess potential circumstances that would render their business model unviable, thereby identifying vulnerabilities.
- Receiving regular updates on key activities strengthening the Group's risk management capabilities:
  - ▷ Reviewing the quarterly Chief Risk Officer's report on the Group's principal risks.
  - ▷ Improving the financial crime control framework in response to the MLRO's annual report.
  - ▷ Making the necessary organisational and technical changes to comply with the PRA's rules on operational resilience.
  - ▷ Complying with the Bank of England's new 'resolvability assessment framework'.
  - ▷ Monitoring the performance of the Group's modelling.
  - ▷ Delivering the 2LoD's annual oversight plan.

Over and above that, the GRC felt that some areas of risk merited additional focus and requested in depth reviews, examples being:

- **Portfolio arrears:** reviewing an analysis of the profile and arrears levels of current mortgages originated in the past 15 years. The paper included an assessment of the controls in place to monitor and manage arrears levels.

Risk Management Report (continued)

Matters considered during 2022 (continued)

- **Management of third parties:** reviewing the progress made in response to the supervisory authorities' new rules on outsourcing and using third parties to deliver business critical services. The work has included strengthening the control framework over third parties; ensuring audit rights are incorporated in contracts with third parties; assessing the risks of fourth parties being involved; and considering exit strategies and plans.
- **Accord Mortgages Limited:** reviewing the governance and risk management capabilities of the Group's intermediary-only subsidiary. The paper included Accord-specific risks; how the Group's enterprise-level controls, including policies, are implemented for Accord; and how responsibilities arising from the Bank of England's senior managers regime apply to Accord.
- **Credit risk:** reviewing an analysis of how the cost-of-living challenges have affected and is expected to affect the Group's customers. The paper included an assessment of the controls in place to monitor and manage changes in credit risk arising from the challenges, and an overview of the support arrangements in place for customers who may experience financial difficulty.
- **Information management in regulatory reporting:** reviewing an analysis of how the Group ensures its reporting to regulators is accurate and timely. The paper highlighted the approach that all regulatory returns must follow, but identified what the Group still needs to mature to meet likely future increased regulatory expectations.
- **Talent attraction and retention:** reviewing an analysis of how the Group is attracting and retaining employees in the current recruitment market. Like many organisations, the Group has experienced resourcing challenges across its business, and the paper identified actions that could help mitigate these.

Committee evaluations

The GRC completes an annual evaluation of its performance in accordance with good practice and its terms of reference. The purpose of the evaluation is to ensure the committee remains effective and acts within its terms of reference.

Members of the committee and regular attendees completed a questionnaire in November 2022. The results of the questionnaire were analysed and reported to January 2023's GRC meeting. The evaluation concluded the committee is effective and acts within its terms reference, although one opportunity for improvement was identified and for which actions are ongoing.

Future developments

Good progress has been made in 2022 with the continued embedding of our risk management framework across the business, evidenced by our ability to adapt and respond to rapid change in our operating environment. We have developed our approach to managing climate risk, continued to embed accountability for risk management into the first Line of Defence and provided an appropriate risk-based level of second-line oversight of key risk management activities including those relating to the Group's transformation agenda. We also continue to develop the maturity of our operational risk control environment, with plans and supporting investment in place across the information management and information security risk categories along with targeted improvements and investment in our financial crime risk management capabilities. This wider programme of investment and strengthening of our ability to manage risk will continue into 2023.

Further areas of focus for 2023 will also include how our risk management teams will continue to support, with appropriate challenge, the delivery of our Strategic Blueprint. This in turn will cover the continued embedding of current risk management initiatives, and ensure the safe delivery of the strategic transformation programme, with customer experience and outcomes prioritised as part of all risk management interventions.

Our Enterprise Risk Management Framework ('ERMF')

We recognise that for the business to grow and achieve its commercial aspirations, effective risk management is essential. Our ERMF enables robust, yet efficient risk management, which has an important and integral role in:

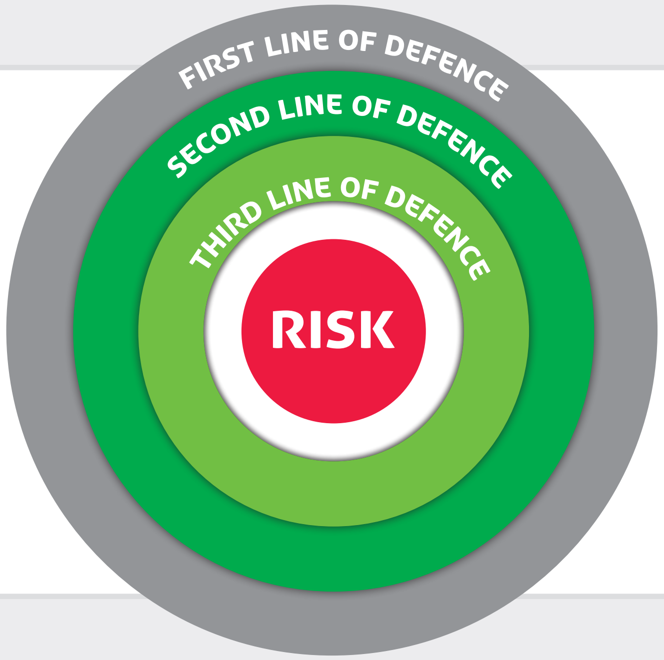
- Delivering our Strategic Blueprint within an appropriate culture
- Protecting against unplanned financial outcomes
- Being resilient to operational risks
- Protecting customers from unfair outcomes
- Demonstrating credibility to external stakeholders

The ERMF explains how a variety of processes fit together to create a consistent and effective way of managing risk across the Group. The key elements of risk management encompass the activities relating to the identification, assessment, control, monitoring and reporting of risk. The GRC reviews and approves this annually and it consists of:

- **Strategic risk management priorities** – the Society's priorities for risk management and how it is aligned to the Society's strategy
- **Society culture** – the values and behaviours that shape our risk decisions
- **Risk appetite** – how much risk we can take in order to deliver the Group's strategy while ensuring we provide fair customer outcomes and continue to operate as a safe and secure business
- **Policy and governance** – how we organise ourselves, make decisions and take approved risks
- **Risk assessment and control** – how we identify, assess and understand our risks and limit undesirable outcomes
- **Risk events** – how we respond when things go wrong and stop the same things happening again
- **Monitoring and assurance** – how we check that controls are working and highlight when risks require attention

We operate a three lines of defence approach toward risk management, which seeks to differentiate between those:

- With direct responsibility for the management and control of risk.
- With responsibility for defining the ERMF, communicating requirements and independently monitoring adherence through oversight activity, on behalf of the Board
- Providing an independent and objective opinion to the Board on the adequacy and functioning of the system of internal control



A summary of these respective responsibilities is set out below:

First Line of Defence

The first Line of Defence consists of all colleagues, who are responsible for ensuring that risk is effectively managed. Many colleagues also have additional responsibilities to:

- Act as owners of the risks relevant to their business function.
- Identify and articulate the risks they are responsible for, from the Group Risk and Control Library, and put them into a risk register.
- Assess risks and controls and determine if further actions are required.
- Design and operate applicable key controls and develop and operate supplementary controls as necessary.
- Direct policy, which sets out what colleagues can and cannot do.

Second Line of Defence

The second line is fulfilled by our Risk Division which defines our approach toward risk management and supports, coaches, facilitates, independently monitors, challenges, assesses compliance, reports and if necessary gives direct instruction to the first line.

This independent second line risk management function is responsible for ensuring that appropriate risk management and measurement techniques are used that are commensurate with the Group's strategic aims, its appetite for risk and the risks it faces at any time. The Risk Division ensures that the GRC receives a comprehensive programme of decision papers and reviews to ensure that it is fully sighted on such matters.

The Chief Risk Officer provides a formal update to the Board and to the GRC, via the Executive Risk Committee (ERC) on a quarterly basis, covering all areas of risk management. This includes routine reporting, emerging risks, the results of the Risk Division's independent oversight and additional issues that merit escalation. The Risk Division is responsible for managing our regulatory relationships and for providing independent briefings and insights to the Board.

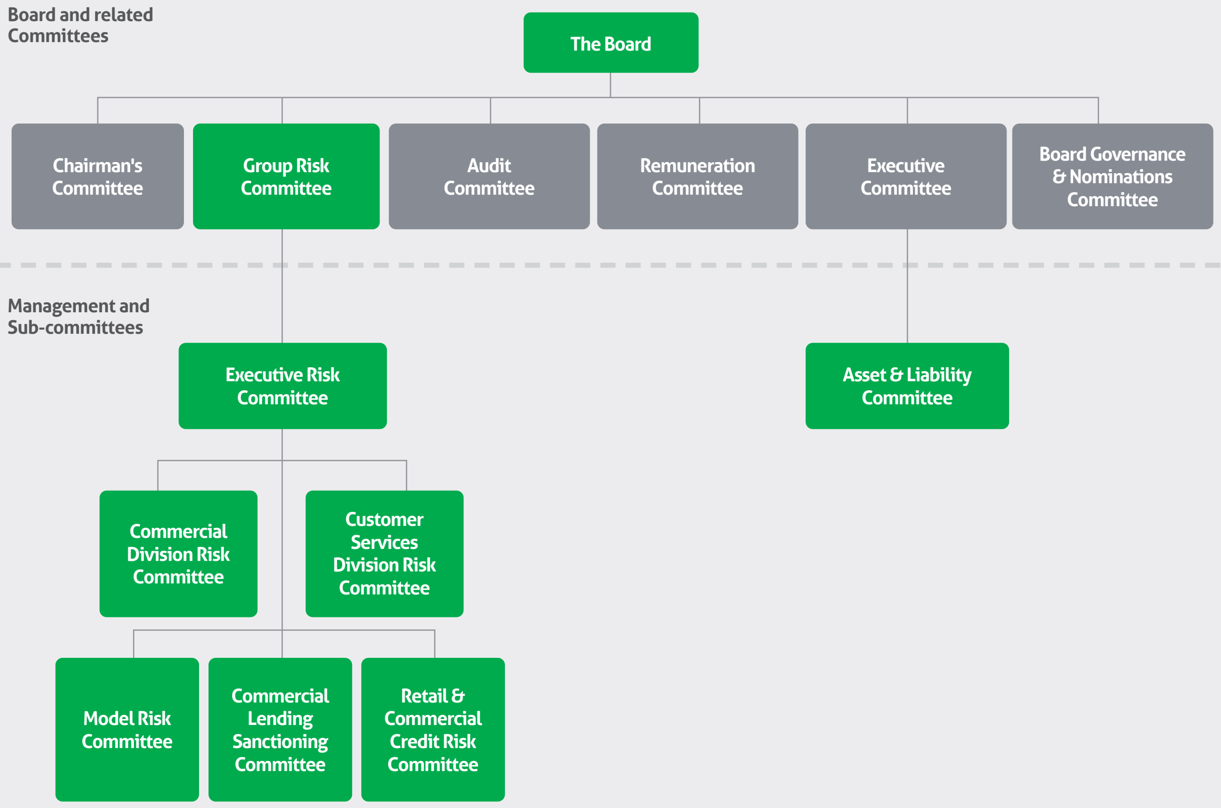
Third Line of Defence

The third line is fulfilled through the Internal Audit function. It independently assesses whether risks are adequately controlled, challenging the Executive Team to improve the effectiveness of governance, risk management and internal controls. Internal Audit reports directly to the Audit Committee which is a Board committee.

Risk Management Report (continued)

Governance

The Group's Board and senior management committee structure is illustrated below, with the committees most directly involved with risk management governance highlighted:



The Board is ultimately responsible for the effective management of risk. The approval of risk appetite and certain risk management policies are amongst a number of specific areas which are matters reserved for the Board.

The GRC is a Board Committee that oversees, on behalf of the Board, the key risks inherent in the business and the system of internal control necessary to manage such risks, presenting its findings to the Board.

The ERC looks to ensure that the Group's balance between seeking opportunity and managing risk is appropriate. It is responsible for the monitoring of day-to-day risk management activity including, but not limited to, reviewing the effectiveness of the Group's risk management framework and system of internal controls. It has authority to direct the business in relation to mitigating actions and to approve or endorse risk acceptance within defined levels.

Below the Board and senior management committee structure is a set of Divisional Risk Committees. These committees monitor risk management activity across the divisions, acting as a point of escalation for matters of Group level significance. These committees also have authority to direct mitigating actions and to approve or endorse risk acceptance for risks within the Division, in accordance with defined levels.

Principal risks and how we mitigate them

Our principal risks and our risk profile evolve as we move through the economic cycle. The Board has an on-going process for identifying, evaluating and managing the principal risks faced by the Group. These systems have been in place for the whole of 2022 and are regularly reviewed by the Board.

These risks are set out below, along with how we manage and measure the risk, and the progress that has been achieved in 2022:

Strategic risk

The risk that the Group's business model or strategy does not create the appropriate value due to changes in the business environment (Political, Economic, Social and Technological); or, from the effectiveness of decisions and actions relating to the Group's response to those changes.

Risk mitigation	Key risk indicators	Commentary
■ The Group mitigates risks relating to the business environment and its strategic choices through its horizon scanning, corporate planning, scenario analysis and stress testing and ongoing monitoring reporting activity. ■ The Group's hedging strategy is structured in such a way as to mitigate the risks relating to the Group's focused range of products in a highly competitive marketplace. ■ A formal governance process, with Board level oversight, is in place for the Group's transformation programme which monitors progress and potential risks. ■ The Group has defined its broader attitude to risk in relation to its Purpose, business model and strategy and detailed risk appetite statements, metrics and limits are in place for all other principal risks.	■ The Group monitors a wide range of external financial and non-financial indicators relating to actual and potential changes in the environment in which it operates.	■ An inflationary macro-economic environment, geo-political instability, the consequent cost-of-living challenges, and residual economic and operational impacts from the COVID-19 pandemic and Brexit, continue to be a significant source of uncertainty for the UK economy. Potential macro-economic outcomes, including those relating to current inflationary pressures and the likelihood of further base rate rises, continue to be explored through the Group's stress testing linked to its corporate planning processes. The Group remains well-capitalised, with good levels of liquidity and access to wholesale funding. A strong balance sheet and capital generation will ensure that the Group is well placed to withstand any potential economic downturn. ■ The Group's transformation is progressing well and continues to deliver both customer and colleague benefits in this challenging business environment. The programme is designed to ensure that the Group maintains its competitive position in response to changing customer behaviour and expectations.

Risk Management Report (continued)

Principal risks and how we mitigate them (continued)

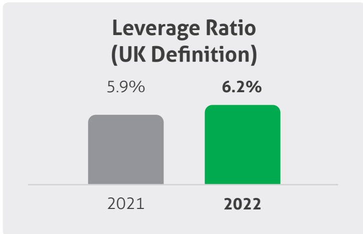
Capital risk

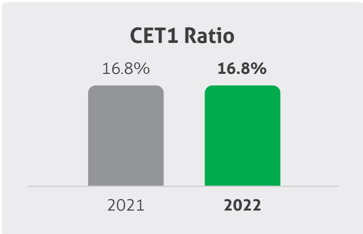
The risk that the Group is not able to meet regulatory capital requirements or deliver on its strategic plans due to insufficient capital resources.

Risk mitigation

- Capital risk is constrained by a Board-approved risk appetite, which is further governed through the Funding, Liquidity and Capital Risk Policy.
- Current and projected capital positions are regularly monitored and also considered in stress scenarios as part of the ICAAP.
- The Group operates a range of internal stress tests to ensure that sufficient capital is available at all times to allow the Group to maintain its minimum capital requirements even in a stress scenario.
- Specific details on capital management can be seen in the Group's Pillar 3 disclosures (available on the Group's website).

Key risk indicators





Commentary

- The Group maintained strong capital levels throughout 2022, well above regulatory requirements and internal risk appetite, and forecasts that this position will be maintained across its planning horizon.
- The leverage ratio presented is the UK leverage ratio as determined by the PRA.
- The Society submitted an application to use the IRB approach to calculate capital requirements for credit risk. Whilst the Society predicts that capital ratios (notably the CET1 ratio) will improve following IRB accreditation, the PRA are consulting on their implementation of Basel 3.1 standards (CP16/22) which will change our IRB application. As this is an open consultation, the Society cannot quantify the impacts of future requirements at this time.
- The Group is subject to end state MREL requirements (double pillar 1 and 2A) and comfortably met these requirements throughout 2022.

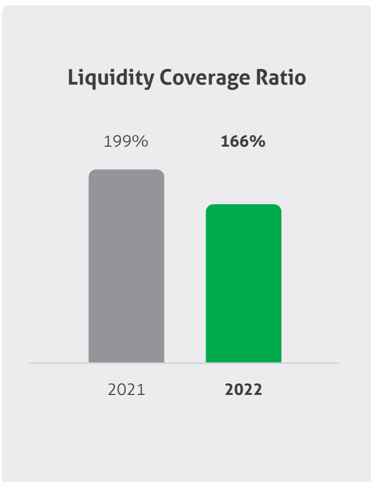
Funding and liquidity risk

The risk of having inadequate cash flow to meet current or future requirements and expectations.

Risk mitigation

- Funding and liquidity risk is constrained by a Board-approved risk appetite, which is further governed through the Funding, Liquidity and Capital Risk Policy.
- The key assumptions, risks and controls around the management of liquidity risk are outlined in the ILAAP document which is approved annually by the Board.
- We operate a range of internal stress tests to ensure that sufficient liquidity is available at all times to address stress and business as usual requirements.
- The Group also manages to the external regulatory measure, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).
- We are primarily funded through retail savings balances, supported by a strong franchise in key wholesale funding markets.

Key risk indicators



Commentary

- Liquidity levels remained strong and materially above regulatory requirements throughout 2022.
- Liquidity levels are forecast to remain above regulatory and internally derived minimum requirements across 2023.

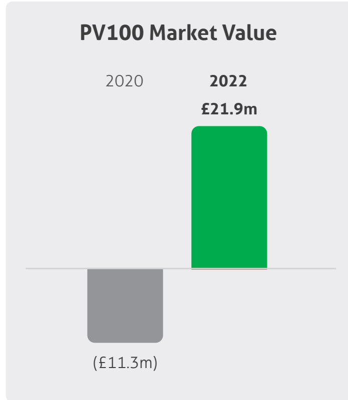
Market risk

The risk to the Group's earnings or the value of its assets and liabilities due to changes in external market rates.

Risk mitigation

- Market risk is constrained by a Board-approved risk appetite, which is further governed through the Market Risk Policy.
- The Group adopts a risk-averse approach to interest rate mismatch although some scope for position taking is allowed, subject to the agreed risk appetite.
- The Group operates a wide range of measures and scenarios that review this risk in respect of both earnings and value.
- The Group operates a range of internal stress tests to ensure that market risk is within an acceptable range over a series of rate scenarios including negative rates and non-parallel shifts.
- The Group's limits for basis risk include limits for sensitivities around isolated movements in underlying rates (SONIA), for overall mismatch ratios and for ensuring the Group has sufficient levels of margin management capability.

Key risk indicators



Commentary

- The PV100 (market value change on the Society balance sheet arising from a parallel 100bps increase in interest rates) now results in a gain. This positions the Society favourably for a rise in rates, but unfavourably should rates fall. This is due primarily to the pre-hedging of mortgage applications within the retail position.
- The 12-month earnings sensitivity has increased (impact on 1 year net interest income of a 2.5% parallel increase/decrease in rates, floored at 0%). The largest negative sensitivity, as at December 2021, was a £36.2m cost arising from the parallel up shock. As at December 2022, the largest exposure is still arising from the up shock, generating a loss of £61.1m. This is driven by a net increase in liabilities repricing within the 12-month impact window; this loss is offset somewhat by the benefit arising from caps executed as a hedge against the TRIB portfolio. However, these caps are now in the process of rolling off.
- With respect to LIBOR reform risk, the Society's LIBOR position has fully transferred to other rate drivers.

Model risk

The risk that the Society's models that are used to manage the business are inaccurate, perform inadequately or are incorrectly used.

Risk mitigation

- Model risk is managed within the framework set out in the Society's Model Risk Policy.
- Compliance with the policy is monitored through the Model Risk Committee (MRC) which is the designated committee for the oversight of model risk.
- The MRC is chaired by the Chief Risk Officer and is a sub-committee of the ERC.

Key risk indicators

- Number of models in governance by the Model Risk Framework.
- Individual model ratings which reflect model performance and regulatory policy compliance.

Commentary

- The Society maintains an inventory of all models which is used to manage compliance with the Model Risk Policy.
- An MRC agreed plan to bring all 'back-book' models under full governance successfully completed on time in May 2022. The Society has a framework in place to identify, manage and monitor any instances of new models which may need to transition into governance.
- Work to assess the Society's Model Risk Management Maturity Framework against the final regulatory Model Risk Management Principles is planned to be conducted in H1 2023. The assessment will seek to identify any gaps against the requirements and set out plans to be compliant within the set timeframe.

Risk Management Report (continued)

Principal risks and how we mitigate them (continued)

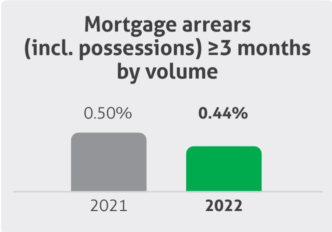
Retail and commercial credit risk

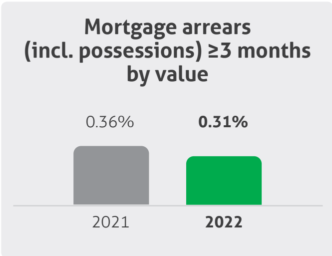
The risk of credit losses as a result of failure to design, implement and monitor an appropriate credit risk appetite.

Risk mitigation

- Retail and commercial credit risk is constrained by a risk appetite, which is approved by the Board and further governed through the Retail and Commercial Lending Policy.
- A robust credit risk framework ensures that lending remains within risk appetite limits and appropriate remedial action is taken if a breach occurs. Adherence is monitored regularly through governance committees.
- Stress testing confirms portfolio resilience.
- A model governance framework ensures that credit risk models are operating as intended.

Key risk indicators





Commentary

- The Group continues to exhibit a low level of mortgages in arrears. The UK finance market average for >3 months arrears by volume is currently 0.76% compared to the Group's rate of 0.44%.
- Our mortgage book has experienced significant favourable HPI movements over the year. Currently 1.88% of the retail portfolio has an indexed LTV of over 85%, compared with 4.17% in December 2021.
- In 2023, the credit risk focus will continue to be on the delivery of strong asset quality aligned to responsible growth of the mortgage book.
- The asset quality of our loan portfolio remains strong. A large proportion of the expected credit losses held against our mortgages relates to pre-2009 lending, and the portfolios acquired on the N&P and Chelsea mergers, with the Group's more recent lending being of a much higher credit quality.
- The YBS residential possession rate was 0.01% at 30 November 2022, compared to the latest UK finance market value of 0.02%. For BTL, the possession rate was 0.06% at 30 November 2022, compared to the UK finance market average of 0.04%. This is solely due to the legacy BTL portfolio; there are currently no BTL possessions for lending originated post-2009.

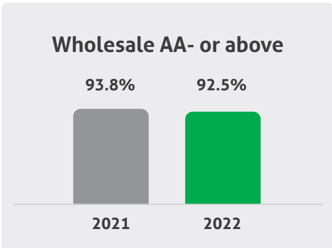
Treasury risk

The risk of losses following default on exposures arising from balances with other financial institutions, liquid asset holdings and the use of derivative instruments to manage interest rate and foreign exchange risk.

Risk mitigation

- Treasury risk is constrained by a Board-approved risk appetite, which is further governed through the Treasury Risk Policy.
- Most of the liquid asset buffer portfolio is invested in the highest quality assets.
- The majority of derivative contracts are subject to centralised clearing to minimise risk exposures to counterparties. Where this is not possible, derivative exposures are restricted to high quality counterparties which are subjected to regular review and scrutiny by the Asset and Liability Committee (ALCO) within overall risk limits.

Key risk indicators



Commentary

- Each wholesale counterparty limit is reviewed at least on an annual basis, or sooner if a risk event occurs in the interim.
- The size of the credit limit allocated per counterparty is driven by their credit status as determined by internal analysis and is calibrated to the size of the Group's capital position to ensure that the financial viability of the Society is not overly exposed to any single counterparty.
- Exposure to AA- or above counterparties remains high, maintaining the low risk profile in accordance with Board risk appetite.

Operational risk

The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Risk mitigation

- Operational risk is constrained by a Board-approved risk appetite, which is further governed through the ERMF.
- The ERMF sets out how colleagues are expected to identify, assess, monitor, manage and report their risk exposures.
- A Risk & Control Self-Assessment (RCSA) process outlines the controls that must be followed and the frequency of assurance to determine whether the current set of controls is appropriate to manage risks going forwards.
- The ERC provides oversight across the Group's operational risk exposures.

Key risk indicators

Commentary

- There has been a decrease in the value of operational losses in 2022 following the time-bar relating to PPI claims. The majority of the Group's losses in 2022 related to legacy mortgage tracker product issues.
- Oversight of the Group's transformation and security improvement programmes has been in place throughout 2022, with continuous monitoring activity and periodic reporting to the Group Risk Committee.
- The Group continues to develop the maturity of its operational risk control environment, with plans and supporting investment in place across its information management and information security risk categories along with targeted improvements and investment in its financial crime risk management capabilities.

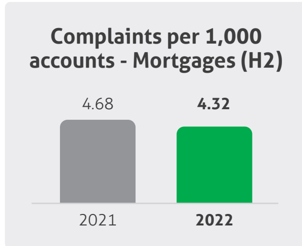
Compliance and conduct risk

The risk of direct or indirect loss as a result of a failure to comply with regulation or to ensure fair customer outcomes.

Risk mitigation

- Compliance and conduct risk, including financial crime risk, is constrained by a Board-approved risk appetite, which is further governed through the ERMF.
- Key conduct risk metrics are in place to protect customer outcomes in all key areas including sales, service, complaints and collections.
- Clear responsibilities have been determined in a revised governance model that established defined risk management and oversight accountability within the divisions.
- A comprehensive programme of independent oversight with reporting to the GRC takes place.
- Compliance support and guidance is provided to the business on all key matters. This includes regulatory developments, strategic change programmes and new developments alongside day-to-day BAU support.

Key risk indicators



Commentary

- Contributing to the improved complaints performance has been the reduction in savings and mortgage complaints, where purposeful analytics have been used to identify and address a number of complaint hotspots with the Group's processes.
- A Compliance Monitoring plan, approved by the GRC, has been completed during 2022 allowing robust oversight of the key areas of conduct, financial crime and data protection risk.
- All oversight findings are the subject of a formal action plan overseen to closure by the GRC.
- Focus continued on customers impacted by the COVID-19 pandemic with Compliance providing continuous monitoring support to Mortgage Collections & Recoveries and a review focused on the mortgage sales and lending journeys.
- The Group is committed to ensuring that it has robust policies and procedures in place to effectively identify and manage financial crime. To support this, oversight was provided with a focus on governance and oversight of financial crime risks.
- Compliance has continued to provide support in the delivery of regulatory changes to support YBS members and customers impacted by the COVID-19 pandemic, which has been a significant piece of work. Support has also been provided in strategic change programmes and new developments including its digital transformation programme, payments simplification, data/privacy, consumer duty and advising regarding the UK's review of the anti-money laundering and counter-terrorist financing framework.

Risk Management Report (continued)

Our approach to climate risk

The Group recognises that climate risk is pervasive and creates risk exposures for the Group within several of its existing principal risk categories described above. The Group has, therefore, applied approaches defined within its existing Enterprise Risk Management Framework (ERMF) to the identification, assessment, management and monitoring of its exposure to the risks arising from climate change, specifically physical and transition risks. Taking this strategic and holistic approach enables the consideration of how climate-related risks might impact all aspects of the Group's risk profile. It also enables the pragmatic management of climate risk within a framework which continues to be reviewed, developed, embedded and (where necessary) improved over time.

The *'Building a greener society'* section provides more detail of the Society's approach to managing climate and environmental risk; see page 26 for further details.

Stress testing

Stress testing is a proactive risk management tool used throughout the Society to better understand potential vulnerabilities in our business model and to derive effective management actions. All stress test scenarios are approved by the ALCO before the GRC and Board reviews key stress tests, providing a further level of governance.

The key uses of stress testing are:

- To test the robustness of the Society's financial plan and exposure limits to adverse economic conditions, ensuring a sustainable financial performance within our risk appetite.
- Scenario analysis of the Society's recovery plan and contingency funding options.
- To support the production of the ICAAP and ILAAP, informing the setting of regulatory capital and liquidity requirements.
- Daily stress testing of the liquidity and market risk, keeping up to date with market movement and developments.
- To provide performance management MI to support mortgage trading decisions.
- To assess new product and other initiatives.
- The evaluation of strategy.
- To understand through the Society's annual reverse stress tests how to prevent risks crystallising and/or mitigating them if the impact has occurred.

It should be noted that unlike other stress tests, reverse stress tests start from the identification of a predefined outcome, that being the point at which the firm's business model becomes unviable, or at which the firm can be considered to be failing because the market has lost confidence in it.

Concurrent stress test

In addition to the ongoing stress testing undertaken by the Society that covers a broad range of scenarios, the Society has also modelled the impact of the Bank of England's Annual Concurrent Stress test (ACS). This allows the Society to evaluate how it performs under this scenario, and also relative to the organisations that are part of this process. The results of this are included in the Pillar 3 disclosures. In summary, the conclusion is that the Society is well positioned to withstand a stress event such as that defined by the ACS.

In summary

This year has amply demonstrated the necessity of effective risk management. I am pleased to say that the assurances we have received from management demonstrate the Group understands well the risks to which it is exposed — taking a balanced approach to adjusting its risk management in the face of uncertainty — and confirm that management is operating in a responsible manner that protects the Group and its customers.

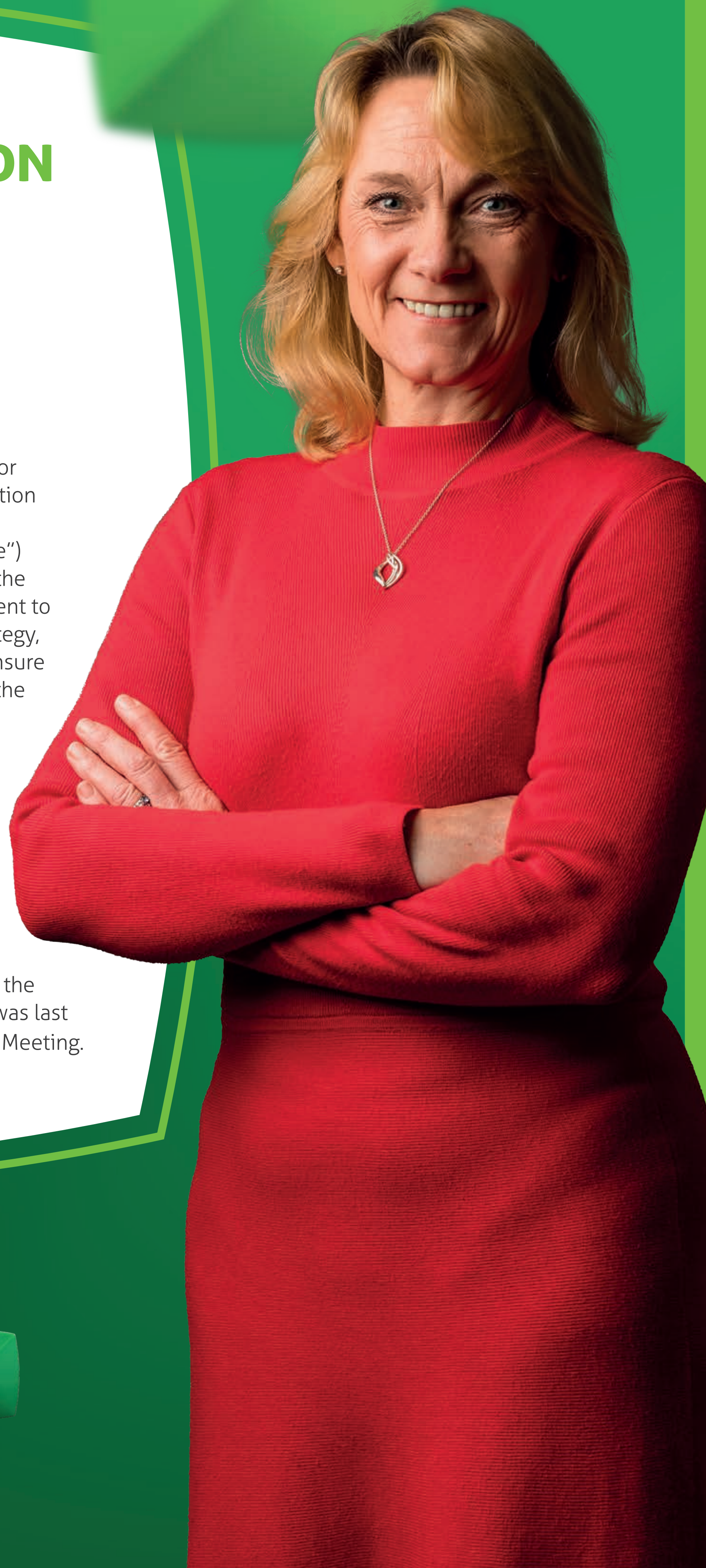
Angela Darlington
Chair of the Group Risk Committee
1 March 2023

DIRECTORS' REMUNERATION REPORT

Letter from the Chair of the Remuneration Committee

I am pleased to share the Directors Remuneration Report which outlines for members a summary of the Remuneration Policy, and key decisions taken by the Remuneration Committee ("Committee") throughout 2022. The Committee set the Remuneration Policy, ensuring alignment to the Society's purpose, values and strategy, as well as regulatory compliance, to ensure the long-term, sustainable success of the Society. The Committee also oversee the development and implementation of the Remuneration Policy for all colleagues, including base pay, variable pay and benefits for Executive Directors and Material Risk Takers (MRTs).

The report includes details of the Directors' pay for the year ending 31 December 2022 and a summary of the Directors Remuneration Policy which was last approved at the 2021 Annual General Meeting.



Directors' Remuneration Report (continued)

Letter from the Chair of the Remuneration Committee (continued)

Looking back to 2022

The macro political and financial conditions of the last two years culminated in a volatile operating environment in 2022 which presented challenges not previously faced by our colleagues, members and the Society overall. The Society continued to show resilience, determination and focus during these uncertain times and, as mentioned in the *Financial review* section within the Annual Report and Accounts (ARA), the Society responded well and delivered a strong set of financial results in 2022. The Committee continued to remain focused on overseeing the appropriateness of remuneration solutions to protect the interests of our members and colleagues.

One of the things I'm most proud of is the way in which the Society and the Committee responded to support colleagues in the rapidly changing pay landscape, with economic uncertainty and the cost-of-living crisis. The Committee are supportive of the Society's holistic programme of financial wellbeing support and were pleased to approve the Society's proposal to provide an additional one-off payment of £1,200 to support colleagues with the rising cost-of-living (not including Senior Leadership Team) in September 2022.

Key considerations and decisions made by the Committee included:

1. In February, the Committee supported an early pay review of the pay for colleagues in 'front line' roles taking consideration of the external market. As a result, 740 colleagues received an average of a 10.6% raise.

2. The Committee approved a one-off approach to the structure of our annual pay settlement. A fixed pay rise of £1,000 per person[24] was awarded effective 1 May 2022. This directed a greater percentage pay increase to our lowest paid colleagues. The Executive Committee and Senior Leadership Team did not receive a fixed pay increase as part of the 2022 annual pay settlement.

3. The Committee has approved the ongoing operation of Leading for Value as a performance related pay scheme, ensuring alignment to the Society's Strategic Blueprint. The Society is committed to tangibly delivering enhanced member value through key areas of focus, such as climate, colleague engagement and customer education, as well as a stronger integrated inclusion culture. This includes ensuring the broader Environmental, Social and Governance (ESG) agenda is considered as a core element of the Leading for Value scorecard.

[24] 'Front line' roles in scope for the February pay review received a top-up to £1,000 if their February uplift was less than £1,000.

The Committee demonstrated our commitment to inclusivity on noting the Gender Pay Gap figures in 2021, by reviewing and approving the actions and communications associated with this disclosure.

- The Society's 2022 hourly Gender Pay Gap stands at 25.7% mean and 24% median, reflecting another improvement in comparison to prior periods (2021 Mean 28.1%, 2021 Median 24.6%).
- The full 2022 Gender Pay Gap Report can be found at: https://www.ybs.co.uk/your-society/inside-your-society/corporate-governance/policies/gender-pay-gap
- The main driver for the gap continues to be the representative differences of males and females at different levels in the organisation and is something that we continue to make progress with.
- The full details of our progress and key achievements as part of the Society's Inclusion & Diversity strategy is included in the ARA (page 23), including the recognition of achievements received from external parties.

The Committee is keen to better understand the insights that the Society are gaining in regards I&D.

The Society's recent I&D Engagement Survey facilitated by Peakon, independently positioned the Society at the upper quartile of the Peakon Financial Services Inclusion index. The Society is also seeking to further understand demographic data to inform the 2023 Strategy and is building a clear plan to improve data collection.

More broadly, colleague engagement has remained very high throughout the year with the annual all colleague Peakon survey reporting an engagement score of 8.6, up by 0.1 from 2021. A key finding of the report relates to the value that is created when leaders listen and are supportive of their teams and help colleagues to have a clear understanding of how their individual contribution links to the overall success of the Society. Colleagues also took the time to express gratitude in relation to the one-off cost-of-living support payment.

The way the Society recognises colleagues who go the extra mile in relation to delivering against the Society's Behaviours was also a positive driver of engagement. Novembers Raising the Roof recognition event celebrated the achievements of many of our colleagues. From over 400 nominations across the business, 86 finalists were invited to attend the event by a judging panel of their colleagues and senior leaders.

Other key topics for the Committee in 2022 included:

Confirmation of proportionality level 1 firm

- We received confirmation from the PRA that we had moved to a Proportionality Level 1 firm, following this the Committee carried out a specific action to review the Remuneration Policy against new regulatory requirements. This resulted in minor changes. Throughout the year the Committee have taken advice from EY as advisors on key topics to ensure that the Remuneration Policy is compliant with all regulations including (but not limited to) variable pay deferrals, as well as malus and clawback provisions. In addition, Deloitte provided an independent review of our policies regarding deferred award arrangements for leavers.

Remuneration Committee involvement in Executive level changes

- Following the resignation of Stephen White from his position as Interim Chief Executive Officer (CEO), Alasdair Lenman assumed the responsibilities as Interim CEO. The Committee were involved in reviewing the additional responsibility remuneration package for Alasdair. He has continued to lead the delivery of our existing strategy which has yielded some of our strongest financial results in our history.
- In August 2022 the Board were pleased to confirm the appointment of Susan Allen OBE as CEO and she will join the Society in early 2023. As part of the recruitment process, the Committee reviewed the remuneration package for our new CEO, which was approved within the agreed remuneration policy.

Directors' remuneration outcomes for 2022

In 2022, the Leading for Value variable pay scheme introduced in 2021 continued to run parallel to the Society's core, Building Together, variable pay scheme. The scheme includes in year performance targets set against our longer-term objectives, serving to protect the Society's financial strength whilst focussing on delivering long term member value.

The Committee believes the Executive Directors have continued to deliver real benefits for the Society, helped to ensure continuity of leadership and delivered against our strategy for the value for our members and other stakeholders.

This is demonstrated by ensuring significant investment in member value through our savings propositions, the strong financial performance of the Society and progress against our community and diversity objectives. It is on this basis that we have granted variable pay awards to our Executive Directors in respect of the 2022 performance year.

On average, eligible Executive Directors' achieved 85% of their maximum opportunity. The average percentage received in the all-colleague variable pay scheme (Building Together) was 100% of their maximum variable pay opportunity. We have included full details of how remuneration is awarded to Executive Directors and the amounts later in this report.

Looking forward to the year ahead

The news of Susan's appointment was welcomed by all, and the Committee will support her as she takes up the reigns to lead the delivery of our strategy. Susan has more than 25 years of experience in financial services which is something that will hugely benefit YBS.

The Committee have reviewed the Society's plans for continued transformation in 2023 and the structure and performance measures for the Remuneration Policy remain unchanged for 2023 as these continue to align with the Strategic Blueprint. As approved in 2021, Leading for Value is aligned to the 3-year strategy and will be reviewed in 2023 with any changes recommended for implementation the following year. In addition, the Committee will reflect on and conduct a review of the full Remuneration Policy which will be included for approval at the 2024 AGM.

We will continue to review current remuneration policies and procedures as regulatory expectations evolve, for example around ESG and Consumer Duty, as well as continuing work to reflect higher standards where required as a Tier 1 firm.

In addition, the Committee will continue to monitor the economic environment and ensure that support is in place for colleagues.

In summary

I can confirm that the Society have operated in line with the approved policy, a summary of which is set out later in this report, and always act in the best interests of the Society's members. As such, the Remuneration Committee recommends that members vote in favour of the 2022 Directors' Remuneration Report at the AGM.

Alison Hutchinson
Chair of the Remuneration Committee
1 March 2023

Directors' Remuneration Report (continued)

At a glance

The YBS Remuneration Policy is based on a number of key principles including; the ability to attract and retain talent, a focus on the total remuneration package and the recognition of both collective and individual achievements. These principles are designed to ensure that colleagues work together for the benefit of the Society and the best interests our members and customers.

This philosophy is reflected in the remuneration of our Executive Directors, delivering rewards when we can demonstrate the alignment between their performance and improved member value, delivering long term benefits for the Society and maintaining success and sustainability for the future.

How much have our Executive Directors earned in 2022?

		Base salary £000	Other fixed remuneration* £000	Variable pay £000	Total earnings £000
Stephen White**	Interim Chief Executive Officer	307	117	-	424
Alasdair Lenman***	Chief Finance Officer/ Interim Chief Executive Officer	421	136	408	965
David Morris****	Chief Commercial Officer	350	49	298	697

* Fixed remuneration includes the pension allowance, any location or additional responsibilities allowance and taxable benefits.

** Stephen White was Interim Chief Executive Officer until 16 June 2022, leaving the Society on 12 September 2022 – full details of his remuneration can be found in the Executive Directors' Remuneration section of this report.

*** Alasdair Lenman took over as Interim CEO on 17 June 2022 – full details of his remuneration can be found in the Executive Directors' Remuneration section of this report.

**** David Morris was appointed as Executive Director on 1 January 2022.

Full details of all Executive Director Remuneration can be found in the Executive Directors' Remuneration section of the report.

Executive Director Remuneration Policy

This section details the Society's Remuneration Policy for its Executive Directors. For Executive Directors, the Remuneration Policy is voted on every three years (or sooner if required, for example if there is a change to policy). It was last approved by members at the 2021 Annual General Meeting (AGM) and there are no changes to the policy for 2022, therefore no vote is required this year.

Fixed remuneration – Base salary

Purpose and link to strategy

To enable the attraction and retention of high performing experienced Executive Directors by ensuring that they are appropriately rewarded for their role.

The level of base salary awarded serves to reflect the contribution of Executive Directors in their role as defined by the combination of:

- Skills, knowledge and experience;
- On-going performance;
- Demonstration of the Society's behaviours and values.

Base salary levels are determined by a review of the external market to ensure that we offer base salaries that are appropriate and enable us to attract and retain talent into the organisation.

In practice

Base salary is typically reviewed annually and determined with reference to:

- Role, experience and individual performance.
- Affordability – the economic environment and overall financial position of the Society.
- Comparison to the external market, supported by reference to the Society's grading structure, the Career Framework.
- Internal relativities and wider workforce base salary levels.

Opportunity

There is no 'maximum' base salary opportunity.

We seek to target a median external market position in relation to 'total remuneration'. To ensure that this is achieved base salary ranges are developed with reference to the total package including variable pay.

The Remuneration Committee may award increases above a median position when it is deemed appropriate taking the factors above in to consideration.

Fixed remuneration – Benefits

Purpose and link to strategy

To provide a total reward package that is in line with market practice and enables the attraction and retention of Executive Directors of the required calibre.

In practice

Executive Directors are eligible to receive a number of benefits, principally consisting of:

- Private medical insurance
- Life assurance (6x salary)
- Concessionary mortgage account
- Insured sick pay
- Provision of a company car, or cash equivalent.

Opportunity

There is no 'maximum' level of benefits – the overall value of benefits to the Society's Executive Directors is determined by the nature of its benefit offering which is subject to change throughout a given year.

Fixed remuneration – Retirement benefits

Purpose and link to strategy

The Society's pension arrangements support the recruitment and retention of Executive Directors through the provision of competitive retirement benefits.

In practice

The Society operates a single defined contribution pension scheme and all colleagues have the opportunity to participate.

Where contributions exceed the annual or lifetime allowance, or participation in the scheme is tax inefficient, colleagues may be permitted to take a cash supplement instead of contributions to the plan.

Opportunity

All Executive Directors receive a maximum pension contribution (or cash allowance) of 11% of base salary, the same as the contribution levels for all colleagues.

Variable pay

This is divided into two sections, reflecting the two different variable pay schemes which Executive Directors can participate in.

Purpose and link to strategy

Building Together Scheme

To ensure that an Executive Director's remuneration has a direct link to the success of the Society, motivating delivery of core business metrics in line with our company values.

The Society's variable pay scheme – Building Together - rewards annual performance against challenging financial and customer measures as well as key individual objectives.

All colleagues participate in this scheme.

The variable pay scheme is driven by 3 key factors:

- Financial performance currently measured via Core Profit Before Tax.
- Customer Experience currently measured via the Society's Net Promotor Score.
- Individual performance measured with reference to an Executive Director's performance against key objectives.

Leading for Value Scheme

To ensure that an Executive Director's remuneration has a direct link to the success of the Society, supporting delivery of long-term strategic objectives, protecting and creating sustainable and long-term member value and colleague interests in line with our company values.

The Society's variable pay scheme - Leading for Value - rewards annual performance against long term, strategic objectives.

All members of the Senior Leadership Team are eligible to participate in the scheme. A pre-grant assessment determines the maximum annual variable pay opportunity for plan participants.

The variable pay scheme is driven by 3 key factors:

- Delivery of key milestones linked to our strategic blueprint.
- Delivery of measurable and targeted financial value for members.
- Performance against our ESG priorities of colleague engagement, diversity and inclusion, climate and social impact.

Directors' Remuneration Report (continued)

Executive Director Remuneration Policy (continued)

Variable pay (continued)	Building Together Scheme	Leading for Value Scheme
In practice	Key measures within the Corporate Plan have to be achieved for 'on-target' pay-out, and considerably exceeded for maximum pay-out. There is a cap in place for PBT at which point achievement ceases to impact bonus payments to protect the scheme incentivising any inappropriate behaviour as colleagues seek to drive financial outcomes. **Variable pay awards are achieved in the following way:** ▪ Financial Performance: Subject to the minimum threshold being met, the variable pay pool is influenced by Core PBT. ▪ Customer Experience: Subject to minimum threshold being met, the variable pay pool is influenced by the experience received by our members and customers. ▪ Individual awards are determined by an Executive Director's performance against his or her annual objectives. A minimum level of performance across all 3 metrics is required to activate eligibility to receive a variable pay award. All payments are delivered in line with regulatory requirements.	The Remuneration Committee carries out a pre-grant assessment before determining individual eligibility for this scheme and considers personal and Society performance, as well as market pay position. The outcome of this assessment determines the maximum opportunity that will be available to the individual, subject to the overall scheme maxima set out below. **Payments under the plan are determined in the following way:** ▪ For all metrics there are specific targets set to reflect minimum threshold, target and maximum performance levels. ▪ The metrics are weighted such that strategic milestones will make up 40% of the variable pay award, member value 30% and ESG 30%. ▪ The Remuneration Committee will assess performance across all performance metrics to determine the variable pay outcome. These focus on specific in-year targeted outcomes which are underpinned by the leader's role profile and adherence to role-relevant existing policies and practices including and not limited to enterprise-wide risk management framework, Senior Managers Certification Regime and our Behaviour and Leadership Expectations. All payments are delivered in line with regulatory requirements.
Opportunity	On-target' achievement of Society performance criteria results in a variable pay award of 30% of eligible earnings for the Executive Directors. The maximum variable pay award available to Executive Directors is 50% of eligible earnings. Failure to meet organisational or individual performance thresholds will mean zero variable pay would be awarded as per minimum levels (as above). All Executive Directors are subject to deferral.	Maximum achievement against all performance criteria results in a variable pay award of up to 75% of eligible earnings for the Chief Executive and up to 50% of eligible earnings for other Executive Directors. Failure to meet organisational (financial performance, customer experience) or individual performance thresholds will mean zero variable pay would be awarded as per minimum levels (as above). All Executive Directors are subject to deferral.
Business Controls Overlay Process	All variable pay awards are subject to the operation of a Business Controls Overlay (BCO) Process that considers current and future risks through a range of key metrics provided by the Society's control functions to evidence the robust management of the Societies controls e.g. audit actions, cost indicators, risk indicators. Variable pay awards applicable to Material Risk Takers, including Executive Directors, are subject to a formal risk overlay process where a series of key risk indicators are considered to provide assurance that no inappropriate risk-taking behaviours have taken place. In instances where issues are identified as part of the BCO process, the Remuneration Committee reserve the right to apply a malus adjustment (reduce variable pay award or lapse deferred elements) and to apply clawback (recover variable pay awards already made) as applicable. Awards are subject to clawback for up to a maximum of ten years.	
Remuneration Committee discretion	The Remuneration Committee retains the discretion to adjust the variable pay award to ensure that it reflects a true view of the underlying performance of the Society and holds sufficient capital levels prior to and to support the payment of any variable pay award.	

Variable pay (continued)	
Additional risk overlay	Additional risk overlay applies outside of the above BCO process. This includes review of Material Risk Taker objectives by the Remuneration Committee to ensure the appropriate balance of financial and non–financial objectives, and to ensure alignment with the Society's purpose and desired behaviours. The objectives and Leading for Value variable pay opportunity for the Society's Chiefs responsible for the leadership of the risk function and internal audit function are reviewed and ratified by the appropriate Committee Chair (Chair of Audit Committee and Group Risk Committee). Remuneration Committee review the objectives and bonus opportunity following the above process to preserve the independence of the role.
Deferral and Share Equivalent Instrument (SEI)[1]	In line with relevant remuneration regulations, including the Remuneration part of the PRA Rulebook, the FCA's Dual-Regulated Firms Remuneration Code, the Senior Managers and Certification Regime, and our Remuneration Policy, all variable pay awards are subject to deferral. Variable pay award deferral ensures that the Society delivers variable pay over a multi-year period, in a manner that prevents unnecessary risk taking, whilst achieving a level of sustainable performance. In a performance year where Executive Directors' total variable remuneration falls below the de-minimis[2] limit, the annual variable pay awards will be delivered as cash and paid over three years: 50% of any variable pay award is paid out in the year following the performance year; the remaining 50% is deferred with 25% released after one year and 25% released after two years. For Executive Directors whose remuneration is over the 'de-minimis' limit, variable pay awards are required to have a longer deferral period, and/or a larger percentage deferred in line with the current regulations. Also required by regulation, is that 50% of each variable pay award will be delivered via an SEI and is subject to a holding period. For the 2022 performance year, an Executive Director whose remuneration exceeds the de-minimis limit will receive 20% of their total variable pay in 2023, with a further 20% delivered via a SEI in 2024. The remaining 60% is deferred over seven years, with a 12 month holding period applying to the SEIs received.

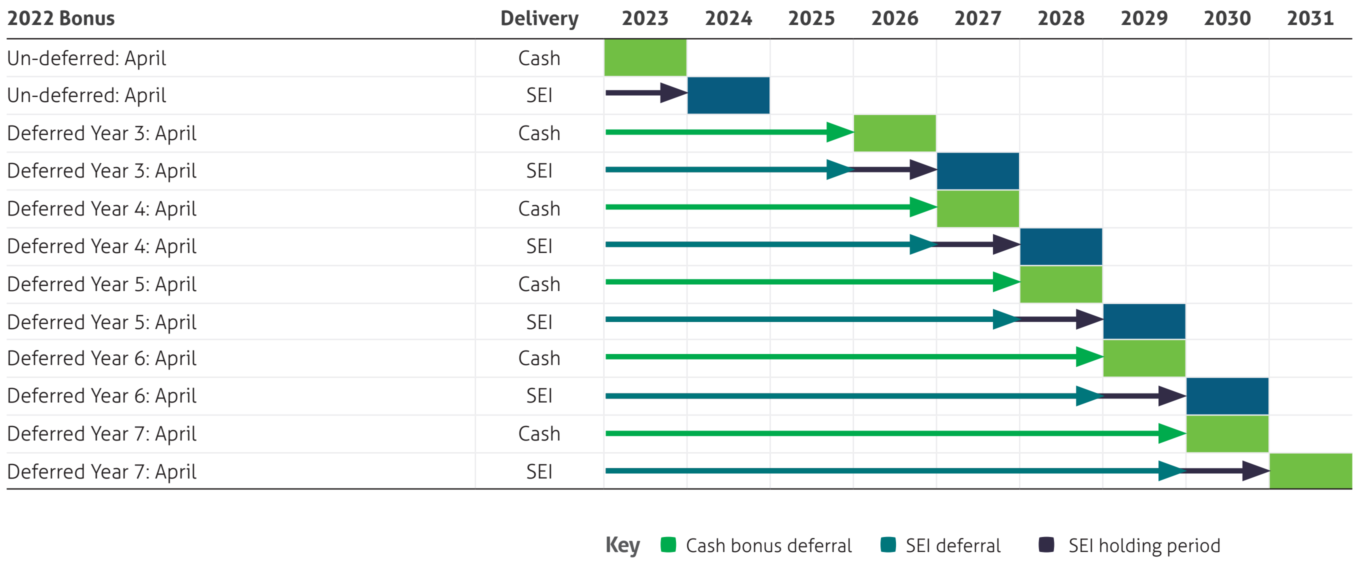
1 Share Equivalent Instruments are units that act like a company share, £1 is the value of each SEI unit. Over the course of the deferral and retention periods, the SEI can change in value if YBS does not maintain its CET1 capital levels.

2 A de-minimis limit level is set by regulation, in relation to the level of bonus deferral applied. It impacts colleagues whose total variable remuneration is less than £44,000 and where variable remuneration is less than 33% of total remuneration.

For example:

- **Year 1** – 40% of any variable pay earned is paid out in the year following the performance year. Half of this amount is paid in cash (in 2023) and the other half is delivered in a SEI and subject to an additional holding period prior to revaluation and payment (in 2024).
- **Deferral Years** – the remaining 60% is deferred for 7 years and paid equally each year from 3 years after the award. Each year, the award is split in two, with half the amount paid in cash and the second half held in a SEI and subject to an additional holding period prior to revaluation and payment. SEI valuations continue every 12 months until the variable pay schedule is complete.

Length of time variable pay is at risk



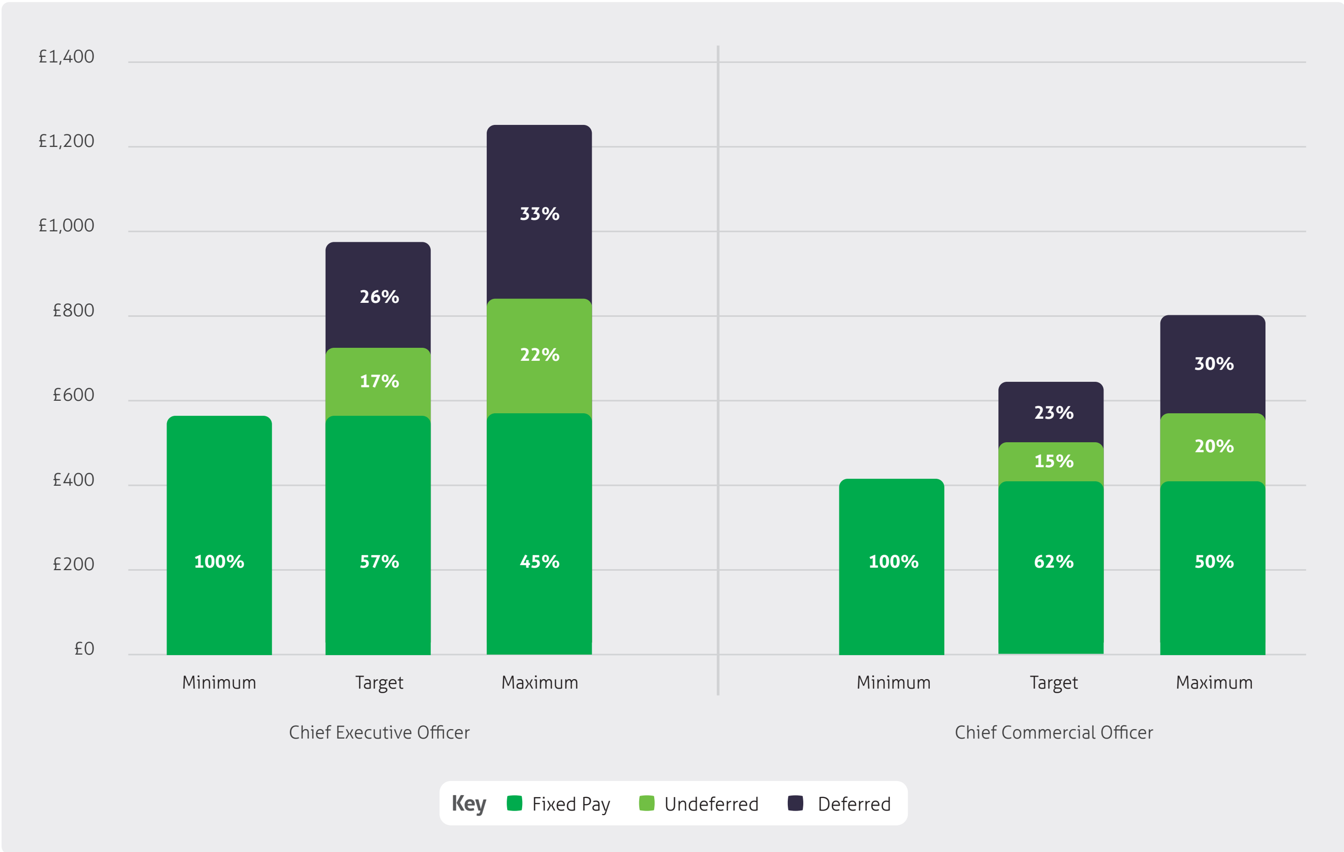
Directors' Remuneration Report (continued)

Executive Director Remuneration Policy (continued)

Remuneration scenarios in relation to the Remuneration Policy in 2022

The chart below shows an illustration of the potential split of remuneration between fixed remuneration (base salary, benefits and pension) and total variable pay for the CEO and an Executive Director. For the purposes of this illustration, we have used the data pertaining to Interim Chief Executive Officer (Alasdair Lenman) and the Chief Commercial Officer (David Morris) under the following scenarios:

- Minimum – under certain performance conditions, variable pay can be zero.
- Target - represents a variable pay award (75% of eligible earnings for the Chief Executive Officer and 60% for the remaining Executive Directors) that would be paid if Society and personal performance measures are achieved in 2023.
- Maximum – the maximum variable pay award (125% of eligible earnings for the Chief Executive Officer and 100% for the remaining Chief Officer Executive Directors) that could be paid assuming Society and personal performance measures are fully realised.



The chart above is an illustration showing the maximum opportunity for a CEO and is therefore based on calculations up to 125% of eligible earnings. Please note, as an Interim CEO, Alasdair Lenman's maximum opportunity was 100%.

Remuneration arrangements in relation to specific circumstances

New hires

Remuneration package	When agreeing the components of a remuneration package for the appointment of Executive Directors, the Remuneration Committee will apply the following principles: ▪ The packages will be sufficient to recruit high performing individuals, in a highly competitive market, to lead the business and effectively execute the strategy for members; ▪ The Remuneration Committee will look to align the remuneration package offered with the Society's Remuneration Policy; and, ▪ The Remuneration Committee will ensure that the level of pay is necessary but not excessive. The Remuneration Committee has discretion within the policy to make remuneration decisions where it considers it appropriate to do so. In determining remuneration arrangements, the Remuneration Committee will consider similar positions in the market, the structure of the remuneration package and the experience of the candidate. This ensures that arrangements are in the best interests of both the Society and its members without paying in excess of what is necessary to recruit an Executive Director of the required calibre.
Buyout arrangements	The Remuneration Committee may make awards on hiring an external candidate to the Board to compensate them for the forfeiture of any award with a previous employer. In determining any such 'buyout', the Remuneration Committee will consider all the relevant factors including proof of forfeiture, the form in which they were awarded and the time over which they would have vested. ▪ The buy-out value may not exceed the aggregate amount of unvested variable remuneration. ▪ The buy-out will vest no faster than any awards they replace. ▪ Consideration is given to the reason for the "firm or relevant business unit suffering material failure of risk management" when considering any reduction of unvested variable remuneration. ▪ The Society will provide former colleagues with the details and reasons of any proposed application of malus or clawback to awards in writing and notify the former colleagues within 14 working days of any amounts of malus or clawback that have been applied. Variable pay buyouts will be liable to forfeiture or 'clawback' in the event of early departure and are executed in line with the Remuneration Code.

Directors' Remuneration Report (continued)

Executive Director Remuneration Policy (continued)

Remuneration arrangements in relation to specific circumstances (continued)

Leaver arrangements and loss of office

The Remuneration Committee shall apply the policy in relation to leavers, considering performance, conduct and commercial justifications, as summarised below:

Notice period	The standard notice period is 12 months from the Society and 12 months from the Executive Director. In normal circumstances, Executive Directors will be required to work their notice period. In the event Executive Directors are not required to fulfil their notice period, they may receive a payment in lieu of notice, or they may be placed on garden leave. Chief Officers and other MRTs have notice periods varying between three months and one year, depending on the role undertaken.
Termination payment	Typically, termination payments will consist of basic pay and other contractual benefits for the notice period, the emphasis being to not reward failure.
Annual variable pay – Leaver provisions	On termination of office, the leaver provisions as set out below will apply. These are also outlined in the Society's variable pay plan rules: ▪ In the event of retirement or redundancy, ill-health or disability, any variable pay award will be pro-rated to reflect the time served during the performance period. Any deferred payments due remain subject to future performance conditions and are payable at the end of the corresponding performance periods. There will be no acceleration of payment. They are also subject to the Society's risk overlay process, and therefore subject to the Society's malus and clawback provisions. ▪ In the case of death, any variable pay award payments will be pro-rated to reflect the time served during the performance period. ▪ In the event of the resignation of an SLT member who is subject to any of the above deferral arrangements, Remuneration Committee has the discretion to allow the colleague to remain eligible to receive the deferred bonus payments earned in previous years, subject to the rules of the scheme, including but not limited to the Society's risk overlay process, Malus and Clawback.

Executive Directors' Remuneration

All remuneration in the 2022 performance year has been awarded in line with the Society's Remuneration Policy, which was last approved by members at the 2021 AGM.

The table below shows the single total figure table of remuneration for the Executive Directors of the Society for the years ended 31 December 2022 and 2021. This information has been audited by our independent auditors, PwC.

Executive Director	Fixed remuneration								Variable remuneration				Total remuneration	
	Base salary		Taxable benefits		Pension/ pension allowance		Total fixed remuneration		Variable pay		Total variable remuneration			
	2022 £000	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Stephen White - Interim CEO until 12 September 2022*	**307**	437	**83**	41	**34**	54	**424**	532	**-**	406	**-**	406	**424**	938
Alasdair Lenman – CFO/ Interim CEO from 17 June 2022	**421**	363	**90**	31	**46**	45	**557**	439	**408**	330	**408**	330	**965**	769
David Morris – CCO ED promotion effective from 1 January 2022	**350**	277	**11**	11	**38**	34	**399**	322	**298**	251	**298**	251	**697**	573

* In 2021 Stephen White was Chief Operating Officer prior to stepping into the Interim CEO role, he assumed this position until 16 June 2022 and remained in employment until 12 September 2022. Stephen resigned from his position and is therefore not eligible for variable pay earned in 2022 – full details of 2021 and 2022 remuneration are referenced in the respective years' Directors Remuneration Reports.

Base salary

Our Executive Directors did not receive a pay increase as part of the Annual Pay Review process in 2022. Stephen White assumed the position of Interim CEO and was provided with an additional responsibility allowance effective from 29 November 2021, following his resignation Alasdair Lenman stepped into the role of Interim CEO. To recognise the increased responsibilities, from 17 June 2022 onwards Alasdair Lenman received additional remuneration, split between base pay and additional responsibility allowance totalling £82,204. David Morris was promoted to Executive Director with effect from 1 January 2022.

Variable pay

This section explains the underpins and mechanics of the variable pay schemes at YBS, these are applicable to all colleagues (including Executive Directors).

1. Financial performance

The first performance measure is the Society's core profit before tax (Core PBT), for Building Together this determines the variable pay pool (for Leading for Value core PBT is only used to unlock variable pay opportunity at which point minimum threshold target must be achieved).

The Committee has scope to adjust the calculation of profit within the variable pay plan. The following principles are applied when identifying potential adjustments:

- Where an unexpected or unplanned item arises that is not part of the core, business as usual, running of the Society. For example, one-off investments or projects that were not included in the plan profit number against which actual performance is judged.
- Adjustments also include removing both positive and negative impacts from non-core actions that do not reflect management of the Society. For example, any unplanned profits (or losses) on the sale of property are not included in the Core PBT figure used to calculate variable pay award levels.

In line with the principles above, the overall Core PBT figure achieved was £425.6m against a statutory PBT figure of £502.5m. This represents a performance above target, which was £268.1m and above cap which is set at £319.1m and sets the financial element of the variable pay earning potential. The Committee were comfortable, based on analysis presented, that the business outperformed even when the impact of the Bank Base Rate changes were excluded.

2. Customer experience

The second performance measure is the customer 'Net Promoter Score' (NPS), which unlocks the Building Together variable pay pool and is moderated up or down from target based on outcome. The NPS measures how likely our members and customers are to recommend us. As the business changes shape and focus it is important to review how NPS is calculated, this ensures attention is paid on the areas that make the difference. Therefore, in 2022 we made some changes to the construct of NPS targets:

- Removed Share Plans from the Society NPS, reflecting our decision to exit that market.
- Introduction of a new Digital NPS metric which accounted for 10% of our overall NPS score. The Digital NPS metric is based on feedback from users of our online secure (logged in) website (25%), our online public site (25%), and our mobile app (50%).
- Changed the Savings % contribution to the Society NPS, from 45% to 40%, in order to allocate a good percentage to our Digital services.

As a result, our 2022 Society NPS construct and targets were:

	Weighting on Society NPS	2022 Target
Savings Customer	40%	**40**
Mortgage Customer	25%	**53**
Digital NPS	10%	**34**
Broker Residential	20%	**85**
Broker Buy To Let	5%	**80**
Society NPS	Total	**54**

To pay an 'on-target' variable pay award, the target NPS for the year was 54. The average NPS achieved throughout 2022 was 54.

3. Financial sustainability review

In addition to the above, before any variable pay awards are granted, a number of reviews are completed to ensure the level of capital held by the Society remains sustainable and compliant with regulation as well as an assessment of the Society's cost management practices.

Directors' Remuneration Report (continued)

Executive Directors' Remuneration (continued)

Building Together

Individual performance

The Society's performance determines the core variable pay award; all three elements above calculate a set amount, which is the same for all eligible colleagues. All need to be achieved before any variable pay award will be granted. For Executive Directors, as well as the Senior Leadership Team (SLT), there is an individual performance element which determines an additional percentage of variable pay to be awarded. This assessment is measured on the achievement of their individual scorecard, containing both financial and non-financial measures.

Leading for Value

The Leading for Value scheme operates in addition to the Building Together scheme and is assessed against measurable and targeted financial value for members, the delivery of key strategic milestones and ESG performance based on colleague engagement, inclusion and diversity and social impact. The scheme is designed to incentivise the SLT, to attract and retain top talent and high performers, and to drive the long-term value creation of the Society. Performance is assessed over a multi-year time horizon, in order to reflect the long-term strategic goals of the Society and align with remuneration regulatory expectations.

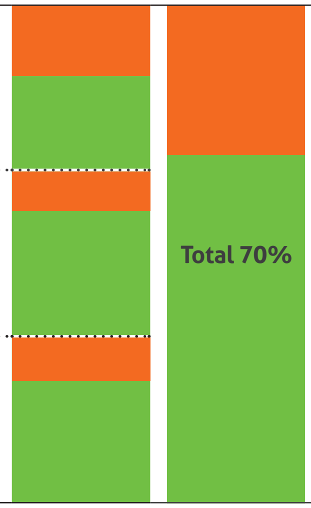
The Executive Committee and the Chair of the Board carry out a pre-grant assessment before determining individual eligibility for this scheme and consider both personal (e.g. individual performance and compensation levels compared to the market) and the Society's performance (e.g. Capital, Liquidity and risk plus financial measures). The outcome of this assessment determines the maximum opportunity that will be available to the individual, subject to the overall maximum level set within the scheme. The Remuneration Committee oversee this process before agreeing to any proposals.

The specific annual metrics are proposed each year by the Executive Committee and the categories are weighted such that strategic transformation milestones will make up 40% of the variable pay opportunity, member value 30% and ESG 30%. The Remuneration Committee assesses performance against each metric to determine the variable pay outturn. The maximum achievement against all performance criteria would result in a bonus of up to 75% of eligible earnings for the Chief Executive and up to 50% of eligible earnings for other Executive Directors. The scheme is underpinned by the achievement of Core Operating Profit and NPS being at a level in line with threshold of the Building Together Bonus plan.

For the 2022 performance year, the Remuneration Committee agreed a 70% outturn for the plan, based on achievement of target or above against the Transformation, Member Value and ESG metrics.

How Leading for Value was calculated for Executive Directors

	Measures	Levels of achievement
Transformation 40%	• Aligning account opening times with customer needs • Improving access to mortgage lending • Improved mortgage decisions • Simplification of services for Savings accounts	**24%**
Member value 30%	• Improving savings returns for customers	**24%**
ESG 30%	• Developing digital employment skills • Financial education and increase awareness in local communities • Creating a more diverse representation at manager level and above	**22%**



How variable pay is awarded for Executive Directors

Executive Director	Role	Total award % of salary	Total award £000	Deferral schedule 2023	2024	2025	2026	2027	2028	2029	2030
Stephen White*	Interim CEO	0	-	-	-	-	-	-	-	-	-
Alasdair Lenman	CFO/ Interim CEO	85	408	163	-	-	49	49	49	49	49
David Morris	COO	85	298	119	-	-	36	36	36	36	36

* Stephen White left the Society and therefore was not eligible for variable pay earned in 2022.

This table shows years in which the payment vests.

CEO pay ratio reporting

We are continuing to publish in line with regulation, the ratio of the Chief Executive's pay to the wider employee population. This ratio reflects the nature of the Society, in particular the range of different roles and skillsets required to operate within financial services; from a number of customer-facing colleagues in the branch network and call centres, through to, for example, heavily technical specialist roles in our Treasury department. This year's calculation is based on the fixed earnings of Stephen White (up to and including the 16 June 2022) and the fixed and variable earnings of Alasdair Lenman as he became Interim CEO from 17 June 2022 to 31 December 2022. As Stephen White resigned as Interim CEO during the year, no variable pay is awarded and therefore this is reflected in the reported lower ratios.

This ratio compares the total remuneration of the CEO against the total remuneration of the median employee and those who sit at the 25th and 75th percentiles (lower and upper quartiles).

We have utilised the reporting method of 'Option B', which involves utilising our existing gender pay gap reporting data as the basis for identifying the colleagues at each of the required quartiles. In addition, this data is subject to external assurance, and as such provides an accurate basis for the calculation of CEO ratios.

Year	Defined method	25th percentile	50th percentile	75th percentile
2022	Option B	28:1	21:1	14:1
2021	Option B	29:1	21:1	14:1
2020	Option B	39:1	28:1	20:1
2019	Option B	40:1	35:1	22:1

Directors' Remuneration Report (continued)

Executive Directors’ Remuneration (continued)

The total remuneration values and base salary values for the 25th, 50th and 75th percentile employees for 2022 are:

Year	25th percentile	50th percentile	75th percentile
Total remuneration*	£25,814	£33,889	£50,376
Salary	£20,898	£27,854	£40,439

* The following elements have been utilised to calculate the total remuneration of each colleague; base salary, pension (including pension cash allowance), car allowance, private medical insurance and variable pay schemes.

As explained above, our current pay ratios are based on the fixed earnings of Stephen White (up to and including the 16 June 2022) and the fixed and variable earnings of Alasdair Lenman as he became Interim CEO, for illustration purposes the below table shows as if Alasdair was CEO for the full year .

Year	Defined method	25th percentile	50th percentile	75th percentile
2022	Option B	43:1	32:1	22:1

Payments for loss of office

There were no payments for loss of office in 2022.

Payments to past Directors

Former Executive Director, Mike Regnier resigned from the Interim CEO role on 31 December 2021, full details of 2021 remuneration can be found in the 2021 Directors Remuneration Report. He remained in employment from 1 January 2022 until 28 February 2022 on garden leave and received monthly fixed remuneration payments (base salary and allowances totalling £111,888) for this period. There were no other payments to past Directors in 2022 that have not already been disclosed in previous reports.

NED’s

Chair of the Board and Non-Executive Directors

The Chair of the Board and Non-Executive Director (NED) fees are reviewed annually. Fees were reviewed and the fees for the Chair, Vice Chair and NEDs increased in 2022 by a flat £1,000 following analysis of the market data available (and commensurate with the pay award provided to all colleagues). There was no increase to the Committee Chair of the Board and Committee Membership fees in 2022.

Non-Executive Director Fees

Purpose and link to strategy	Remuneration set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge and experience to provide a meaningful contribution to the Society.
In practice	Fees are based on the level of fees paid to Non-Executive Directors and Chairs serving on boards of comparable organisations, the time commitment required, and contribution expected from the role. • Non-Executive Director fees shall be a matter for the Board following a recommendation put forward by Chief Officers / Executive team. • The Chair of the Board’s fees are determined by the Remuneration Committee. • Both the Chair of the Board and Non-Executive Directors’ fees are reviewed periodically, at least annually. • The Chair of the Board and Non-Executive Directors’ fees are not subject to any specific performance measures; however, their overall performance is reviewed on a regular basis. Non-Executive Directors will not be involved in any decisions as to their own remuneration.
Opportunity	There is no ‘maximum’ fee opportunity. Fees are set with reference to the level of fees paid to Non-Executive Directors and Chairs serving on boards of comparable organisations, the time commitment, and contribution expected from the role. Non-Executive Directors are not eligible to receive variable pay awards.

Non-Executive Director fees (annual equivalents)	Fees as at 1 July 2022 £000	Fees as at 1 July 2021 £000
Chair of the Board basic fee	**202.0**	201.0
Vice Chair of the Board basic fee	**76.1**	75.1
Non-Executive Director basic fee	**53.7**	52.7
Additional fee for:		
Audit Committee - Chair	**21.8**	21.8
Audit Committee - Member	**9.0**	9.0
Remuneration Committee – Chair	**17.8**	17.8
Remuneration Committee – Member	**6.5**	6.5
Group Risk Committee - Chair	**21.8**	21.8
Group Risk Committee - Member	**9.0**	9.0
Board Governance & Nominations Committee (N.B. Additional fee does not apply to the Chair or Vice Chair)	**6.5**	6.5

Single total figure of Remuneration for each Non-Executive Director

The Non-Executive Directors’ basic and committee fees earned in 2022 are outlined below. Non-Executive Directors do not receive any benefits, but are reimbursed for any expenses incurred, such as travel and subsistence. Any tax due is the responsibility of individual Non-Executive Directors. This information has been audited by our independent auditors, PwC.

Non-Executive Director	2022 Basic fees £000	2022 Committee fees £000	Total £000	2021 Basic fees £000	2021 Committee fees £000	Total £000
John Heaps (Chair)	**201.5**	**-**	**201.5**	199	-	199
Alison Hutchinson* (Vice Chair and Chair of Remuneration Committee)	**75.6**	**23.3**	**98.9**	74	16	90
Neeta Atkar (resigned 22/06/2022)	**24.7**	**15.1**	**39.8**	52	31	83
Guy Bainbridge**	**53.3**	**35.2**	**88.5**	52	31	83
Guy Parsons (retired 26/04/2022)	**17.4**	**8.0**	**25.4**	52	24	76
Mark Parsons	**53.3**	**18.1**	**71.4**	52	18	70
Dina Matta	**53.3**	**6.5**	**59.8**	36	4	40
Jennelle Tilling	**53.3**	**6.5**	**59.8**	9	1	10
Angela Darlington*** (joined 26/04/2022)	**35.7**	**18.8**	**54.5**	-	-	-
Gordon Ireland (retired 27/04/2021)	**-**	**-**	**-**	16	6	22

* Alison Hutchinson was appointed as Chair of Remuneration Committee from 26 April 2022, post serving on the Remuneration Committee since 24 June 2015.

** Guy Bainbridge joined Board Governance and Nominations Committee on 26 April 2022.

*** Angela Darlington became Chair of Group Risk Committee from 22 June 2022.

Directors' Remuneration Report (continued)

All colleague section

Our reward aims

Our aim is to build a working environment where colleagues feel engaged and committed to the Society's journey, ensuring they feel valued and respected to give their best. Our reward offering is integral to that, with an approach founded in our mutuality and values.

Our Remuneration Policy is in place to support our colleagues in working together for the benefit of the Society and our members and customers. No changes to the policy are proposed for the year 2023.

Our reward principles

To support us in achieving our long-term aspirations we follow five key principles, which apply to all colleagues within the Society. These help us know when we are doing the right things and set out what we believe good reward practice for all of our colleagues looks like.

Our five reward principles developed with YBS colleagues are:

1. Attract and retain talent, aligned to our mutual values and forward thinking to ensure relevance in a changing world.
2. Focused on total reward; recognising that reward is more than just pay, enabling colleagues to make the choices that work for them at different stages in their life.
3. Flexible within a framework to ensure a consistent approach whilst responding to different challenges, supported by education to help managers balance doing the right thing for both the Society and their people.
4. Reward decisions and choices are clear and transparent for colleagues; delivered through effective and open communication.
5. Our reward arrangements are reflective of Society, team and individual achievements, with the ability to recognise the contribution all colleagues have made to our success.

Our reward principles are applied consistently regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience.

Colleague listening

The Society actively seeks views of colleagues through a variety of sources. Our colleague forum, reward listening group and Performance and Reward Committee are examples of where we gain direct colleague input into the design and ongoing development of the Society's remuneration framework. This in turn feeds into the Remuneration Committee through a continued commitment, as well as the formal accountability for one of the Non-Executive Director's to be the 'Voice of the Employee'.

Alison Hutchinson currently is responsible for both, with formal accountability for the 'Voice of the Employee', as well as assuming the position of Remuneration Committee Chair.

Supporting colleagues in 2022

It is important to us that our colleagues feel recognised, valued and fairly rewarded for the contributions they make to providing essential services to our customers and the effective running of our operations.

The pay landscape has been a rapidly changing one in 2022 and we have already taken a number of steps to support colleagues, including an early pay review of the pay for colleagues in 'front line' roles taking consideration of the external market. As a result, 740 colleagues received an average of a 10.6% raise. In addition, for our annual Pay Review in May, we took a one-off approach and awarded a fixed pay uplift of £1,000 per colleague, this gave much greater percentage increase to lower paid colleagues. We also maintained our commitment to pay all colleagues and contingent workers at or above the Real Living Wage.

In addition, in September 2022 we paid all colleagues a one-off payment of £1,200 to support with the increasing and ongoing challenge with the cost-of-living. We also continued to provide wellbeing support having been informed by our wellbeing survey. This survey helped us to understand colleague feeling towards wellbeing support at YBS and scored an average of 8.5 overall. This score places us in the Top 25% in the Peakon Financial Services survey. Colleagues positively referenced the support they receive such as wellbeing check-ins with their managers, access to Bupa healthcare, employee assistance programme and flexible working practices to support a healthy work / life balance as key highlights.

In addition to regular local recognition practices, we also hosted our annual 'Raising the Roof' recognition awards in person in November 2022, to celebrate our colleagues' achievements aligned to our behaviours and purpose. Over 400 nominations were received for colleagues across the business, with 85 chosen to attend the event by a judging panel of their colleagues and senior leaders.

Remuneration Committee

Our Committees

To ensure our reward policies and procedures are robust and assured we have two main Committees in place to support this; the Remuneration Committee and the Performance and Reward Committee. These Committees play different roles in making sure our approach to reward meets our required levels of compliance, as explained below.

Remuneration Committee

The Remuneration Committee has specific responsibility for making sure we have the right policies and processes in place for Chief Officer's (including those that are Executive Director's) of the Society, and individuals identified as Material Risk Takers (MRTs – senior decision makers), as well as the overarching Remuneration Policy and pay practices for the wider organisation. The purpose of the Remuneration Committee is to oversee the Remuneration Policy in place for the Society, making sure this aligns to our business strategy and any regulatory requirements. Details in relation to the composition and the Terms of Reference of the Remuneration Committee can be accessed on the Society's website.

The Remuneration Committee oversees a broad range of activities within the Society such as:

- Governance of its Material Risk Takers (MRT's - senior decision makers). This responsibility includes;
  - review of MRT performance objectives to ensure that they do not encourage excessive risk taking (along with input and evidence from the Society's control functions – Risk and Internal Audit).
  - the Remuneration Committee can apply clawback and or discretion to previous and future MRT variable pay awards if any evidence of risk taking or behaviour not conducive with our principles is identified.
  - processes and procedures to ensure MRT's do not undertake hedging strategies in regard to their variable pay opportunities.
- The activity of the Performance and Reward Committee to independently challenge and ensure any conflicts of interest (such as individuals making decisions about their own remuneration), are managed in the design and governance of the Remuneration Policy.

The members of the Remuneration Committee consist of Non-Executive Directors and include a member of the Society's Risk Committee:

Alison Hutchinson –
Independent Non-Executive Director and Committee Chair

Dina Matta –
Independent Non-Executive Director

Jennelle Tilling -
Independent Non-Executive Director

The Remuneration Committee is supported by the Chief People Officer and the Director of Colleague Experience. Where it is felt to be appropriate, the Chief Executive Officer is invited to attend to provide further background and context to assist the Committee in discharging its duties.

The Committee met eleven times during the year and covered the following activities:

- Reviewing the Society's Remuneration Policy for Executive Directors and all colleagues, ensuring it is fit for purpose in relation to Tier 1 firm
- Ensuring remuneration policies and practices remain appropriate and are operating as intended
- Ongoing work in relation to the Prudential Regulatory Authority's (PRA) Remuneration Code and how it applies to the Society
- Reviewing the Society's Reward strategy
- Reviewing the Society's variable pay scheme structure and targets
- Oversee performance and remuneration of the Society's Material Risk Takers
- Reviewing and monitor the risk measures in place relating to director performance
- The Society's gender pay gap
- Reviewing and approving the remuneration and exit arrangements relevant to changes to the Executive Management Team
- Reviewing and approving the remuneration arrangements for the incoming CEO in line with the existing remuneration policy
- Additional meetings were held in 2022 to support the implementation of the Leading for Value variable pay scheme and the changes to leadership, including the appointment of a new CEO.

Details of the number of scheduled meetings attended by each Committee member during 2022 can be found in the *Division of responsibilities* section of the *Corporate Governance Report*.

The Remuneration Committee draws on the advice of an independent external consultant to support it in performing its duties. During the year, the Committee sought advice on Executive Director salaries, variable pay structures and regulatory matters from EY. The Committee is satisfied that the advice received is objective and independent. EY's fees for advice provided to the Remuneration Committee in 2022 were £45,300 (including irrecoverable VAT).

Performance & Reward Committee

The Performance & Reward Committee is in place to ensure effective governance and oversight of our reward policy with a focus on regulatory compliance and alignment to our business strategy. This Committee also ensures that any variable pay arrangements that we offer colleagues drive the right behaviours towards risk taking and safeguard good customer and member outcomes. The Performance & Reward Committee comprises several senior leadership team members within the organisation with representation from the Customer Services, People, Finance and Risk functions.

Directors' Remuneration Report (continued)

Remuneration committee (continued)

Our approach to risk management and governance of reward

Our reward provisions meet all the requirements of both our internal governance processes and external regulators. Our provision of reward and the associated policies, processes, procedures and practices relating to these are created in a way which ensures the appropriate level of governance is in place to mitigate any potential current and future risks to the Society, colleagues, members and customers.

Our regulators

As a financial services provider we are regulated by both the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The relationship with our regulators is important to us, and builds trust both inside and outside of the Society. This means that from a performance, reward and benefits perspective we ensure that our base salary, variable pay and benefits not only meet any necessary obligations of our regulators but are designed and provided in a way which develops a trusted relationship with them.

Alison Hutchinson
Chair of the Remuneration Committee
1 March 2023

Appendices

Appendix - Statement of Member Voting

Statement of Member Voting

The Society remains committed to ongoing member dialogue and takes an active interest in voting outcomes. The policy has received strong support from members to date.

Non-Executive Director	2017	2018	2019	2020	2021	2022
To approve the Directors' Remuneration Report	89.67%	90.29%	91.86%	91.32%	92.45%	**91.77%**
To approve the Directors' Remuneration Policy	n/a	n/a	90.95%	n/a	91.58%	**n/a**

Appendix - Aggregate remuneration data (Pillar 3)

For full details on the Society's full Pillar 3 disclosure, please visit **www.ybs.co.uk**

DIRECTORS' REPORT

This report contains the statutory disclosures required under the *Building Societies Act 1986* (the Act) and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (the DTR). It also includes details of voluntarily applied disclosure requirements, including those in respect of the UK Corporate Governance Code (the Code), the *Companies Act 2006* and the streamlined energy and carbon reporting (SECR) rules.

Our Directors

The names of the directors of Yorkshire Building Society (the Society) who served during the year and up to the date of this report, their roles, previous experience and membership of board committees are described in the *Our Board and Executive team* area of the *Governance* section. None of the directors had an interest in, or share of, any associated body of the Society at any time during the financial year. At our 2023 Annual General Meeting (AGM) Angela Darlington will stand for election and all previously elected directors will retire and stand for re-election.

Our strategy, future developments and Key Performance Indicators (KPIs)

Information on the strategy of Yorkshire Building Society and its controlled entities (the Group) can be found in the *Our purpose and strategy* section of the *Strategic Report*. Details of future developments are included in the *Outlook* section of the Interim *Chief Executive's Summary* and KPIs are set out in the *Performance at a glance* section. Details of our corporate governance practices are included in our *Corporate Governance Report*.

How we manage risks

Our business activity exposes the Group to a variety of risks, including retail and commercial credit, treasury, funding and liquidity, market, operational, model, capital, and compliance and conduct risk. We seek to manage all the risks that arise from our business activities and we have a number of committees and policies in place to do so. Details of these risks are included in the *Principal risk and uncertainties* section of the *Strategic Report* and the *Risk Management Report*.

Directors' Report (continued)

Our mortgage arrears

Details of the mortgage accounts that were 12 months or more in arrears at 31 December are as follows:

	2022	2021	2022	2021
			% of mortgage account/balances	
Number of accounts	**217**	301	**0.08%**	0.11%
Balances outstanding on accounts	**£30.2m**	£36.4m	**0.07%**	0.09%
Amount of arrears included in balances	**£3.7m**	£4.4m	**0.01%**	0.01%

Further details of the arrears position are set out in the *Our financial review* section of the *Strategic Report*.

Note 32 to the financial statements also details the various forms of support offered to borrowers experiencing difficulties in meeting their repayments.

Our charitable and political donations

Charitable donations made by the Group during the year were £0.9 million (2021: £0.6 million), more details and further information on fundraising by our colleagues, members and customers, including the value of volunteering time of YBS colleagues can be found in the *Our communities* section of *Engaging with our Stakeholders* in the *Strategic Report*. No political donations were made in the year (2021: nil).

Our colleagues

We continue to listen and respond to our colleagues' needs. It is important that all our colleagues feel connected to the Society and can contribute to our success. To achieve this, we communicate business information to our colleagues across our organisation in an appropriate and timely way. We recognise that employing people from different backgrounds and with a range of experience enhances the way in which we work. We are building a diverse workforce and we make workplace adjustments wherever we possibly can to provide an inclusive working environment for all colleagues. See the *Engaging with our stakeholders* section of the *Strategic Report* for more details.

Our responsibilities in respect of accounting records and internal control

We are responsible for ensuring that the Society:

- keeps accounting records in accordance with the *Building Societies Act 1986* (the Act); and
- takes reasonable care to establish, maintain, document and review such systems and control as are appropriate to its business in accordance with the rules made by the Prudential Regulation Authority under the *Financial Services Act 2012*.

We have a general responsibility for the safeguarding of the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Responsibilities in respect of the preparation of the Annual Report and Accounts

The following statement, which should be read in conjunction with the *Auditors' responsibilities for the audit of the financial statements* in the *Independent auditors' report to the members of Yorkshire Building Society*, is made by the directors to explain their responsibilities in relation to the preparation of the financial statements.

We are required by the Act to prepare financial statements, for both the Society and the Group, that give a true and fair view of the income and expenditure for the financial year, and the state of affairs at the end of the financial year. We are also required to provide details of directors' remuneration in accordance with part VIII of the Act and regulations made under it.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable;
- state whether the financial statements have been prepared in accordance with International Accounting Standards; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The disclosure and transparency rules of the Financial Conduct Authority (the DTR) require an annual financial report to include:

- audited financial statements for both the Society and Group;
- a management report that includes a fair review of the business and a description of the principal risks and uncertainties (see the *Strategic Report* and the *Risk Management Report*); and
- responsibility statements (see *Responsibility Statements* below).

We are responsible for the maintenance and integrity of statutory and audited information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Laws in the United Kingdom governing the preparation and communication of financial statements may be different from laws in other jurisdictions.

Annual business statement

The Act also requires the directors to prepare, for each financial year, an annual business statement containing prescribed information relating to the business of the Group. See pages 228 to 229 for the 2022 Annual Business Statement.

Non-financial information statement

The Society aims to voluntarily apply the requirements of s414CB of the *Companies Act 2006* by including non-financial information intended to help stakeholders understand our position on key non-financial matters.

Information regarding these matters can be found in the following sections of this document:

Area	Strategic Report reference
Environment matters	See ***Building a greener society*** section
Employees	See the ***Investing in our people*** subsection of ***Our ESG Priorities*** section
Social matters	See the ***Our communities*** subsection of the ***Engaging with our stakeholders*** section
Respect for human rights	See the ***Our communities*** subsection of the ***Engaging with our stakeholders*** section
Anti-corruption and anti-bribery	See the ***Anti-bribery and anti corruption*** subsection of ***Operating responsibly*** section
Our business model	*See **Our Business model** subsection of **Our purpose and strategy** section of the **Strategic Report***
Principal risks	See the ***Principal risks and uncertainties*** section
Key performance indicators	See ***Performance at a glance*** section in the ***Introduction*** and the ***Engaging with our stakeholders*** section for a description of employee engagement scores

Directors' Duties

Section 172 of the *Companies Act 2006* (s172) describes the duties of company directors in respect of promoting the business and considering other stakeholders. This does not apply to the Society's Directors as we are a building society not a company, but the Code expects boards to report on how they have considered the matters set out in s172 in decision making. The table below summarises the s172 requirements and cross references to where this consideration is covered in other sections of this document.

Summary of s172 requirements	Yorkshire Building Society Board	Relevant disclosure
A director must act in a way they consider, in good faith, would most likely promote the success of the business for the benefit of its members as a whole (i.e. the company's shareholders) and in doing so have regard (amongst other matters) to the:	As a mutual the Society does not have external shareholders, we are owned by our members. The Board is committed to promoting the long-term success of the Society for the benefit of our current and future members. Building on our purpose to provide *Real Help with Real Life* our *Strategic Blueprint* strategy underpins our commitment to the success of the business for our members both now and in the future.	*Our Business model* section *Our purpose* and *Our strategy* sections
• likely consequences of any decision in the long-term	Our Board recognises the importance of ensuring the likely consequences of decisions in the long term are considered which is reflected in our *Strategic Blueprint* built around our purpose of providing *Real Help with Real Life*.	*Our Business model* section *Our purpose* and *Our strategy* sections

Directors' Report (continued)

Directors' Duties (continued)

Summary of s172 Requirements	Yorkshire Building Society Board	Relevant Disclosure
• **interests of employees**	The Board understands that our people are the foundation of our business and recognises the importance of ensuring that their voice is heard in the board room. Each paper considered by the Board sets out the implications for our employees and, where relevant, how they have been consulted on the proposals. The Board has also put in place a framework to ensure colleague views inform its decision.	*Our communities* subsection of the *Engaging with our stakeholders* section *Corporate Governance Report colleague* section
• **need to foster business relationships with suppliers, customers and others**	The Society's Board is committed to fostering and monitoring the effectiveness of our wider business relationships with all our key stakeholders. This was reflected in the shaping of our Strategic Blueprint which was supported through detailed stakeholder engagement exercises.	*Our purpose* and *Our strategy* sections *Our communities* subsection of the *Engaging with our Stakeholders* section
• **impact of the business's operations on the community and the environment**	The environment, social and governance impact of the Society underpins the Strategic Blueprint and each paper considered by the Board sets out any social or environmental implications of a decision ensuring that the Board has regard to the impact of these as part of its overall approach to promoting the success of the Society.	*Our communities* subsection of the *Engaging with our stakeholders* section *Building a greener society* section.
• **desirability of maintaining a reputation for high standards of business conduct**	The Board's commitment to maintaining high standards of business conduct helps to ensure the long-term success of the Society for our current and future members, customers, colleagues and all other stakeholders. The Society's behaviours help drive the culture and supports the delivery of the *Strategic Blueprint*.	*Our Business model* section *Our purpose* and *Our strategy* sections
• **need to act fairly as between members (i.e. the company's shareholders)**	The Society does not have external shareholders, instead our members are our owners and at the heart of what we do. The Board understands the importance of engaging with our members and is committed to ensuring their views inform future decision making to ensure it is fair and in the interests of our membership as a whole.	*Our communities* subsection of the *Engaging with our stakeholders* section *Corporate Governance Report member's* section

Streamlined Energy and Carbon Reporting (SECR)

The Society continues to disclose under the UK's Streamlined Energy and Carbon Reporting (SECR) requirements. More detail of the Society's environmental achievements, commitments and approach to climate risk can be found within the *Building a greener society* section of the *Strategic Report*.

Methodology

Greenhouse gas emissions and environmental impacts for the Group are calculated in line with the Greenhouse Gas Protocol Corporate Standard (GHG Protocol). Emissions are reported in tonnes of carbon dioxide equivalent (tCO2e) and electricity usage in kilowatt hours (kWh). The Society utilises the UK Government GHG Conversion Factors for Company Reporting (2022) to ascertain exact emissions totals for all three scopes.

Scope 1 - emissions cover those generated from burning gas for heating and diesel for emergency generators within Group occupied buildings, UK owned vehicles (e.g. facility management vans) and refrigerant/air conditioning gases.

Scope 2 - emissions account for all direct electricity usages within the business. The Society's electricity supplier is backed by 100% renewable sources.

Emissions generated from electricity consumption are zero under the 'market' based calculations due to the purchase of certified renewable electricity.

Scope 3 - emissions cover indirect business activity. For example, a 'Well-to-Tank' emissions factor is an average of all the GHG emissions released into the atmosphere from the production, processing and delivery of a fuel or energy.

Given the timing of this report and the availability the underlying data, certain estimates and assumptions are made in calculating the overall emissions and energy usage figures for the current year. These are laid out below:

Emission Source	Assumptions & Estimations
Waste	Confidential waste uplifts are recorded in number of sacks collected. A full sack is 15kg and it is assumed that a bag is 100% filled with paper before being uplifted. WEE waste needed Q4 (October – December) data to be estimated. This was achieved through scaling the total quantities of waste from Q1 – Q3 by the number of units uplifted in each quarter. Scaling factors were then calculated to understand how much (kg) of a unit uplifted is recycled, incinerated, or landfilled. These factors were then multiplied by the average unit uplift for Q1 – Q3 to apportion waste fate quantities for Q4.
Water Treatment	In lieu of wastewater quantities, a standard assumption was made that 95% of water consumption was sent for wastewater treatment.
Business Travel (Road)	Entries where the distance travelled was unknown, but the amount spent on refuelling the vehicle was known, the Sustainable Scotland Network's Carbon Footprint & Project Register Tool (SSN CFPR Tool) was used to calculate the km travelled from the £ spent.
Business Travel (Hotel)	Austrian hotel stays had no emission factor available. Therefore, Germany's emission factor was used due to it being a neighbouring country with similar climates.

*2021 figures have been updated to adjust for actual usage and to align with 2022's calculation methodology.

Energy Use and Emissions Report

Per the GHG Protocol, energy usage and emissions from our business activities are classified as follows:

Internal Energy Usage	2022 kWh	2021 kWh
Heating and emergency fuel usage	5,165,030	9,654,526
Company owned vehicle transport	3,509	6,825
Scope 1	**5,168,539**	**9,661,351**
National Grid Electricity Consumption	8,183,123	11,199,210
Onsite Solar Electricity Generation Consumption	144,500	156,060
Scope 2	**8,327,623**	**11,355,270**
Leased/hired business transport	382,648	202,588
Scope 3	**382,648**	**202,588**
Total	**13,878,810**	**21,219,209**
	tCO_2e	**tCO_2e**
Total emissions from internal energy usage	**2,619**	**4,198**

Directors' Report (continued)

Streamlined Energy and Carbon Reporting (SECR) (continued)

Ricardo Energy & Environment, our external carbon footprint verifiers, have carried out a limited level assurance review of these figures. This review assessed data collection and calculation methodologies against the applicable requirements. Based on the process and procedures conducted, they have concluded that there is no evidence that the 2022 GHG assertion: is not materially correct; is not a fair representation of greenhouse gas data and information, and has not been prepared in accordance with the ISO 14064-1 *specification with guidance for the validation and verification of greenhouse gas assertions* and the GHG Protocol.

Carbon footprint	2022		2021	
	Location tCO_2e	Market tCO_2e	Location tCO_2e	Market tCO_2e
Scope 1				
Generation of heat (gas consumption)	**941**	**-**	1,766	1,286
Diesel (back-up generators)	**0.04**	**0.04**	3	3
Refrigerant gases	**1**	**1**	18	18
Vehicles used on Society business	**7**	**7**	2	2
Total	**949**	**8**	**1,789**	**1,309**
Scope 2				
Electricity consumption	**1,582**	**-**	2,378	-
Total	**1,582**	**-**	**2,378**	**-**
Scope 3				
Well-to-tank – Electricity	**413**	**35**	674	55
Well-to-tank – Fuels	**197**	**36**	317	306
Transmission and distribution - Electricity consumption	**145**	**145**	210	210
Business travel – Transport	**161**	**161**	51	51
Business travel – Hotel	**15**	**15**	3	3
Water supply and treatment	**8**	**8**	11	11
Waste disposal	**8**	**8**	9	9
Total	**947**	**408**	**1,275**	**645**
Total Carbon Footprint	**3,479**	**416**	**5,442**	**1,954**

Intensity Ratios

Intensity Ratios	2022			2021*		
	Income	GHG Emissions	Intensity ratio	Income	GHG Emissions	Intensity ratio
Income intensity ratio	**£m**	**tCO_2e**	**tCO_2e/£m**	**£m**	**tCO_2e**	**tCO_2e/£m**
Location	**811**	**3,479**	**4.3**	578	5,442	9.4
Market		**416**	**0.5**		1,954	3.4
Colleague intensity ratio	**Colleagues**	**tCO_2e**	**tCO_2e/person**	**Colleagues**	**tCO_2e**	**tCO_2e/person**
Location	**4,530**	**3,479**	**0.8**	4,534	5,442	1.2
Market		**416**	**0.1**		1,954	0.4

* 2021's Intensity Ratios have been updated to include actuals figures rather than the estimates for final month/quarter amounts included in the 2021 disclosures. Calculations were also altered reflect the 2022 carbon footprint's calculation methodologies.

Going concern

The directors confirm that they consider that the Group and the Society has adequate resources to continue in existence for at least 12 months from the date of this report. This confirmation is made after having reviewed assumptions about future trading performance, liquidity requirements, capital requirements and organisational sustainability. The directors also considered potential risks and uncertainties in the business, credit, market and liquidity risks, including the availability and repayment profile of funding facilities. Details of how the Board monitor longer term risks are included in the *Risk Management Report* in the *Governance* section.

Based on the above, together with available market information and the directors' knowledge and experience of the business and our markets, the directors continue to adopt the going concern basis in preparing the Annual Report and Accounts for the year ended 31 December 2022.

Viability

The UK Corporate Governance Code (the Code), which the Society adopts to the extent that it applies to a Building Society, requires the directors to assess the prospects and ongoing viability of the Group over a longer period than the 12 months required for the going concern assessment.

For the purposes of assessing longer term viability, the directors have determined three years to be the most appropriate period as this covers the typical term of most of our fixed rate products and is the longest period over which the directors consider that they can form a reasonably firm view over the macroeconomic environment and associated key drivers of business performance. The directors have therefore assessed the viability of the Group and the Society over the three years to December 2025, taking account of the current position and the potential impact of the risks documented in the Strategic Report and the Risk Management Report.

Our financial planning process consists of an operating plan for the next financial year and a corporate plan for the following additional four financial years. The one-year operating plan has a greater level of certainty and is used to set near-term targets. The five-year corporate plan is less certain than the operating plan but provides a longer-term outlook against which strategic decisions can be made.

The financial planning process forecasts the Group's profitability, capital position, liquidity and other key financial metrics over the period, including regulatory measures such as MREL (Minimum Requirement for Eligible Liabilities). These metrics are subject to sensitivity analysis through the annual Group ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment) processes. The Group stresses its capital and liquidity plans, under 'severe but plausible' stress test scenarios, in line with PRA requirements.

The ICAAP stress test ensures that the plan projections for capital requirements and capital generation are resilient to stresses should the environment deteriorate beyond the levels currently envisaged. The Group maintains capital buffers that are sufficient to absorb the level of capital erosion in the stress scenario over and above its minimum capital requirement, ensuring that the Group can continue to meet its minimum capital requirements throughout a 'severe but plausible' stress. The ILAAP stress test ensures that the Group holds adequate liquid assets in terms of both quality and quantity sufficient to meet both its business as usual liquidity needs and increased requirements that could occur as a result of the Group entering into a period of stress. Planned liquidity levels meet the Group's key risk appetite measures over a period of three years.

The Board has undertaken a robust assessment of the principal risks and uncertainties that could threaten the business model, future performance, solvency or liquidity of the Group and the Society. Based on this assessment, the directors have a reasonable expectation that the Group and the Society will be able to continue in operation and meet its liabilities as they fall due over the period to December 2025.

Responsibility statements

As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the directors confirm that, to the best of their knowledge:

- the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Society and the Group; and
- The *Strategic Report* includes a fair review of the development and performance of the business and the position of the Society and the Group, and the *Strategic Report* and the *Risk Management Report* contain a description of the principal risks and uncertainties.

Fair, balanced and understandable

As required by the UK Corporate Governance Code, which the Group adopts to the extent that it applies to a Building Society, the directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess our performance, business model and strategy.

External auditor

The reappointment of PricewaterhouseCoopers LLP as the Group's external auditor is to be proposed at the AGM. The directors in office at the date of this report confirm that, so far as they are aware, there is no relevant audit information of which the external auditor is unaware. Each director has taken all the steps necessary in order to make themselves aware of any relevant audit information and to establish that the external auditors are also aware of that information.

John Heaps
Chair of the Board
1 March 2023

Independent auditors' report to the members of Yorkshire Building Society

Report on the audit of the financial statements

Opinion

In our opinion, Yorkshire Building Society's Group financial statements and Society financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2022 and of the Group's and the Society's income and expenditure and the Group's and the Society's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Society balance sheets as at 31 December 2022; the Group and Society income statements, Group and Society statements of comprehensive income, the Group and Society statements of cash flows, and the Group and Society statements of changes in members' interest and equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in the note 6 to the financial statements, we have provided no non-audit services to the Group in the period from 1 January 2022 to 31 December 2022.

Our Audit approach

Overview

Materiality

Group financial statements

- £21.3m (2021: £14.6m)
- 5% of the current year profit before tax adjusted to exclude net gains and losses arising from financial instruments held at fair value

Society financial statements

- £17.6m (2021: £8.0m)
- 5% of the current year profit before tax adjusted to exclude net gains and losses arising from financial instruments held at fair value

Scoping

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors.
- We performed audit procedures over components considered financially significant in the context of the Group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances). We also performed analytical review procedures to mitigate the risk of material misstatement in the residual components.

Key audit matters

- The application of key judgements and assumptions in relation to applying expected credit loss provisioning on loans and advances to customers (Group and Society);
- Fair value hedge accounting in respect of foreign currency debt issuances and cash flow hedge accounting in respect of interest rate caps (Group and Society); and
- The appropriateness of estimates used within the valuation of the defined benefit pension obligation (Group and Society).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and its industry, we identified that the principal risks of non-compliance with laws and regulations related to, but are not limited to, the Financial Conduct Authority's ('FCA') and Prudential Regulation Authority's ('PRA') regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Building Societies Act 1986 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance and the application of management bias in the assumptions underpinning significant accounting estimates.

Audit procedures performed included:

- Enquiries of management, those charged with governance and the Group's in-house legal counsel throughout the year, including consideration of known or suspected instances of non-compliance with laws and regulations;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Review of internal audit reports throughout the year, in so far as these related to the financial statements;
- Review of correspondence with, and reports to, the PRA and FCA;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging estimates and judgements made by management in forming significant accounting estimates in particular those as described under the key audit matters below; and
- Identifying and testing higher risk journal entries, in particular any journals posted by senior management, postings to unusual account combinations based on our understanding of business operations and material late adjustments.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

Independent auditors' report to the members of Yorkshire Building Society (continued)

Report on the audit of the financial statements (continued)

Our Audit approach (continued)

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

The key audit matters are consistent with the prior year.

Key audit matter	How our audit addressed the key audit matter
The application of key judgements and assumptions in applying expected credit loss ('ECL') provisioning on loans and advances to customers (Group and Society)	
As at 31 December 2022: ■ The Group has gross loans and advances to customers of £45,262m, with ECL provisions of £58m held against them. ■ The Society has gross loans and advances to customers of £11,272m, with ECL provisions of £33m held against them. The determination of ECL provisions is inherently judgemental and involves setting assumptions using forward looking information reflecting the Group's view of potential future economic events. This can give rise to increased estimation uncertainty, which is compounded by the inflationary and interest rate environment in the UK. In response to this uncertainty the Group introduced an affordability post-model adjustment of £11m. This adjustment applies a lifetime loss calculation to those customers identified as being at the greatest risk of going into default due to the rising cost-of-living. We consider the following elements of the determination of modelled ECL for residential mortgages to be significant: ■ The application of forward-looking economic assumptions used in the models and the weightings assigned to those scenarios, particularly in respect of assumptions relating to future house prices and unemployment levels since these have the largest impact on the provision; and ■ The appropriateness and completeness of post-model adjustments that are recorded to take into account latent risks and known model limitations, in particular to address the risk associated with mortgage affordability. The relevant disclosures are given in note 32. Management's associated accounting policies are detailed on page 149. Management's judgements in the application of accounting policy and critical estimates are disclosed on pages 153 to 154 and the considerations of the effect of the future economic environment are given on page 199. The Audit Committee's consideration of the matter is described on page 90.	With the support of our credit risk modelling specialists and economics experts, we performed the following procedures. We understood and critically assessed the appropriateness of the ECL accounting policy and model methodologies used by management. We tested model performance by: ■ independently replicating the modelling of key assumptions and their application in the determination of ECL; and ■ independently reperforming a sample of management's model monitoring tests, which compare actual outcomes to those predicted by the models. We assessed the reasonableness and likelihood of the forward looking economic assumptions and weightings assigned to the scenarios using a benchmarking tool developed by our economic experts. We assessed their reasonableness against known or likely economic, political and other relevant events. The severity and magnitude of the scenarios, specifically the house price inflation forecasts, were compared to external forecasts and data from historical economic downturns. Sensitivities of the ECL provision to the chosen scenarios was considered. We found that the assumptions adopted and assigned weightings to the scenarios were reasonable. Based on our knowledge and understanding of the limitations in management's models and emerging industry risks, we evaluated the appropriateness and completeness of the post model adjustments proposed by management. We tested the valuation of the £11m customer affordability post-model adjustment by critically assessing the methodology and testing the underlying assumptions used in the calculation to supporting evidence, and by developing our own challenger approach to the post model adjustment. We tested the ECL disclosures made by management to assess compliance with accounting standards. From the evidence we obtained, we found that the application of forward-looking economic assumptions, weightings and the appropriateness and completeness of the post model adjustments as they relate to the ECL provision to be reasonable.

Key audit matter	How our audit addressed the key audit matter
Fair value hedge accounting in respect of foreign currency debt issuances and cash flow hedge accounting in respect of interest rate caps (Group and Society)	
The business enters into derivative contracts in order to manage and economically hedge risks such as interest and foreign exchange rate risk. These arrangements create accounting mismatches which are addressed through designating instruments into fair value or cash flow hedge accounting relationships. Certain hedge accounting relationships are maintained in spreadsheets with associated reliance on manual processing, which elevates the risk of operational errors and hence the risk that financial reporting is not compliant with IFRS requirements. In the current year, the fair values of the derivatives which are designated into hedging relationships have increased due to market conditions. During the period, interest rate cap derivatives used to mitigate increases in wholesale funding costs began generating cash inflows, resulting in amounts previously held in the cash flow hedge reserve being transferred to the income statement for the first time. The relevant disclosures are given in note 27. Management's associated accounting policies are detailed on page 150. The Audit Committee's consideration of the matter is described on page 90.	We understood the nature of the hedge accounting relationships designated by management in the context of the risk management strategies that they are associated with. For a sample of hedging relationships, we obtained and evaluated the hedge accounting documentation to assess whether each hedge was compliant with the requirements of accounting standards. For a sample of hedging relationships which are maintained in manual spreadsheets, we: ■ revalued hedging derivatives and underlying hedged items; ■ re-performed hedge effectiveness calculations, agreeing key terms to underlying support; and ■ tested that the hedge accounting was appropriately recorded. For a sample of interest rate cap hedging relationships for which amounts were transferred to income in the period, we tested the classification and measurement of those amounts, including agreeing amounts received to third party evidence. Based on the evidence obtained, we determined the application of hedge accounting to be appropriate.
Appropriateness of estimates used within the valuation of the defined benefit pension obligation (Group and Society)	
The Group and Society operates funded and unfunded defined benefit pension schemes for certain current and former members of staff. The present value of the defined benefit obligation at 31 December 2022 is £593.4m. The critical assumptions in the measurement of the defined benefit obligation are discount rate, inflation and mortality rates. Changes in these assumptions can have significant impacts on the valuation. During the current year the value of the scheme obligations has reduced. This is largely due to increases in the discount rate used which has been updated to reflect increased corporate bond yields. The relevant disclosures are given in note 18. Management's accounting policies are detailed on page 151. Management's judgements in application of accounting policy and critical estimates are disclosed on page 153. The Audit Committee's consideration of the matter is described on page 91.	We considered the independence, objectivity and competence of the third-party actuaries engaged by management to perform their valuation. We confirmed our understanding of the actuary's roll-forward methodology used in determining the valuation of the defined benefit obligation. We tested samples of census data of scheme membership data back to source documents and found the data used to be appropriate. We have engaged our actuarial experts to evaluate the judgements and estimates made by management in determining the key financial and mortality assumptions used in calculating the defined benefit obligation. We reviewed the third-parties actuaries' report and enquired of those actuaries to obtain an understanding of how key assumptions are set and the methodologies adopted in calculating the defined benefit obligation. We assessed the reasonableness of the assumptions and methodologies adopted using our knowledge of current market practice, PwC-developed benchmarks and external market data. Based on the work performed and evidence obtained, we found the methodology to be compliant with accounting standards and key assumptions to be within our independent derived ranges.

Independent auditors' report to the members of Yorkshire Building Society (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Society, the accounting processes and controls, and the industry in which they operate.

The Group comprises the Society, its wholly owned subsidiaries and special purpose vehicles over which, under accounting standards, the Society has control. Each entity is located in the UK and is considered to be a financial reporting component.

In establishing the overall approach to our audit of the financial statements, we determined the type of work that was required to be performed over each component. The Society and Accord Mortgages Limited were considered individually financially significant in the context of the Group's consolidated financial statements and were hence full scope audit components.

We considered the individual financial significance of other components in relation to primary statement account balances. We considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). Any component which was not already included as a full scope audit component but was identified as being individually financially significant in respect of one or more account balances was subject to specific audit procedures over those account balances.

All remaining components were subject to procedures which mitigated the risk of material misstatement including Group level analytical review procedures.

All audit work was performed in the UK and by the same engagement team.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process management adopted to assess the extent of the potential impact of climate risk on the Group and Society's financial statements and support the disclosures made in relation to climate change in the Annual Report & Accounts. In addition to enquiries with management, we also:

- Read the Group's Environmental and Climate change policies and framework to consider the impact on our audit risk assessment;
- Considered the exposure of the Group and Society's mortgage portfolios to physical and transitions risks by examining the output of assessments performed by management during the year; and
- Read additional reporting made by the Group on climate including its Carbon Disclosure Project public submission and the Group's 2021 Environmental, Social and Governance report.

Management has made commitments to achieve net-zero Scope 1 and 2 emissions by 2035 and net-zero Scope 3 operational emissions by 2050. This commitment does not at this stage directly impact financial reporting, as management has not yet developed a pathway to deliver this commitment and will only be able to model the impact once the pathway is developed.

Management considers the impact of climate risk does not give rise to a potential material financial statement impact.

We assessed the consistency of management's climate impact assessment with internal climate plans and board minutes, as well as knowledge obtained from our audit.

We also considered the consistency of the disclosures in relation to climate change (including the disclosures in the Task Force on Climate-related Financial Disclosures (TCFD) section) within the Annual Report with the financial statements and our knowledge obtained from our audit.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 31 December 2022.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	**Group financial statements** **£21.3m** (2021: £14.6m)	**Society financial statements** **£17.6m** (2021: £8.0m)
How we determined it	5% of the current year profit before tax adjusted to exclude net gains and losses arising from financial instruments held at fair value.	
Rationale for benchmark applied	Profit before tax is a primary measure used by stakeholders in assessing the performance of the Group and Society and is a generally accepted benchmark for determining audit materiality. Management assesses the performance of the business using the "Core operating profit" measure, which itself excludes net gains and losses on financial instruments held at fair value through the income statement, as these are not considered to reflect the underlying performance of the business. The fair value movement relates predominantly to derivatives which are not yet in accounting hedging relationships, rather than underlying business performance.	

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £11.1m and £17.6m.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £15.6m for the Group financial statements and £13.2m for the Society financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.0m (2021: £0.7m) in respect of the Group and £0.8m (2021: £0.4m) in respect of the Society, as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Society's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the Group operates;
- Evaluation of management's going concern assessment;
- Consideration of the Group's Operating Plan, ICAAP and ILAAP, regulatory correspondence and reports provided to governance forums, and assessment of the total capital resources; and
- Evaluation of the appropriateness of the relevant disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Society's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and Society's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

Based on our work undertaken in the course of the audit, the Building Societies Act 1986 requires us also to report certain opinions and matters as described below.

Annual Business Statement and Directors' Report

In our opinion, based on our work undertaken in the course of the audit:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 December 2022 is consistent with the accounting records and the financial statements; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

In light of the knowledge and understanding of the Group and Society and their environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Independent auditors' report to the members of Yorkshire Building Society (continued)

Report on the audit of the financial statements (continued)

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Society's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Society's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group and Society was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Society and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Society's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Society's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities in respect of the preparation of the Annual Report and Accounts, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and Society or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Yorkshire Building Society (continued)

Other required reporting

Building Societies Act 1986 exception reporting

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the Society financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 30 April 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2019 to 31 December 2022.

Other Matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Other voluntary reporting

Directors' remuneration

The Society voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Heather Varley
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
Leeds

1 March 2023

FINANCIAL STATEMENTS

Income Statements

For the year ended 31 December 2022

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Interest revenue calculated using the effective interest method	3	**1,202.6**	962.7	**1,135.7**	756.1
Other interest revenue	3	**234.4**	30.8	**313.2**	56.5
Interest revenue	3	**1,437.0**	993.5	**1,448.9**	812.6
Interest expense	4	**(712.9)**	(456.1)	**(992.2)**	(543.2)
Net interest income		**724.1**	537.4	**456.7**	269.4
Fee and commission revenue		**21.6**	24.1	**8.7**	11.9
Fee and commission expense		**(16.3)**	(15.2)	**(6.6)**	(6.0)
Net fee and commission income		**5.3**	8.9	**2.1**	5.9
Net gains from financial instruments held at fair value	5	**75.6**	26.7	**67.8**	39.3
Income from investments	8	**0.1**	0.1	**100.1**	75.1
Net realised gains on disposal of financial instruments		**2.9**	0.8	**2.9**	0.8
Other operating income		**3.4**	3.7	**93.8**	71.9
Total income		**811.4**	577.6	**723.4**	462.4
Administrative expenses	6	**(276.9)**	(251.8)	**(276.7)**	(251.8)
Depreciation and amortisation		**(21.8)**	(22.7)	**(21.8)**	(22.7)
Impairment (charge)/release of financial assets	7	**(6.0)**	19.2	**0.6**	15.4
Movement in provisions	24	**(4.2)**	(2.3)	**(4.2)**	(2.3)
Profit before tax		**502.5**	320.0	**421.3**	201.0
Tax expense	9	**(123.2)**	(62.9)	**(91.1)**	(23.7)
Profit for the year		**379.3**	257.1	**330.2**	177.3

All profit for the year arises from continuing operations and is attributable to members.

The notes on pages 146 to 226 form part of these financial statements.

Statements of Comprehensive Income

For the year ended 31 December 2022

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Profit for the year		**379.3**	257.1	**330.2**	177.3
Items that may be subsequently reclassified through profit or loss					
Cash flow hedges:					
Fair value movements taken to equity		**26.1**	15.3	**26.1**	15.3
Amounts transferred to the income statement		**(28.1)**	0.4	**(28.1)**	0.4
Tax on amounts recognised in equity	9	**0.5**	(4.2)	**0.5**	(4.2)
Effect of change in corporation tax rate	9	**0.8**	(0.9)	**0.8**	(0.9)
Financial assets measured through other comprehensive income:					
Fair value movements taken to equity		**(27.0)**	18.3	**(27.0)**	18.3
Amounts transferred to the income statement		**(1.9)**	(3.7)	**(1.9)**	(3.7)
Tax on amounts recognised in equity	9	**7.8**	(4.0)	**7.8**	(4.0)
Effect of change in corporation tax rate	9	**1.9**	(1.9)	**1.9**	(1.9)
Items that will not be reclassified through profit or loss					
Remeasurement of retirement benefit obligations	18	**(80.0)**	30.5	**(80.0)**	30.5
Tax on remeasurement of retirement benefit obligations	9	**21.6**	(8.0)	**21.6**	(8.0)
Effect of change in corporation tax rate	9	**6.9**	(7.2)	**6.9**	(7.2)
Total other comprehensive (expense)/income		**(71.4)**	34.6	**(71.4)**	34.6
Total comprehensive income for the year		**307.9**	291.7	**258.8**	211.9

The notes on pages 146 to 226 form part of these financial statements.

Balance Sheets

As at 31 December 2022

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Assets					
Cash and balances with the Bank of England	10	**5,982.8**	5,539.8	**5,982.8**	5,539.8
Loans and advances to credit institutions		**814.7**	381.4	**568.8**	295.8
Debt securities	11	**5,684.8**	4,075.5	**19,233.0**	14,940.5
Loans and advances to customers	12	**43,695.4**	41,922.4	**9,730.6**	11,456.6
Derivative financial instruments	27	**2,356.5**	490.9	**2,323.7**	419.5
Investments	8	**2.8**	5.4	**35,739.8**	33,136.0
Intangible assets	13	**20.2**	23.5	**20.2**	23.5
Investment properties	14	**16.0**	14.5	**16.0**	14.5
Property held for sale	15	**0.9**	0.3	**0.9**	0.3
Property, plant and equipment	16	**101.1**	122.0	**101.1**	122.0
Retirement benefit surplus	18	**48.8**	120.8	**48.8**	120.8
Other assets	19	**30.1**	27.2	**95.2**	56.0
Total assets		**58,754.1**	52,723.7	**73,860.9**	66,125.3
Liabilities					
Shares	20	**42,008.2**	35,506.4	**42,008.2**	35,506.4
Amounts owed to credit institutions		**5,160.9**	6,089.8	**5,160.9**	6,089.8
Other deposits	21	**1,138.1**	873.5	**15,836.3**	15,562.1
Debt securities in issue	22	**5,259.3**	5,890.9	**6,153.4**	4,993.7
Derivative financial instruments	27	**666.3**	272.7	**507.0**	180.9
Current tax liabilities		**0.7**	4.0	**0.6**	4.0
Deferred tax liabilities	17	**11.9**	50.4	**10.2**	48.4
Other liabilities	23	**64.0**	83.6	**97.0**	98.4
Pension liability	18	**7.4**	–	**7.4**	–
Provisions	24	**5.7**	6.1	**5.7**	6.1
Subordinated liabilities	25	**1,035.1**	857.7	**1,035.1**	857.7
Total liabilities		**55,357.6**	49,635.1	**70,821.8**	63,347.5
Members' interests and equity		**3,396.5**	3,088.6	**3,039.1**	2,777.8
Total members' interest, equity and liabilities		**58,754.1**	52,723.7	**73,860.9**	66,125.3

Approved by the Board of Directors on 1 March 2023 and signed on its behalf by:

Alasdair Lenman
Interim Chief Executive Officer

John Heaps
Chair of the Board

Guy Bainbridge
Chair of the Audit Committee

The notes on pages 146 to 226 form part of these financial statements.

Statements of Changes in Members' Interest and Equity

For the year ended 31 December 2022

Group	General reserve £m	Cash flow hedge reserve £m	Fair value through other comprehensive income £m	Total £m
At 1 January 2022	**3,056.9**	**10.6**	**21.1**	**3,088.6**
Profit for the year	**379.3**	**–**	**–**	**379.3**
Net remeasurement of defined benefit obligations	**(51.5)**	**–**	**–**	**(51.5)**
Net movement in cash flow hedges	**–**	**(0.7)**	**–**	**(0.7)**
Net movement in fair value through other comprehensive income	**–**	**–**	**(19.2)**	**(19.2)**
Total comprehensive income	**327.8**	**(0.7)**	**(19.2)**	**307.9**
At 31 December 2022	**3,384.7**	**9.9**	**1.9**	**3,396.5**
At 1 January 2021	2,784.5	–	12.4	2,796.9
Profit for the year	257.1	–	–	257.1
Net remeasurement of defined benefit obligations	15.3	–	–	15.3
Net movement in cash flow hedges	–	10.6	–	10.6
Net movement in fair value through other comprehensive income	–	–	8.7	8.7
Total comprehensive income	272.4	10.6	8.7	291.7
At 31 December 2021	3,056.9	10.6	21.1	3,088.6

The notes on pages 146 to 226 form part of these financial statements.

Statements of Changes in Members' Interest and Equity (continued)

For the year ended 31 December 2022

Society	General reserve £m	Cash flow hedge reserve £m	Fair value through other comprehensive income £m	Total £m
At 1 January 2022	**2,746.1**	**10.6**	**21.1**	**2,777.8**
Profit for the year	**330.2**	**–**	**–**	**330.2**
Net remeasurement of defined benefit obligations	**(51.5)**	**–**	**–**	**(51.5)**
Net movement in cash flow hedges	**–**	**(0.7)**	**–**	**(0.7)**
Net movement in fair value through other comprehensive income	**–**	**–**	**(19.2)**	**(19.2)**
Total comprehensive income	**278.7**	**(0.7)**	**(19.2)**	**258.8**
Capital contribution	**2.5**	**–**	**–**	**2.5**
At 31 December 2022	**3,027.3**	**9.9**	**1.9**	**3,039.1**
At 1 January 2021	2,553.5	–	12.4	2,565.9
Profit for the year	177.3	–	–	177.3
Net remeasurement of defined benefit obligations	15.3	–	–	15.3
Net movement in cash flow hedges	–	10.6	–	10.6
Net movement in fair value through other comprehensive income	–	–	8.7	8.7
Total comprehensive income	192.6	10.6	8.7	211.9
At 31 December 2021	2,746.1	10.6	21.1	2,777.8

The notes on pages 146 to 226 form part of these financial statements.

Statements of Cash Flows

For the year ended 31 December 2022

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Cash flows from operating activities					
Profit before tax		**502.5**	320.0	**421.3**	201.0
Non-cash items included in profit before tax	35	**(83.9)**	(45.5)	**(106.1)**	(40.2)
Net change in operating assets	35	**(3,644.0)**	(3,155.4)	**(2,783.4)**	(2,385.2)
Net change in operating liabilities	35	**6,113.2**	4,214.8	**6,194.8**	8,002.3
Tax paid		**(125.5)**	(66.5)	**(93.2)**	(27.7)
Net cash flow from operating activities		**2,762.3**	1,267.4	**3,633.4**	5,750.2
Cash flows from investing activities					
Purchase of property, plant and equipment, and intangible assets		**(12.8)**	(14.5)	**(12.8)**	(14.9)
Proceeds from sale of property, plant and equipment		**0.8**	13.1	**0.8**	13.1
Purchase of debt securities		**(2,952.2)**	(1,828.8)	**(8,787.6)**	(7,396.3)
Redemption and other movements of debt securities		**1,316.9**	628.7	**4,469.1**	1,923.0
Net cash flow from investing activities		**(1,647.3)**	(1,201.5)	**(4,330.5)**	(5,475.1)
Cash flows from financing activities					
Redemption of debt securities in issue	35	**(1,225.2)**	(1,365.6)	**(773.4)**	(1,082.2)
Debt securities in issue	35	**711.5**	1,424.0	**1,911.5**	968.4
Issue of subordinated liabilities	35	**300.0**	250.0	**300.0**	250.0
Interest paid on subordinated liabilities		**(33.7)**	(23.5)	**(33.7)**	(23.5)
Interest paid on lease liabilities		**(0.7)**	(0.9)	**(0.7)**	(0.9)
Capital repayments on lease liabilities		**(2.3)**	(5.6)	**(2.3)**	(5.6)
Net cash flow from financing activities		**(250.4)**	278.4	**1,401.4**	106.2
Net change in cash and cash equivalents		**864.6**	344.3	**704.3**	381.3
Opening balance		**5,765.7**	5,421.4	**5,680.1**	5,298.8
Closing cash and cash equivalents		**6,630.3**	5,765.7	**6,384.4**	5,680.1
Cash and cash equivalents					
Cash and cash equivalents	10	**5,982.8**	5,539.8	**5,982.8**	5,539.8
Less Bank of England cash ratio deposit	10	**(167.2)**	(155.5)	**(167.2)**	(155.5)
Loans and advances to credit institutions		**814.7**	381.4	**568.8**	295.8
Closing cash and cash equivalents		**6,630.3**	5,765.7	**6,384.4**	5,680.1

The notes on pages 146 to 226 form part of these financial statements.

Notes to the Financial Statements

1. Statement of accounting policies

Basis of preparation

These financial statements present the results of Yorkshire Building Society ('YBS' or 'the Society') and its controlled entities (collectively 'the Group' or 'the YBS Group') for the year ended 31 December 2022.

The Group is required under the *Building Societies Act 1986* to apply 'UK-adopted international accounting standards' as endorsed by the UK Endorsement Board ('UKEB'). As a result, these financial statements have been prepared in accordance with international accounting standards – being International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the International Accounting Standards Board (IASB) endorsed by the UKEB and effective from 1 January 2021 – and with those parts of the *Building Societies Act 1986* and the *Building Societies (Accounts and Related Provisions) Regulations 1998* applicable to societies reporting under international accounting standards.

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial instruments measured at fair value. Pounds sterling is both the functional currency of the YBS Group and the presentation currency applied to these financial statements. Except where otherwise stated, all figures in the financial statements are rounded to the nearest hundreds of thousands of pounds sterling (£0.0 million).

Accounting policies have been consistently applied, except where a new accounting standard has been introduced.

The preparation of financial statements under international accounting standards requires the use of certain critical accounting estimates and judgements. The areas involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the financial statements are set out in note 2.

Going concern

The YBS Board of Directors (the Board) undertake regular assessments of whether the Group is a going concern, taking into account changing economic and market conditions, and using all available information about future risks and uncertainties.

During the year to 31 December 2022, the onset of the ongoing conflict in Ukraine, and related energy crisis, compounded by already present global issues has resulted in increased uncertainty around the future direction of the macroeconomic environment. The impacts on the Group's modelling of impairment losses on loans and advances to customers are discussed in more detail in note 2.

Given its strong capital position and high liquidity levels, the Group is well placed to cope with economic volatility. As a result, the directors confirm that, based on the latest formal review undertaken in February 2023, and stress tests performed throughout the period, they consider the Group has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Society and the entities it controls as listed in note 8. Control is deemed to exist when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Upon consolidation, intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated. Investments in controlled entities are stated in the Society accounts at cost less any provisions for impairment.

Securitisation transactions

The Group securitises mortgage loans by transferring them into special purpose vehicles (SPVs) and issuing debt securities to investors, using the underlying loan assets as collateral. As the Society is deemed to control these SPVs, they are fully consolidated into these financial statements.

Generally, the transfer of the mortgage loans to the structured entities does not meet the derecognition criteria under IFRS 9 *Financial Instruments* as the Society/Accord substantially retains all the risks and rewards of ownership through the receipt of the residual profits or losses of the SPVs. In this instance, the Society/Accord continues to recognise the mortgage loans on their own balance sheets after the transfer, with the proceeds received from the transfer accounted for as a deemed loan from the SPVs. For covered bonds, the Society issues the covered bonds, not the structured entity. The proceeds are then lent to the structured entity on back-to-back terms. These proceeds are used as consideration for the loans transferred from the Society. Neither the loan to the structured entity nor the consideration for the transfer of mortgage loans is recognised separately as an additional asset and liability in the accounts of the Society.

To manage interest rate risk, the Society enters into derivative transactions with its structured entities, receiving a rate of interest based on the securitised mortgages and paying a rate inherent in the debt issuances. These internal derivatives are treated as part of the deemed loan and not separately measured at fair value because the relevant mortgage loans are not derecognised.

Accounting developments

Changes to Accounting Standards Effective in the Period

Standards issued but not yet effective

The following standards or amendments were in issue but were either optional, or not yet effective, and have not been adopted in these financial statements.

IFRS 9 and Hedge Accounting

IFRS 9 *Financial Instruments* was issued in 2014 as a replacement of IAS 39 *Financial Instruments: Recognition and Measurement* and was mandatorily effective for periods beginning on or after 1 January 2018.

However, IFRS 9 did not replace the requirements for portfolio fair value hedge accounting for interest rate risk since this phase of the project was separated out due to its longer-term nature.

As a result, IFRS 9 included a transitional relief allowing the continued use of the hedge accounting requirements of IAS 39, and the Group continue to adopt this approach.

The development of requirements will be closely monitored and the Group will continue to assess the impacts of full adoption of IFRS 9 for hedge accounting.

IFRS17 Insurance Contracts

IFRS 17 *Insurance Contracts* is the comprehensive standard establishing recognition and measurement requirements for insurance contracts. This standard is effective for periods beginning on or after 1 January 2023. Only a small equity release portfolio in run-off falls under the scope of IFRS 17 so the impact of applying this revised standard is not expected to be material.

Change in Accounting Policy

There were no changes to accounting policies during the year ended 31 December 2022.

Significant accounting policies

Interest revenue and expense calculated using the effective interest rate method

The effective interest rate method is used to calculate the revenue and expense for financial instruments held at amortised cost. The effective interest rate is the rate that exactly discounts estimated future cash flows (excluding credit losses) over the expected life of the instrument back to the fair value on initial recognition.

For mortgage loans and advances to customers this includes an estimate of any early repayment income. Directly attributable acquisition costs, such as application and arrangement fees, are also incorporated in the calculation.

This has the effect of spreading these fees and costs over the expected life of the mortgage. Expected lives are estimated using historical data and management judgement. The calculation is adjusted when actual experience differs from estimates, with changes in deferred amounts being recognised immediately in the income statement.

Fees and commissions

Fees and commissions on referral of customers to third party service providers of financial products is accounted for on an effective interest rate basis, similar to interest revenue and expense above. Other fees and commissions are recognised on an accruals basis as the relevant service is provided or at a point in time if the service or product provided relates to a one-off action.

Other operating income

Other operating income comprises profits on disposal of fixed assets, rental income from investment property and software licensing income. The Society also includes the recharge of administrative expenses to its subsidiaries.

Income from investments

This consists of dividend income and is recognised when the rights to receive the payment have been established.

Financial instruments

Classification and measurement of financial assets and financial liabilities

The Group initially recognises financial assets and liabilities at their fair value (adjusted for any directly attributable transaction costs for those subsequently classified at amortised cost) on the date that the Group becomes a party to the contractual provisions of the instrument. Subsequent measurement of financial assets and financial liabilities depends on the contractual cash flow characteristics of the instrument.

Amortised cost: this measurement approach is applied to instruments that are held to collect interest and principal payments over the life of the contract. Subsequent measurement is via the effective interest rate method (see *Interest revenue and expense calculated using the effective interest rate method* above), subject to impairment (see *Impairment* below), plus any adjustment if designated as part of an effective hedge arrangement (see *Hedging* below).

Fair value though other comprehensive income: this measurement approach is applied to financial assets whose business objective is the collection of interest and principal payments but that are also bought and sold. Subsequent measurement is at fair value with changes in fair value recognised in other comprehensive income. When the instrument is derecognised, the cumulative gain or loss previously recognised in reserves is reclassified to the income statement.

Fair value through profit and loss: this method is applied to those instruments that are not classed as amortised cost or fair value through other comprehensive income. Subsequent measurement is at fair value with any movements recognised in the income statement in the period in which they arise.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

The table below summarises the Group's financial instruments and the treatment adopted in these financial statements:

Financial instrument	Description	Subsequent measurement
Cash and cash equivalents	Cash balances and statutory deposits	Amortised cost
Loans and advances to credit institutions	Fixed and variable interest rates	Amortised cost
Debt securities	Fixed, variable and indexed linked interest rates	Fair value through other comprehensive income, amortised cost and fair value through profit and loss
Loans and advances to customers	Primarily mortgage products offering a variety of fixed and variable interest rates	Amortised cost
Derivative financial instruments*	Swaps and options to manage interest rate and foreign exchange risk exposures	Fair value through profit and loss (unless designated as a cash flow hedge, see 'Hedging' section of note 1, then fair value through other comprehensive income)
Investments in subsidiaries	Equity investments in controlled entities	Amortised cost
Investment in equities	Equity investments in non-controlled entities	Fair value through profit and loss
Shares	Deposits made by members with a variety of fixed and variable interest rates	Amortised cost
Amounts owed to credit institutions	Time Deposits at fixed and variable interest rates	Amortised cost
Debt securities in issue, subordinated liabilities and other deposits	Fixed and variable interest rates	Amortised cost

Derecognition of financial instruments

Financial assets are only derecognised when the contractual rights to receive cash flows from the financial assets have expired, or when the Group has transferred substantially all the risks and rewards of ownership. As described in *Securitisation transactions* above, the Group has not derecognised the loans transferred to the SPVs to secure the issue of covered bonds and mortgage backed securities because substantially all the risks and rewards are retained.

Financial liabilities are only derecognised when the obligation is discharged, cancelled, or has expired.

* The Society holds intra group derivatives to manage interest rate risk within the special purpose securitisation vehicles and these are measured at amortised cost. These internal derivatives are treated as part of the deemed loan with the SPV.

Impairment of financial assets

At each reporting date the Group assesses financial assets held at amortised cost for impairment.

For *loans and advances to customers* the Group uses the expected credit loss (ECL) staging model to assess any impairment in the carrying value of the mortgage assets. This model uses forward looking assessments of overall expected credit losses and recognises impairment based on a three-staged approach as follows.

Stage 1: financial assets are categorised into 'stage 1' on initial recognition. Impairment is based on expected credit losses resulting from default events projected within the next 12 months (12 month ECL).

Stage 2: financial assets move into 'stage 2' when they are deemed to have experienced a significant increase in credit risk (SICR), based on quantitative and/or qualitative risk grade thresholds. Impairment is then based on expected losses over the full lifetime of the contract (lifetime ECL).

The Group assesses a SICR to have occurred when the accounts are more than 30 days past due or there has been a significant relative increase in the lifetime probability of default (PD) compared to that at initial recognition.

For retail accounts, PD is based on the customer's credit quality, including analysis of their behaviour scores and other account characteristics. For non-retail portfolios, the Group assess a significant increase in credit risk using a combination of individual and collective information, including monitoring through the watch list process. For further information on the watch list process see note 32.

Stage 3: financial assets are moved into 'stage 3' when there is objective evidence that the loan is credit impaired, with expected credit losses still calculated on a lifetime basis.

A loan is considered credit impaired when it is 90 days past due, has been renegotiated for credit risk reasons, or otherwise considered to be in default (including possession, insolvency and assets beyond term expiry).

The Group's use of forbearance tools, including arrears arrangements, payment deferrals, term extension, transfers to interest only and interest capitalisation, are factored into the criteria for identifying stage 3 accounts. The impairment provision is determined using the same calculation as stage 2 accounts, but with the PD set to 100%.

Loans that are either purchased or originated credit impaired (POCI) are classified as stage 3 at initial recognition and cannot be transferred to stage 1 or 2 even if the credit quality of these assets improves. The Group has a portfolio of loans acquired as part of the Chelsea and Norwich & Peterborough acquisitions that meet this definition.

ECL calculations: these are assessed at individual loan level using three main components.

- PD, being the probability, at the point of assessment, that the customer will default in the future.
- Exposure at default (EAD), being the outstanding value of the loan, taking into account the repayment of principal and interest between the date of assessment and expected default date.
- Loss given default (LGD), is the net impact of the EAD after taking into account the mitigating effect of collateral and the time value of money.

PD is a calculation based on current conditions and adjusted to take into account estimates of future conditions that will impact PD. EAD is modelled based on expected payments over the term and is not floored at the current balance.

LGD takes into account the expected impact of future economic conditions, such as changes in value of collateral, and does not include any floors. Only costs directly associated with obtaining/selling collateral are included. Discounting of the expected cash flows is performed using the effective interest rate of the loan.

The ECL is calculated using models that build up separate estimates for PD, EAD and LGD for every month that a loan is due to be outstanding.

PD and LGD estimates are then flexed under different scenarios to capture the effects of changes to the forward looking macroeconomic variables (including interest rates, unemployment, house prices and inflation). The final ECL figure takes a probability weighted average of these different scenarios.

Loans are written off against this ECL balance when there is no realistic prospect of recovery. This is generally after receipt of any proceeds from the realisation of the collateral backing the loan.

Other financial assets are considered low credit risk at the reporting date as they are investment grade instruments. As a result, impairment is based on 12 month ECL as per stage 1 above. If changes in instruments' rating breaches the risk appetite then an ECL assessment will take place on the individual asset basis.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial instruments acquired in business combinations

Financial assets and liabilities acquired in a business combination are recognised at fair value upon acquisition. To the extent that this differs from the underlying amortised cost carrying value assumed on the transaction date, a fair value adjustment is recognised on the balance sheet.

This balance is then amortised through the income statement over the expected life of the acquired portfolio in a manner that reflects the consumption of the economic benefits arising from the underlying assets and liabilities. To the extent that the fair value adjustment relates to estimated credit losses on a portfolio of mortgage assets, the *fair value credit adjustment* is included in the overall ECL balance.

The Group continues to run off balances in relation to the Chelsea Building Society and Norwich & Peterborough acquisitions. In addition to the *fair value credit adjustments*, it also includes *interest rate fair value adjustments* in the *loans and advances to customers and shares* balances.

Hedging

As discussed above, IFRS 9 *Financial Instruments* included a transitional relief allowing the continued use of the hedge accounting requirements of IAS 39 *Financial Instruments: Recognition and Measurement*, and the Group continue to adopt this approach.

The Group applies hedge accounting when the specific rules and conditions in IAS 39 are fulfilled. The Group has designated the majority of its derivatives as either fair value or cash flow hedges in order to reduce volatility in the income statement.

Fair value hedges

Where a derivative financial instrument meets the requirements of a fair value hedge, changes in the fair value of the hedged item are taken to the income statement offsetting the effect of the related movements in the fair value of the derivative.

Where the hedge no longer meets the criteria the adjustment to the hedged item is released to the income statement, over the remaining life of the original hedged relationship.

Cash flow hedges

Where a derivative financial instrument is designated as a cash flow hedge, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income and recycled to the income statement. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately. If a cash flow hedge is terminated, the cumulative unrealised gain or loss recognised in equity is then amortised to profit and loss over the remaining life of hedging instrument provided the cash flows on hedged items are still expected to occur.

Segmental reporting

The Executive Committee (EXCO) is responsible for allocating resources and assessing the performance of the Group and is therefore identified as the chief operating decision maker.

The Group has one reportable segment that EXCO reviews performance and makes decisions on for the Group as a whole. As a result, no segmental disclosure is provided.

Intangible assets

Intangible assets held by the Group consist primarily of externally acquired and internally developed computer software. This is measured at cost less accumulated amortisation and impairment.

Costs incurred in the development of computer software for internal use are capitalised as intangible assets where the expenditure leads to the creation of an identifiable non-monetary asset and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group.

Purchased software is classified as an intangible asset where it is not an integral part of the related hardware. Computer software costs are amortised using the straight line method over their estimated useful lives, which are generally three to five years.

Intangible assets are reviewed for impairment at each reporting date or at any point in time where there is an indication of impairment. Impairment is assessed by estimating the recoverable amount of the asset, being the higher of: fair value less costs of disposal; and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment in the value of these assets is recognised immediately in the income statement.

Investment properties

Investment properties comprise freehold properties, and parts of freehold properties, that are not used in the business and held for rental income or capital appreciation. These properties are generally flats and offices ancillary to branch premises. Investment properties are held at cost less accumulated depreciation and impairment.

Property, plant and equipment

Freehold properties used in the business, major alterations to office premises, fixtures and fittings, equipment and other tangible fixed assets are stated at cost less accumulated depreciation and impairment. Costs incurred after the initial purchase of fixed assets are expensed unless it directly results in increased future economic benefits that can be reliably measured. Repairs and maintenance are treated as an expense.

Depreciation is a measure that recognises the cost, less estimated residual value, over the estimated useful economic lives as follows:

- Freehold/long leasehold buildings (including investment properties) – 50 years
- Short leasehold property and right-of-use property assets – Life of lease
- Equipment, fixtures, fittings and vehicles – 3 to 20 years
- Freehold land is stated at cost less accumulated impairment losses and is not depreciated.

Property, plant and equipment and Investment properties are reviewed for impairment annually and where there is an indication that events or circumstances may mean that the carrying amount is not recoverable. Where the recoverable amount of the asset is estimated to be less than the carrying amount, the carrying amount is written down immediately to the recoverable amount. Any impairment in the value of assets is recognised in the income statement as it arises.

Properties held for sale

The Group classifies property as held for sale when management is committed to a plan to sell and the asset is being actively marketed. It is measured at the lower of the carrying value and the fair value less costs to sell.

Leases

Contracts are accounted for as leases when the terms of the contract transfer substantially all the risks and rewards of ownership to the lessee. For such arrangements a 'right-of-use' asset, included in property, plant and equipment, and a corresponding lease liability, included in other liabilities, are recorded on the balance sheet upon initial recognition.

The right-of-use asset is measured at the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment. The lease liability is measured at the present value of the minimum lease payments.

Depreciation is recorded by the Group to write off the cost over the estimated useful economic life of the asset. Rent payable on finance leases is apportioned between the finance element, charged to the income statement, and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Leases with a short life, or relating to low value assets, are expensed to the income statement on a straight line basis over the period of the lease agreement.

Retirement benefit costs

The asset or liability is recognised in respect of the Group's defined benefit pension scheme measured at the present value of the defined benefit obligation at the reporting date, less the fair value of the plan assets, together with adjustments for unrecognised past service costs.

An asset is only recognised to the extent that it is recoverable by the Group via available refunds and reductions in future contributions to the scheme.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Gains or losses arising from changes in assumptions are recognised in other comprehensive income in the period in which they occur.

Defined benefit obligations are discounted to present value using the rate of return available on high quality corporate bonds of an equivalent term to the obligations.

Past service costs are recognised immediately in the income statement to the extent that benefits are already vested and otherwise are amortised on a straight line basis over the average period until the benefits become vested.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

Significant accounting policies (continued)

Taxation including deferred tax

Tax comprises current tax and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the tax is recognised in the statement of comprehensive income.

Current tax is the expected tax payable on the taxable profits for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for temporary differences arising between the carrying amount of certain assets and liabilities for accounting purposes and for taxation purposes. Deferred tax is provided using tax rates enacted or substantively enacted at the reporting date effective on the date at which they are expected to reverse.

The following temporary differences are not provided for:

- The initial recognition of assets or liabilities that affect neither accounting nor taxable profit.
- Differences relating to investments in subsidiaries, to the extent that the parent is able to control the reversal of temporary differences, and it is probable they will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available, against which a temporary difference can be utilised. The carrying amount of the deferred tax asset is reviewed at the reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Provisions

Provisions are recognised when: the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group will be required to settle that obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the net present value of the consideration required to settle the obligation, taking into account the risks and uncertainties surrounding the obligation.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and raised a valid expectation that it will carry out the restructuring through announcing the main features of the plan to those affected by it.

Capital management

Information on the Group's capital management can be found in the Capital risk section of the Risk Management Report.

Foreign currency

Assets and liabilities denominated in foreign currencies are translated into Sterling at the appropriate rates of exchange prevailing at the reporting date and exchange differences are recognised in the income statement. All income and expense is translated into Sterling at the rate of exchange on the day of receipt or payment.

Statement of cash flows

For the purposes of the statements of cash flows, cash and cash equivalents comprise cash and liquid financial instruments maturing within 3 months. The statement of cash flows has been prepared using the indirect method.

2. Critical accounting judgements and key sources of estimation uncertainty

In applying its accounting policies, the Group makes judgements that have a significant impact on the amounts recognised in the financial statements.

In addition, estimates and assumptions are used that could affect the reported amounts of assets and liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis. As explained in the *Audit Committee Report* in the *Governance* section, the Audit Committee has considered the accounting judgements and estimates applied in the financial statements. The Audit Committee have confirmed to the Board that they consider these to be appropriate.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below.

Retirement benefit costs

The Group's accounting policy states that a net defined benefit pension scheme asset should only be recognised to the extent that the Group has the ability to access the pension scheme surplus in the form of a refund or reduction in future contributions.

The scheme trustees could act unilaterally in order to restrict the ability of the Group to seek a refund or reduce future contributions, hence a judgement on the likelihood of this event is required. The Group has received a legal opinion supporting the judgement that any surplus of the scheme can be recovered in full and that pension scheme trustees are unable to act to amend the scheme rules, and ultimately prevent the Society accessing the surplus, without the Society's support.

In addition, significant estimation uncertainty in respect of areas such as future interest rates and mortality rates have to be applied in estimating the value of the assets and liabilities of the defined benefit scheme. These are outlined in note 18.

The impact of a 0.5% increase in the rate used to discount future liabilities from 4.8% to 5.3% would result in a decrease of liability of 7% (2021: decrease of 9%). The impact of a 0.5% increase in inflation would increase liabilities by 4% (2021: 5%). The impact of a one-year increase in life expectancy at age 60 would be to increase liabilities by around 3% (2021: 4%). Note that these sensitivities have been modelled independently as single variable adjustments and have not anticipated any correlation between movements in the inputs. A summary of the impact of these sensitivities on the scheme liabilities is included in note 18.

Impairment of loans and advances to customers

The impairment calculation of expected credit losses (ECL) for a portfolio of mortgage loans is inherently uncertain. ECL are calculated using historical default and loss experience but require judgement to be applied in predicting future economic conditions (e.g. interest rates and house prices) and customer behaviour (e.g. default rates). The most critical judgements that lead to estimation uncertainty are as follows:

Economic scenarios and weightings

A forum, supported by Finance, Credit Risk, Balance Sheet Management and economic experts considers the forward-looking macroeconomic assumptions with the objective of developing internally coherent economic scenarios to propose to the Group Asset and Liability Committee (ALCO) for challenge and approval. ALCO ensures that the ECL meets the requirement for unbiased and weighted amounts derived by evaluating a range of possible outcomes and assumptions, or economic scenarios.

Judgements are made in arriving at the level of each economic variable, such as house price index (HPI) and unemployment, applied in each economic scenario to support the estimate of ECL. ALCO applies judgements to arrive at these assumptions while the consensus view on these economic variables is being reached.

Notes to the Financial Statements (continued)

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of loans and advances to customers (continued)

Economic scenarios and weightings (continued)

The UK economy grew at the beginning of 2022 as activity rebounded from the Omicron-related dip at the end of 2021, but the post-Covid recovery in social consumption has now made way for the cost-of-living squeeze on consumer demand. Furthermore, Russia's invasion of Ukraine has had a wide-ranging impact on a UK economy that was already starting to suffer from rising energy prices. The Group has assessed these uncertainties, with the economic assumptions applied to the ECL model adjusted to reflect the most recent view of the macro-economic environment. In addition, a post model adjustment has been raised to reflect the risks relating to affordability and the impact of cost-of-living increases on our mortgage customers (see note 32 for more details).

Judgement is also applied in determining the relative weighting of each economic scenario in the ECL estimate. The Group determined that the continued application of the combined 45% weighting to downside scenarios as at the balance sheet date still reflected a reasonable view of the outturn for the UK economy. Consistent with 31 December 2021, the Group continues to apply a 5% weighting to Upside, 50% to Core, 30% to Stagflation downturn (previously Downturn) and 15% to Severe downturn (previously Stress) scenarios.

The Group considered alternative sets of weightings. The most severe applied weightings of 45% Core and 35% Stagflation downturn – this would result in a £1.7 million increase in ECL. The least severe applied weightings of 55% Core and 10% Severe downturn – this would result in a £1.8 million decrease in ECL. These changes in weightings have been fully modelled and been allowed to impact staging.

In terms of sensitivity to changes in key economic variables within the model, the ECL model was run with a 100% weighting applied to the Core scenario. When the HPI forecast was replaced with the respective forecasts from the Stagflation downturn and Severe downturn scenarios, ECL increased by £11.1 million and £15.9 million. Below is the percentage change in HPI forecast for both downturn scenarios for the next 5 years in relation to the Core scenario.

	2022 Scenario (% change)				
HPI	**2023**	**2024**	**2025**	**2026**	**2027**
Stagflation downturn	**(6.7)**	**(3.0)**	**(1.3)**	**(0.5)**	**(0.3)**
Severe downturn	**(7.5)**	**(9.8)**	**(8.1)**	**(2.0)**	**(1.5)**

The key in-year impact of changes to economic variables came from applying quarterly Office of National Statistics (ONS) HPI updates, which accounted for £12.5 million of impairment release over 2022 (2021: £17.0 million release).

Post model adjustments

The determination, application and calculation of post model adjustments (PMA) also requires judgement to be applied. Further detail on economic assumptions, weightings and PMAs can be found in note 32.

Core model assumptions

Significant increase in credit risk

A judgement is applied to determine the threshold at which a significant relative increase in credit risk is deemed to have occurred. If 10% of the accounts in stage 1, on a proportional basis, were to be transferred to stage 2 and subject to a calculation of full lifetime expected credit losses, this would result in a £1.9 million (2021: £2.3 million) increase in ECL.

Acquired interest-only mortgages

A judgement has been applied in determining which probability of default assumptions to apply to different cohorts of customers for acquired interest-only mortgages.

The existence of an appropriate repayment vehicle has only been substantiated for 27% (2021: 27%) of these customers and so there is a risk that the full amount due at maturity (average maturity being 2028) will not be collected. A model is applied to estimate the probability that accounts will reach the end of the term without being recovered, with the average probability across these accounts being 9.2% (2021: 8.8%). This results in an ECL of £8.2 million (2021: £10.2 million).

Two alternative probability of default (PD) estimates are applied, one for those customers that we are unable to contact, and another for those that have confirmed there is no appropriate repayment vehicle in place. If the 'no vehicle' PD is applied to the 'unable to contact' customers, expected credit losses increase by £5.1 million (2021: £6.7 million).

3. Interest revenue

	Group		Society	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Calculated using the effective interest rate method:				
Loans secured on residential property	**1,027.3**	912.3	**272.0**	279.0
Loans secured on connected undertakings	**–**	–	**475.8**	381.0
Other loans	**26.7**	19.2	**26.7**	19.2
Liquid assets	**77.5**	4.8	**75.5**	4.8
Debt securities	**71.1**	26.4	**285.7**	72.1
Interest revenue calculated using the effective interest rate method	**1,202.6**	962.7	**1,135.7**	756.1
Other:				
Derivatives in hedge relationships	**212.2**	16.4	**212.2**	15.1
Derivatives not included in hedge relationships	**20.4**	14.4	**99.2**	41.4
Investments held at fair value	**1.8**	–	**1.8**	–
Other interest revenue	**234.4**	30.8	**313.2**	56.5
Total interest revenue	**1,437.0**	993.5	**1,448.9**	812.6

4. Interest expense

	Group		Society	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Shares held by individuals	**442.7**	218.0	**442.7**	218.0
Deposits from banks	**76.1**	4.4	**76.1**	4.4
Deposits from connected undertakings	**–**	–	**231.4**	75.1
Other deposits	**9.3**	0.2	**9.3**	0.2
Debt securities in issue	**75.5**	61.1	**81.3**	53.6
Subordinated liabilities	**33.7**	23.5	**33.7**	23.5
Other interest payable	**0.1**	–	**0.1**	–
Derivatives in hedge relationships	**38.7**	134.6	**3.3**	125.8
Derivatives not included in hedge relationships	**36.1**	13.4	**113.6**	41.7
Interest expense for leasing arrangements	**0.7**	0.9	**0.7**	0.9
Total interest expense	**712.9**	456.1	**992.2**	543.2

Notes to the Financial Statements (continued)

5. Net gains from financial instruments held at fair value

	Group 2022 £m	2021 £m	Society 2022 £m	2021 £m
Equity investments held at fair value	**1.4**	0.1	**1.4**	0.1
Hedge accounting ineffectiveness	**(32.4)**	(3.6)	**(44.3)**	7.6
Derivatives and debt securities not included in hedge relationships	**106.6**	30.2	**110.7**	31.6
Net gains from financial instruments held at fair value	**75.6**	26.7	**67.8**	39.3

Derivatives and hedging

Investments held at fair value include the fair value gains and losses on equity shares investment.

Hedge accounting ineffectiveness includes the portion of fair value offset between the derivatives and corresponding hedge items which is meeting the effectiveness test but is not fully effective as well as amortisation of initial fair value adjustments booked for the hedged items. Termination of ineffective hedges would also be included here.

Derivatives and debt securities not included in hedge relationships relates to changes in the fair value of derivatives that provide effective economic hedges but where the Group has not achieved hedge accounting. This category includes the mortgage pipeline swaps which significantly gained in value with the increase of market interest rates during 2022 as well as short-term swaps hedging fixed rate savings which provide the partial natural offset to the pipeline swaps volatility.

6. Administrative expenses

	Group 2022 £m	2021 £m	Society 2022 £m	2021 £m
Staff costs:				
Salaries and wages	**125.4**	119.4	**125.4**	119.4
Social security costs	**13.4**	12.4	**13.4**	12.4
Pension costs – defined benefit plans	**0.3**	1.6	**0.3**	1.6
Pension costs – defined contribution plans	**10.4**	10.2	**10.4**	10.2
Contractor staff costs	**26.9**	14.9	**26.9**	14.9
Other staff costs	**1.5**	1.1	**1.5**	1.1
Professional consultancy costs	**12.3**	12.2	**12.3**	12.2
Premises costs	**14.3**	15.9	**14.3**	15.9
IT costs	**33.4**	30.0	**33.4**	30.0
Marketing	**14.8**	9.8	**14.8**	9.8
Other expenses	**24.2**	24.3	**24.0**	24.3
Total administrative expenses	**276.9**	251.8	**276.7**	251.8

The Society operates a salary sacrifice scheme whereby employees can opt to make pension contributions from their pre-tax salaries. The amount shown in the table above under salaries and wages includes the headline salary (i.e. before the salary sacrifice deduction) and pension costs exclude the additional contributions made by the Society on employees' behalf as a result of the salary sacrifice scheme.

Full details of directors' remuneration, including the number of directors, the total remuneration of directors, including that of the highest paid director, bonuses and pensions are given in the *Directors' Remuneration Report* within the *Governance* section.

Staff numbers

The average number of persons employed by the Group and Society during the year (including executive directors) was as follows:

	2022 Full time	2022 Part time	2021 Full time	2021 Part time
Central administration	**1,969**	**425**	1,964	453
Branches	**357**	**366**	390	442
Total staff numbers	**2,326**	**791**	2,354	895

Remuneration of the auditors

	Group 2022 £000	2021 £000	Society 2022 £000	2021 £000
Audit fees for the Group and Society statutory audit	**734.5**	629.0	**734.5**	629.0
Audit fee for the statutory audit of controlled entities	**375.5**	353.5	**–**	–
Audit related assurance services required by law or regulation	**131.0**	149.0	**131.0**	149.0
Total audit and audit related assurance services	**1,241.0**	1,131.5	**865.5**	778.0
Other permitted non-audit services	**257.6**	270.7	**215.1**	224.7
Total remuneration of the auditors	**1,498.6**	1,402.2	**1,080.6**	1,002.7

The above figures, relating to auditor's remuneration, exclude value added tax. Details of the Society's policy on non-audit work is given in the Audit Committee Report.

The classifications of audit related assurance services required by law or regulation and other permitted non-audit services reflect the terminology included in guidance issued by the UK Financial Reporting Council.

Other permitted non-audit services primarily consist of the half-year review and profit verification as well as assurance work in respect of our debt issuances.

7. Impairment charge/(release) of financial assets

	Group 2022 £m	2021 £m	Society 2022 £m	2021 £m
Impairment charge/(release) loans and advances to customers	**7.0**	(18.5)	**0.1**	(15.0)
Recoveries relating to loans and advances previously written off	**(0.9)**	(1.0)	**(0.6)**	(0.7)
Impairment (release)/charge of other financial assets	**(0.1)**	0.3	**(0.1)**	0.3
Impairment charge/(release)	**6.0**	(19.2)	**(0.6)**	(15.4)

Notes to the Financial Statements (continued)

8. Investments

Income from investments

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Dividend income from subsidiaries	**–**	–	**100.0**	75.0
Dividend income from equity investments	**0.1**	0.1	**0.1**	0.1
Income from investments	**0.1**	0.1	**100.1**	75.1

During 2022, the Society received dividends from Accord Mortgages Limited of £100.0 million (2021: £75.0 million).

Investments

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Equities	**2.8**	5.4	**2.8**	5.4
Controlled entities	**–**	–	**35,737.0**	33,130.6
Total investments	**2.8**	5.4	**35,739.8**	33,136.0

Investment in equities

The Group holds equity investments in a banking and credit card service provider due to our historic participation in their card servicing operations. A tranche of these equity shares was sold for £4.1 million in December 2022 (£8.5 million in August 2021). The investments are held at fair value through profit or loss and the valuation technique is detailed in note 33.

Controlled entities

	Equity £m	Loans £m	Total £m
At 1 January 2022	**104.9**	**33,025.7**	**33,130.6**
Reclassification	**–**	**(896.5)**	**(896.5)**
Additions	**–**	**4,045.4**	**4,045.4**
Repayments	**–**	**(542.5)**	**(542.5)**
At 31 December 2022	**104.9**	**35,632.1**	**35,737.0**
At 1 January 2021	104.9	29,105.3	29,210.2
Additions	–	5,142.8	5,142.8
Repayments	–	(1,222.4)	(1,222.4)
At 31 December 2021	104.9	33,025.7	33,130.6

All loans are charged interest with amounts recognised in interest revenue.

Subsidiaries

The Society holds 100% of the ordinary equity share capital for each of the following subsidiary entities, all of which are audited and consolidated.

Subsidiary	Principal activity
Accord Mortgages Limited	Mortgage lending
Norwich and Peterborough Insurance Brokers Limited	Non-trading
Norwich and Peterborough (LBS) Limited	Mortgage finance
YBS Properties (Edinburgh) Limited*	Non trading, formerly property holding

The Group has taken advantage of the audit exemptions available for small and dormant subsidiaries under sections 479 and 480 of the *Companies Act 2006* for the following subsidiary entities, all of which are consolidated:

- BCS Loans & Mortgages Limited
- Chelsea Mortgage Services Limited
- YBS Limited
- Yorkshire Direct Limited
- YBS Group Limited
- YBS Pension Trustees Limited
- Yorkshire Group Limited
- Yorkshire Insurance Services Limited
- Yorkshire Life Assurance Services Limited
- Yorkshire Mortgage Services Limited
- Yorkshire Personal Financial Services Limited
- Yorkshire Property Services Limited
- Yorkshire Services Limited
- Yorkshire Key Services Limited

All subsidiaries have a 31 December accounting period end, are registered in England and have their registered office as Yorkshire Drive, Bradford, BD5 8LJ.

Other controlled entities

The following entities are deemed to be controlled as, whilst the Group does not have a controlling equity shareholding, it has the right to variable returns from its involvement in the entity. The Society's interests in these entities are, in substance, no different than if they were wholly-owned subsidiary undertakings and, as a result, they are consolidated into the Group. The carrying value of the equity holdings in these entities in the Society is nil (2021: nil).

- Brass No.5 PLC**
- Brass No.5 Mortgage Holdings Limited**
- Brass No.6 PLC**
- Brass No.6 Mortgage Holdings Limited**
- Brass No.7 PLC**
- Brass No.7 Mortgage Holdings Limited**
- Brass No.8 PLC
- Brass No.8 Mortgage Holdings Limited
- Brass No.9 PLC
- Brass No.9 Mortgage Holdings Limited
- Brass No.10 PLC
- Brass No.10 Mortgage Holdings Limited
- Brass No.11 PLC***
- Brass No.11 Mortgage Holdings Limited***
- Tombac No.2 PLC**
- Tombac No.2 Mortgage Holdings Limited**
- Tombac No.3 PLC
- Tombac No.3 Mortgage Holdings Limited
- Yorkshire Building Society Covered Bonds LLP
- YBS Covered Bonds Finance (Holdings) Limited
- YBS Covered Bonds Finance Limited

All these entities are subject to audit and have a 31 December year end, apart from those entities currently in liquidation or incorporated during the year. Their registered office is Third Floor, 1 King's Arms Yard, London, EC2R 7AF, with the exceptions of *Yorkshire Building Society Covered Bonds LLP* whose registered address is Yorkshire Drive, Bradford, BD5 8LJ.

Joint ventures

The Society has a 22.2% joint venture investment in Arkose Funding Limited. The carrying value of the investment at 31 December 2022 is £nil (2021: £nil).

* Formally dissolved on 13 December 2022
** in liquidation
*** incorporated during the year

Notes to the Financial Statements (continued)

9. Tax expense

	Group 2022 £m	2021 £m	Society 2022 £m	2021 £m
Corporation tax – current year charge	**120.9**	67.3	**88.4**	28.3
Corporation tax – adjustment in respect of prior periods	**1.3**	0.3	**1.4**	0.3
Total current tax	**122.2**	67.6	**89.8**	28.6
Deferred tax – current year	**0.9**	(4.1)	**1.2**	(3.9)
Deferred tax – adjustment in respect of prior periods	**(1.1)**	0.2	**(1.1)**	0.2
Deferred tax – impact of rate change	**1.2**	(0.8)	**1.2**	(1.2)
Total tax expense in the income statement	**123.2**	62.9	**91.1**	23.7

The actual tax expense for the year differs from that calculated using the standard rate of UK corporation tax of 19% (2021: 19%), making the effective tax rate 24.5% (2021: 19.7%). A full breakdown of the difference is provided below:

	Group 2022 £m	2021 £m	Society 2022 £m	2021 £m
Profit before tax	**502.5**	320.0	**421.3**	201.0
Tax calculated at a tax rate of 19% (2021: 19%)	**95.5**	60.8	**80.1**	38.2
Effects of:				
Income not subject to tax	**(0.3)**	(1.8)	**(19.3)**	(18.2)
Fair value movements on securitisation	**0.8**	0.3	**–**	–
Expenses not deductible for tax purposes	**0.8**	0.5	**3.8**	1.0
Banking surcharge	**25.1**	5.8	**25.1**	5.8
Adjustment to tax charge in respect of prior periods	**0.2**	0.5	**0.3**	0.5
Recognition and utilisation of capital losses	**(0.1)**	(2.4)	**(0.1)**	(2.4)
Change in tax rate	**1.2**	(0.8)	**1.2**	(1.2)
Total tax expense in income statement	**123.2**	62.9	**91.1**	23.7
Tax (credit)/expense recognised directly in equity:				
Tax on financial instruments held at fair value through other comprehensive income	**(7.8)**	4.0	**(7.8)**	4.0
Change in tax rate on financial instruments held at fair value through other comprehensive income	**(1.9)**	1.9	**(1.9)**	1.9
Tax on remeasurement of net retirement benefit obligations	**(21.6)**	8.0	**(21.6)**	8.0
Change in tax rate on net retirement benefit obligations	**(6.9)**	7.2	**(6.9)**	7.2
Deferred tax on cash flow hedges	**(0.5)**	4.2	**(0.5)**	4.2
Change in tax rate on cash flow hedges	**(0.8)**	0.9	**(0.8)**	0.9
Total tax recognised directly in equity	**(39.5)**	26.2	**(39.5)**	26.2

From 1 April 2023 the UK corporation tax rate will increase from 19% to 25%. This measure was substantively enacted on 24 May 2021 and deferred tax assets and liabilities at 31 December 2021 and at 31 December 2022 have been calculated based on the 25% rate (2021: 25%). From 1 April 2023 the banking surcharge will decrease from 8% (on taxable profits in excess of £25 million) to 3% (on taxable profits in excess of £100 million). This change was substantively enacted on 2 February 2022.

Deferred tax assets and liabilities at 31 December 2022 have been calculated using a banking surcharge rate of 3% (2021: 8%). Where it is known that a temporary difference will reverse prior to 1 April 2023, a blended rate has been applied for both corporation tax and the banking surcharge as appropriate.

10. Cash and balances with the Bank of England

	Group 2022 £m	2021 £m	Society 2022 £m	2021 £m
Cash in hand	**10.6**	8.5	**10.6**	8.5
Unencumbered deposits with the Bank of England	**5,805.0**	5,375.8	**5,805.0**	5,375.8
Cash in hand and unencumbered deposits	**5,815.6**	5,384.3	**5,815.6**	5,384.3
Cash ratio deposit with the Bank of England	**167.2**	155.5	**167.2**	155.5
Cash and balances with the Bank of England	**5,982.8**	5,539.8	**5,982.8**	5,539.8

Cash ratio deposits are mandatory requirements of the Bank of England. They are considered to be encumbered assets and are non-interest-bearing.

11. Debt securities

	Group 2022 £m	2021 £m	Society 2022 £m	2021 £m
Debt securities issued by:				
Public bodies	**582.4**	667.7	**582.4**	667.9
Other	**5,102.4**	3,407.8	**5,102.4**	3,319.4
Group companies	**–**	–	**13,548.2**	10,953.2
Total debt securities	**5,684.8**	4,075.5	**19,233.0**	14,940.5

Debt securities issued by Group companies comprise retained investments in the Group's securitisation vehicles.

Notes to the Financial Statements (continued)

11. Debt securities (continued)

Group	Held at fair value £m	Fair value through Other Comprehensive Income £m	Amortised cost £m	Total £m
Movements in debt securities during the year were:				
At 1 January 2022	**28.6**	**3,255.4**	**791.5**	**4,075.5**
Additions	**–**	**2,097.6**	**854.6**	**2,952.2**
Disposals and repayments	**–**	**(734.1)**	**(261.4)**	**(995.5)**
Exchange translation	**–**	**11.6**	**10.2**	**21.8**
Other changes in value	**(3.1)**	**(337.8)**	**(28.3)**	**(369.2)**
At 31 December 2022	**25.5**	**4,292.7**	**1,366.6**	**5,684.8**
Movements in debt securities during the year were:				
At 1 January 2021	–	2,471.0	389.1	2,860.1
Additions	27.3	1,386.5	415.0	1,828.8
Disposals and repayments	–	(497.0)	(4.6)	(501.6)
Exchange translation	–	(6.7)	(7.0)	(13.7)
Other changes in value	1.3	(98.4)	(1.0)	(98.1)
At 31 December 2021	28.6	3,255.4	791.5	4,075.5

Society	Held at fair value £m	Fair value through Other Comprehensive Income £m	Amortised cost £m	Total £m
Movements in debt securities during the year were:				
At 1 January 2022	**28.6**	**3,255.4**	**11,656.5**	**14,940.5**
Additions	**–**	**2,097.6**	**6,690.0**	**8,787.6**
Disposals and repayments	**–**	**(734.1)**	**(3,461.0)**	**(4,195.1)**
Exchange translation	**–**	**11.6**	**11.7**	**23.3**
Other changes in value	**(3.1)**	**(337.8)**	**17.6**	**(323.3)**
At 31 December 2022	**25.5**	**4,292.7**	**14,914.8**	**19,233.0**
Movements in debt securities during the year were:				
At 1 January 2021	–	2,471.1	6,980.8	9,451.9
Additions	27.3	1,386.5	5,982.5	7,396.3
Disposals and repayments	–	(497.0)	(1,302.4)	(1,799.4)
Exchange translation	–	(6.7)	(6.7)	(13.4)
Other changes in value	1.3	(98.5)	2.3	(94.9)
At 31 December 2021	28.6	3,255.4	11,656.5	14,940.5

12. Loans and advances to customers

	Group		Society	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Loans secured on residential property:				
Loans fully secured on residential property	**43,793.6**	40,899.5	**9,810.7**	10,421.7
Other loans secured on residential property	**7.2**	6.6	**–**	–
Loans secured on commercial property	**1,461.3**	1,309.1	**1,461.3**	1,309.1
Fair value hedging adjustments	**(1,508.3)**	(238.3)	**(1,508.3)**	(238.5)
Gross loans and advances to customers	**43,753.8**	41,976.9	**9,763.7**	11,492.3
Impairment	**(33.1)**	(26.1)	**(7.8)**	(7.3)
Fair value credit adjustment	**(25.3)**	(28.4)	**(25.3)**	(28.4)
Expected credit losses (ECL)	**(58.4)**	(54.5)	**(33.1)**	(35.7)
Total loans and advances to customers	**43,695.4**	41,922.4	**9,730.6**	11,456.6

The following tables analyse the changes in ECL impairment and fair value credit adjustments.

	Group		Society	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Opening Impairment	**26.1**	43.9	**7.3**	21.9
Amounts written off in the period	**(1.0)**	(0.6)	**(0.3)**	(0.4)
Discounting recognised in net interest income	**1.0**	1.3	**0.7**	0.9
Charge/(release) for the year recognised in the income statement	**7.0**	(18.5)	**0.1**	(15.1)
Impairment	**33.1**	26.1	**7.8**	7.3

	Group		Society	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Opening fair value credit adjustment	**28.4**	32.1	**28.4**	32.1
Release recognised in the income statement through net interest	**(2.4)**	(3.2)	**(2.4)**	(3.2)
Write-offs	**(0.7)**	(0.5)	**(0.7)**	(0.5)
Fair value credit adjustment	**25.3**	28.4	**25.3**	28.4

Notes to the Financial Statements (continued)

13. Intangible assets

Group and Society	Development costs £m	Software £m	Internally generated assets £m	Other £m	Total £m
Cost:					
At 1 January 2022	**0.4**	**61.9**	**15.1**	**7.1**	**84.5**
Additions	**3.7**	**1.8**	**–**	**–**	**5.5**
Disposals	**–**	**(3.9)**	**(1.5)**	**–**	**(5.4)**
Transfers	**–**	**–**	**–**	**–**	**–**
At 31 December 2022	**4.1**	**59.8**	**13.6**	**7.1**	**84.6**
Amortisation:					
At 1 January 2022	**–**	**39.5**	**14.4**	**7.1**	**61.0**
Charged in year	**–**	**8.3**	**0.3**	**–**	**8.6**
Disposals	**–**	**(3.8)**	**(1.4)**	**–**	**(5.2)**
At 31 December 2022	**–**	**44.0**	**13.3**	**7.1**	**64.4**
Net book value at 31 December 2022	**4.1**	**15.8**	**0.3**	**–**	**20.2**
Cost:					
At 1 January 2021	2.1	61.3	16.5	7.1	87.0
Additions	–	2.3	–	–	2.3
Disposals	–	(3.4)	(1.4)	–	(4.8)
Transfers	(1.7)	1.7	–	–	–
At 31 December 2021	0.4	61.9	15.1	7.1	84.5
Amortisation:					
At 1 January 2021	–	34.1	15.6	7.1	56.8
Charged in year	–	8.7	0.3	–	9.0
Disposals	–	(3.3)	(1.5)	–	(4.8)
At 31 December 2021	–	39.5	14.4	7.1	61.0
Net book value at 31 December 2021	0.4	22.4	0.7	–	23.5

Other intangible assets primarily comprise the fair value of items acquired on mergers (retail savings and brands) and an amount paid for the transfer of a number of employee sharesave schemes to the Society. Transfers relate to the reclassification of assets from development costs to software and internally generated assets. The development costs related mainly to the Society's investment in a new mortgage processing system.

14. Investment property

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Cost:				
At 1 January	**19.7**	19.8	**19.7**	19.6
Additions	**0.5**	0.3	**0.5**	0.3
Disposals	**(0.6)**	(0.4)	**(0.6)**	(0.2)
Transfers from Property Plant and Equipment	**2.4**	–	**2.4**	–
At 31 December	**22.0**	19.7	**22.0**	19.7
Depreciation:				
At 1 January	**5.2**	5.2	**5.2**	5.0
Charged in year	**0.2**	0.3	**0.2**	0.3
Disposals	**(0.1)**	(0.3)	**(0.1)**	(0.1)
Transfers from Property Plant and Equipment	**0.7**	–	**0.7**	–
At 31 December	**6.0**	5.2	**6.0**	5.2
Net book value at 31 December	**16.0**	14.5	**16.0**	14.5
Fair value	**13.6**	13.5	**13.6**	13.5

Investment properties are generally flats and offices ancillary to branch premises and not used by the Group. Rental income of £1.1 million on investment properties has been included within other operating income (2021: £1.1 million).

Transfers relate to the reclassification of assets between investment properties and property, plant and equipment, usually due to changes in occupancy.

The fair value of the Group's investment properties at 31 December 2022 is based predominantly on external valuations.

During 2021, the Group transferred a property from YBS Properties (Edinburgh) Limited to the Society.

15. Property held for sale

Group and Society	2022 £m	2021 £m
Cost:		
At 1 January	**2.4**	15.3
Transfer from property, plant and equipment	**1.4**	–
Disposals	**(2.4)**	(12.9)
At 31 December	**1.4**	2.4
Depreciation:		
At 1 January	**2.1**	7.6
Transfer from property, plant and equipment	**0.5**	–
Disposals	**(2.1)**	(5.5)
At 31 December	**0.5**	2.1
Net book value at 31 December	**0.9**	0.3

Notes to the Financial Statements (continued)

16. Property, plant and equipment

Group	Land and buildings £m	Equipment, fixtures and fittings £m	Right-of-use property £m	Right-of-use motor vehicles £m	Total £m
Cost:					
At 1 January 2022	**102.5**	**68.4**	**42.2**	**1.2**	**214.3**
Additions	**3.2**	**3.6**	**1.9**	**0.1**	**8.8**
Disposals	**(0.9)**	**(4.7)**	**(1.2)**	**–**	**(6.8)**
Lease modification	**–**	**–**	**(18.4)**	**–**	**(18.4)**
Assets transferred to held for sale	**(1.4)**	**–**	**–**	**–**	**(1.4)**
Transfers to Investment property	**(2.4)**	**–**	**–**	**–**	**(2.4)**
At 31 December 2022	**101.0**	**67.3**	**24.5**	**1.3**	**194.1**
Depreciation:					
At 1 January 2022	**32.9**	**48.1**	**10.6**	**0.7**	**92.3**
Charged in year	**3.7**	**5.5**	**3.5**	**0.3**	**13.0**
Disposals	**(0.9)**	**(4.5)**	**(0.8)**	**–**	**(6.2)**
Lease modification	**–**	**–**	**(4.9)**	**–**	**(4.9)**
Assets transferred to held for sale	**(0.5)**	**–**	**–**	**–**	**(0.5)**
Transfers to investment property	**(0.7)**	**–**	**–**	**–**	**(0.7)**
At 31 December 2022	**34.5**	**49.1**	**8.4**	**1.0**	**93.0**
Net book value at 31 December 2022	**66.5**	**18.2**	**16.1**	**0.3**	**101.1**
Cost:					
At 1 January 2021	100.5	71.3	42.6	1.2	215.6
Reallocation	(0.7)	–	0.7	–	–
Revised balance at 1 January 2021	99.8	71.3	43.3	1.2	215.6
Additions	3.2	5.8	2.8	0.1	11.9
Disposals	(0.5)	(8.7)	(3.9)	(0.1)	(13.2)
At 31 December 2021	102.5	68.4	42.2	1.2	214.3
Depreciation:					
At 1 January 2021	29.5	50.6	8.5	0.4	89.0
Charged in year	3.7	5.4	4.0	0.3	13.4
Disposals	(0.3)	(7.9)	(1.9)	–	(10.1)
At 31 December 2021	32.9	48.1	10.6	0.7	92.3
Net book value at 31 December 2021	69.6	20.3	31.6	0.5	122.0

The amount included within right-of-use assets lease modification relates to an amendment of the lease agreement for the Society's Broadgate office.

Society	Land and buildings £m	Equipment, fixtures and fittings £m	Right-of-use property £m	Right-of-use motor vehicles £m	Total £m
Cost:					
At 1 January 2022	**102.5**	**68.4**	**42.2**	**1.2**	**214.3**
Additions	**3.2**	**3.6**	**1.9**	**0.1**	**8.8**
Disposals	**(0.9)**	**(4.7)**	**(1.2)**	**–**	**(6.8)**
Lease modification	**–**	**–**	**(18.4)**	**–**	**(18.4)**
Assets transferred to held for sale	**(1.4)**	**–**	**–**	**–**	**(1.4)**
Transfers	**(2.4)**	**–**	**–**	**–**	**(2.4)**
At 31 December 2022	**101.0**	**67.3**	**24.5**	**1.3**	**194.1**
Depreciation:					
At 1 January 2022	**32.9**	**48.1**	**10.6**	**0.7**	**92.3**
Charged in year	**3.7**	**5.5**	**3.5**	**0.3**	**13.0**
Disposals	**(0.9)**	**(4.5)**	**(0.8)**	**–**	**(6.2)**
Lease modification	**–**	**–**	**(4.9)**	**–**	**(4.9)**
Assets transferred to held for sale	**(0.5)**	**–**	**–**	**–**	**(0.5)**
Transfers	**(0.7)**	**–**	**–**	**–**	**(0.7)**
At 31 December 2022	**34.5**	**49.1**	**8.4**	**1.0**	**93.0**
Net book value at 31 December 2022	**66.5**	**18.2**	**16.1**	**0.3**	**101.1**
Cost:					
At 1 January 2021	99.8	70.9	42.6	1.2	214.5
Reallocation	(0.7)	–	0.7	–	–
Revised balance at 1 January 2021	99.1	70.9	43.3	1.2	214.5
Additions	3.7	5.7	2.8	0.1	12.3
Disposals	(0.3)	(8.2)	(3.9)	(0.1)	(12.5)
At 31 December 2021	102.5	68.4	42.2	1.2	214.3
Depreciation:					
At 1 January 2021	29.3	50.1	8.5	0.5	88.4
Charged in year	3.8	5.4	4.0	0.2	13.4
Disposals	(0.2)	(7.4)	(1.9)	–	(9.5)
At 31 December 2021	32.9	48.1	10.6	0.7	92.3
Net book value at 31 December 2021	69.6	20.3	31.6	0.5	122.0

Notes to the Financial Statements (continued)

17. Deferred tax

	Group 2022 £m	2021 £m	Society 2022 £m	2021 £m
At 1 January	**(50.4)**	(28.9)	**(48.4)**	(27.2)
Income statement (expense)/credit – note 9	**(1.0)**	4.7	**(1.3)**	4.9
Tax credit/(expense) recognised directly in equity	**39.5**	(26.2)	**39.5**	(26.1)
At 31 December	**(11.9)**	(50.4)	**(10.2)**	(48.4)
Deferred tax assets and liabilities are attributable to the following items:				
Deferred tax assets				
Other temporary differences	**0.1**	0.1	**0.1**	0.1
Fair value movements on external swap on intercompany loan	**3.7**	4.6	**3.7**	4.6
Deferred remuneration	**2.3**	1.7	**2.3**	1.7
Restructuring costs	**0.1**	0.4	**0.1**	0.4
Transitional adjustment arising following implementation of IFRS9	**0.9**	1.2	**0.9**	1.2
Transitional adjustment arising following change in accounting treatment	**0.5**	0.6	**0.5**	0.6
Capital losses	**0.2**	1.4	**0.2**	1.4
Total deferred tax assets	**7.8**	10.0	**7.8**	10.0
Deferred tax liabilities				
Pensions and other post-retirement benefits	**(11.5)**	(39.9)	**(11.5)**	(39.9)
Capital allowances in excess of depreciation	**(0.9)**	(1.0)	**(0.9)**	(1.0)
Other temporary differences	**(0.7)**	(1.3)	**(0.6)**	(1.2)
Financial instruments held at fair value through profit and loss	**(0.4)**	(0.8)	**(0.4)**	(0.8)
Financial instruments held at fair value through other comprehensive income	**(0.7)**	(10.4)	**(0.7)**	(10.4)
Cash flow hedging	**(3.9)**	(5.1)	**(3.9)**	(5.1)
Transitional adjustment arising following implementation of IFRS9	**(1.3)**	(1.5)	**–**	–
Transitional adjustment arising following change in accounting treatment	**(0.3)**	(0.4)	**–**	–
Total deferred tax liabilities	**(19.7)**	(60.4)	**(18.0)**	(58.4)
Net deferred tax liabilities	**(11.9)**	(50.4)	**(10.2)**	(48.4)

The deferred tax expense/(credit) in the income statement comprise the following temporary differences:

	Group 2022 £m	2021 £m	Society 2022 £m	2021 £m
Pensions and other post-retirement benefits	**0.2**	0.1	**0.2**	0.1
Capital allowances in excess of depreciation	**–**	0.9	**–**	0.8
Other temporary differences	**(0.6)**	–	**(0.6)**	–
Fair value movements on external swap on intercompany loan	**0.8**	(1.7)	**0.8**	(1.7)
Deferred remuneration	**(0.6)**	(0.4)	**(0.6)**	(0.4)
Financial instruments held at fair value through profit and loss	**(0.5)**	(1.9)	**(0.5)**	(1.9)
Restructuring costs	**0.3**	(0.4)	**0.3**	(0.4)
Transitional adjustment arising following implementation of IFRS9	**0.1**	0.1	**0.3**	–
Transitional adjustment arising following change in accounting treatment	**0.1**	–	**0.2**	–
Capital losses	**1.2**	(1.4)	**1.2**	(1.4)
Total deferred tax expense/(credit) in the income statement	**1.0**	(4.7)	**1.3**	(4.9)

Notes to the Financial Statements (continued)

18. Retirement benefit obligations

The Group operates one main employee benefit scheme (the Scheme), the costs of which are borne by the Society, with both defined benefit and defined contribution sections.

In addition, the Group operates unfunded defined benefit (DB) pension schemes for certain current and former members of staff. The present value at 31 December 2022 of the defined benefit obligation in relation to these schemes was £7.4 million (2021: £11.9 million) and the relevant disclosures have been separated from those of the main employee benefits scheme where appropriate.

Net defined benefit asset

As at 31 December 2022 the defined benefit asset is £48.8 million, a decrease of £72.0 million from 31 December 2021.

Pensioner buy-in

In mid-November 2018 the Scheme entered into a pensioner buy-in with PIC. The premium of c£248 million was paid for out of the Scheme's assets, with no additional funding required from the Society. The asset loss from the buy-in was approximately £25 million on an accounting basis. The transaction covered around £250 million of the Scheme's pensioner liabilities, based on the Technical Provisions basis. As such, some pensioners remain uninsured and not covered by the buy-in. At 31 December 2021, we have valued the YBS Scheme insurance contract with PIC to be equal to the corresponding IAS19 defined benefit obligation in respect of the insured members. The assessed value of £175.1 million was calculated using a methodology consistent with the approach used to calculate the total pension benefit. Benefits paid over 2022 in respect of the buy-in members totalled £9.2 million.

Defined contribution post-employment benefits

In addition to the defined benefit section (see below), the Group operates a defined contribution (DC) section of the main scheme. This Scheme is used by the Society to fulfil its auto enrolment duties. In 2022, the total Society contribution into the pension scheme in respect of DC benefits was c£9.8 million (2021: £9.6 million). In addition to this YBS also paid £0.9 million (2021: £0.9 million) into the pension scheme to cover the approximate cost of DC expenses, including the cost of life assurance which is provided through the Scheme for all YBS colleagues.

Defined benefit post-employment benefits

The Group operates a funded defined benefit scheme for certain employees, providing benefits based on final salary. However, benefits earned by members of the defined benefit section of the main scheme, with the exception of N&P Section members, from 1 April 2010 are based on career average revalued earnings. N&P Section members' benefits are based on their Final Pensionable Salary (following the removal of the 31 March 2010 freeze). The defined benefit section was closed to new employees in 2000 and to future accrual on 31 December 2015. The assets of the scheme are held in a separate trustee-administered fund. Contributions are assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

The defined benefit section of the Scheme has a weighted average maturity of around 15 years (2021: 19 years). This weighted average duration of a pension scheme is the average discounted term until benefit payments are due, weighted by the size of the payment. A breakdown of the scheme liabilities by members is included below.

	Funded DB scheme		**Unfunded DB scheme**	
	31 December 2022 £m	31 December 2021* £m	**31 December 2022 £m**	31 December 2021* £m
Deferred in service liability	**64.2**	121.6	**–**	n/a
Deferred liability	**175.1**	315.5	**3.8**	n/a
Pensioner liability	**354.1**	491.1	**3.6**	n/a
Total liabilities	**593.4**	928.2	**7.4**	n/a

* As at 31 December 2021, the unfunded DB scheme liabilities were reported within the funded DB scheme liabilities balance.

GMP equalisation

On 26 October 2018, the High Court ruled that the Lloyds Bank schemes had to equalise pension scheme benefits between males and females for the effects of Guaranteed Minimum Pension (GMP) and identified acceptable methods as to how this can be achieved. As a result, the Group included £1.7 million allowance for GMP equalisation in the determination of the defined benefit obligation in the 31st December 2018 accounting disclosures.

On 20 November 2020, the High Court ruled that individual transfer payments made since 17 May 1990 would need to be equalised for the effects of GMP. No further allowance has been made for this judgment as the impact is not material.

Scheme specific risks

The ultimate cost of the Scheme to the Society will depend upon actual future events rather than the assumptions made. Many of the assumptions made are unlikely to be borne out in practice and, as such, the cost of the schemes may be higher or lower than disclosed. In general, the risk to the Society is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to the Society is higher than expected. This could result in higher contributions being required from the Society and a higher deficit being disclosed. This may also impact the Society's ability to grant discretionary benefits or other enhancements to members.

The assumptions not being borne out in practice could include:

i. The investment return on the Scheme's assets being lower than assumed, resulting in an unaffordable increase in the contributions required from the Society. The level of bond returns will be a key determinant of overall investment return; the investment portfolio is also subject to a range of other risks typical of the asset classes held, in particular equity returns, credit risk on bonds and exposure to the property market.

ii. Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities. This risk has been mitigated to some degree by the implementation of an asset liability matching investment strategy which is designed to match a proportion of the Scheme's interest rate exposure.

iii. Future levels of inflation being higher than assumed, resulting in higher than anticipated annual increases to benefits in payment, revaluations of benefits prior to retirement and salary increases. This risk has been mitigated to some degree by the implementation of an asset liability matching investment strategy which is designed to match a proportion of the Scheme's inflation exposure.

iv. Unanticipated improvements in the longevity of members leading to an increase in the Scheme's liabilities.

Assets

The Scheme's investment strategy, with a significant proportion of the assets invested in liability driven investments (consisting of index-linked government and corporate bonds and swaps), is expected to reduce the volatility of the difference between the market value of the assets and the IAS 19 liabilities.

Disaggregation of assets

	Funded DB scheme	
	2022 %	2021 %
Equities	**1**	3
Index-linked bonds	**58**	51
Corporate and other bonds	**1**	9
Cash and other	**13**	8
Swaps	**–**	6
Pensioner buy-in insurance contract	**27**	23
	100	100

Approximately 75% of the Scheme's investments are in quoted assets, with the exception of the liability matching assets classified as 'Swaps' and reinsurance assets included in 'Cash and other', where a proportion of these will be invested in unquoted assets and 'Buy in'.

Notes to the Financial Statements (continued)

18. Retirement benefit obligations (continued)

Scheme investment strategy

The Trustees set the investment strategy for the Defined Benefit Section taking into account considerations such as the strength of the employer covenant, the long-term liabilities of the DB Section and the funding agreed with the Employer.

The Scheme's investment strategy involved reducing investment risk over time, within an agreed 'journey plan' that anticipates a managed transition to assets that carry lower risk albeit with expectations of lower investment returns. This transition would occur when the funding level met pre-agreed de-risking levels. The investment objective of the DB Section was to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the DB Section payable under the Trust Deed and Rules as they fall due.

During 2021, the Trustees agreed to de-risk the portfolio by reducing target return to gilts +0.7% pa as a result of being ahead of plan for meeting the Scheme's liabilities on the Scheme's long-term funding target of gilts +0% pa ('gilts flat'). It was agreed that the Scheme would partially disinvest from its Diversified Return Seeking assets and fully disinvest from its Reinsurance assets. The disinvestments were carried out through 2022 and proceeds were invested into the Credit and Liability Matching portfolios, however the Scheme still holds some residual funds in Reinsurance assets, which have to be held back for residual insurance claims.

As part of these changes the Trustees agreed that the investment objectives for the DB Section should be:

- To achieve a return on the Scheme's assets that is consistent with the long-term assumptions in determining the funding of the Scheme, whilst at the same time balancing risk.
- To aim for the assets to exceed the liabilities as determined in the event of the Scheme winding up on the basis of cash equivalent transfer values.
- To minimise the requirement for the Society to make further deficit recovery plan contributions.
- The investment strategy is set out in its Statement of Investment Principles (SIP).
- The strategy is to hold:
  - A range of instruments that provide a better match both to changes in liability values and expected cash flows, including (but not limited to) gilts, corporate bonds, derivatives, secure income assets and insurance policies.
  - A diversified range of return-seeking assets, including (but not limited to) equities, corporate bonds, reinsurance and secure income assets, which may be provided through a multi-asset diversified growth fund.
  - Passive and actively managed portfolios as appropriate, following consideration of efficiency, liquidity and level of transaction costs likely to prevail within each market as well as the impact of the investment managers' fees on future expected returns.

Following the end of the Scheme year, the assets the Scheme invests in experienced large market fluctuations following the UK Government's announcement of the mini-budget. Between the end of September and mid-October, bond yields increased in such a manner that the Bank of England stepped in to stabilise the market.

The increase in bond yields will have reduced both the value of the Scheme's Credit and Liability Matching portfolios and the Scheme's liabilities. Given the hedging properties of these mandates, the Scheme's funding level only marginally reduced, however the leveraged nature of the Liability Matching portfolio has forced the Scheme to fully disinvest from its Diversified Return Seeking assets in order to increase collateral and maintain the hedging properties of this mandate.

31 December 2019 actuarial valuation

The most recent actuarial valuation of the Scheme was carried out with an effective date of 31 December 2019 and was completed on 30 June 2020. The value of the benefits promised to members that fall within the DB section of the Scheme are referred to as the Technical Provisions, and are valued on a prudent basis as determined by the Trustees, having received advice from the Scheme Actuary.

The funding level (the ratio of assets to Technical Provisions) at 31 December 2019 was 102.3%. As the Scheme is in surplus i.e. the value of the Scheme's assets is higher than the value of the Technical Provisions, a Recovery Plan is not required.

One of the key financial assumptions is the discount rate and the approach to setting this is in line with that adopted at the previous actuarial valuation as at 31 December 2016. The discount rate used in calculating the Technical Provisions must be prudent and reflect the Trustees' long-term investment strategy. Therefore, this is set in line with gilt yields, plus a margin of 0.5% pa. The discount rate used in calculating the DB obligation for accounting purposes is prescribed by IAS19 and must be set with regard to the yield available on high quality corporate bonds. In general, this results in a higher discount rate for the calculation of the DB obligation.

The demographic assumptions adopted for accounting purposes have previously been set in line with the Technical Provisions basis, except that for accounting purposes the latest CMI model for future improvements in mortality would typically be reflected each year. Given the considerable uncertainty about the impact of the 2020 and 2021 experience on mortality improvements in the near term, the most recent CMI model has been reflected in the calculation of the DB obligation but no weight has been placed on the 2020 and 2021.

For the 31 December 2019 actuarial valuation, an explicit allowance is made in the Technical Provisions to cover expenses (1.5% of the liabilities to cover administration expenses, plus an increased GMP equalisation allowance to cover the expected expenses of that project). There is no such allowance made for accounting purposes.

War in Ukraine

The Trustees are monitoring the unfortunate events happening in Ukraine and our thoughts are very much with all those impacted during these extremely difficult times. In line with the western sanctions, the Trustee reviewed the exposure of the Scheme to Russian and Belarussian assets, to which the Scheme had minimal direct exposures for both the DB and DC sections of the Scheme. These exposures were subsequently written down to zero price as they were removed from market indices. The Trustee expects its Investment Managers to gradually divest from these exposures and will continue to monitor their progress in this area.

The Trustees continue to actively monitor the Scheme's investments as part of the Investment Sub Committee, which includes analysis on future expected returns for the investments. Further, the Trustees have an integrated risk management framework in place as to monitor and the challenge the Covenant, Investment and Funding risk linked to the Scheme.

Summary of assumptions

	2022 % pa	2021 % pa
Retail prices index (RPI) inflation	**3.5**	3.6
Consumer price index (CPI) inflation	**2.8**	2.9
Discount rate	**4.8**	1.9
Salary increases	**4.0**	4.1
Rate of increase of pensions in payment:*		
In line with RPI, subject to a min of 3% and a max of 5% pa	**3.8**	3.9
In line with RPI, subject to a min of 0% and a max of 5% pa	**3.3**	3.4
In line with RPI, subject to a min of 0% and a max of 2.5% pa	**2.2**	2.2
In line with CPI, subject to a min of 0% and a max of 3% pa	**2.4**	2.3

The most significant non-financial assumption is the assumed rate of longevity. The assumptions made are equivalent to the following life expectancies for scheme member at age 60.

	2022 Years	2021 Years
For a current 60 year old male	**28.4**	28.3
For a current 60 year old female	**30.1**	30.1
For a current 45 year old male	**29.4**	29.4
For a current 45 year old female	**31.2**	31.2

Defined benefit actual contributions paid wholly relate to contributions made by the Society.

Changes in market conditions generate an actuarial gain (decrease in liabilities) and a return on plan less than discount rate (decrease in assets).

* Term dependent inflationary increases have been adopted to reflect expected inflation in each future year. Illustrative inflationary assumptions have been provided which have been calculated to reflect the broad profile of the Society's pension obligations.

Notes to the Financial Statements (continued)

18. Retirement benefit obligations (continued)

Reconciliation of funded status

Group and Society	2022 £m	2021 £m
Present value of defined benefit obligation	**(593.4)**	(928.2)
Assets at fair value	**642.2**	1,049.0
Funded status/defined benefit asset	**48.8**	120.8

Statement of comprehensive income (SCI)

Group and Society	2022 £m	2021 £m
Cumulative actuarial gains recognised at 1 January	**65.6**	35.1
Gain due on change in financial assumptions	**347.2**	54.7
Gain due to demographic assumptions	**0.6**	0.9
Loss due to experience	**(39.3)**	(17.4)
Loss due to investment return different from return implied by the discount rate	**(388.5)**	(7.7)
Total actuarial (loss)/gain recognised in SCI	**(80.0)**	30.5
Cumulative actuarial gains recognised at 31 December	**(14.4)**	65.6

Components of pension expense as shown in the income statement

Group and Society	2022 £m	2021 £m
Administrative expenses	**1.7**	1.8
Interest on net defined benefit surplus	**(2.3)**	(1.1)
Total pension expense	**(0.6)**	0.7

Reconciliation of present value of defined benefit obligation

Group and Society	Funded DB scheme		Unfunded DB scheme	
	2022 £m	2021* £m	2022 £m	2021* £m
Present value of defined benefit obligation at 1 January	**916.3**	981.1	**11.9**	n/a
Administrative expenses	**1.7**	1.8	**–**	n/a
Interest cost	**16.6**	12.6	**0.2**	n/a
Actuarial gain	**(303.8)**	(38.2)	**(4.7)**	n/a
Defined benefit actual benefits and costs paid	**(37.4)**	(29.1)	**–**	n/a
Present value of defined benefit obligation at 31 December	**593.4**	928.2	**7.4**	n/a

* As at 31 December 2021, the unfunded DB scheme liabilities were reported within the funded DB scheme liabilities balance.

Movement in defined benefit fair value of assets

Group and Society	Funded DB scheme	
	2022 £m	2021 £m
Fair value of assets at 1 January	**1,049.0**	1,072.1
Interest income on scheme asset	**19.1**	13.7
Return on plan assets less than discount rates	**(388.5)**	(7.7)
Defined benefit actual Society contributions	**–**	–
Defined benefit actual benefits and costs paid	**(37.4)**	(29.1)
Fair value of plan assets at 31 December	**642.2**	1,049.0

The movement in the defined benefit obligation is driven by a reduction in liabilities as a result of changes in financial assumptions driven primarily by a 2.95% increase in the discount rate. This is offset entirely by the loss on assets related to the return on scheme assets being smaller than the discount rate as a result of the decreases in value of the Fund's return seeking assets.

Sensitivities

The IAS19 liability measurement and the service cost are sensitive to the assumptions made about future inflation and salary growth levels, as well as the assumptions made about life expectation. They are also sensitive to the discount rate, which depends on market yields on Sterling-denominated high quality corporate bonds. A decrease in corporate bond yields will increase the liabilities although this will be partially offset by an increase in matching assets.

The table below shows the sensitivity of the defined benefit obligation combined and Scheme assets to changes in these assumptions. The final assumptions are chosen by the Society.

Principal Sensitivity Illustrations

	Defined benefit obligation £m	Assets £m	Net effect £m
Total as at 31 December 2022	**600.8**	**642.2**	**41.4**
Change in defined benefit obligation/assets given the following change in assumption:			
Discount rate:* 1.00% decrease	**94.6**	**115.9**	**21.3**
Salary Escalation: 0.75% increase	**2.2**	**–**	**(2.2)**
Inflation:** 0.50% increase	**22.8**	**29.1**	**6.3**
Life expectancy: 1 year average increase	**18.8**	**6.0**	**(12.8)**

The asset liability matching strategy implemented for the Scheme means that a change in discount rate or inflation assumption has a broadly similar impact on the liabilities and the assets, reducing the volatility of the net impact. It should be noted that this strategy is based on liabilities on the self-sufficiency basis, i.e. higher liabilities than on an accounting basis. As such, on an accounting basis, for the sensitivities above, the assets increase by more than the liabilities, resulting in an improvement in the accounting balance sheet position.

* The change in the discount rate is assumed to be equivalent to a 1% decrease in gilt, swap and credit based interest rates.
** The sensitivity illustrations above are calculated changing each assumption in isolation, keeping all other assumptions constant. In practice this is unrealistic as it ignores the impact from correlation between assumptions.

Notes to the Financial Statements (continued)

19. Other assets

	Group 2022 £m	2021 £m	Society 2022 £m	2021 £m
Prepayments and accrued interest	**19.0**	20.5	**17.9**	20.5
Due from subsidiary undertakings	**–**	–	**68.0**	29.9
Other assets	**11.1**	6.7	**9.3**	5.6
Total other assets	**30.1**	27.2	**95.2**	56.0

Included in other assets are finance lease receivables. The Group has entered into agency sublease arrangements as an intermediate lessor on former branch properties that are considered to be finance leases. As substantially all risks and reward are passed over as the subleases match the payment terms and duration of the headline leases they are classified as finance leases. The maturity analysis of lease receivables, including the undiscounted lease payments to be received are as follows:

	Group 2022 £m	2021 £m	Society 2022 £m	2021 £m
Less than 1 year	**0.4**	0.5	**0.4**	0.5
1-2 years	**0.4**	0.4	**0.4**	0.4
2-3 years	**0.3**	0.4	**0.3**	0.4
3-4 years	**0.2**	0.3	**0.2**	0.3
4-5 years	**0.2**	0.2	**0.2**	0.2
More than 5 years	**0.3**	0.3	**0.3**	0.3
Total undiscounted lease payments receivable	**1.8**	2.1	**1.8**	2.1
Unearned finance income	**–**	–	**–**	–
Net investment in the lease	**1.8**	2.1	**1.8**	2.1

Finance income on net investment in the lease in 2022 has been £17k (2021: £17k).

20. Shares

	Group 2022 £m	2021 £m	Society 2022 £m	2021 £m
Shares comprising balances held by individuals	**42,008.3**	35,506.6	**42,008.3**	35,506.6
Acquisition fair value adjustments	**(0.1)**	(0.2)	**(0.1)**	(0.2)
Total shares	**42,008.2**	35,506.4	**42,008.2**	35,506.4

21. Other deposits

	Group 2022 £m	2021 £m	Society 2022 £m	2021 £m
Amounts owed to:				
Subsidiary undertakings	**–**	–	**15,141.2**	15,077.0
Other customers	**1,138.1**	873.5	**695.1**	485.1
Total other deposits	**1,138.1**	873.5	**15,836.3**	15,562.1

22. Debt securities in issue

	Group 2022 £m	2021 £m	Society 2022 £m	2021 £m
Covered bonds	**3,365.4**	3,347.3	**4,715.8**	3,327.0
Medium-term notes	**1,358.3**	1,660.7	**1,358.3**	1,660.7
Residential mortgage backed securities	**456.3**	876.9	**–**	–
Certificate of deposits	**79.3**	6.0	**79.3**	6.0
Total debt securities in issue	**5,259.3**	5,890.9	**6,153.4**	4,993.7

Debt securities in issue include amounts secured on certain loans and advances to customers in Group £3.8 billion (2021: £4.2 billion) and Society £4.7 billion (2021: £3.3 billion).

Notes to the Financial Statements (continued)

23. Other liabilities

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Accruals and deferred income	38.1	37.4	38.1	37.4
Finance lease liabilities	19.0	38.5	19.0	38.5
Other	6.8	7.7	39.8	22.5
Total other liabilities	63.9	83.6	96.9	98.4

The lease liabilities are secured by the related underlying assets. The underlying maturity analysis of lease liabilities at 31 December 2022 for the Group is as follows:

	Buildings lease payments £m	Finance charges £m	NPV £m	Vehicles lease payments £m	Finance charges £m	NPV £m
Within 1 year	3.4	(0.4)	2.9	0.1	–	0.1
1-2 years	3.2	(0.4)	2.8	0.1	–	0.1
2-3 years	2.6	(0.3)	2.3	–	–	–
3-4 years	2.3	(0.2)	2.1	–	–	–
4-5 years	2.1	(0.2)	1.9	–	–	–
5-10 years	5.6	(0.4)	5.3	–	–	–
10-15 years	0.5	(0.1)	0.4	–	–	–
Over 15 years	1.2	(0.1)	1.1	–	–	–
Total at 31 December 2022	20.9	(2.1)	18.8	0.2	–	0.2

The Group has elected not to recognise a lease liability for short-term leases and leases of low value assets which consist entirely of printing equipment. Payments made under such leases are expensed on a straight-line basis. At 31 December 2022 the Group had no short-term lease commitments (2021: nil).

24. Provisions

Group and Society	Customer redress £m	Restructuring £m	Property related provision £m	Other £m	Total £m
At 1 January 2022	1.4	2.2	2.4	0.1	6.1
Amounts utilised during the year	(0.4)	(2.6)	(1.6)	–	(4.6)
Provision charge	–	0.9	3.3	–	4.2
At 31 December 2022	1.0	0.5	4.1	0.1	5.7
At 1 January 2021	2.1	3.9	2.3	0.3	8.6
Amounts utilised during the year	(0.8)	(3.7)	(0.3)	–	(4.8)
Provision charge/(release)	0.1	2.0	0.4	(0.2)	2.3
At 31 December 2021	1.4	2.2	2.4	0.1	6.1

During the course of its business, the Society receives complaints in relation to past sales or ongoing administration, as well as being subject to enquiries from and discussions with its regulators and governmental and other public bodies, on a range of matters. No provision is made where it is concluded that it is not probable that a quantifiable payment will be made; this will include circumstances where the facts are unclear or further time is required to reasonably quantify the expected payment.

At 31 December 2022 the Society holds Customer redress provisions of £1.0 million (2021: £1.4 million) in respect of various potential customer claims and represent management's best estimate of the likely costs.

At 31 December 2022 a contingent liability exists related to the control framework associated with certain account status'. A programme has been established to review the Control Framework and establish individual customer impact.

Restructuring provisions of £0.5 million (2021: £2.2 million) are held in relation to business and organisational changes announced during 2022 and earlier periods.

Property related provisions of £4.1 million (2021: £2.4 million) are held in respect of lease costs for branch premises that are no longer in use. This will be utilised over the remaining term of the unoccupied leasehold branches.

Notes to the Financial Statements (continued)

25. Subordinated liabilities

Group and Society	2022 £m	2021 £m
6⅜% Subordinated Bonds 2024	**4.1**	4.1
13½% Convertible Tier 2 Capital Notes 2025	**26.5**	26.5
3⅜% Subordinated Bonds 2028	**301.5**	301.2
3% Senior Non-Preferred Bonds 2025	**280.6**	277.7
1½% Senior Non-Preferred Bonds 2029	**248.8**	251.1
3.511% Senior Non-Preferred Bonds 2030	**301.3**	–
Fair value hedging adjustments	**(127.7)**	(2.9)
Total subordinated liabilities	**1,035.1**	857.7

All subordinated liabilities are denominated in sterling. The following notes are repayable at the dates stated or earlier at the option of the Society and with the prior consent of the PRA under the following conditions:

- Redemption of the 13½% Convertible Tier 2 Capital Notes will occur on 1 April 2025 unless the notes are converted to Profit Participating Deferred Shares (PPDS). The 'Conversion Trigger' shall occur if on any Calculation Date the Society's Common Equity Tier 1 Capital Ratio, as confirmed in a report of the auditor to the Society and addressed to the Board of Directors of the Society, is less than 5%. Should the 'Conversion Trigger' occur and these notes convert into PPDS, the PPDS will be perpetual in nature.
- Redemption of the 3⅜% Notes at par on 13 September 2027 after giving thirty to sixty days' notice. In the event the Society does not redeem the notes on this date the fixed rate of interest will become the sum of the six month mid-swap rate plus 2.3175%.
- Redemption of the 3% Notes at par on 18 April 2024 after giving thirty to sixty days' notice. In the event the Society does not redeem the notes on this date the fixed rate of interest will become the sum of the yield on the relevant 1-year UK gilt-edged reference bond plus 2.15%.
- Redemption of the 1½% Notes at par on 15 September 2028 after giving thirty to sixty days' notice. In the event the Society does not redeem the notes on 15 September 2028 the fixed rate of interest will become the sum of the yield on the relevant 1-year UK gilt-edged reference bond plus 1.15%.
- Redemption of the 3.511% Notes at par on 11 October 2029 after giving not less than thirty nor more than sixty days' notice to the holders. In the event the Society does not redeem the notes on 11 October 2029 the fixed rate of interest will become the sum of the yield on the relevant 1-year UK gilt-edged reference bond plus 2.05%.

The rights of repayment of the holders of subordinated liabilities are subordinated to the claims of all depositors, creditors and members holding shares in the Society, as regards the principal of their shares and interest due on them.

26. Financial commitments

Group and Society	2022 £m	2021 £m
Committed undrawn standby facilities	**175.1**	242.2

The above amounts represent undrawn elements on credit facilities with customers. The amount has reduced over the year due to further drawdowns against these facilities and the maturity of a number of agreements.

27. Derivative financial instruments

Derivative financial instruments (derivatives) used for the management of market risk are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

Derivatives are used by the Group in accordance with the *Building Societies Act 1986*. This means that such instruments are not used in trading activity or for speculative purposes and are only used to reduce the risk of loss on core assets or liabilities arising from changes in interest rates, currency rates or other factors of a prescribed description.

The principal derivatives used in balance sheet risk management are interest rate swaps, interest rate options, cross currency interest rate swaps and foreign exchange contracts. These are used to hedge Group exposures arising from fixed rate mortgage lending and savings products, funding and investment activities.

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the type of derivatives which are typically used in managing such risks after considering any offsetting risk from other activities.

Activity	Risk	Type of hedge
Management of the investment of reserves and non-interest bearing liabilities	Sensitivity to changes in interest rates	Interest rate swaps
Fixed rate savings products and debt issuance	Sensitivity to changes in interest rates	Interest rate swaps
Fixed rate mortgage lending	Sensitivity to changes in interest rates	Interest rate swaps
Management of the interest basis risk arising from differences in the underlying pricing basis of assets and liabilities	Sensitivity to changes in relationships between interest rate basis	Interest rate swaps
Management of foreign currency risk arising from investment and funding	Sensitivity to changes in foreign exchange rates	Cross currency interest rate swaps and foreign exchange contracts
Floating rate liabilities	Sensitivity to changes in interest rates	Capped interest rate options

The Group's objective is to manage risk within its risk tolerance, irrespective of the accounting treatment.

Whilst all derivatives have been entered into for hedging purposes, only certain arrangements meet the conditions necessary to be designated as such for accounting purposes. In some cases a natural offset can be achieved and applying hedge accounting is not required. The Group only designates accounting hedges where a high degree of effectiveness can be achieved.

Hedging

The following table shows the balance sheet categories covered by hedge accounting relationships:

Hedge relationship	Balance sheet line item
Fair value hedge for interest rate risk	
Fixed rate mortgages	Loans and advances to customers
Fixed rate debt securities held	Debt securities
Fixed rate debt securities issued	Debt securities in issue
Fair value hedge for interest rate and FX risk	
Fixed rate debt securities issued	Debt securities in issue
Fixed rate debt securities held	Debt securities
Cash flow hedge for interest rate risk	
Floating rate liquid assets	Loans and advances to credit institutions
Floating rate deposits	Amounts owed to credit institutions
Floating rate debt securities issued	Debt securities in issue

Notes to the Financial Statements (continued)

27. Derivative financial instruments (continued)

Interest rate risk on fixed rate mortgages and purchased debt securities (fair value)

The Group holds portfolios of long-term fixed rate mortgages and debt securities. These instruments generate fixed rate income whereas the Group liabilities are mostly floating rate. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps which fair value changes offset the fair value changes of the mortgages when entered, together with the swaps, into fair value hedge relationships.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term fixed rate mortgages arising solely from changes in SONIA (the benchmark rate of interest). Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the hedged item attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

Possible sources of ineffectiveness are as follows:

- differences between the expected and actual volume of prepayments for mortgage portfolios, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- difference in timing of cash flows between the mortgage loans and the hedging interest rate swaps;
- difference in the designated coupon rate % of the hedged asset and the hedging derivative; and
- hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument.

The exposure from the mortgage portfolio frequently changes due to new loans being originated, contractual repayments and early prepayments made by customers in each period. As a result, the Group adopts a portfolio hedging strategy to hedge the exposure by closing and entering into new swap agreements. The Group uses the portfolio fair value hedge of interest rate risk to recognise fair value changes related to changes in interest rate risk in the mortgage portfolio, and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone. This hedge relationship is updated on a monthly basis for changes in the portfolio.

Foreign Exchange and Interest rate risk on fixed rate debt issuance and purchased debt securities (fair value)

The Group accesses international markets in order to obtain effective sources of liquidity and funding. As part of this process the Group issues fixed rate debt in both GBP and EUR and also purchases debt securities in other foreign currencies, such as JPY and USD. The foreign currency and interest rate risk associated with these instruments is mitigated by the use of cross currency swaps, which exchange fixed interest payments in the foreign currency for floating interest payments in GBP. The interest rate risk associated with the GBP debt is mitigated by the use of interest rate swaps which exchange fixed interest payments with variable payments. These instruments are entered into to match the maturity profile of the Group's debt instruments.

The foreign currency risk component is determined as the change in fair value of the foreign currency debt arising solely from changes in the relevant foreign currency exchange rate. The interest rate risk component is determined as the change in fair value of the debt arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the debt attributable to changes in the hedged risk(s) with changes in the fair value of the hedging derivatives.

Possible sources of ineffectiveness are as follows:

- differences in discounting approach between the hedged item and hedging instrument, including the cross currency basis spread applied in the valuation of cross currency swaps;
- hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument;
- difference in the designated coupon rate % of the hedged item and the hedging derivative; and
- counterparty credit risk which impacts the value of uncollateralised cross currency swaps but not the hedged items.

Interest rate risk on floating rate liabilities (cash flow hedge)

During 2021 the Group purchased some capped interest rate options (caps) to protect from the risk of increases in market interest rates impacting the variable rate funding. The caps were entered into a cash flow hedge relationship on the basis that the pay outs on the caps will offset the increase in interest payable on these variable savings products.

Ineffectiveness

All ineffectiveness is recorded in the income statement in *Net gains from financial instruments held at fair value*. The following table shows the ineffectiveness in relation to the hedging relationships designated by the Group.

	Group		Society	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Fair value hedges	**£m**	£m	**£m**	£m
Fixed rate mortgages	**(55.4)**	(1.5)	**(55.4)**	(1.5)
Fixed rate debt securities held	**1.9**	2.7	**1.9**	2.7
Fixed rate debt securities issued	**21.2**	(4.4)	**9.3**	6.8
Cash flow hedges				
Floating rate debt securities issued	**(0.1)**	(0.4)	**(0.1)**	(0.4)
Total	**(32.4)**	(3.6)	**(44.3)**	7.6

Elevated ineffectiveness of fixed rate mortgage hedges (macro hedges) is driven by the significant increase in fair values of hedging derivatives and hedged items in 2022 caused by the unprecedented increase of market interest rates. Increased fair values result in corresponding deterioration in the offset as well as higher amortisation of mortgage fair value balance sheet adjustments. Additional element of ineffectiveness is brought about by the unwind of derivatives initial fair value gains after they have been entered into hedge relationship.

Notes to the Financial Statements (continued)

27. Derivative financial instruments (continued)

Ineffectiveness (continued)

The following tables summarise the notional and fair value of all derivative financial instruments and the hedging designations in place at that date.

	Contract/ notional amount	Fair values Assets	Fair values Liabilities	Change in fair value used for calculating ineffectiveness
	£m	£m	£m	£m
Group				
At 31 December 2022				
Interest rate swaps designated as fair value hedges	**29,812.7**	**2,216.2**	**191.2**	**1,137.9**
Interest rate caps designated as cash flow hedges	**1,515.0**	**24.8**	**–**	**–**
Cross currency interest rate swaps designated as fair value hedges	**3,621.4**	**57.6**	**306.3**	**(22.0)**
Derivatives not designated as hedges:				
Interest rate swaps	**12,016.0**	**38.1**	**167.9**	**n/a**
Foreign exchange	**281.2**	**19.8**	**0.9**	**n/a**
Total derivative financial instruments	**47,246.3**	**2,356.5**	**666.3**	**1,115.9**
Society				
At 31 December 2022				
Interest rate swaps designated as fair value hedges	**29,812.7**	**2,216.2**	**191.2**	**1,137.9**
Interest rate caps designated as cash flow hedges	**1,515.0**	**24.8**	**–**	**–**
Cross currency interest rate swaps designated as fair value hedges	**1,848.4**	**37.2**	**147.1**	**127.3**
Derivatives not designated as hedges:				
Interest rate swaps	**37,055.2**	**38.1**	**167.9**	**n/a**
Foreign exchange	**108.5**	**7.4**	**0.8**	**n/a**
Total derivative financial instruments	**70,339.8**	**2,323.7**	**507.0**	**1,265.2**

	Contract/ notional amount	Fair values Assets	Fair values Liabilities	Change in fair value used for calculating ineffectiveness
	£m	£m	£m	£m
Group				
At 31 December 2021				
Interest rate swaps designated as fair value hedges	26,437.4	321.0	69.6	544.8
Interest rate caps designated as cash flow hedges	2,310.0	20.5	–	–
Cross currency interest rate swaps designated as fair value hedges	3,580.5	103.5	166.2	(22.0)
Derivatives not designated as hedges:				
Interest rate swaps	10,038.3	37.0	29.2	n/a
Foreign exchange	386.6	8.9	7.7	n/a
Total derivative financial instruments	42,752.8	490.9	272.7	522.8
Society				
At 31 December 2021				
Interest rate swaps designated as fair value hedges	26,437.4	321.0	69.6	544.8
Interest rate caps designated as cash flow hedges	2,310.0	20.5	–	–
Cross currency interest rate swaps designated as fair value hedges	1,479.8	35.8	81.9	9.5
Derivatives not designated as hedges:				
Interest rate swaps	34,711.4	37.0	29.2	n/a
Foreign exchange	114.6	5.2	0.2	n/a
Total derivative financial instruments	65,053.2	419.5	180.9	554.3

The expected future cash flows have been discounted using the Overnight Indexed Swap (OIS) curve (SONIA) for all derivatives. Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA) are incorporated into the fair value of derivative valuations to reflect the impact of counterparty credit risk and the Group's own credit quality respectively for uncollateralised derivatives.

Credit risk on derivative exposures is significantly mitigated within the Group by the existence of a Credit Support Annex (CSA) with the vast majority of our derivative counterparties. Under a CSA, cash is passed between parties to mitigate the counterparty risk inherent in the outstanding positions. Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within amounts owed to credit institutions. Where cash collateral is given, it is included as an asset in loans and advances to credit institutions. Credit risk is also mitigated by the use of central counterparties (CCPs) for eligible derivatives.

Notes to the Financial Statements (continued)

27. Derivative financial instruments (continued)

The following tables show the maturity profile, by notional amount, of the hedging instruments designated in hedge relationships used in the Group's hedging strategies:

Group and Society	Repayable up to three years £m	In more than three years but less than five years £m	Over five years £m	Total £m
At 31 December 2022				
Interest rate caps	**1,515.0**	**–**	**–**	**1,515.0**
Total cash flow hedges	**1,515.0**	**–**	**–**	**1,515.0**
At 31 December 2021				
Interest rate caps	2,310.0	–	–	2,310.0
Total cash flow hedges	2,310.0	–	–	2,310.0

Group	Repayable up to three years £m	In more than three years but less than five years £m	Over five years £m	Total £m
At 31 December 2022				
Interest rate swaps (pay fixed)	**17,994.9**	**9,320.4**	**966.8**	**28,282.1**
Interest rate swaps (receive fixed)	**280.6**	**700.0**	**550.0**	**1,530.6**
Cross currency interest rate swaps	**1,766.7**	**741.2**	**1,113.5**	**3,621.4**
Total fair value hedges	**20,042.2**	**10,761.6**	**2,630.3**	**33,434.1**
At 31 December 2021				
Interest rate swaps (pay fixed)	17,462.8	7,021.9	714.5	25,199.2
Interest rate swaps (receive fixed)	282.5	705.6	250.0	1,238.1
Cross currency interest rate swaps	1,593.0	953.4	1,034.1	3,580.5
Total fair value hedges	19,338.3	8,680.9	1,998.6	30,017.8

Society	Repayable up to three years £m	In more than three years but less than five years £m	Over five years £m	Total £m
At 31 December 2022				
Interest rate swaps (pay fixed)	**17,994.9**	**9,320.4**	**966.8**	**28,282.1**
Interest rate swaps (receive fixed)	**280.6**	**700.0**	**550.0**	**1,530.6**
Cross currency interest rate swaps	**880.2**	**298.0**	**670.2**	**1,848.4**
Total fair value hedges	**19,155.7**	**10,318.4**	**2,187.0**	**31,661.1**
At 31 December 2021				
Interest rate swaps (pay fixed)	17,462.8	7,021.9	714.5	25,199.2
Interest rate swaps (receive fixed)	282.5	705.6	250.0	1,238.1
Cross currency interest rate swaps	332.6	533.3	613.9	1,479.8
Total fair value hedges	18,077.9	8,260.8	1,578.4	27,917.1

The following table shows the average price/rate of the hedging instruments by maturity used in the Group's hedging strategies:

Group and Society	**2022**			2021		
	Repayable up to three years	**In more than three years but less than five years**	**Over five years**	Repayable up to three years	In more than three years but less than five years	Over five years
Average fixed interest rate – Fair value hedges						
Interest rate swaps (pay fixed)	**0.85**	**1.09**	**0.83**	0.59	0.29	0.64
Interest rate swaps (receive fixed)	**0.93**	**2.37**	**2.60**	0.87	2.38	1.50
Cross currency interest rate swaps	**0.53**	**0.56**	**0.32**	0.56	0.28	0.32
Average EUR:GBP FX rate – Fair value hedges						
Cross currency interest rate swaps	**1.14**	**1.12**	**1.17**	1.23	1.09	1.16
Average JPY:GBP FX rate – Fair value hedges						
Cross currency interest rate swaps	**157.31**	**154.80**	**–**	–	–	–
Average USD:GBP FX rate – Fair value hedges						
Cross currency interest rate swaps	**–**	**1.23**	**–**	–	–	–

Notes to the Financial Statements (continued)

27. Derivative financial instruments (continued)

The following tables show the fair value hedge exposures covered by the Group's hedging strategies. The change in fair value of the hedged item for calculating ineffectiveness is based on all hedge relationships designated during the year.

	Carrying amount of hedged item		Accumulated fair value adjustments on the hedged item		Change in fair value of the hedged item for calculating ineffectiveness
	Assets	Liabilities	Assets	Liabilities	
	£m	£m	£m	£m	£m
Group					
At 31 December 2022					
Fixed rate mortgages (interest rate risk)	**26,363.6**	**–**	**(1,508.3)**	**–**	**(1,270.0)**
Fixed rate debt securities held (interest rate risk)	**2,308.3**	**–**	**(384.7)**	**–**	**(327.6)**
Fixed rate debt securities issued (interest rate risk)	**–**	**1,556.9**	**–**	**132.9**	**166.1**
Fixed rate debt securities issued (interest rate and FX risk)	**–**	**2,896.7**	**–**	**327.5**	**284.7**
Society*					
At 31 December 2022					
Fixed rate mortgages (interest rate risk)	**26,363.6**	**–**	**(1,508.3)**	**–**	**(1,270.0)**
Fixed rate debt securities held (interest rate risk)	**2,308.3**	**–**	**(384.7)**	**–**	**(327.6)**
Fixed rate debt securities issued (interest rate risk)	**–**	**1,556.9**	**–**	**132.9**	**166.1**
Fixed rate debt securities issued (interest rate and FX risk)	**–**	**1,122.1**	**–**	**164.3**	**123.5**
Group					
At 31 December 2021					
Fixed rate mortgages (interest rate risk)	23,243.0	–	(238.2)	–	(512.6)
Fixed rate debt securities held (interest rate risk)	2,383.3	–	(56.6)	–	(107.8)
Fixed rate debt securities issued (interest rate risk)	–	1,250.5	–	3.6	95.5
Fixed rate debt securities issued (interest rate and FX risk)	–	3,364.3	–	6.8	(1.2)
Society*					
At 31 December 2021					
Fixed rate mortgages (interest rate risk)	23,243.0	–	(238.2)	–	(512.6)
Fixed rate debt securities held (interest rate risk)	2,383.3	–	(56.6)	–	(107.8)
Fixed rate debt securities issued (interest rate risk)	–	1,250.5	–	3.6	95.5
Fixed rate debt securities issued (interest rate and FX risk)	–	1,261.7	–	4.8	(21.5)

* For Society the exposure to mortgages includes those within Accord Mortgages Limited as this exposure is transferred via an intercompany loan that mirrors the underlying loans in this entity.

The accumulated amount of fair value hedge adjustments remaining on the balance sheet for hedged items that have ceased to be adjusted for hedging gains and losses is a loss of £7.9 million (2021: £7.9 million gain).

The following tables show the cash flow hedge exposures (gross of tax) covered by the Group's hedging strategies:

Group and Society	Assets	Liabilities	Change in fair value of hedged item used for calculating ineffectiveness	Cash flow hedge reserve Continuing hedges	Cash flow hedge reserve Discontinued hedges
	£m	£m	£m	£m	£m
At 31 December 2022					
Floating rate debt securities issued	**–**	**425.0**	**5.1**	**(1.0)**	**(0.4)**
Floating rate liabilities	**–**	**1,090.0**	**(3.2)**	**(12.3)**	**–**
At 31 December 2021					
Floating rate debt securities issued	–	1,220.0	(6.6)	(6.2)	(0.4)
Floating rate liabilities	–	1,090.0	(9.1)	(9.1)	–

The following table shows the movements in the cash flow hedge reserve during the year:

Group and Society	2022 £m	2021 £m
At 1 January	**10.4**	(0.1)
Effective portion of changes in fair value of interest rate swaps:		
Floating rate debt securities issued	**8.5**	6.2
Floating rate liabilities	**17.7**	9.1
Amounts reclassified from reserves to income statement:		
Floating rate debt securities issued	**(13.5)**	0.4
Floating rate liabilities	**(14.5)**	–
Taxation	**1.3**	(5.2)
At 31 December	**9.9**	10.4

Notes to the Financial Statements (continued)

28. Liquidity risk

Liquidity risk is an intrinsic part of the Society's business as long-term mortgages are funded by short-term retail customer balances. Most mortgages have a contractual maturity date of around 25 years but in practice are frequently repaid early; currently the estimated average life of a mortgage is approximately five years. Conversely, experience shows that retail deposits, nominally repayable on demand or with short notice periods, actually remain with the Society for relatively long periods. It is this inherent mismatch in the maturity profiles of retail assets and liabilities that creates liquidity risk.

The Society's liquidity management policy is designed to ensure the maintenance of adequate investments in liquid assets to cover statutory, regulatory and operational requirements. The primary function of liquidity is the provision of sufficient assets in realisable form to ensure that the Society is able to meet its liabilities as they arise and to absorb potential cash flow requirements created by the maturity mismatches referred to above or by a liquidity stress scenario.

The Society's liquidity management comprises the following key areas:

- At the highest level, the Society manages its liquidity levels to ensure compliance with the Overall Liquidity Adequacy Rule, as set out by the PRA in Chapter 2 of the Internal Liquidity Adequacy Assessment part of the PRA Rulebook (ILAA rules).
- Limits are established by the Board that govern the quantity, quality and marketability of and returns from the Society's portfolio of liquidity investments. The portfolio is managed by the Treasury function, monitored by the first and second line risk functions and overseen by the Asset and Liability Committee (ALCO) under a series of delegated authorities.
- The Society conducts a series of daily stress tests that are designed to ensure that its liquidity is sufficient to meet its cash flow needs under any one of a number of adverse scenarios should they arise. The scenarios include ones caused by both Society-specific and general market events, and incorporate both severe retail savings outflows and the unavailability of wholesale funding. They are constructed on various timescales as far out as three months. These scenarios are updated and approved by the Board annually through the Internal Liquidity Adequacy Assessment Process (ILAAP).
- The Society also manages liquidity in line with prevailing regulatory requirements, namely the Liquidity Coverage Ratio (LCR), as prescribed under the PRA Rulebook, Liquidity Coverage Ratio (CRR) part. The LCR measures the quantity of High Quality Liquid Assets (HQLA) against net liquidity outflows over a 30 day period. YBS currently reports to the PRA on a monthly basis on a Society and unconsolidated basis, with the lower of the two being reported as 164.02% for December 2022 month end. For comparison, the lowest as at 31 December 2021 was 198.93%.
- The Society has also implemented internal backstop limits for liquidity, to mitigate the potential risk of liquidity levels under a risk-based approach being able to be reduced to below what is considered a minimum appropriate level for the Society. These backstop limits are linked to balance sheet size.
- The liquidity position of the Society is forecast across the next two years and measured against forecasts of the liquidity requirements on both a regulatory and internal basis. This is to ensure that the short-term plans of the Society do not lead to liquidity limits being breached and the financial sustainability of the organisation being threatened.

The above metrics are the key elements of the suite of measures by which the Society actively seeks to manage its liquidity position, along with other complimentary metrics which are included within the Society's risk appetite framework.

Liquidity risk in subsidiary companies, with the exception of other deposits, is mitigated by the use of appropriate intercompany loans and deposits.

Pledged assets

The Society's asset backed funding programmes, reported within debt securities in issue, see note 21, are secured against certain loans and advances to customers.

In addition, as part of its liquidity management, the Society enters into sale and repurchase agreements whereby the Society sells but agrees to repurchase assets at a future date. Typically this is for up to three months and for UK government securities and listed transferable debt securities. Proceeds of these sale and repurchase agreements are included within amounts owed to credit institutions.

Assets pledged are as follows:

Group	Carrying amount of encumbered assets £m	Carrying amount of unencumbered assets £m	Total £m
2022			
Liquid assets	**2,138.8**	**10,343.5**	**12,482.3**
Loans and advances to customers	**10,635.8**	**33,059.6**	**43,695.4**
Other assets	**–**	**2,576.4**	**2,576.4**
Total assets	**12,774.6**	**45,979.5**	**58,754.1**
2021			
Liquid assets	1,616.2	8,380.5	9,996.7
Loans and advances to customers	15,025.3	26,897.1	41,922.4
Other assets	–	804.6	804.6
Total assets	16,641.5	36,082.2	52,723.7

All of the assets pledged as security are shown in the balance sheet, as the Society has retained substantially all the risk and rewards of ownership.

The Society established Yorkshire Building Society Covered Bonds LLP in November 2006. The LLP provides security for issues of covered bonds made by the Society to external counterparties. As at 31 December 2022, the Society had in issue £2,950 million, of which £1,200 million was retained, and €2,000 million of covered bonds.

The Group established its first securitisation programme in 2011. This year, the latest securitisation structure, Brass No.11 PLC, was established with £4,025 million of listed debt securities secured against specific loans of Accord Mortgages Limited issued in October 2022. As a result of the mini budget in September 2022, all the securities were initially retained. However, the Group plans to issue some of these notes publicly across Q1 2023, with the remainder being retained by the Society to be used as collateral for use in sale and repurchase agreements or central bank operations. As at 31 December 2022, the Group had in issue £11,250 million of securitisation notes, of which £10,792 million were retained.

Whole mortgage loan pools are pre-positioned at the Bank of England under the Term Funding Scheme (TFSME). The whole loan pool is pledged and drawings are made directly against the eligible collateral. However, values shown are the whole mortgage loan pool balances.

Notes to the Financial Statements (continued)

28. Liquidity risk (continued)

The tables below provide an analysis of gross contractual cashflows. The sum of the balances depicted in the analysis do not reconcile with the carrying value of the liabilities, as disclosed in the consolidated balance sheet. This is because they include estimated future interest payments calculated using balances outstanding at the balance sheet date. Amounts are allocated to the relevant maturity band based on the timing of individual contractual cashflows.

Group	Repayable on demand and up to three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	Over five years £m	Total £m
As at 31 December 2022					
Shares	**26,664.2**	**9,485.5**	**5,858.5**	**–**	**42,008.2**
Amounts owed to credit institutions	**2,004.6**	**92.9**	**3,350.0**	**–**	**5,447.5**
Other deposits:					
Society	**555.9**	**143.2**	**–**	**–**	**699.1**
Subsidiaries	**442.9**	**–**	**–**	**–**	**442.9**
Debt securities in issue	**236.4**	**1,002.6**	**3,557.7**	**977.8**	**5,774.5**
Subordinated liabilities	**–**	**36.4**	**424.1**	**899.2**	**1,359.7**
Derivative financial liabilities	**85.9**	**174.4**	**424.7**	**10.8**	**695.8**
Total	**29,989.9**	**10,935.0**	**13,615.0**	**1,887.8**	**56,427.7**
As at 31 December 2021					
Shares	24,707.3	7,370.1	3,426.8	–	35,504.2
Amounts owed to credit institutions	377.8	24.7	5,739.6	–	6,142.1
Other deposits:					
Society	320.3	165.9	–	–	486.2
Subsidiaries	388.4	–	–	–	388.4
Debt securities in issue	203.2	704.8	3,785.2	1,349.6	6,042.8
Subordinated liabilities	–	25.8	385.6	577.8	989.2
Operating lease payments	–	0.1	–	–	0.1
Derivative financial liabilities	30.0	63.4	202.8	78.9	375.1
Total	26,027.0	8,354.8	13,540.0	2,006.3	49,928.1

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings, based on the remaining period between the balance sheet date and the contractual maturity date.

Group	Repayable on demand £m	Less than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	Over five years £m	Total £m
As at 31 December 2022						
Financial assets						
Cash in hand and balances with the Bank of England	**5,982.8**	**–**	**–**	**–**	**–**	**5,982.8**
Loans and advances to credit institutions	**814.7**	**–**	**–**	**–**	**–**	**814.7**
Debt securities	**–**	**596.0**	**280.5**	**3,529.2**	**1,279.1**	**5,684.8**
Loans and advances to customers	**–**	**763.9**	**84.2**	**1,145.4**	**41,701.9**	**43,695.4**
Derivatives financial instruments	**–**	**17.0**	**261.6**	**1,793.2**	**284.7**	**2,356.5**
Total financial assets	**6,797.5**	**1,376.9**	**626.3**	**6,467.8**	**43,265.7**	**58,534.2**
Financial liabilities						
Shares	**24,393.4**	**2,270.8**	**9,485.5**	**5,858.5**	**–**	**42,008.2**
Amounts owed to credit institutions	**38.0**	**1,945.8**	**5.1**	**3,172.0**	**–**	**5,160.9**
Other deposits	**462.7**	**533.4**	**142.0**	**–**	**–**	**1,138.1**
Debt securities in issue	**–**	**222.0**	**948.0**	**2,744.2**	**1,345.1**	**5,259.3**
Derivative financial instruments	**–**	**7.9**	**45.0**	**360.1**	**253.3**	**666.3**
Subordinated liabilities	**–**	**–**	**–**	**612.7**	**422.4**	**1,035.1**
Total financial liabilities	**24,894.1**	**4,979.9**	**10,625.6**	**12,747.5**	**2,020.8**	**55,267.9**
As at 31 December 2021						
Financial assets						
Cash in hand and balances with the Bank of England	5,539.8	–	–	–	–	5,539.8
Loans and advances to credit institutions	381.4	–	–	–	–	381.4
Debt securities	–	110.5	203.7	2,343.1	1,418.2	4,075.5
Loans and advances to customers	–	330.0	102.1	1,487.9	40,002.4	41,922.4
Derivatives financial instruments	–	29.6	80.8	325.3	55.2	490.9
Total financial assets	5,921.2	470.1	386.6	4,156.3	41,475.8	52,410.0
Financial liabilities						
Shares	22,662.9	2,046.7	7,370.0	3,426.8	–	35,506.4
Amounts owed to credit institutions	49.4	326.9	12.0	5,701.5	–	6,089.8
Other deposits	396.9	306.0	170.6	–	–	873.5
Debt securities in issue	–	195.8	671.3	3,687.1	1,336.7	5,890.9
Derivative financial liabilities	–	7.6	9.9	139.3	115.9	272.7
Subordinated liabilities	–	–	–	308.2	549.5	857.7
Total financial liabilities	23,109.2	2,883.0	8,233.8	13,262.9	2,002.1	49,491.0

Notes to the Financial Statements (continued)

29. Market risk

Market risk is the risk to earnings and capital arising from changes in interest rates, foreign currency exchange rates, structural mismatches within the balance sheet and the price of financial instruments.

Value at Risk (VaR)

VaR is a risk management tool which evaluates the potential losses that may be incurred as a result of movements in market conditions over a specified holding period and to a given level of confidence. The model used is based on a 10 day holding period and a 99% confidence level.

The VaR model calculates potential movements in market prices by reference to market data from the last 63 days and incorporates underlying risk factors based on historic interest rate volatilities and correlations.

VaR for the Treasury portfolios is calculated and reported on a daily basis. A back test of the VaR model is performed to test the validity of the assumptions and parameters within the model.

A number of limitations should be considered in relation to the VaR model:

1. Historic data is not necessarily a good guide to future events.
2. The model, by definition, does not capture potential losses outside the 99% confidence level, i.e. those events that are extreme in nature.
3. VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intra-day exposures.

The VaR measures shown below are based upon Treasury positions.

Structural risk analysis (basis risk)

An analysis of interest bearing items by rate type is performed to illustrate key areas of structural mismatch. It identifies mismatches between administered rates, fixed rates and other rates, including those linked to Bank Base Rate and SONIA. The effect of SONIA mismatches within the Balance Sheet is measured as the impact on net interest income (for a 12 month rolling period) of an isolated increase in SONIA of one basis point (0.01%). A one basis point sensitivity measure is an industry standard approach to quantify the quantum and direction of the interest rate exposure within the Society.

Basis Point value (BP) sensitivity

These measures calculate the change in value of the assets and liabilities resulting from both a one basis point (PV01) and 100 basis points (PV100) parallel upward shift in interest rates. Within the Treasury portfolio, this is calculated separately for each currency and reported on a daily basis and at the full balance sheet level on a monthly basis.

Repricing gap analysis

Repricing dates are analysed primarily to avoid repricing risk concentrations, i.e. the situation where too great a proportion of the Group's assets and liabilities see the interest rates earned or charged on them resetting within a given time period. The aim is to prevent excessive volatility in the net interest margin that could arise if rates shifted adversely within a given time period and, since the Society cannot dictate interest rate movements itself, the best approach is to limit the amount of assets or liabilities that are exposed in this way. The analysis identifies the net asset/liability repricing position across a series of time intervals. Positions are calculated using nominal amounts and exclude interest flows. General reserves, fixed assets and other liabilities are classified as having 'non-specific' repricing characteristics with a zero rate of interest. The measure is calculated as a reverse cumulative gap.

Repricing gap analysis (continued)

	Year end £m	Average £m	Maximum £m	Minimum £m
2022				
LIBOR basis	**–**	**–**	**–**	**–**
SONIA basis	**1.6**	**1.9**	**2.0**	**1.6**
PV01 sensitivity	**0.2**	**0.2**	**0.3**	**0.1**
PV100 sensitivity	**21.9**	**27.6**	**36.3**	**13.0**
VaR	**7.0**	**5.3**	**9.3**	**1.6**
2021				
LIBOR basis	0.1	0.1	0.2	–
SONIA basis	1.8	1.7	1.9	1.4
PV01 sensitivity	(0.1)	0.1	0.5	(0.3)
PV100 sensitivity	(11.3)	10.4	46.6	(23.7)
VaR	14.3	5.3	15.5	1.2

	Greater than one year £m	Greater than five years £m	Greater than ten years £m
2022			
Repricing gap	**362**	**69**	**–**
2021			
Repricing gap	1,144.0	155.0	–

30. Currency risk

Currency exchange risk is monitored daily and the Society seeks to minimise its net exposure to assets and liabilities denominated in currencies other than Sterling. In particular the Society's existing non-Sterling Liquidity portfolio and Wholesale Funding exposures are swapped back into Sterling. Maximum positions throughout the year represented less than 0.02% of total assets. Actual exposures were:

Group and Society	**2022 £m**	2021 £m
Year end	**6.1**	1.2
Maximum	**6.1**	9.0

Notes to the Financial Statements (continued)

31. Wholesale credit risk

The Group's wholesale credit risk arises principally from assets held for liquidity purposes. The risk is that counterparties with whom the Group invests liquid assets fail to repay those investments when they fall due. The Group, through the Treasury function, undertakes its own internal rating of all its counterparties and sets individual limits accordingly. These limits are regularly reviewed internally and against the external rating agencies, with revocation or suspension taking place where considered appropriate.

Limits are in place governing the types of instrument in which the Group will invest, as well as geographic limits designed to prevent over-exposure to a given country.

The Group uses an internal credit ratings process to identify potential risks and wholesale related credit risks are reported and discussed monthly at the Asset and Liability Committee.

Whilst recognising that exposures will be maintained across a spectrum of counterparties the Board has maintained a low risk appetite for wholesale credit risk resulting in our inter-bank exposures being limited to operational requirements. A diversified range of counterparties is in place to meet business and regulatory requirements in order to meet the Board approved strategies with no credit risk exposures being undertaken by Treasury to counterparties that have not been through an internal approvals process including a formal second Line of Defence function.

The following tables break down Wholesale Group exposures by type using the composite external ratings*.

	Aaa-Aa3 £m	A1-A3 £m	Baa1-Baa3 £m	Ba1-B3 £m	Caa1-C3 £m	Unrated £m	Total £m
2022							
Central Bank and Sovereigns	**6,605.4**	**271.9**	**–**	**–**	**–**	**–**	**6,877.3**
Financial institutions	**6,177.9**	**857.4**	**425.2**	**–**	**–**	**–**	**7,460.5**
Supranationals	**501.0**	**–**	**–**	**–**	**–**	**–**	**501.0**
Other	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**13,284.3**	**1,129.3**	**425.2**	**–**	**–**	**–**	**14,838.8**
2021							
Central Bank and Sovereigns	6,347.0	–	–	–	–	–	6,347.0
Financial institutions	2,485.3	911.2	92.1	–	–	–	3,488.6
Supranationals	652.0	–	–	–	–	–	652.0
Other	–	–	–	–	–	–	–
Total	9,484.3	911.2	92.1	–	–	–	10,487.6

* The composite rating is derived from an average external rating

The Group has a low risk appetite to exposures outside the UK. This is reflected in the country exposures by type shown in the tables below.

	Central Banks and Sovereigns £m	Financial institutions £m	Supranationals £m	Other £m	Total £m
2022					
United Kingdom	**6,565.3**	**4,989.7**	**–**	**–**	**11,555.0**
Australia	**–**	**296.7**	**–**	**–**	**296.7**
Canada	**–**	**1,275.7**	**–**	**–**	**1,275.7**
France	**40.1**	**40.9**	**–**	**–**	**81.0**
Germany	**–**	**273.4**	**–**	**–**	**273.4**
Japan	**271.9**	**319.4**	**–**	**–**	**591.3**
Netherlands	**–**	**82.6**	**–**	**–**	**82.6**
Norway	**–**	**75.4**	**–**	**–**	**75.4**
Spain	**–**	**76.1**	**–**	**–**	**76.1**
Sweden	**–**	**29.1**	**–**	**–**	**29.1**
United States	**–**	**1.5**	**–**	**–**	**1.5**
International	**–**	**–**	**501.0**	**–**	**501.0**
Total	**6,877.3**	**7,460.5**	**501.0**	**–**	**14,838.8**
2021					
United Kingdom	6,207.5	2,099.2	–	–	8,306.7
Australia	–	38.6	–	–	38.6
Canada	–	385.0	–	–	385.0
France	47.8	184.9	–	–	232.7
Germany	–	427.0	–	–	427.0
Japan	91.7	2.4	–	–	94.1
Netherlands	–	111.4	–	–	111.4
Norway	–	82.8	–	–	82.8
Spain	–	20.7	–	–	20.7
Sweden	–	31.8	–	–	31.8
United States	–	104.8	–	–	104.8
International	–	–	652.0	–	652.0
Total	6,347.0	3,488.6	652.0	–	10,487.6

The Group's main Sovereign exposure is to the UK which had an average external rating of 'AA-'. At the year end, UK Sovereign exposure was £5,982.8 million (2021: £5,539.8 million) to the Bank of England and £582.5 million (2021: £667.7 million) in UK Government bonds.

None of the wholesale exposures are either past due or impaired and there are no assets that would otherwise be past due or impaired whose terms have been renegotiated.

The key trigger events used to evaluate impairments are set out in note 1.

Notes to the Financial Statements (continued)

31. Wholesale credit risk (continued)

Wholesale credit risk is recorded in the following balance sheet items as below:

Group	2022 £m	2021 £m
Cash in hand and balances with the Bank of England	**5,982.8**	5,539.8
Loans and advances to credit institutions	**814.7**	381.4
Debt securities	**5,684.8**	4,075.5
Derivative financial instruments	**2,356.5**	490.9
Total wholesale credit risk	**14,838.8**	10,487.6

32. Credit risk on loans and advances to customers

Gross contractual exposure

The table below splits the *loans and advances to customers* balance per the balance sheet into its constituent parts and reconciles to the gross exposures used in the expected credit loss (ECL) model. *Effective Interest Rate* (EIR) and *hedging* adjustments have been excluded from the ECL model as these do not form part of the contractual cash flows from the assets.

EIR is the measurement method used for financial assets held at amortised cost, including *loans and advances to customers*, which spreads income and fees over the life of the asset. See note 1 for more details. *Hedging* is described in more detail in note 27. The *fair value rate adjustment* reflects the market value adjustment on acquired portfolios of mortgage assets in respect of interest rates on the underlying products. This is amortised over the expected life of the acquired portfolio. The *fair value credit adjustment* is the fair value discount applied on purchased or originated credit impaired (POCI) mortgage assets acquired as part of the Norwich & Peterborough Building Society (N&P) and Chelsea Building Society (CBS) acquisitions. *Impairment* represents the difference between the total ECL and the *fair value credit adjustment*.

ECL is calculated using models that take historical default and loss experience and apply predictions of future economic conditions (e.g. unemployment and house prices) and customer behaviour (e.g. default rates). In certain circumstances, the core models may not accurately reflect factors that have resulted in an increase in credit risk. When this happens, post model adjustments (PMAs) are overlaid to reflect the impact on ECL. The economic scenarios and the PMAs applied at 31 December 2022 are described below.

Group	2022 £m	2021 £m
Gross contractual exposures	**45,252.1**	42,211.5
EIR and other adjustments	**49.7**	52.8
Hedging	**(1,508.3)**	(238.2)
Fair value rate adjustment	**(39.7)**	(49.2)
Gross loans and advances to customers	**43,753.8**	41,976.9
Impairment	**(33.1)**	(26.1)
Fair value credit adjustment	**(25.3)**	(28.4)
ECL	**(58.4)**	(54.5)
Loans and advances to customers	**43,695.4**	41,922.4

Expected Credit Losses (ECL)

Economic scenarios

Accounting standards require ECL to be calculated by applying multiple economic scenarios. Each economic scenario is provided a weighting, and these are combined to arrive at the total ECL.

These scenarios are generated internally using external data, statistical methodologies, and senior management judgement, to span a range of plausible economic conditions. The Group continues to use four scenarios: an upside scenario that assumes more benign economic conditions; our core or central best estimate scenario; a more negative Stagflation downturn scenario; and a Severe downturn scenario. Stagflation downturn and Severe downturn scenarios replaced downturn and stress scenarios from the 2021 Scenario's.

Scenarios are projected over a 5 year window, reverting to long-term averages past that point. The Group allows all macroeconomic scenarios to impact staging.

Current macroeconomic conditions

The UK economy grew at the beginning of 2022 as activity rebounded from the Omicron-related dip at the end of 2021, but the post-Covid recovery in social consumption has now made way for the cost-of-living squeeze on consumer demand.

Russia's invasion of Ukraine has had a wide-ranging impact on a UK economy that was already starting to suffer from rising energy prices. Extensive economic sanctions have added to the mix of supply chain bottlenecks, exacerbating inflationary measures for consumers and businesses.

The Bank of England responded to rising inflation with a succession of rate rises, with the last one in February taking the interest rate to 4.0%. Further increases are anticipated in 2023 with the ultimate path of the rates uncertain due to the recent economic policy changes.

Upside

This assumes continued sanctions lead to a softening in Russia's stance on Ukraine and the conflict is deescalated; measures to reduce inflation are highly effective; and vaccines continue to successfully negate the impact of all new COVID-19 variants.

After a strong performance in the second half of 2022, GDP reverts to pre-pandemic levels from 2023. Unemployment falls back to multi-decade lows and house prices grow at 3.2% per annum by 2026.

Core

The core scenario is the Group's best estimate of how the UK economy will evolve and is aligned with the central scenario used in the Group's financial planning processes. It assumes the economic shocks arising from Russia's invasion of Ukraine delay the return to post-pandemic normality as sanctions remain in place and western economies seek to adjust to the loss of output from both countries. The latter is driving volatility in the wholesale energy markets which in turn has created the cost-of-living repercussions whereby inflation is rising and cost to households and businesses is surpassing the real earnings growth.

Successive Bank Rate rises at the end of 2022 and throughout 2023 successfully bring inflation back under control with the rate expected to peak at 4.8% by the end of 2023 and then start moving down to 3.5% by the end of 2027. The UK Government's cost-of-living support packages help mitigate the impact of energy price rises on the most vulnerable consumers.

House Price Index (HPI)

The Core scenario expects both the supply of, and demand for, housing stock to normalise in 2023 with expectations of further interest rate rises during the year to dramatically slow recent growth in house prices. The steep rises in HPI growth seen in the year are forecasted to ease in 2023 with a retraction of 6.0% and a further 2.0% in 2024 but this downturn is short lived as lower borrowing costs bring back activity with price growth returning to 2.4% in 2027.

Inflation

Due to the sustained rise in Consumer Price Inflation to over 10.0% in 2022, a further rise is expected in 2023 with this increase predominantly driven by volatility in the wholesale energy markets due to the war in the Ukraine. This scenario has inflation capping at 10.0% after the sixth price cap rise comes into effect in January 2023 but after the spring, inflation is assumed to decline to 6.0% by the end of 2023 and 2.5% in 2024. This decline is driven by a fall in consumer spending allowing bottlenecks to ease and supply to catch up with demand.

Notes to the Financial Statements (continued)

32. Credit risk on loans and advances to customers (continued)

Expected Credit Losses (ECL) (continued)

Economic scenarios (continued)

Current macroeconomic conditions (continued)

Core (continued)

Gross Domestic Product (GDP)

In this scenario GDP retracts by 1.0% in 2023 with this slowdown being driven by the fall in real household disposable income and rising interest rates exacerbated by the sustained rise in Consumer Price inflation. However, GDP is not expected to fall any further as it is assumed that households use excess savings to finance spending and trade is boosted from the fall in the value of the pound.

Increased capital spending of cash stockpiled by large companies continues to be reflected, albeit partially offset with growing labour costs and component shortages. The UK economy returns to near its pre-pandemic level in 2024 but is structurally marginally smaller due to lost investment, business closures and labour market scarring.

Unemployment

The cost-of-living crisis is affecting non-discretionary spending in sectors that are not seen as a necessity and so these will be hit by a fall in spending while also suffering the large increase in energy bills. Although unemployment continued to fall over 2022, higher job losses and business closures are expected. With inflation still high in 2023 it is expected that real earnings growth will weaken further and unemployment will rise from 3.8% early 2023 to a peak of 5.8% in 2024 before gradually falling back to 4.5% in 2027 as uncertainty fades and demand grows with recovery in business investment.

Stagflation downturn

The downturn scenario assumes that the war in Ukraine continues, with a longer lasting impact on energy and food supplies. These geo-political tensions keep inflation high with the Bank of England responding with further increases in base rate to 4.0% at the start of 2023 to a peak of 6.3% by the end. Higher borrowing costs and falling real earnings growth tilt the economy into a deep recession, with GDP falling by 5.9% in 2023 and unemployment accelerates to a peak of 7.0% in 2024. Given already stretched valuations, the sharp increase in borrowing costs and economic downturn sees house prices fall by 12.7% in 2023.

Severe downturn

There is a severe increase in global geo-political tensions due to the escalation of the war in Ukraine and worsening relations between China and Taiwan. This places considerable pressure on already stretched global supply chains. In addition, there is increased tensions between the EU and the UK over the 2020 trade agreement. A new strain of COVID-19 requires the UK Government to reimpose a lockdown until an updated vaccine emerges. Without government support measures unemployment accelerates to a peak of 8.8% in 2024 which in turn drives house prices down by 30% (peak to trough). This scenario also incorporates a risk that UK supply chains are impacted by climate catastrophes on a global scale over the 5 year scenario horizon, further undermining recovery.

The following table shows the values of the key economic variables used by each economic scenario for the period until December 2027. The table includes the three key parameters used to predict probability of default (PD) – unemployment, HPI and UK Bank of England base rate. 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.

Household disposable income is forecast to decrease in our economic scenarios as a result of sharply rising inflation and increases in the cost-of-living, combined with higher interest rates and the downward movement in house prices. This is assumed to led to affordability pressures which are expected to impact on customers' ability to meet mortgage repayments. This risk is not directly captured in our models. See the Affordability post model adjustment below for details on how this risk has been assessed and incorporated into the ECL.

	2022 Scenario					2021 Scenario				
	2023	**2024**	**2025**	**2026**	**2027**	2022	2023	2024	2025	2026
HPI										
Upside	**–**	**1.5**	**2.2**	**3.2**	**3.2**	4.0	3.0	3.0	2.0	2.0
Core	**(6.0)**	**(2.0)**	**1.3**	**2.0**	**2.0**	1.2	2.0	2.0	2.0	2.0
Stagflation downturn	**(12.7)**	**(5.0)**	**–**	**1.5**	**1.7**	(12.7)	(5.0)	–	1.5	2.0
Severe downturn	**(13.5)**	**(11.8)**	**(6.8)**	**–**	**0.5**	(13.0)	(10.5)	(5.0)	–	1.0
GDP										
Upside	**1.5**	**2.0**	**2.1**	**2.0**	**2.0**	6.3	2.1	2.0	2.0	2.0
Core	**(1.5)**	**0.8**	**1.6**	**1.8**	**1.8**	5.9	1.8	1.6	1.6	1.6
Stagflation downturn	**(6.3)**	**(5.3)**	**0.4**	**0.6**	**1.0**	(5.6)	(5.0)	1.3	1.5	1.5
Severe downturn	**(7.4)**	**(5.3)**	**(1.2)**	**–**	**0.2**	(5.1)	(2.0)	(0.7)	–	–
Unemployment										
Upside	**3.5**	**3.6**	**3.6**	**3.8**	**3.8**	4.3	4.3	4.2	4.1	4.1
Core	**4.9**	**5.5**	**5.2**	**4.8**	**4.5**	4.7	4.7	4.5	4.4	4.4
Stagflation downturn	**6.5**	**7.0**	**6.7**	**6.5**	**6.0**	7.0	8.8	7.8	7.5	7.0
Severe downturn	**7.1**	**8.8**	**8.4**	**8.0**	**7.5**	10.0	11.9	9.0	8.0	7.0
Bank base rate										
Upside	**2.0**	**2.0**	**1.5**	**1.5**	**1.5**	0.5	0.8	0.8	0.8	0.8
Core	**4.8**	**4.3**	**4.0**	**3.8**	**3.5**	0.5	0.8	0.8	0.8	0.8
Stagflation downturn	**6.3**	**5.5**	**5.0**	**4.8**	**4.5**	–	–	–	–	–
Severe downturn	**2.0**	**–**	**–**	**–**	**–**	–	–	–	–	–

The values in the table below are calculated as either a simple average of the rate across the 5 year forecasting period or as peak to trough.

	Upside		Core		Stagflation downturn		Severe downturn	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
5 year average								
GDP	**2.1**	2.1	**1.2**	1.8	**(1.6)**	(1.6)	**(2.4)**	(2.2)
HPI	**2.0**	2.8	**(0.6)**	1.8	**(3.1)**	(3.0)	**(6.5)**	(5.7)
Unemployment	**3.6**	4.2	**4.9**	4.6	**6.4**	7.5	**7.8**	9.1
Bank base rate	**1.8**	0.7	**4.1**	0.6	**5.3**	–	**0.7**	–
Peak to trough								
GDP	**–**	–	**(6.7)**	(7.8)	**(6.6)**	(8.8)	**(7.5)**	(4.3)
HPI	**–**	–	**(6.5)**	(8.3)	**(14.3)**	(14.3)	**(26.4)**	(23.5)
Unemployment	**3.8**	4.5	**5.5**	4.9	**7.0**	8.8	**8.8**	11.9

Notes to the Financial Statements (continued)

32. Credit risk on loans and advances to customers (continued)

Expected Credit Losses (ECL) (continued)

Weightings

The following table shows the expected credit loss under each of our four economic scenarios along with the weightings that have been applied to arrive at the weighted average ECL. PMAs are calculated using the weighted scenario results and so their sensitivity in each of the individual scenarios cannot be accurately determined. For completeness they have been included as a uniform adjustment across each scenario.

Group	2022		2021	
	Weighting	ECL	Weighting	ECL
Scenario	%	£m	%	£m
Upside	5	37.6	5	29.7
Core	50	40.7	50	30.9
Stagflation downturn	30	73.5	30	74.9
Severe downturn	15	94.2	15	100.5
Weighted scenario	100	58.4	100	54.5

A revised modelling approach using quantitative analysis was established in 2022 to assess the weightings which used industry-level write-off data to infer the Society's loss rates over the period as internal loss data isn't available to establish a historical loss rate distribution which reflects the nature of our losses (i.e. relatively low losses in 'normal' times but the potential to make more substantial losses in recessionary conditions). An econometric model was developed which could be used to infer future loss rates based on a range of different economic scenarios.

The loss rates were mapped under each of the IFRS 9 economic scenarios to the historical loss rate distribution and using the distribution-defined probabilities of each loss rate being realised to derive relative likelihoods of each scenario occurring.

SME judgment is applied in the final assessment of weights, informed both by an assessment of the econometric model results and by the quantitative analysis. The difference in outcome is immaterial for 2022. The judgment was that the weights assigned should be unchanged from 2021 but this will continue to be monitored during 2023.

Post model adjustments

Post model adjustments ('PMA') are applied when an increase in credit risk is identified that is not effectively captured in the core expected credit loss models. A rigorous review of the 2021 year end PMAs has been performed to determine whether the identified risks are still applicable. Changes in credit risk not deemed to be captured in the underlying models resulting from the spike in inflation have also been assessed and an *affordability* PMA included to reflect this.

The PMAs applied at 31 December 2022 are as follows:

	2022 £m	2021 £m
Affordability	10.8	–
Methodology changes	5.5	6.4
Model recalibration	1.1	1.4
Uncertainty	7.1	3.6
Extended time to sale	–	2.2
Cladding	–	1.3
Total PMA	24.5	14.9

Affordability

Inflation is not a direct input into the underlying ECL models and, as such, does not have a direct influence on the output. Secondary impacts on other measures such as house prices will eventually feed into the model but there is an element of short-term insensitivity, particularly in a period of high inflation.

As a result, a new post model adjustment has been applied to reflect the risks of rising inflation, and its impact on customers' ability to meet repayments on their mortgage, not captured in the underlying ECL models.

Although the lending undertaken by YBS Group is risk-averse, with a significant amount of affordability assessment undertaken as part of the decision to advance mortgage loans, there are several segments of the mortgage book that are likely to be at greater risk of affordability stresses due to the cost-of-living pressures.

The PMA has been established by considering:

- affordability levels of the mortgage book by applying a stress to the monthly expenditure amounts in their affordability calculation. With affordability only measured at application stage, additional considerations were applied to earnings indexed using UK wage growth since completion.
- applying further stress to the book to reflect external pressures such as increase in outgoings, interest rate changes, cost-of-living challenges and income decreases. To estimate this impact, external credit data was sourced for a sample of the book using a series of affordability scenarios and this was then extrapolated to the rest of the book.

Further consideration has been given to the BTL book where the Group has assessed whether the coverage is sufficient to cover the increased risk to the book given the current macro-economic climate. Relative insensitivity to the stresses provided above was found and so an additional provision has been raised to cover this underestimation by applying an appropriate uplift factor based on the behaviour of a similar cohort of mortgages.

This PMA will be monitored as we progress through the year and as inflation reduces and cost-of-living pressures start to ease, this PMA can be reviewed.

Methodology changes

The Group has updated the definition of default ('DoD') and the probability of default ('PD') rating scale on the back of a comprehensive review as part of the transition to the fourth-generation internal ratings based (Gen 4 IRB) method of calculating regulatory capital. However, given the time and governance required to manage the introduction of amendments into the core underlying models, they will not be updated to reflect these changes until later in the year. Although all the models have been finalised, not all have gone through formal governance. As such, the previous method was used to recalculate the methodology changes PMA.

A PMA was established at 30 June 2021 to provide a high-level overlay to reflect the impacts of moving to Gen 4 version of the models, primarily covering:

- additional accounts that would be classified as being Stage 3 due to meeting the additional default criteria;
- accounts that would be more likely to be classified as Stage 2 due to an increase in risk, either by their transition to a higher rating grade or to a higher risk PD model; and
- reflect changes to the eligibility of accounts meeting the definition of a significant increase in credit risk ('SICR'). The changes reflect using initial recognition PD as a comparison point for SICR rather than lifetime PD.

Model recalibration

Regular model performance monitoring has highlighted that the observed default rates (ODRs) of certain risk grades have moved above their upper tolerance thresholds and are expected to remain that way for an extended period. This PMA represents the recalibration of the behavioural and application score to grade mappings to correct the tolerance breaches.

Notes to the Financial Statements (continued)

32. Credit risk on loans and advances to customers (continued)

Expected Credit Losses (ECL) (continued)

Post model adjustments (continued)

Uncertainty

Whilst we incorporate a range of economic assumptions in the scenarios and probability weightings used to calculate ECL, this approach still has certain limitations, particularly given the current volatility in market conditions. The resulting unusual and largely unforeseen impacts on the credit risks faced by the Group have given rise to several assumption uncertainties and a PMA has been established to aim to correct for these.

The key risks that this PMA provides an estimate for are provided below.

House price volatility

This PMA has been developed in response to extraordinary growth in house prices since the easing of the first COVID-19 lockdown and represents £5.7 million of the total uncertainty PMA (2021: £1.5 million). There are a couple of specific areas of uncertainty that have been considered in this PMA as a result.

The uncertainty being modelled in this PMA is that changes in HPI at a regional level are not evenly distributed and the ECL impact of changes in collateral values is non-linear. This part of the PMA aims to correct for the standard deviation from the regional type mean and is not an attempt to correct for any perceived current market wide over-valuation. A third party analysed the YBS portfolio using automated valuation models (AVM) for risk of over or under indexation, with a specific focus on geographical location, management have used this evaluation as support for this element of the PMA.

The latter part of the PMA relates to the risk that the Office for National Statistics ('ONS') indexation data that is incorporated into the ECL model on a quarterly basis is not a true representative of the market conditions as at 31 December 2022. The latest indexation from ONS was for data collected in Q3 of 2022. This PMA aims to correct for the update in market conditions by using an average of Nationwide and Halifax more recent indexations for Q4 of 2022.

The HPI assumptions applied in the underlying economic scenarios estimate the impacts of future HPI trends at a macro level based on the current baseline.

Climate risk

We have assessed the risks associated with climate change, both physical and transitional, in the context of ECL and concluded that the majority of these risks do not meet the requirements for recognition as:

- There have been no observed climate related defaults and therefore no identifiable significant increase in credit risk ('SICR'); and
- The material transition risks identified are expected to occur over a timescale in excess of the current behavioural life of our portfolio (i.e. the average term before a customer either moves onto an alternative deal or transfers to another provider) and, as such, any potential impact would be against loans yet to be underwritten.

We have, however, assessed the impact on our current loan book from properties subject to significant flood risk. The detailed assessment conducted for the purposes of Climate Biennial Exploratory Scenario ('CBES') reporting (see the *Building a greener society* section of the *Strategic Report*) have yet to be incorporated into the core ECL models so a PMA is used to assess the current level of risk.

This has been estimated by taking the proportion of properties at risk based on an external benchmark and applying a 10% additional loss against these properties. Factoring in the 12 month loss window for stage 1 balances, and assuming that the loss would be incurred as a result of a 1 in 25 flood event, a £1 million PMA (2021: £1.0 million) has been raised as an estimate of the impact. We will continue to evaluate the need for this PMA as our modelling evolves and the full exposure to physical risks, and transition risks as they emerge, are embedded into the ECL process.

Standard Variable Rate (SVR)

Throughout 2022 the Bank of England has increased the bank base rate to help bring inflation under control with the base rate increasing from 0.5% at the beginning of the year to 3.5% at the end. Consequently, this has impacted our customers by increasing both the fixed rates products we offer but also the standard variable rate customers, as they are charged should this apply to them. The latest BOE base rate increase communicated in December is not being incorporated into YBS variable rates until February and so this PMA aims to estimate this impact on ECL should it take effect immediately. This PMA has been raised for £0.4 million (2021: nil) and will be released as the updated SVR rate is applied at account level.

Buy-to-Let (BTL)

This PMA was raised in response to the increasing level of risk and uncertainty in BTL sector with the gradually phased in increases in tax rates to landlords starting to impact market behaviour, as well as structural changes in the rental market, both in terms of demographics and geography. These changes may place some landlords in a position where they cannot find tenants in their area who can afford rent at a level that would cover the loan servicing and maintenance costs of the property. Whilst there has not been an increase in BTL defaults over the last 12 months, it was assumed that this had been due to landlords meeting mortgage obligations by means other than rental and there was a latent risk that defaults were masked behind the lack of arrears. Although this risk is still considered present given the current climate, the *methodology changes* and *affordability* PMAs have been deemed to provide sufficient coverage of this and so the £1.1 million PMA raised for this has been released for 31 December 2022.

Extended time to sale

In response to the COVID-19 pandemic, the FCA put in place a moratorium on the enforcement of lender repossessions, and this remained in place until April 2021. This led to an industry-wide backlog of repossessions and impacted some of the model parameters, specifically those related to time to sale.

The post model adjustment accounted for this by increasing the time from default to possession ('TFDP') parameters by 12 months to reflect the under-estimation present in the core model.

Subsequent to 31 December 2021, a review of repossession activity was performed, and it was determined that the £2.2 million PMA could now be released as activity has reverted back to historic levels as backlogs have cleared.

Cladding

Following the Grenfell Tower fire in June 2017, the UK Government mandated that aluminium composite material ('ACM'), the cladding type used on Grenfell Tower, be removed from all blocks of flats in excess of 18 metres or six storeys high.

Subsequently, the *Fire Safety Act 2021* legislated that repair costs could be passed onto leaseholders in accordance with the standard lease terms and that the obligation to pay for remediation works would fall to the current leaseholder.

The governments latest proposal ensures all costs for cladding remediation on blocks over 11 metres in height are now to be fully recovered by either Building Safety Fund, Mid Rise Scheme or Developer Self Remediation and buildings below 11 metres do not generally pose a fire safety risk and so may only require proportionate works but no fund will be available for this. This, combined with persuasive evidence that the Group only has limited numbers of affected properties has led to the release of this £1.3 million PMA for 31 December 2022.

Notes to the Financial Statements (continued)

32. Credit risk on loans and advances to customers (continued)

Expected Credit Losses (ECL) (continued)

Staging and POCI

The tables below show the staging of loans and advances plus those classed as purchased or originated credit impaired (POCI) recognised as part of the acquisitions of Norwich & Peterborough Building Society (N&P) and Chelsea Building Society (CBS). The fair value discount applied on acquisition is recognised as the *fair value credit adjustment*.

The Group has £385.4 million of POCI loans (2021: £440.1 million). Of these, 88% (2021: 87%) are now considered performing loans but are not permitted to be reclassified to stage 1 or 2.

	Gross exposure £m	%	PMA £m	Total ECL £m	Coverage %	Average LTV %
2022						
Stage 1	**40,251.1**	**88.9**	**3.0**	**7.5**	**–**	**49.0**
Stage 2	**4,277.3**	**9.5**	**18.1**	**26.3**	**0.6**	**33.7**
Stage 3	**338.3**	**0.7**	**3.4**	**11.3**	**3.3**	**39.4**
POCI	**385.4**	**0.9**	**–**	**13.3**	**3.5**	**40.5**
Total	**45,252.1**	**100.0**	**24.5**	**58.4**	**0.1**	**46.8**
2021						
Stage 1	37,614.0	89.1	2.0	5.6	–	51.7
Stage 2	3,791.2	9.0	8.3	17.5	0.5	35.7
Stage 3	366.2	0.9	4.6	15.4	4.2	43.9
POCI	440.1	1.0	–	16.0	3.6	45.9
Total	42,211.5	100.0	14.9	54.5	0.1	49.5

The *cost of risk* measure has been calculated using the impairment charge for the year divided by the average balance over the period of which is 0.02% for 2022. *Problem loans* represent the total of the Group's stage 3 balances and the non-performing portion of our POCI loans.

	2022 £m	%	2021 £m	%
Gross exposures	**£m**	**%**	£m	%
Stage 1	**40,251.1**	**88.9**	37,614.0	89.1
Stage 2	**4,277.3**	**9.5**	3,791.2	9.0
Stage 3	**338.3**	**0.7**	366.2	0.9
POCI	**385.4**	**0.9**	440.1	1.0
Total gross exposures	**45,252.1**	**100.0**	42,211.5	100.0
Problem loans	**384.7**	**0.9**	423.7	1.0
Cost of risk	**–**	**–**	–	(0.1)
ECL and Coverage ratios				
Stage 1	**7.5**	**–**	5.6	–
Stage 2	**26.3**	**0.6**	17.5	0.5
Stage 3	**11.3**	**3.3**	15.4	4.2
POCI	**13.3**	**3.5**	16.0	3.6
Total ECL	**58.4**	**0.1**	54.5	0.1
Of which impairment	**33.1**	**56.7**	26.1	47.9
Of which fair value credit adjustment	**25.3**	**43.3**	28.4	52.1

The following table shows expected credit losses, split by impairment and fair value credit adjustments, and a best estimate of the collateral against these mortgages. The collateral is calculated as the lower of the value of the property and the outstanding loan amount so does not represent the overall value of properties backing the loans.

Group	Gross exposure		Collateral		Impairment		Fair value credit adjustment	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Stage 1	**40,251.1**	37,614.0	**40,249.7**	37,611.5	**7.5**	5.6	**–**	–
Stage 2	**4,277.3**	3,791.2	**4,277.0**	3,790.5	**23.4**	15.8	**2.9**	1.7
Less than 30 days past due	**4,156.1**	3,700.0	**4,155.8**	3,699.3	**22.0**	14.7	**2.7**	1.6
More than 30 days past due	**121.2**	91.2	**121.2**	91.2	**1.4**	1.1	**0.2**	0.1
Stage 3	**338.3**	366.2	**338.0**	365.8	**9.2**	11.8	**2.1**	3.6
Less than 30 days past due	**155.6**	183.6	**155.6**	183.5	**3.3**	3.9	**0.4**	1.0
30-90 days past due	**64.9**	57.3	**64.9**	57.3	**1.1**	1.3	**0.3**	0.3
More than 90 days past due	**117.8**	125.3	**117.5**	125.0	**4.8**	6.6	**1.4**	2.3
POCI	**385.4**	440.1	**385.0**	439.3	**(7.0)**	(7.1)	**20.3**	23.1
Less than 30 days past due	**346.7**	392.7	**346.3**	392.0	**(6.4)**	(6.7)	**17.3**	19.2
30-90 days past due	**20.8**	26.5	**20.8**	26.5	**(0.1)**	0.1	**0.9**	1.2
More than 90 days past due	**17.9**	20.9	**17.9**	20.8	**(0.5)**	(0.5)	**2.1**	2.7
Total	**45,252.1**	42,211.5	**45,249.7**	42,207.1	**33.1**	26.1	**25.3**	28.4

Society	Gross exposure		Collateral		Impairment		Fair value credit adjustment	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Stage 1	**8,942.6**	9,395.6	**8,941.3**	9,393.5	**4.0**	2.6	**–**	–
Stage 2	**1,889.1**	1,816.8	**1,889.0**	1,816.4	**9.3**	9.7	**3.0**	1.7
Less than 30 days past due	**1,845.8**	1,781.7	**1,845.7**	1,781.3	**8.9**	9.2	**2.8**	1.6
More than 30 days past due	**43.3**	35.1	**43.3**	35.1	**0.4**	0.5	**0.2**	0.1
Stage 3	**111.0**	140.9	**110.9**	140.8	**1.5**	2.1	**2.1**	3.6
Less than 30 days past due	**52.9**	78.3	**53.0**	78.2	**0.7**	1.2	**0.4**	1.0
30-90 days past due	**22.9**	22.0	**22.8**	22.0	**0.3**	0.2	**0.3**	0.3
More than 90 days past due	**35.2**	40.6	**35.1**	40.6	**0.5**	0.7	**1.4**	2.3
POCI	**385.1**	439.5	**384.7**	438.7	**(7.0)**	(7.1)	**20.2**	23.1
Less than 30 days past due	**346.4**	392.1	**346.0**	391.4	**(6.4)**	(6.7)	**17.2**	19.2
30-90 days past due	**20.8**	26.5	**20.8**	26.5	**(0.1)**	0.1	**0.9**	1.2
More than 90 days past due	**17.9**	20.9	**17.9**	20.8	**(0.5)**	(0.5)	**2.1**	2.7
Total	**11,327.8**	11,792.8	**11,325.9**	11,789.4	**7.8**	7.3	**25.3**	28.4

All accounts in stage 1 are less than 30 days past due.

Notes to the Financial Statements (continued)

32. Credit risk on loans and advances to customers (continued)

Lending by type

Group Percentage split of gross contractual exposure	2022 %	2021 %
Residential Prime	**81.4**	86.0
Residential Sub-Prime/Self-Cert	**0.5**	0.6
Retail Buy-To-Let	**14.3**	11.3
Social Housing	**0.5**	0.5
Commercial lending (exc. Social Housing)	**3.3**	1.6
	100.0	100.0

Credit risk management

The *Retail and commercial credit risk* section of the *Risk Management Report* describes how the Group manages credit risk via a robust risk appetite, credit risk framework, governance framework and through stress testing.

The Group's exposure to mortgage related credit risk is monitored and reporting on risk exposures is provided regularly to the Group's risk committees, including analysis of mortgages in arrears and monitoring of the characteristics of the loan portfolios (e.g. geographic location and loan-to-value).

Group	2022		2021	
Arrears	Retail %	Commercial %	Retail %	Commercial %
No arrears	**98.3**	**96.8**	98.3	98.1
Less than three months	**1.3**	**3.2**	1.3	1.9
Equal to or more than three months, less than six months	**0.2**	**–**	0.2	–
Equal to or more than six months, less than twelve months	**0.1**	**–**	0.1	–
Twelve months or more	**0.1**	**–**	0.1	–
Property in possession	**–**	**–**	–	–
Total gross exposure (contractual amounts)	**100.0**	**100.0**	100.0	100.0
Number of properties in possession at the year end	**49**	**–**	50	–

The percentage of retail mortgages with arrears of three months or more (as a % of outstanding balances, including possessions) has reduced during 2022 from 0.36% to 0.31%.

The UK Finance industry average ratio for mortgage arrears is measured using the number of accounts (including possessions). On this basis, the Group's retail mortgage arrears ratio of 0.44% (2021: 0.50%) is below the comparable UK Finance ratio 0.74% (2021: 0.79%). Arrears on more recent lending are minimal, reflecting the Group's credit risk appetite. Arrears are also lower than average for the buy-to-let portfolio with an arrears ratio of 0.13% (2021: 0.16%).

Society Arrears	2022 %	2021 %
No arrears	**97.9**	98.0
Less than three months	**1.5**	1.4
Equal to or more than three months, less than six months	**0.3**	0.3
Equal to or more than six months, less than twelve months	**0.1**	0.1
Twelve months or more	**0.1**	0.1
Property in possession	**0.1**	0.1
Total	**100.0**	100.0
Number of properties in possession at the year end	**39**	43

Retail mortgage lending

The Group's retail mortgage exposure can be broken down by customer type and geographical region as follows:

	Book		New lending	
Retail mortgage customer type	2022 %	2021 %	2022 %	2021 %
First-time buyer	**24.4**	24.8	**21.8**	36.8
Other buyers e.g. movers	**37.1**	38.1	**32.1**	40.5
Re-mortgage	**23.5**	25.1	**21.3**	12.2
Buy-to-let	**15.0**	11.8	**24.8**	10.1
Other	**–**	0.2	**–**	0.4
	100.0	100.0	**100.0**	100.0

Retail mortgage geographical distribution	2022 %	2021 %
Scotland	**6.4**	6.5
North East	**3.2**	3.3
Yorkshire & Humberside	**8.5**	8.8
North West	**10.3**	10.5
Midlands	**13.0**	12.9
East	**10.7**	10.7
South West	**7.4**	7.2
Greater London	**18.7**	18.3
South East	**17.8**	17.7
Wales & Northern Ireland	**4.0**	4.1
Non-UK	**–**	–
	100.0	100.0

The Group's retail mortgages are secured on property. The value of these properties is updated on a quarterly basis using the Office for National Statistics (ONS) regional property price indices which comprise relative house price movements across the UK. These indexed valuations provide senior management with a view of the value and risk of the properties on which retail mortgages are secured.

Notes to the Financial Statements (continued)

32. Credit risk on loans and advances to customers (continued)

Retail mortgage lending (continued)

Group Loan-to-value distribution of retail mortgages	Book 2022 %	2021 %	New lending 2022 %	2021 %
100% or greater	**–**	–	**–**	–
95 to 100%	**–**	–	**–**	–
90 to 95%	**0.2**	0.9	**5.3**	4.4
85 to 90%	**1.6**	3.2	**18.7**	22.4
80 to 85%	**4.3**	7.1	**16.1**	25.8
75 to 80%	**6.8**	10.3	**10.8**	16.7
70 to 75%	**10.0**	11.9	**19.1**	12.9
60 to 70%	**23.4**	20.4	**12.2**	8.2
Less than 60%	**53.7**	46.2	**17.8**	9.6
	100.0	100.0	**100.0**	100.0
Average LTV (all retail)	**46.8**	49.6	**71.7**	77.1
Average LTV (buy-to-let)	**53.4**	55.0	**68.6**	71.0

Group Loan-to-value distribution of retail mortgages	2022 Not impaired %	Impaired %	2021 Not impaired %	Impaired %
100% or greater	**–**	**–**	–	–
95 to 100%	**–**	**–**	–	–
90 to 95%	**0.3**	**–**	0.9	–
85 to 90%	**1.7**	**–**	3.2	–
80 to 85%	**4.3**	**–**	7.1	–
75 to 80%	**6.7**	**–**	10.2	0.1
70 to 75%	**9.9**	**–**	11.7	0.1
60 to 70%	**23.1**	**0.3**	20.1	0.3
Less than 60%	**52.4**	**1.3**	44.9	1.4
	98.4	**1.6**	98.1	1.9

The definition of default/impaired includes accounts that are 90 days past due, interest only accounts past term end, those under certain forbearance measures and others exhibiting other unlikeliness to pay indicators. Accounting standards require accounts considered to be credit impaired at the time of business combinations (POCI) to be classed as impaired until de-recognition.

Commercial lending

The Group offers commercial lending though the YBS brand, providing loans to commercial owner occupiers and corporate entity landlords of commercial and residential property. The majority of loans are advanced against commercial properties using a vacant possession valuation to mitigate against future losses. Loans against specialist properties are strictly limited and no lending is given against land only.

The valuations of commercial properties are updated on a quarterly basis using MSCI's commercial property price indices based on region and property type. Residential valuations are indexed using the regional ONS house price indices. The indexed valuations are used to assess the risk of loss on individual loans and to monitor whether loan-to-value covenants are met. Where borrowers are more than two months in arrears, consideration is given to obtaining a professional valuation of the property.

Group and Society	2022	2021
Average loan to value (%)	**48.4**	50.6
Average loan size (£m)	**0.6**	0.4
Value of security held (£m)	**3,018.6**	2,217.8
Balance of loans >100% LTV (£m)	**6.2**	16.6
Largest exposure to a single counterparty (£m)	**18.0**	17.9

At the year-end only 0.03% (2021: 0.04%) of commercial balances (including repossessions) were more than three months in arrears.

'Watch list' loans include those where there are circumstances which could impact on the quality and recoverability of the loan. Examples include borrowers requesting forbearance or reporting trading losses. Loans on the watch list total decreased to £31.4 million in 2022 (2021: £33.9 million). Our appetite and approach to the provision of commercial lending is to provide amortising term loans, typically over 10 – 25 years. We do not provide short-term, interest only facilities which require repayment on expiry through refinance. Where a period of interest only is agreed, it will be for a short period following which the loan will be structured to amortise over the remaining term. Corporate buy-to-let loans increased to £884.1 million (2021: £551.4 million). These loans are mainly interest only and are continuously monitored to ensure that full repayment is made on the expiry of the loan term.

Notes to the Financial Statements (continued)

32. Credit risk on loans and advances to customers (continued)

Commercial lending (continued)

Group and Society Commercial mortgage balances by geographical region	2022 %	2021 %
Scotland	–	–
North East	0.4	0.5
Yorkshire & Humberside	2.8	3.3
North West	4.8	5.3
Midlands	6.6	7.3
East	3.5	4.5
South West	6.6	6.8
Greater London	49.0	46.1
South East	25.3	25.0
Wales & Northern Ireland	1.0	1.2
	100.0	100.0

Group and Society Commercial mortgage balances by lending type	2022 %	2021 %
Commercial owner occupied	3.9	6.4
Commercial investment property*	32.4	35.3
Corporate Buy-To-Let*	51.6	41.5
Social Housing	12.1	16.8
	100.0	100.0

The Group has an active business lending to housing associations in England and Wales, via the Yorkshire Building Society brand. This sector has particularly robust credit characteristics and the lending is low risk albeit at low margins. At 31 December 2022 this loan book was £202.0 million (2021: £215.0 million). The Group has written further undrawn Term Loan/Revolving Credit facilities in the region of £164.2 million (2021: 242.0 million) and these are expected to draw down over the next 5 years.

* Please note prior year figures for Commercial mortgage balances split by lending type have been restated due to transitioning to an alternative data source.

Risk assessment

The following tables are included to give an overview of the Group's credit risk. This includes analysis of exposures by 12 month probability of default (PD) bands and origination year.

The risk models cover the majority of loans underwritten by the Group, with exceptions for portfolios subject to bespoke modelling requirements including Accord buy-to-let, commercial lending and POCI accounts. The Accord BTL population currently has very strict underwriting criteria and limited behavioural history, with only a single possession to date. Commercial lending has significantly different behavioural characteristics to the retail mortgages.

Lending by risk grade

Group	2022						2021	
	Stage 1	Stage 2	Stage 3	POCI	Total exposure	ECL	Total exposure	ECL
PD Band	£m	£m	£m	£m	£m	£m	£m	£m
0.00%–<0.15%	30,532.2	2,260.4	–	–	32,792.6	1.7	32,958.3	2.0
0.15%–<0.25%	1,435.1	453.5	–	–	1,888.6	0.7	794.0	0.4
0.25%–<0.50%	252.8	231.8	–	–	484.6	0.3	552.6	0.3
0.50%–<0.75%	258.8	324.8	–	–	583.6	0.7	631.4	1.0
0.75%–<1.00%	144.7	189.4	–	–	334.1	0.8	337.1	1.1
1.00%–<2.50%	279.5	418.7	–	–	698.2	3.4	657.1	4.4
2.50%–<10.0%	43.0	162.1	–	–	205.1	2.5	181.5	3.2
10.0%–<100%	8.2	108.2	–	–	116.4	2.3	95.5	1.9
Default	–	–	333.2	33.4	366.6	11.8	423.6	16.2
Accord buy-to-let	5,843.6	57.7	4.3	–	5,905.6	6.3	4,092.0	0.7
Commercial	1,453.0	43.9	0.8	12.9	1,510.6	3.7	1,086.1	2.9
Other	0.2	26.8	–	339.1	366.1	24.9	402.3	20.4
Total	40,251.1	4,277.3	338.3	385.4	45,252.1	58.4	42,211.5	54.5

Society	2022						2021	
	Stage 1	Stage 2	Stage 3	POCI	Total exposure	ECL	Total exposure	ECL
PD Band	£m	£m	£m	£m	£m	£m	£m	£m
0.00%–<0.15%	6,570.2	885.2	–	–	7,455.4	0.2	8,521.4	0.2
0.15%–<0.25%	500.1	210.0	–	–	710.1	0.2	267.5	0.1
0.25%–<0.50%	90.6	81.8	–	–	172.4	0.1	273.5	0.1
0.50%–<0.75%	126.2	137.9	–	–	264.1	0.4	366.0	0.7
0.75%–<1.00%	82.7	110.3	–	–	193.0	0.6	198.2	0.9
1.00%–<2.50%	106.5	255.6	–	–	362.1	2.5	351.0	3.2
2.50%–<10.0%	12.4	86.2	–	–	98.6	1.5	81.5	1.9
10.0%–<100%	1.5	51.4	–	–	52.9	1.2	47.0	1.0
Default	–	–	110.2	33.4	143.6	4.6	198.3	9.6
Commercial	1,452.4	43.9	0.8	12.6	1,509.7	3.6	1,086.1	2.9
Other	–	26.8	–	339.1	365.9	18.2	402.3	15.1
Total	8,942.6	1,889.1	111.0	385.1	11,327.8	33.1	11,792.8	35.7

Notes to the Financial Statements (continued)

32. Credit risk on loans and advances to customers (continued)

Risk assessment (continued)

Lending by origination year

The table below shows exposures and expected credit losses by origination year for retail loans. The table shows that the credit quality of newly written business is of significantly higher quality than that written before 2009 or acquired as part of business combinations.

Group	2022						2021	
	Stage 1	Stage 2	Stage 3	POCI	Total exposure	ECL	Total exposure	ECL
Origination year	£m	£m	£m	£m	£m	£m	£m	£m
2022	9,890.0	275.4	19.1	–	10,184.5	7.6	–	–
2021	8,941.6	295.9	22.8	–	9,260.3	6.3	10,143.8	4.2
2020	4,619.4	274.3	20.6	–	4,914.3	3.6	6,368.6	2.5
2019	4,397.2	294.8	28.2	–	4,720.2	3.3	5,515.4	2.8
2013 – 2018	10,141.9	1,521.6	69.1	–	11,732.6	8.6	14,840.2	7.5
2009 – 2012	702.6	346.5	7.2	–	1,056.3	0.6	1,278.8	0.5
Pre-2009	725.2	728.7	106.8	–	1,560.7	6.4	1,880.6	8.7
Acquired loans	833.2	540.1	64.5	385.4	1,823.2	22.0	2,184.1	28.3
Total	40,251.1	4,277.3	338.3	385.4	45,252.1	58.4	42,211.5	54.5

For 2009 and post lending, the average indexed LTV is 51.2% and the 90 days plus arrears rate is 0.1%. For Lending prior to 2009 the average indexed LTV is 25.6% and the 90 days arrears rate is 2.6%.

Movement analysis

The following tables detail the movement in the gross exposures and ECL from the beginning to the end of the reporting period split by class of financial instrument.

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Gross exposure at 31 December 2021	37,614.0	3,791.2	366.2	440.1	42,211.5
Transfers from stage 1 to 2	(1,562.2)	1,562.2	–	–	–
Transfers from stage 1 to 3	(59.0)	–	59.0	–	–
Transfers from stage 2 to 1	830.1	(830.1)	–	–	–
Transfers from stage 2 to 3	–	(69.4)	69.4	–	–
Transfers from stage 3 to 1	25.2	–	(25.2)	–	–
Transfers from stage 3 to 2	–	71.1	(71.1)	–	–
Changes to carrying value	(1,850.4)	227.4	6.9	(8.7)	(1,624.8)
New financial assets originated or purchased	10,588.7	–	–	–	10,588.7
Financial assets derecognised during the year	(5,335.3)	(475.1)	(62.0)	(45.5)	(5,917.9)
Write-offs	–	–	(4.9)	(0.5)	(5.4)
Gross exposure at 31 December 2022	40,251.1	4,277.3	338.3	385.4	45,252.1
ECL at 31 December 2021	5.6	17.5	15.4	16.0	54.5
Transfers from stage 1 to 2	(0.1)	3.1	–	–	3.0
Transfers from stage 1 to 3	–	–	1.4	–	1.4
Transfers from stage 2 to 1	0.3	(2.2)	–	–	(1.9)
Transfers from stage 2 to 3	–	(0.9)	1.7	–	0.8
Transfers from stage 3 to 1	–	–	(0.6)	–	(0.6)
Transfers from stage 3 to 2	–	0.8	(1.5)	–	(0.7)
Changes in PDs/LGDs/EADs	(1.0)	3.7	1.9	(0.9)	3.7
New financial assets originated or purchased	3.4	–	–	–	3.4
Changes to model assumptions and methodologies	(1.5)	(3.3)	(3.1)	(0.6)	(8.5)
Unwind of discount	–	–	0.5	0.6	1.1
Financial assets derecognised during the year	(0.2)	(2.2)	(2.2)	(1.7)	(6.3)
Write-offs	–	–	(1.0)	(0.1)	(1.1)
PMA	1.0	9.8	(1.2)	–	9.6
ECL at 31 December 2022	7.5	26.3	11.3	13.3	58.4

Notes to the Financial Statements (continued)

32. Credit risk on loans and advances to customers (continued)

Movement analysis (continued)

Society	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Gross exposure at 31 December 2021	**9,395.6**	1,816.8	140.9	439.5	11,792.8
Transfers from stage 1 to 2	(566.9)	566.9	–	–	–
Transfers from stage 1 to 3	(13.4)	–	13.4	–	–
Transfers from stage 2 to 1	209.0	(209.0)	–	–	–
Transfers from stage 2 to 3	–	(26.6)	26.6	–	–
Transfers from stage 3 to 1	9.3	–	(9.3)	–	–
Transfers from stage 3 to 2	–	28.0	(28.0)	–	–
Changes to carrying value	(480.6)	(45.6)	(1.9)	(8.6)	(536.7)
New financial assets originated or purchased	1,529.3	–	–	–	1,529.3
Financial assets derecognised during the year	(1,139.7)	(241.4)	(28.5)	(45.3)	(1,454.9)
Write-offs	–	–	(2.2)	(0.5)	(2.7)
Gross exposure at 31 December 2022	8,942.6	1,889.1	111.0	385.1	11,327.8
ECL at 31 December 2021	2.6	11.4	5.7	16.0	35.7
Transfers from stage 1 to 2	–	1.6	–	–	1.6
Transfers from stage 1 to 3	–	–	0.2	–	0.2
Transfers from stage 2 to 1	0.2	(1.0)	–	–	(0.8)
Transfers from stage 2 to 3	–	(0.5)	0.8	–	0.3
Transfers from stage 3 to 1	–	–	(0.2)	–	(0.2)
Transfers from stage 3 to 2	–	0.4	(0.7)	–	(0.3)
Changes in PDs/LGDs/EADs	1.0	–	(0.2)	(1.0)	(0.2)
New financial assets originated or purchased	0.9	–	–	–	0.9
Changes to model assumptions and methodologies	(0.8)	(1.5)	(1.0)	(0.6)	(3.9)
Unwind of discount	–	–	0.2	0.6	0.8
Financial assets derecognised during the year	(0.1)	(1.8)	(1.2)	(1.7)	(4.8)
Write-offs	–	–	(0.6)	(0.1)	(0.7)
PMA	0.2	3.7	0.6	–	4.5
ECL at 31 December 2022	4.0	12.3	3.6	13.2	33.1

Forbearance

Forbearance tools are used, in line with industry guidance, where they are deemed appropriate for an individual customer's circumstances. These include capitalisation, interest only concessions, arrears arrangements and term extensions. Forbearance measures are incorporated into the calculation of ECLs.

The table below shows the retail accounts that are forborne. These accounts have been further classified as follows:

- non-performing – where an account meets the definition of default at the point it is granted a forbearance measure; and
- probationary – for accounts that have exited forbearance measures and been re-classed from non-performing in the last 2 years.

The definition of non-performing and stage 3 are aligned such that no accounts in stage 2 are classed as non-performing. Any accounts that were previously in default have a cure period of 12 months, after which they are able to move back into stage 2 or 1.

Group	Arrangements Exposure £m	Arrangements ECL £m	Other concessions Exposure £m	Other concessions ECL £m	Term extension Exposure £m	Term extension ECL £m	Interest only Exposure £m	Interest only ECL £m
2022								
Probation	46.0	0.4	2.5	–	1.8	–	2.5	–
Stage 1	12.5	–	–	–	0.5	–	0.3	–
Stage 2	33.5	0.4	2.5	–	1.3	–	2.2	–
Non-performing	157.1	5.1	8.3	0.7	7.5	0.1	4.5	–
Stage 3	130.8	3.7	5.3	0.3	5.1	0.1	4.2	–
POCI	26.3	1.4	3.0	0.4	2.4	–	0.3	–
Total	203.1	5.5	10.8	0.7	9.3	0.1	7.0	–
2021								
Probation	49.2	0.5	1.5	–	3.2	–	0.2	–
Stage 1	13.5	–	–	–	0.4	–	0.2	–
Stage 2	35.7	0.5	1.5	–	2.8	–	–	–
Non-performing	175.1	7.2	12.0	1.0	5.5	0.1	5.8	–
Stage 3	141.9	5.5	8.2	0.6	3.6	0.1	5.6	–
POCI	33.2	1.7	3.8	0.4	1.9	–	0.2	–
Total	224.3	7.7	13.5	1.0	8.7	0.1	6.0	–

All requests for forbearance on commercial loans are subject to full credit risk appraisal and are predominantly for a period of interest only, which allows the borrower to improve income from trading or rent receipts, pending the sale of the property. The appraisal process considers the likelihood of a loss being substantiated from any borrower granted a concession and ensures that the concession is in the interests of both the borrower and the Group. In 2022 there were 13 accounts (2021: 29) in the commercial loans portfolio subject to forbearance with a total balance of £4.1 million (2021: £7.0 million). There has been no underlying increase in the risk of the portfolio.

Notes to the Financial Statements (continued)

32. Credit risk on loans and advances to customers (continued)

Loans Purchased or Originated Credit Impaired (POCI)

The table below shows the status of the Group's POCI loans and how they are distributed across loan-to-value (LTV) bands. A substantial proportion of POCI balances, were they not required to classified as stage 3 by accounting standards, would transfer to other stages. The table below shows that 71.9% (2021: 70.4%) of balances have been fully up to date for the last 24 months and only 12.0% (2021: 13.1%) of balances would be classified as in default.

Group and Society	Up to date for the last 24 months £m	Some arrears in the last 24 months £m	Meets definition of default £m	Total £m
2022				
Gross exposure	**277.1**	**61.9**	**46.4**	**385.4**
ECL	**7.6**	**3.3**	**2.4**	**13.3**
2021				
Gross exposure	309.8	72.8	57.4	440.1
ECL	8.8	4.0	3.2	16.0
2022 LTV Split				
Less than 60%	**238.4**	**50.6**	**33.6**	**322.6**
From 60 to 70%	**25.8**	**6.9**	**10.6**	**43.3**
From 70 to 80%	**6.9**	**2.6**	**1.4**	**10.9**
From 80 to 90%	**2.1**	**0.7**	**0.2**	**3.0**
90% or greater	**3.9**	**1.1**	**0.6**	**5.6**
Total	**277.1**	**61.9**	**46.4**	**385.4**

33. Fair values

Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where external market prices are available they have been used to determine fair value. Otherwise, internal pricing models using external market data have been used. The Group measures fair value using the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below summarises the carrying value and fair value of financial assets and liabilities measured at amortised cost as at the balance sheet date.

2022	Carrying value £m	Fair values Level 1 £m	Level 2 £m	Level 3 £m	Total Fair value £m
Group					
Assets					
Loans and advances to credit institutions	**814.7**	**–**	**814.7**	**–**	**814.7**
Loans and advances to customers	**43,695.4**	**–**	**–**	**43,002.8**	**43,002.8**
Debt securities – amortised cost	**1,366.6**	**1,352.3**	**–**	**–**	**1,352.3**
Liabilities					
Shares	**42,008.2**	**–**	**41,835.3**	**–**	**41,835.3**
Amounts due to credit institutions	**5,160.9**	**–**	**5,160.9**	**–**	**5,160.9**
Other deposits	**1,138.1**	**–**	**1,138.1**	**–**	**1,138.1**
Debt securities in issue	**5,259.3**	**4,807.9**	**453.8**	**–**	**5,261.7**
Subordinated liabilities	**1,035.1**	**975.7**	**34.0**	**–**	**1,009.7**
Society					
Assets					
Loans and advances to credit institutions	**568.8**	**–**	**568.8**	**–**	**568.8**
Loans and advances to customers	**9,730.6**	**–**	**–**	**10,678.9**	**10,678.9**
Debt securities – amortised cost	**14,914.8**	**14,798.4**	**–**	**–**	**14,798.4**
Liabilities					
Shares	**42,008.2**	**–**	**41,835.3**	**–**	**41,835.3**
Amounts due to credit institutions	**5,160.9**	**–**	**5,160.9**	**–**	**5,160.9**
Other deposits	**15,836.3**	**–**	**15,836.3**	**–**	**15,836.3**
Debt securities in issue	**6,153.4**	**6,013.6**	**–**	**–**	**6,013.6**
Subordinated liabilities	**1,035.1**	**975.7**	**34.0**	**–**	**1,009.7**

Notes to the Financial Statements (continued)

33. Fair values (continued)

2021	Carrying value £m	Level 1 £m	Fair values Level 2 £m	Level 3 £m	Total Fair value £m
Group					
Assets					
Loans and advances to credit institutions	381.4	–	381.4	–	381.4
Loans and advances to customers	41,922.4	–	–	41,974.7	41,974.7
Debt securities – amortised cost	791.5	791.3	–	–	791.3
Liabilities					
Shares	35,506.4	–	35,475.4	–	35,475.4
Amounts due to credit institutions	6,089.8	–	6,089.8	–	6,089.8
Other deposits	873.5	–	873.5	–	873.5
Debt securities in issue	5,890.9	5,087.6	884.0	–	5,971.6
Subordinated liabilities	857.7	846.9	39.5	–	886.4
Society					
Assets					
Loans and advances to credit institutions	295.8	–	295.8	–	295.8
Loans and advances to customers	11,456.6	–	–	11,713.1	11,713.1
Debt securities – amortised cost	11,656.5	11,638.8	–	–	11,638.8
Liabilities					
Shares	35,506.4	–	35,475.4	–	35,475.4
Amounts due to credit institutions	6,089.8	–	6,089.8	–	6,089.8
Other deposits	15,562.1	–	15,562.1	–	15,562.1
Debt securities in issue	4,993.7	5,087.6	–	–	5,087.6
Subordinated liabilities	857.7	846.9	39.5	–	886.4

The fair values of all cash in hand, balances with the Bank of England and loans and advances to credit institutions have been measured at par as they are all due in under one year.

The fair value of loans and advances to customers is assessed as the value of the expected future cash flows. Future cash flows are projected using contractual interest payments, contractual repayments and the expected prepayment behaviour of borrowers. The resulting expected future cash flows are discounted at current market rates to determine fair value.

For standard variable rate mortgage products, the interest rate on such products is equivalent to a current market product rate and as such the Group considers the fair value of these mortgages to be equal to their carrying value. Fixed rate mortgages have been discounted using current market product rates. The difference between book value and fair value results from market rate volatility relative to the fixed rate at inception of the loan; in addition to assumptions applied in relation to redemption profiles, which are regularly reviewed and updated where necessary.

As these redemption profiles are not considered to be observable by the market, then the fair value of loans and advances to customers continues to be a Level 3 valuation technique. Overall the fair value is lower than the carrying value by £692.6 million (2021: £52.3 million higher), which arises primarily due to the fair value losses being calculated on a life time basis for all mortgage accounts.

All of the Group's non-derivative financial liabilities are initially recorded at fair value less directly attributable costs and are subsequently measured at amortised cost, except where an adjustment is made to certain fixed rate shares balances that are in hedging relationships. The fair value of shares and deposits that are available on demand approximates to the carrying value. The fair value of fixed term shares and deposits is determined from the projected future cash flows from those deposits, discounted at the current market rates. In 2022, the estimated fair value of share balances, using a Level 2 method, is lower than the carrying value by £172.9 million (2021: £31.1 million lower).

Society accounts include some subordinated liabilities classified as Level 2 as fair values are calculated using a method based on observable market prices. The fair value of subordinated liabilities, which is a fixed rate product, is lower than the carrying value due to the significant increases in market rates over the course of the year.

The table below classifies all financial instruments held at fair value on the face of the Group's balance sheet according to the method used to establish the fair value.

Group	**Level 1 £m**	**Fair Values Level 2 £m**	**Level 3 £m**	**Total Fair Value £m**
2022				
Assets				
Debt securities	**25.5**	**–**	**–**	**25.5**
Debt securities – fair value through OCI	**4,292.7**	**–**	**–**	**4,292.7**
Derivative financial instruments	**–**	**2,344.0**	**12.5**	**2,356.5**
Investments	**–**	**–**	**2.8**	**2.8**
Liabilities				
Derivative financial instruments	**–**	**666.3**	**–**	**666.3**
2021				
Assets				
Debt securities	28.6	–	–	28.6
Debt securities – fair value through OCI	3,255.4	–	–	3,255.4
Derivative financial instruments	–	487.2	3.7	490.9
Investments	–	–	5.4	5.4
Liabilities				
Derivative financial instruments	–	265.3	7.4	272.7

The Group's Level 1 portfolio of available for sale debt securities comprises liquid securities for which traded prices are readily available.

Some derivative financial instruments are also included within Level 2 as fair values are derived from discounted cash flow models using yield curves based on observable market data.

Notes to the Financial Statements (continued)

33. Fair values (continued)

Level 3 instruments

Derivative financial instruments within Level 3 are interest rate swaps held in the SPVs. These are valued using similar valuation technique as Level 2 derivatives, namely present value calculations using interest rate curves, but these are not based on market observable data.

The interest rate swaps are balance tracking and the swap notional is projected, and changes over time to match the balance of the underlying mortgage portfolio. The changes in the fair value of these instruments from movements in Level 3 parameters related to prepayment risk will largely offset across the interest rate swaps as the Group is hedged across these positions. Sensitivity analysis to the individual Level 3 parameters has not been disclosed on the basis that the Group does not have a significant exposure to these.

Investments classified in Level 3 relate to the Group's holding in equity preference shares. These shares are convertible into common equity shares at various intervals during the life of the instrument, based on a conversion factor set by the issuer. The valuation method therefore uses the quoted share price of the unrestricted stock as a base, applies the current estimated conversion factor as advised by the issuer and applies a discount.

This discount reflects the current illiquidity of the instrument and the risks to changes in the conversion factor between the balance sheet date and the next conversion date. Whilst the valuation is primarily based on an observable market price, the level and significance of the unobservable input relating to the calculation of the discount moves this asset into Level 3.

Changes in the carrying value of Level 3 financial instruments in the period all relate to changes in fair value. There have been no changes in methodology, redemption, additions or transfers in or out of Level 3 in the year.

Fair value through other comprehensive income and hedging reserve

Amounts within the fair value through comprehensive income reserve are transferred to the income statement upon the disposal of debt securities. During the year a loss of £1.9 million (2021: £4.2 million) was recognised in net realised losses.

34. Related parties

Identity of related parties

The Society has related party relationships with its controlled entities, a joint venture, the pension schemes and key management personnel. The Society considers its key management personnel to be its directors.

Contributions to the pension schemes

The Society paid contributions of £16.3 million to the pension schemes (2021: £17.2 million).

Remuneration of and transactions with directors

Full details of directors' remuneration, including the highest paid director, bonuses and pensions are given in the *Directors' Remuneration Report*. In addition, past directors' pensions in respect of services as directors from the closed scheme amounted to £23,176 (2021: £22,246).

None of the directors of the Society had any equity interest in, or loans to or from, any subsidiary of the Society at any time during the financial year.

A register containing details of loans, transactions and arrangements between the Society and its directors and connected persons is maintained at the head office of the Society. A statement containing the details of this register for 2022 will be available for inspection at the head office by members for a period of 15 days up to and including the date of the annual general meeting.

Key management personnel compensation

The directors of the Society are considered to be the key management personnel as defined by IAS 24 *Related Party Disclosures*. Total key management personnel compensations was as follows:

	2022 £000	2021 £000
Short-term employee benefits	**2,667.6**	2,899
Post-employment benefits	**118.0**	187
Total key management personnel compensation	**2,785.6**	3,086

Key management compensation in 2022 includes amounts paid to key management personnel who both retired and joined the Society during 2022. The number of key management personnel at 31 December 2022 totalled 9 (31 December 2021: 10).

Transactions with key management personnel

Key management personnel and their close family members have undertaken the following transactions with the Society under normal business terms.

	2022		2021	
	No. of key management personnel	**Amounts in respect of key management personnel and their close family £000**	No. of key management personnel	Amounts in respect of key management personnel and their close family £000
Mortgage loans				
At 1 January	**–**	**–**	1	9
Net movements in the year	**–**	**–**	(1)	(9)
At 31 December	**–**	**–**	–	–
Deposit accounts and investments				
At 1 January	**11**	**1,068**	11	1,425
Net movements in the year	**(2)**	**309**	(1)	(360)
At 31 December	**9**	**1,377**	10	1,065

Amounts relating to directors who joined or left during the year are included in net movement in the year.

Mortgage loans made to key management personnel and their close family members were granted in the ordinary course of business and are subject to repayment under normal lending terms. The maximum outstanding balances during the year were £nil (2021: £9,044).

Amounts deposited by key management personnel and their close family members earn interest at the same rates offered to the public.

Key management personnel and their close family members paid interest totalling £nil (2021: £4), received interest totalling £6,639 (2021: £5,312), and paid no fees and commissions during the year. Interest paid includes amounts relating to 'offset' mortgages where savings balances are used to reduce the interest-bearing balance of mortgage loans.

Notes to the Financial Statements (continued)

34. Related parties (continued)

Transactions with controlled entities

The Society transacts with its controlled entities in the form of intra-group loans and equity shareholdings in the normal course of business. The value of related party transactions and outstanding balances at the year end for the financial year are as follows:

	Shares in subsidiaries £m	Loans to controlled entities £m	Deposits from controlled entities £m
At 1 January 2022	**104.9**	**33,025.7**	**(15,971.7)**
Reclassification	**–**	**(896.5)**	**896.5**
Revised at 1 January 2022	**104.9**	**32,129.2**	**(15,075.2)**
Net movements	**–**	**3,502.9**	**(62.1)**
At 31 December 2022	**104.9**	**35,632.1**	**(15,137.3)**
At 1 January 2021	104.9	29,105.3	(11,229.9)
Net movements	–	3,920.4	(4,741.8)
At 31 December 2021	104.9	33,025.7	(15,971.7)

The value of related party transactions income and expense for the financial year is as follows:

	2022 £m	2021 £m
Interest revenue on loans	**475.8**	381.0
Interest expense on deposits	**(231.4)**	(75.1)
Fees and expenses revenue	**79.9**	60.5
Fees and expenses expense	**–**	(0.1)
Dividends received	**100.0**	75.0

Other

The Society has a joint-venture investment in Arkose Funding Limited. In 2014, a loan of £4.0 million to Arkose funding Limited was fully impaired.

35. Notes to the cash flow statements

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Depreciation and amortisation	**21.8**	22.7	**21.8**	22.7
Profit on sale of assets	**(2.4)**	(2.5)	**(2.4)**	(2.5)
Interest on subordinated liabilities	**33.7**	23.5	**33.7**	23.5
Impairment charge/(release) for the year	**6.0**	(19.2)	**(0.6)**	(15.4)
Provision charge for the year	**4.2**	2.3	**4.2**	2.3
Non-cash movements on subordinated liabilities	**(122.6)**	(37.3)	**(122.6)**	(37.3)
Gain on realisation of debt securities	**(2.9)**	(0.8)	**(2.9)**	(0.8)
Increase in cash ratio deposit, other assets and non-OCI element of retirement benefit surplus	**(3.2)**	(37.2)	**(39.6)**	(46.9)
Cash movements in other liabilities and provisions	**(18.5)**	3.0	**2.3**	14.2
Non-cash items included in profit before tax	**(83.9)**	(45.5)	**(106.1)**	(40.2)
(Increase)/decrease in operating assets:				
Non-impairment change in loans and advances to customers	**(1,779.0)**	(3,104.6)	**1,726.6**	1,713.3
Investments	**2.6**	8.2	**(2,603.8)**	(3,912.2)
Non-OCI elements of derivative financial assets	**(1,867.6)**	(59.0)	**(1,906.2)**	(186.3)
Net increase in operating assets	**(3,644.0)**	(3,155.4)	**(2,783.4)**	(2,385.2)
Increase/(decrease) in operating liabilities:				
Shares	**6,501.8**	2,138.1	**6,501.8**	2,138.1
Amounts owed to credit institutions	**(928.9)**	2,252.9	**(928.9)**	2,252.9
Non cash movements on debt securities	**(117.9)**	(295.8)	**21.6**	(272.1)
Other deposits	**264.6**	337.8	**274.2**	4,167.6
Derivative financial liabilities	**393.6**	(218.2)	**326.1**	(284.2)
Net increase in operating liabilities	**6,113.2**	4,214.8	**6,194.8**	8,002.3

Notes to the Financial Statements (continued)

35. Notes to the cash flow statements (continued)

The following table reconciles liabilities arising from financing activities.

Liabilities from financing activities	Brought forward	Cash flows		Non-cash changes caused by:			Carried forward
		Redemption	Issue	Foreign exchange	Accrued interest	Fair value and other movements	
	£m	£m	£m	£m	£m	£m	£m
2022 – Group							
Debt securities in issue	5,890.9	**(1,225.2)**	**711.5**	**198.6**	**6.9**	**(323.4)**	**5,259.3**
Subordinated liabilities	857.7	**–**	**300.0**	**–**	**2.3**	**(124.9)**	**1,035.1**
Total	6,748.6	**(1,225.2)**	**1,011.5**	**198.6**	**9.2**	**(448.3)**	**6,294.4**
2021 – Group							
Debt securities in issue	6,128.3	(1,365.6)	1,424.0	(228.8)	(6.4)	(60.6)	5,890.9
Subordinated liabilities	645.0	–	250.0	–	1.1	(38.4)	857.7
Total	6,773.3	(1,365.6)	1,674.0	(228.8)	(5.3)	(99.0)	6,748.6
2022 – Society							
Debt securities in issue	4,993.7	**(773.4)**	**1,911.5**	**168.8**	**8.0**	**(155.2)**	**6,153.4**
Subordinated liabilities	857.7	**–**	**300.0**	**–**	**2.3**	**(124.9)**	**1,035.1**
Total	5,851.4	**(773.4)**	**2,211.5**	**168.8**	**10.3**	**(280.1)**	**7,188.5**
2021 – Society							
Debt securities in issue	5,379.6	(1,082.2)	968.4	(233.8)	(6.7)	(31.6)	4,993.7
Subordinated liabilities	645.0	–	250.0	–	1.1	(38.4)	857.7
Total	6,024.6	(1,082.2)	1,218.4	(233.8)	(5.6)	(70.0)	5,851.4

OTHER INFORMATION

Annual Business Statement

1. Statutory percentages

	2022 %	2021 %	Statutory limit %
Lending limit	**7.0**	2.8	25.0
Funding limit	**21.6**	26.6	50.0

The above percentages have been calculated in accordance with the provisions of the *Building Societies Act 1986*.

The Lending limit measures the proportion of business assets not in the form of loans fully secured on residential property. The Funding limit measures the proportion of shares and borrowings not in the form of shares.

The statutory limits are as laid down under the *Building Societies Act 198*6 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

	2022 %	2021 %
As a percentage of shares and borrowings:		
Gross capital	**8.27**	8.16
Free capital	**8.05**	7.83
Liquid assets	**23.30**	20.67
Profit after taxation for the financial year as a percentage of mean total assets	**0.68**	0.51
Management expenses as a percentage of mean total assets	**0.54**	0.55

The above percentages have been prepared from the Group financial statements and further details on the above percentages can be found in the *Glossary*.

3. Information relating to the directors at 31 December 2022

Director name and date of birth	Business occupation	Date of appointment	Other Directorships
J R Heaps, LLB 8 July 1953	Chair of the Board	20 November 2014	TheCityUk Limited
G L T Bainbridge, MA (Cantab), ACA 13 September 1960	Non-Executive Director	1 January 2019	ICE Clear Europe Limited Manulife Financial Corporation The Manufacturers Life Insurance Company
A J Darlington, BSC FIA 7 May 1968	Non-Executive Director	26 April 2022	Rothesay Life Plc Rothesay Limited
A E Hutchinson, CBE, BSc 5 February 1967	Charity Chief Executive	4 February 2015	DFS Furniture plc Foresight Group Holdings Limited Your Penny Limited
A B Lenman, MA, ACMA 25 December 1969	Interim Chief Executive and Executive Director	4 December 2017	YBS Pension Trustees Limited
D Matta, BSc, BA 15 May 1962	Non-Executive Director	27 April 2021	Fat Fractal Inc
D E T Morris, BA (Hons), MA 26 September 1983	Chief Commercial Officer and Executive Director	1 January 2022	Accord Mortgages Limited
M A Parsons, BA, FCMA 24 October 1961	Non-Executive Director	20 October 2020	Fairstone Capital Group Limited
J L Tilling, BBus, BA 19 June 1969	Non-Executive Director	1 November 2021	Marketing with Insight Limited Camelot UK Lotteries Limited Shaftesbury Plc Guide Dogs for the Blind Association (The)

Mr A.B. Lenman entered into a contract on 28 September 2017 and was appointed to the Board on 4 December 2017 – his mutual contractual notice period is six months.

Mr Morris entered into a contract on 25 June 2018 and was appointed to the Board on 1 January 2022 – his mutual contractual notice period is twelve months.

Documents may be served on the above named directors: Ref. 'Yorkshire Building Society' c/o PricewaterhouseCoopers LLP at the following address: Central Square, 29 Wellington Street, Leeds, LS1 4DL.

4. Registered office

Yorkshire Building Society is a building society incorporated and domiciled in the United Kingdom. The address of the principal office is Yorkshire House, Yorkshire Drive, Bradford, BD5 8LJ.

Country-by-Country Report

Disclosure requirements under CRD IV country-by-country reporting

We are required to disclose the following information in our Annual Report and Accounts to comply with the Regulations of Article 89 of the Capital Requirements Directive IV (CRD IV) country-by-country reporting (CBCR). This regulation requires us to disclose financial information by country. Yorkshire Building Society has a number of subsidiaries; these can be found in note 8 to the financial statements.

All Group companies operate in the United Kingdom. Therefore, total income and profit before tax shown in the Income Statement and corporation tax paid shown in the Statement of Cash Flows, as well as the average number of employees disclosed in note 6 to the financial statements, are related to the United Kingdom. No public subsidies were received in 2022.

Independent auditors' report

to the directors of Yorkshire Building Society

Report on the audit of the country-by-country information

Opinion

In our opinion, Yorkshire Building Society's country-by-country information for the year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2022 in the Country-by-Country Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the society in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the country-by-country report of the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the society's ability to continue to adopt the going concern basis of accounting included:

- We critically assessed the directors' conclusions on their going concern assessment, including consideration of the impact of the current economic uncertainty on the country-by-country information.
- We reviewed management's stress test scenarios and considered whether the Society would continue to operate above required regulatory capital and liquidity minima during times of stress.
- We challenged the reasonableness of the scenarios used by the directors in their going concern assessment and checked the appropriateness of the assumptions used within their forecasting.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the society's ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the society's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditors' report

to the directors of Yorkshire Building Society (continued)

Report on the audit of the country-by-country information (continued)

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the directors are responsible for assessing the society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the society or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this country-by-country information.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Society and the industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls) and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates. Audit procedures performed included:

- Review of correspondence with and reports to the regulators.
- Testing significant accounting estimates.
- Testing of journal entries which contained unusual account combinations back to corroborating evidence.
- Discussions with management and those charged with governance in relation to known or suspected instances of noncompliance with laws and regulation and fraud; and
- Review of internal audit reports in so far as they related to the country-by-country information.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the society's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

1 March 2023

Glossary

The following glossary defines terminology used within the Annual Report and Accounts:

Additional Tier 1 (AT1) capital	Capital that meets certain criteria set out in CRD IV. In particular, the criteria require that upon the occurrence of a trigger event, the AT1 capital instrument converts to a form of Common Equity Tier 1 capital or the principal is written down on a permanent basis.
Arrears	Amounts unpaid at their contractual date. A customer is in arrears when they fall behind in meeting their obligations to pay their mortgage.
Buy-to-let (BTL) mortgages	Lending on property that is rented out to individuals.
Capital Requirements Directive (CRD) & Capital Requirements Regulation	European legislation that defines the regulatory capital framework in the UK. The latest legislation – the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) (together commonly referred to as CRD IV) came in to effect from 1 January 2014.
Collateral (for loans and advances to customers)	Security (property) pledged for the repayment of a loan. Collateral is valued as the lower of the value of the property or the outstanding loan amount.
Commercial lending	Secured loans to a commercial borrower.
Common Equity Tier 1 (CET1) capital	The highest quality regulatory capital resources, comprising retained earnings less regulatory adjustments, as defined under CRD IV. Equivalent to Core Tier 1 defined under previous CRD legislation.
Contractual maturity	The final payment date of a loan or financial instrument, at which all the outstanding loan and interest is repayable.
Council of Mortgage Lenders (CML)	A not-for-profit organisation and trade association for the mortgage lending industry.
Covered bonds	A type of wholesale funding backed by cash flows from mortgages that are segregated from the issuer's other assets to be solely for the benefit of the holders of the covered bonds.
Credit Valuation Adjustment (CVA)	The risk of financial loss arising from a failure of a customer or counterparty to settle their financial and contractual obligations as they fall due. These are adjustments applied to the fair values of derivatives to reflect the creditworthiness of the counterparty.
Cross currency interest rate swap	An arrangement in which two parties exchange equivalent principal amounts of different currencies at inception and subsequently exchange interest payments on the principal amounts. At the maturity of the swap, the principal amounts are re-exchanged at the original rates.
Currency risk	The exposure to risk from assets and liabilities denominated in currencies other than Sterling.
Debt securities in issue	Transferable certificates of indebtedness including certificates of deposits and fixed and floating rate notes.
Debit Valuation Adjustment (DVA)	These are adjustments applied to the fair values of derivatives to reflect the entity's own credit risk.
Defined Benefit Obligation	The present value of expected future benefit payments resulting from past service of employees in the defined benefit pension plan.
Derivative financial instruments	Contracts or agreements whose value is derived from one or more underlying prices, rates or indices inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices. Examples of derivatives include interest rate swaps, forward rate agreements and futures.
Effective interest rate	The method used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows (excluding credit losses) to zero, through the expected life of the instrument.
Encumbered assets	Assets on the balance sheet which are pledged in order to secure, collateralise or credit-enhance a financial transaction from which they cannot be freely withdrawn.

Glossary (continued)

Expected credit losses	An estimate of the potential losses on current exposures due to potential defaults.
Exposure	The maximum loss that a financial institution might suffer if a borrower or counterparty fails to meet its obligations to the Group.
Exposure at default (EAD)	An estimation of the amount of exposure that will be outstanding at the time of default.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.
Financial Conduct Authority (FCA)	The UK conduct regulator which is responsible for regulation of conduct in retail, as well as wholesale, financial markets and the infrastructure that supports those markets. The FCA's objective is to protect consumers, promote competition and enhance market integrity.
Financial Ombudsman Service (FOS)	An independent service which provides a service for settling disputes between financial services providers and their customers.
Forbearance	The Group grants concessions to assist borrowers who experience difficulties in meeting their obligations to pay their mortgage. Examples of forbearance tools are described in note 32.
Free capital	The aggregate of gross capital and collective impairment provision less property, plant and equipment, intangible assets and investment properties.
Gross capital	The aggregate of general reserve, hedging reserve, available for sale reserve, subordinated liabilities and subscribed capital.
Impaired loans	Loans which have been assessed and there is evidence to suggest a measurable decrease in the present value of cash flows expected from the loans that have occurred after initial recognition of the asset, but before the balance sheet date.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Group's internal assessment of the levels of liquidity that need to be held by the Society to meet its regulatory liquidity requirements.
Interest rate swap	An arrangement under which two counterparties agree to exchange periodic interest payments based on a predetermined notional principal amount.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's internal assessment of the levels of capital that need to be held by the Society to meet its regulatory capital requirements.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).
Level 1 High Quality Liquid Assets (HQLA)	Assets which can be easily and immediately converted into cash at little or no loss of value.
Liquidity Coverage Ratio (LCR)	A liquidity metric which aims to ensure that a firm maintains an adequate level of liquidity to meet its needs for a 30 calendar day time horizon under a severe stress scenario.
LIBOR (London Interbank Offered Rate)	A benchmark interest rate which banks can borrow funds from other banks in the London interbank market. Due to the IBOR reform this has been phased out during 2021, with the exception of USD LIBOR that will be phased out by cessation date of June 2023.
Liquid assets	The total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities and other liquid assets.
Liquidity risk	The risk that the Group does not hold sufficient liquidity, in terms of quantity and quality, to meet its liabilities as they fall due.
Loan-to-value (LTV)	A ratio showing outstanding loan balance as a percentage of the value of the security.
Loss given default (LGD)	An estimate of the difference between exposure at default (EAD) and the net amount of the expected recovery expressed as a percentage of EAD.
Loss given possession	The loss that is expected to crystallise when a repossessed property is sold.

Management expenses	The aggregate of administrative expenses, depreciation and amortisation.
Market Risk	The risk that the value of, or income derived from, the Group's assets and liabilities changes unfavourably due to movements in interest rates or foreign currency rates.
Mean total assets	The amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
Medium-term notes (MTN)	Corporate notes continuously offered by a company to investors through a dealer. Investors can choose from differing maturities.
Member	A person who has a share account or a mortgage loan with the Society.
Minimum Requirement for Eligible Liabilities (MREL)	The minimum requirements a financial institution must hold to meet the loss absorption and recapitalisation components if an institution were to fail.
Net interest income	The difference between the interest received on assets and the interest paid on liabilities.
Net interest margin	The ratio of net interest income as a percentage of mean total assets.
Operational risk	The risk of direct and indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.
Other income	The income received from selling non-mortgage and savings products (e.g. home and contents insurance, investment products and other insurances).
PRA Remuneration Code	Guidance provided by the PRA on directors' remuneration.
Probability of default (PD)	An estimate of the probability that a borrower will default on their credit obligations.
Probability of possession	The likelihood of an account moving into possession. This is used when calculating loan loss provisions.
Prudential Regulation Authority (PRA)	The UK prudential regulator, which is a part of the Bank of England and alongside the FCA has responsibility for the oversight of building societies, banks and insurers. The PRA's objective is to promote the safety and soundness of regulated firms.
Repossessions	Property taken into ownership by the Society as a result of the borrower's failure to make contractual loan repayments.
Residential Mortgage Backed Securities (RMBS)	An asset backed security that represents a claim on the cash flows from residential mortgage loans through a process known as securitisation.
Risk appetite	The level of risk that the Group is willing to take (or not take) in order to safeguard the interests of members whilst achieving business objectives.
Risk weighted assets	A regulatory measure that adjusts the value of assets to reflect their level of risk when calculating capital requirements.
Securitisation	A process by which a group of assets, usually loans, are aggregated into a pool which is used to back the issuance of debt securities in issue. A firm transfers these assets to a special purpose vehicle which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities and uses residential mortgages as the asset pool.
Shares	Money deposited by members in a retail savings account with the Society and held as a liability in the balance sheet.
Shares and borrowings	The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.
SONIA (Sterling Overnight Interbank Average)	An index that tracks actual market overnight funding rates calculated as a weighted average overnight deposit rate for each business day.

Glossary (continued)

Subordinated liabilities	Tier 2 capital that is subordinated to the claims of all depositors, creditors and members holding shares in the Society (other than holders of PIBS).
Term Funding Scheme with additional incentives for small and medium sized entities (TFSME)	A scheme launched by the Bank of England designed to boost lending to households and businesses by providing term funding to banks and building societies participating in the scheme at rates close to Bank Rate.
Tier 1 (T1) capital	The sum total of Common Equity Tier 1 and Additional Tier 1 capital.
Tier 1 capital ratio	The ratio of Tier 1 capital to risk weighted assets.
Tier 2 (T2) capital	A measure of regulatory capital that includes subordinated liabilities and provisions for collective impairment, less regulatory adjustments.
Total capital	The total capital resources, including retained earnings, PIBS and subordinated liabilities, less regulatory adjustments.
Total capital ratio	The ratio of total capital to risk weighted assets.
UK Corporate Governance Code	The UK code on corporate governance, published by the Financial Reporting Council in October 2012 and revised in July 2018, which sets out standards of good practice in relation to Board leadership and effectiveness, accountability and remuneration.
Value at Risk (VaR)	A risk management tool which evaluates the potential losses that may be incurred as a result of movements in market conditions over a specified holding period and to a given level of confidence.
Watch list	The watch list is used by the commercial lending team to flag those loans where there are circumstances which could impact on the quality and safety of the loan.
Wholesale funding	The funding that is available between banks and other financial or commercial institutions. Examples of wholesale funding include covered bonds, deposits and government guarantees.

The following glossary defines Alternative Performance Measures (APM) used within the Annual Report and Accounts:

APM	Calculation of Measure	Reconciling items to statutory measure	Definition and purpose
Income Statement measures			
Core operating profit	Profit before tax adjusted for one-off items.	A full reconciliation between profit before tax as shown in the income statement and core operating profit is shown in the Strategic Report.	Core operating profit excludes items such as fair value volatility and material one-time charges that do not reflect the Group's day-to-day activities. Our Board considers core operating profit to be a more appropriate measure of the underlying performance of the business and this is how financial performance is reported to and assessed by the Board.
Cost to core income ratio	Management expenses as a percentage of core income.	Management expenses = administrative expenses plus depreciation and amortisation per the income statement. Core income = total income less gains/(losses) from financial instruments held at fair value per the income statement.	This is a measure of the Group's costs in relation to its income excluding fair value volatility. This is used by the Group to monitor and manage its overall cost position and understand how efficient the Group is at generating income on an underlying basis.
Cost to income ratio	Management expenses as a percentage of total income.	Management expenses = administrative expenses plus depreciation and amortisation per the income statement. Total income as per the income statement.	This is an industry-standard measure of the Group's costs in relation to its income. This is used by the Group to monitor and manage its overall cost position and understand how efficient the Group is at generating income.
Management expense ratio	Management expenses (the aggregate of administrative expenses, depreciation and amortisation) as a percentage of mean total assets.	Administrative expenses and depreciation and amortisation (management expenses) are as shown in the income statements. Mean total assets are calculated by taking the average of the value of the opening balance for the year and the value of the closing balance, as shown in the Statements of Financial Position.	This is an industry-standard ratio of the Group's costs as a proportion of its mean assets during the year, and is used to measure how efficient the Group is at maintaining its asset base.
Net interest margin	Net interest income as a percentage of mean total assets.	Net interest income is as shown in the income statements. Mean total assets are calculated by taking the average of the value of the opening balance for the year and the value of the closing balance, as shown in the Statements of Financial Position.	This is an industry-standard measure of the relationship between net interest income (the difference between the interest received on assets and the interest paid on liabilities) and assets. This is a key measure used by the Board to monitor how the Group manages income from its assets and interest paid on funding.
Balance Sheet items			
Asset growth	Total assets at the end of the year less total assets at the start of the year.	Total assets are as shown in the Statements of Financial Position.	Movement in total asset over the period.
Average savings rate differential	None	Not applicable	Calculates the average savings rate applied to the Group's savings accounts during the period versus the average UK savings interest rates for the rest of the market, based on savings stock from CACI's Current Account and Savings Database (CSDB), based on stock value. This is used to assess how much the Group is paying out in interest in comparison to peers.
Gross lending	None	Not applicable	The total value of mortgage loans advanced by the Group in the period, including loans for house purchase, further advances, re-mortgages etc.
Lending to first time buyers	None	Not applicable	The total value of mortgage loans advanced by the Group in the period to first time home buyers. This measure displays how the Group is helping people overcome the challenge of buying their first property.

Glossary (continued)

APM	Calculation of Measure	Reconciling items to statutory measure	Definition and purpose
Liquidity ratio	Cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities as a percentage of shares and borrowings.	Cash in hand, balances with the Bank of England, loans and advances to credit institutions, debt securities, and shares are as shown in the Statements of Financial Position. Borrowings comprise amounts owed to credit institutions, other deposits and debt securities in issue, also as shown in the Statements of Financial Position.	The liquidity ratio measures those assets available to meet requests by savers to withdraw their money, to fund mortgage advances and to fund general business activities. It expresses cash and assets easily converted into cash as a percentage of the Group's liabilities to investors.
Mortgages funded by retail savings and retained profits	Shares and total reserves as a percentage of loans and advances to customers.	Shares, total reserves and loans and advances to customers are as shown in the Statements of Financial Position.	The retail savings and reserves to mortgages ratio shows the extent to which the Group is dependent on financing from the wholesale markets.
Mortgage balance growth	Loans and advances to customers at the end of the year less loans and advances to customers at the start of the year.	Loans and advances to customers are as shown in the Statements of Financial Position.	Movement in mortgage balances including impairment provisions and fair value accounting adjustments over the period.
Net lending	Loans and advances to customers at the end of the year less loans and advances to customers at the start of the year, excluding movements in provisions and accounting adjustments detailed in note 12.	Mortgage growth less movements in provisions and accounting adjustments detailed in note 12.	Net lending represents gross lending less repayment of principal and redemptions and is a key measure to monitor the Group's overall lending performance. This measures our effectiveness in both new mortgage lending and in retaining borrowers.
Number of accounts more than three months in arrears	None	Not applicable	The number of mortgage accounts where the amount of arrears is greater than three monthly payments, or the account is in possession, as a proportion of the total number of mortgage accounts. The industry average for mortgage arrears is measured as the number of accounts more than three months in arrears (including possessions). We produce this KPI to assess how our level of mortgage arrears compares to the market.
Percentage of outstanding retail mortgage balances in arrears by three months or more	None	Not applicable	The percentage of mortgage account balances where the amount of arrears is equal to or greater than three monthly payments, or the account is in possession, as a proportion of the entire mortgage book. This measures the overall quality of our mortgage book.
Retail Savings balance growth	Shares at the end of the year less shares at the start of the year.	Shares are as shown in the Statements of Financial Position.	Movement in overall savings balances over the period, including capitalised interest and accounting adjustments.
Savings inflow/ outflow	None	Not applicable	Displays the cash in/out of savings accounts held, excluding capitalised interest. The Group uses this to monitor its main funding source throughout the year.
Share of the gross mortgage market	None	Not applicable	Displays the Group's total gross lending as a percentage of the gross lending in the UK housing market by banks, building societies and other lenders as measured by the Council of Mortgage Lenders (CML), which represents 97% of the UK mortgage market. From 1 July 2017 the Council of Mortgage Lenders integrated into a new trade association, UK Finance.

APM	Calculation of Measure	Reconciling items to statutory measure	Definition and purpose
Regulatory Measures			
Common Equity Tier 1 (CET1) capital ratio	None	Common equity tier 1 capital ratio is defined as a percentage of risk weighted assets.	This ratio represents the relationship between the strongest form of capital (primarily accumulated profits that have built up over time) and assets, weighted by the level of risk they carry. It is a regulatory-defined ratio whose purpose is to ensure that institutions are able to absorb unexpected losses. It is a key measure of financial sustainability.
Leverage ratio	Reserves as a percentage of total assets.	Leverage ratio measures the Society's Tier 1 capital as a percentage of total assets adjusted for certain off-balance sheet exposures. The CRR leverage ratio is defined by the EU's Capital Requirements Regulation, while the UK leverage ratio modifies this ratio to exclude Central Bank reserves.	The leverage ratio is also a regulatory-defined ratio used to assess capital adequacy, but removes the risk-weighting element of assets. It is therefore a more simplified measure of financial sustainability.
Total capital ratio	None	Total capital ratio is defined as a percentage of risk weighted assets.	This measure is used to assess the total amount of capital the Group retains compared to its risk weighted assets, hence it includes externally issued capital. It is also defined by the regulatory authorities.
Non-financial measures			
Absenteeism	None	Not applicable	This indicator is for measuring the average absenteeism rate, as a % of the total working days. This KPI can be an indicator of colleague motivation as a high absence rate may indicate poor motivation and engagement.
Colleague engagement score	None	Not applicable	Our annual colleague engagement survey is used to calculate an engagement score which helps to understand our people's needs and what will lead to their enjoyment and commitment in work.
Net Promoter Score (NPS)	None	Not applicable	NPS is a measure of how willing customers are to recommend the Group to others. It measures the difference between the percentage of 'promoters' (those willing to recommend the Group to others) and 'detractors' (those unwilling to recommend the Group). The score can range from -100 if all customers are 'detractors' to +100 if all customers are 'promoters'. The Group uses this as a key measure of customer satisfaction with our products and service.
Peakon survey result	None	Not applicable	This is an external benchmarking exercise conducted by Peakon, involving an employee survey and a culture audit. The Group uses this measure to understand how successful we are at delivering our vision as a workplace where our people can give their best and thrive. This is monitored annually and reported to the Board as a colleague engagement measure.

YORKSHIRE BUILDING SOCIETY

Helping real life happen

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