HALF-YEARLY FINANCIAL REPORT

30 June 2021

YORKSHIRE BUILDING SOCIETY

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Interim Management Report

Chief Executive's summary

A PURPOSEFUL START TO THE YEAR

Throughout the COVID-19 pandemic the provision of key services and the health and safety of our colleagues, customers and other stakeholders have been our priorities. We have invested in all areas of our operations and adapted our ways of working to ensure safe environments for all.

I am pleased to report that in this challenging environment we have delivered strongly against our purpose – to **Provide Real Help with Real Life.**

The housing market has proved resilient despite the potential for disruption and we have invested in additional capability and capacity, enabling us to help more people to find a **Place to Call Home**. We have already helped a record number of first-time buyers – almost 10,000 – to secure a new home in the first six months of this year and we were the first provider to reintroduce five percent deposit mortgages for these customers in March.

Our strong lending performance and continued cost management discipline have enabled us to return considerably more in **Member Value** since the beginning of the year. In January we launched our member loyalty programme which has seen us increase the rates we pay many of our existing savers twice in the first half of this year as well as introduce a range of member-only loyalty products including a regular saver and an ISA. Building a savings habit is an important element of improving **Financial Wellbeing** and we were pleased that our members opened over 75,000 loyalty accounts with us and our overall savings balances have increased by £1.8bn so far this year.

Alongside this, we have continued to focus on the quality of our customer service and our Net Promoter Score (NPS) has increased to +54, up from +53 last year. This is a testament to the hard work of our colleagues in continuing to provide high levels of service in the challenging environment.

Purposeful performance in our core markets of mortgages and savings underpins our financial results and has enabled us to deliver growth in both of these areas, as well as strong profitability and continued high levels of financial resilience. Our profit before tax for the first six months of this year was £147.7m, an increase on £67.3m for the same period in 2020.

Interim Management Report (continued)

Chief Executive's summary (continued)

Mortgages

The housing market in the UK has seen the high levels of demand in the second half of last year continue into 2021, and activity in the first-time buyer and home-mover segments has increased.

These positive market conditions, combined with investments that we have made in capability and capacity, have resulted in multiple record months in terms of both mortgage applications and completion values. We saw peaks of activity in March and June, coinciding with the initial deadline of the stamp duty relief and the subsequent extension which began tapering from the beginning of July.

We have kept our service levels high by increasing resources, adapting work patterns, creating efficiencies, and working increasingly closely as a team to monitor both external demand and internal capacity.

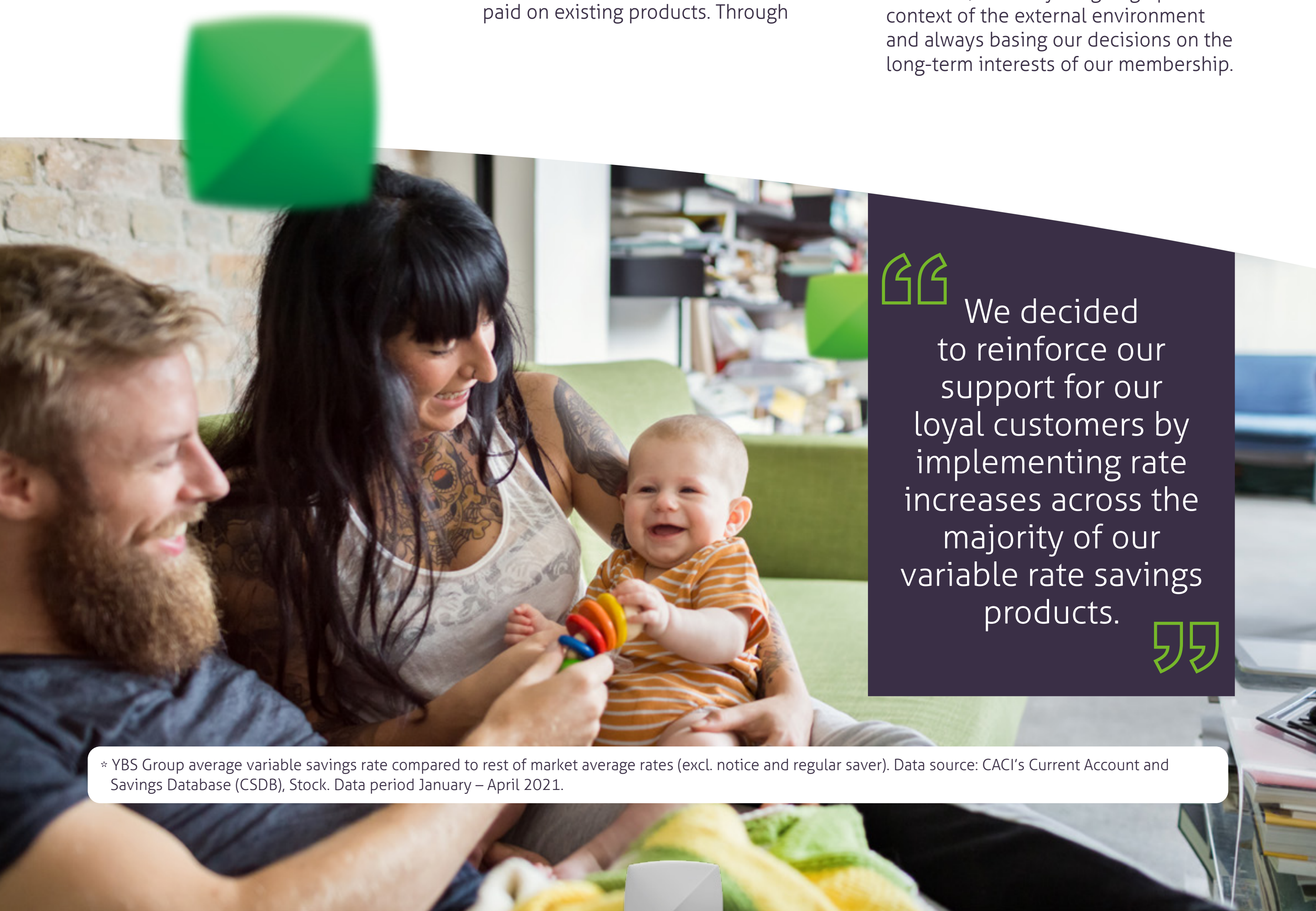
In March, to support our purpose of helping people to find a place to call home, we were the first lender to re-introduce products at 95% LTV, and later 90% new build, one year on from when UK mortgage lenders, including ourselves, retrenched from the market. We did not utilise the Mortgage Guarantee Scheme as part of this reintroduction; we are confident that our experience, capability and financial strength enable us to re-enter the market with our own resources. A wide range of lenders have since followed suit, helping people onto the first rung of the property ladder.

Savings

The first six months of 2021 in the UK savings market has seen a continuation of downward pressure on the interest rates offered to customers, both through the available on-sale products and through reductions to the rates paid on existing products. Through this period of uncertainty, savers have continued to prioritise ease of access to their funds and we have seen increased demand for our instant access variable products.

At a time when many providers in the market have reduced the rates they pay on savings balances, we have returned value to our members by implementing rate increases across the majority of our variable rate savings products, raising them in January, and once again in June. As a result, on average our variable savings rates were 0.26%* above the market average, which is an improvement on 0.05% higher than the market as at the end of last year.

Our trading performance has enabled us to find more ways to return value to our members, resulting in the launch of our member loyalty programme. We continually review the question of how we can best return value to our members, carefully weighing up the context of the external environment and always basing our decisions on the long-term interests of our membership.



"We decided to reinforce our support for our loyal customers by implementing rate increases across the majority of our variable rate savings products."

* YBS Group average variable savings rate compared to rest of market average rates (excl. notice and regular saver). Data source: CACI's Current Account and Savings Database (CSDB), Stock. Data period January – April 2021.

Interim Management Report (continued)

Chief Executive's summary (continued)

Real Help with Real Life

Succeeding in providing Real Help with Real Life means helping people to find a place to call home, promoting financial wellbeing and delivering long-term value for our members. So far this year we have delivered strong results across these areas.

Place to call home

Gross lending	Gross mortgage market share*	Growth in mortgage balances
£5.9bn	**3.1%**	**5.7%**
£2.8bn 30 June 2020	**2.8% 31 December 2020**	**-0.1% 30 June 2020**
This represents the amount we have provided to customers to help finance properties over the period.	This represents our share of all mortgage lending in the UK housing market.	This represents the growth in our overall mortgage balance over the period.

We have helped people to find a place to call home in numerous ways, from people choosing us to be their mortgage provider, to people renting from our customers who are buy-to-let landlords, as well as people living in housing association accommodation which we have funded.

In the first six months of 2021 we have helped over 49,000 people to secure a home, which compares to over 54,000 for the whole of last year. As a result of the disruptions to the mortgage market over the course of the pandemic, products with lower deposits were widely unavailable – impacting the ability of many to get on the property ladder. For Yorkshire Building Society, leveraging our capability to re-enter these segments is well aligned to our purpose.

Financial wellbeing

Savings accounts opened	Savings market share†	Retail savings balances
153,000	**1.92%**	**£35.2bn**
105,000 30 June 2020	**1.88% 31 December 2020**	**£33.4bn 31 December 2020**
The number of new accounts opened by members over the period, helping them save for the future.	This reflects our share of the UK savings market.	This shows the total deposits we use to fund the mortgages we offer to our customers.

As a building society, we have a strong social purpose and we are committed to supporting the communities in which we operate. This year we have already invested over £400,000 in support of this agenda, which forms part of our commitment to invest more than £1.8million extra in our communities over the next two years. This investment will focus on the challenges faced by people of all ages around financial wellbeing, employment and digital skills – challenges that have been further exacerbated by the effects of the pandemic.

As part of this investment, Yorkshire Building Society has donated an additional £70,000 to the Yorkshire Building Society Charitable Foundation to fund projects that support employability and financial resilience. We are also expanding the reach of our successful Money Minds and Career Minds programmes, investing in developing and promoting new and engaging digital content to support young people in improving their financial literacy and employability. Our colleagues have delivered Money Minds sessions to more than 27,000 pupils across the UK since 2015, and they are looking forward to resuming these sessions in schools from September.

Almost one quarter of the additional community investment is focused in our home city of Bradford, where it will go towards the provision of employability and digital skills training, for both young people and those of working age, to support the diverse city's post-COVID recovery.

In May we launched a new initiative, in partnership with Citizens Advice, to offer face-to-face support to members of the public, initially piloted from six of our branches. We are proud to be advancing an agenda which offers free, confidential support to those who find themselves in difficult circumstances; the advice focuses on a range of issues including financial wellbeing and early feedback from those attending has been very positive.

Alongside all of this, we have continued to support the financial wellbeing of those in later life through our partnership with Age UK, which launched in November 2020. The money raised throughout our two-and-a-half-year partnership will fund Age UK's Building Better Lives programme, providing advice, support and guidance around significant life events.

Through our savings accounts and community investment, so far this year we have helped over 59,000 people build their financial resilience.

* Based on Bank of England total industry gross lending. Data period January – May 2021.

† Based on analysis of BSA deposits Held by Households. Data period January – May 2021.

Interim Management Report (continued)

Chief Executive's summary (continued)

Performance at a glance

Member value

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

Statutory Profit before tax	Core Operating Profit*	Cost to core income ratio*
£147.7m	**£134.9m**	**50.4%**
£67.3m 30 June 2020	**£74.7m 30 June 2020**	**59.8% 30 June 2020**
This is the profit we earned from our ongoing business operations, excluding taxes.	This is the profit we earned, excluding taxes, fair value volatility and one-time charges.	This ratio measures how efficiently we run our Society by showing how much we are spending to generate every pound of our income.

Average savings rate paid	Common Equity Tier 1 ratio	Liquidity ratio
0.60%	**16.6%**	**17.1%**
0.78% over 2020	**16.7% 31 December 2020**	**19.2% 31 December 2020**
This shows the benefit we are giving back to our members.	Maintaining this ratio above a certain minimum helps to protect ourselves against unexpected losses.	This ratio measures our ability to lend to borrowers, give money back to savers when they want it, and pay our bills.

Leverage ratio	Net Promoter Score (NPS®)†
5.7%	**+54**
5.9% 31 December 2020	**+53 in 2020**
This ratio highlights the capital we hold compared to our assets, showing our ability to cope with unexpected events.	This measures how willing our customers are to recommend us to others.

More detail on business performance can be found in the Business Highlights section on page 14.

* Definitions of alternative performance measures are provided on pages 226 to 229 of the 2020 Annual Report and Accounts.

† Net Promoter Score and NPS are trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.

Interim Management Report (continued)

Chief Executive's summary (continued)

Strategic Blueprint & Transformation

Last year we redefined our strategy and clearly established the ambitions and outcomes that will help us realise our purpose. Our Strategic Blueprint comprises four clear priorities which we will deliver over the next three years. Alongside these priorities are four behaviours which support the blueprint by articulating the culture that will serve to underpin our ambitions.

Savings Rebooted

We are proud to help people towards greater financial wellbeing and resilience through saving. Our Savings Rebooted priority aims to optimise this area of our business by redefining our savings range and offering better products with benefits more than price alone.

Properly Personal Experience

We aim to build a service proposition that offers our customers an experience which is efficient and tailored to a wide range of individual needs.

Purposeful Analytics

The benefits of building upon our existing analytical capabilities are many, including helping to understand the needs of both existing and prospective customers better, as well as providing focused insight into areas that align to our purpose.

Unbelievably Easy and Efficient

Our aim is to make the lives of our customers easier by operating efficiently and being a digitally capable, connected business. Supported by the cultural behaviours set out in the blueprint, this will ensure our organisation is fit for the future.

We have set out an ambitious and challenging programme of transformation which will support our strategy, leading to significant improvements in customer experience and efficiency. Despite the challenges of COVID-19 we are progressing as planned; highlights of our recent achievements include:

- Building on the success of utilising our Mortgages Sales and Origination (MSO) platform for our Accord residential business, in April we launched our Accord buy-to-let new business on MSO. This will bring benefits not only in efficiency but will allow us to serve new segments in the buy-to-let market.
- We have been laying the infrastructural foundations for our future digital business. We have invested in our wide area network connectivity to our retail sites, upgraded our telephony, and successfully rolled out new desktop technology for our colleagues. All of this is a key enabler for transformation and makes sure our colleagues and teams are equipped with the tools they need to continue supporting our customers.
- In line with evolving customer preferences, we have continued to optimise our face-to-face network, closing 12 branches and converting a further 5 into agencies in 2021. Our agency partnerships allow us to maintain our commitment to offering a face-to-face service.

We have also continued to invest in enabling activity across other areas, including working towards improving our online customer journeys, further enhancing our mobile app offering and developing upon our existing analytical capability.

Climate change is one of the most critical issues facing the UK and global economy. The Yorkshire Building Society has held certified Carbon Neutral status for over five years and is a member of the Yorkshire and Humber Climate Commission. The key risks within our business exist within our mortgage portfolio and our property estate and we are currently assessing the associated physical and transition risks. We will disclose the results of this assessment as part of our 2021 Annual Report.

Interim Management Report (continued)

Chief Executive's summary (continued)

Awards

We are always proud when our hard work is recognised by customers and industry professionals; the accolades we have been awarded already this year include:

Awards	Accolade
Moneynet Personal Finance Awards	Best Overall Mortgage Provider
Moneynet Personal Finance Awards	Best Offset Mortgage Provider
Moneynet Personal Finance Awards	Best First-Time Buyer Mortgage Provider
Moneynet Personal Finance Awards	Best Easy Access Savings Provider
Moneyfacts Consumer Awards 2021	High Street Mortgage Provider of the Year
Moneyfacts Consumer Awards 2021	High Street Savings Provider of the Year
Moneyfacts Awards 2021	Best Building Society Savings Provider
Moneyfacts Awards 2021	Personal Finance Provider of the Year
MoneyCommsAwards 2021	Best Regular Savings Provider
Business Moneyfacts Awards 2021	Best Service from a Commercial Mortgage Provider
National Centre for Diversity FREDIE Awards 2021	Large Business of the Year 2021
National Centre for Diversity FREDIE Awards 2021	Financial Services Company of the Year 2021

We aim to build and lead an inclusive, engaged and aligned organisation where our colleagues can contribute meaningfully to our Strategic Blueprint. In our most recent Peakon survey, the average engagement score for colleagues held constant with our score at the end of last year at 8.3. This places the Society in the top quartile for financial services organisations.

Our commitment to diversity and inclusion has been recognised by the National Centre for Diversity where we were ranked 11th in their Top 100 Most Inclusive Workplaces 2021 list – an improvement on our position in 2020. Additionally, in support of our Women in Finance Charter commitment, female representation in senior management has increased again, from 46% to 48%.

I would like to extend my thanks to all of our colleagues, without whose contributions such purposeful outcomes and strong performance would not have been possible.

Mike Regnier
Chief Executive Officer
28 July 2021

Interim Management Report (continued)

Outlook

Last year, the pandemic caused significant disruption to the market environment in which we operate, as well as the broader economy and country as a whole.

In February, the Government communicated the roadmap out of lockdown. Progress continues to be made on the gradual easing of restrictions, initially with significant milestones including the reopening of schools and non-essential retailers. Although the further removal of social distancing measures has been announced, significant health and economic risks remain as cases have increased in all age groups.

To help the recovery process, the Chancellor of the Exchequer announced in his Spring Budget that both the job support schemes and the stamp duty relief were being extended until September, with the latter tapering from July. These factors, combined with the resilient housing market, have supported more positive movements in house price and unemployment indices than previously forecast.

On balance, the first half of 2021 brought a more positive outlook, contextualised by the successful progress in vaccinating the UK population and the gradual easing of social distancing measures. The majority of independent forecasters are now expecting stronger activity over the next two years; however, the range of possible outcomes is wide and risks to the downside remain significant.

We continue to monitor the emergent challenges and threats, both economically and operationally, and the Yorkshire Building Society remains in a position of strength to continue to serve our customers, communities and stakeholders.

Relevant updates in the regulatory environment include:

- **Consumer Duty:** The FCA is consulting on a new Consumer Duty which would provide additional protection for customers and would require firms to "put themselves in the customers shoes". It would also introduce requirements to ensure products are fit for purpose and offer fair value, and that all customer communications are clear and enable the customer to make well informed decisions. Firms will need to take additional care to ensure that vulnerable customers receive outcomes that are as good as those for other customers. Products and processes, including digital interactions, must also be designed in a way that meet customer needs. We expect that any new rules resulting from this work will be made by 31 July 2022.
- **Negative or Zero interest rates:** Whilst the economy has received a boost since the easing of the lockdown measures, this remains a matter of focus for both regulators. The PRA is currently working with firms to ensure they could cope with the possibility of a zero or negative Bank of England Base Rate. We continue to work to support this initiative.
- **London Inter-Bank Offer Rate (LIBOR) Transition:** The Bank of England set a timeline for transition from LIBOR by the end of 2021. The Society has been working extensively with retail and commercial customers and wholesale counterparties, with the programme already delivering significant progress. We are on track to complete the activity in line with regulatory expectations.
- **Leverage Ratio:** The FPC and PRA have jointly published a consultation paper on the application of the leverage ratio capital requirement and buffers in the UK. The changes proposed include the level and scope of its application, where leverage would be applied as a formal requirement only for firms meeting or exceeding the thresholds of: £50bn retail deposits or £10bn non-UK assets. YBS would not have a formal requirement until this level is reached, after which we would be subject to a three-year transitional period before it formed part of MREL calculations.

"YBS remains in a position of strength to continue serving our customers, communities and stakeholders."

Interim Management Report (continued)

Principal risks and uncertainties

The environment within which we operate, and the nature of the threats that we face, are continually evolving. This includes the ongoing and evolving situation relating to the COVID-19 pandemic which still dominates matters internationally, nationally and for YBS too. The key uncertainty continues to be the economic implications of the pandemic along with any that may still be seen from the UK's withdrawal from the European Union.

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 (including in the context of COVID-19 and its continuing effect on the UK economy) is included after the table.

We have performed stress tests to assess the impact of a range of risks, particularly negative interest rates, a prolonged (L shape) recession as a result of the COVID-19 pandemic, and a range of other operational and prudential risk scenarios. It is our belief that, whilst they each bring their individual challenges, we are well placed to manage them.

We continue to invest in our risk management capability in order 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, a strong capital position, diverse funding sources and high liquidity levels; and we remain confident in the financial resilience and the sustainability of the Group.

Risk	Description	Principal Mitigation
Retail & Commercial Credit Risk	The risk to the Group of credit losses as a result of failure to design, implement and monitor an appropriate credit risk appetite.	The Group sets a risk appetite for its 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.	The Group sets a risk appetite for treasury risk and monitors adherence to this. It adopts a low risk approach to its 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.	The Group sets a risk appetite and stress tests its positions against this risk appetite. The Society operates a diversified funding base, primarily through retail savings, supported by a strong wholesale funding franchise.
Market Risk	**Repricing Mismatch 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 and foreign currency rates. This risk arises from the different re-pricing characteristics of the Group's assets and liabilities. **Basis Risk:** Basis risk arises from possible changes in spreads where assets and liabilities re-price at the same time but move in differing amounts causing unfavourable impacts to earnings.	The Group adopts a low risk approach to market risk, and stress tests all positions against a range of scenarios.
Capital Risk	There is a risk that the Group is not able to meet regulatory capital requirements or deliver on its strategic plans due to insufficient capital resources.	The Group maintains a capital risk appetite and regularly stress tests its positions against severe scenarios.
Model Risk	The risk that the Group's models that are used to manage the business are inaccurate, perform inadequately or are incorrectly used.	The Group operates a Model Risk management 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.	The Group operates an internal control framework in line with the Board risk appetite and monitors adherence.
Compliance & 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.	The Group operates an internal control framework in line with the Board risk appetite and monitors adherence.

Interim Management Report (continued)

Principal risks and uncertainties (continued)

Evolution of Principal Risk Exposures

The principal risks and uncertainties continue to evolve but the main driver of change during the first half of 2021 has been the underlying impact of the COVID-19 pandemic on the economy, which has had a range of implications for the Group, along with the additional risks that we continue to address. This is unlikely to change during the remainder of 2021 despite the gradual lifting of the restrictions that had been put in place to combat the COVID-19 pandemic.

Operational response to COVID-19 (Operational Risk)

The COVID-19 pandemic placed significant operational demands on all financial services organisations, requiring rapid changes to working arrangements, and adapting existing processes to continue to meet customer needs under unprecedented and challenging circumstances.

We successfully implemented our operational response in line with Government guidelines and continue to monitor and implement changes resulting from updates to this guidance.

Our approach has been to ensure the availability of critical services for our customers and to protect the health and wellbeing of our colleagues. Our key customer-facing processes and services continued to be managed effectively during the first half of 2021, in order to minimise service issues.

In particular, to maintain that effectiveness and given the length of time that colleague work patterns and environments have been subject to disruption caused by the COVID-19 pandemic, we have put in place a number of strategies to support our colleagues through this period of uncertainty. These have included refining our people policies and practices; ensuring that our workplaces remain in line with the Government's COVID-19 guidance; and looking ahead, commencing the development of a longer-term future ways of working strategy.

Economic impacts of COVID-19 on credit losses (Retail and Commercial Credit Risk)

The impacts of the COVID-19 pandemic have dominated the economic landscape since March 2020. The lockdown measures taken to manage the scale of the pandemic, and the longer-term repercussions of these following their removal, pose an ongoing risk to the economy. This may create uncertainty in the levels of unemployment and retail and commercial property values. Additionally, the materially increased levels of government debt may eventually lead to increases in taxes and reductions in spending which could lead to job losses and reductions to disposable income.

Our approach to modelling expected credit losses on loans and advances to customers in response to these changing economic conditions, and the impact of customers taking payment deferrals, is described in more detail in note 6 to the condensed interim financial statements.

We considered lending criteria carefully throughout the period with an approach that was intended to balance the level of risk we take against our purpose of providing Real Help with Real Life. At all times we have focused on our lending being responsible to protect customers and to minimise arrears.

> Our approach has been to ensure the availability of critical services for our customers

Interim Management Report (continued)

Principal risks and uncertainties (continued)

Evolution of Principal Risk Exposures (continued)

Economic impacts of Brexit on credit losses (Retail and Commercial Credit Risk)

Whilst the UK has now officially left the EU with a trade deal in place, the ongoing economic impacts are still not clear.

Our economic scenario modelling has considered the impacts of leaving the EU on the economy. These 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.

The vast majority of our exposure relates to UK-based residential and commercial property values and so our risk arises from any potential economic downturn stemming from the new trading relationship rather than any specific risks to any particular business sector.

Negative interest rates (Operational and Market Risk)

There is a risk that a continued contraction in the UK economy may force the Bank of England to reduce the base rate from the current level of 0.1% to zero or below. We have assessed our operational readiness and, where appropriate, have undertaken development activity to ensure underlying systems are able to accommodate negative interest rates.

Whilst this work is ongoing, we expect to be ready in the event that the Bank of England takes the decision to set a negative base rate.

The commercial impact of the resulting margin implications has been assessed, including as part of the reverse stress testing process. Potential strategies to respond to negative interest rates have been considered and action has been taken to mitigate this risk. The approach to any future movements will continue to focus on managing changes as sympathetically as possible for customers, whilst maintaining clear focus on the position relative to peers and safeguarding financial strength and sustainability.

Model Risk (Model Risk)

We continue to monitor and address the risks associated with the use of models and specifically, with regard to the impact of the COVID-19 pandemic, 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 Outcome (Compliance & 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 will be required to keep pace with the rapidly changing legal and regulatory environment. This will also be vitally important as we move forward with our ambitious transformation programme which will explore new initiatives and ways of working.

Against the COVID-19 backdrop, regulatory expectations have evolved rapidly and we have added additional focus to our risk management activities on matters of greatest importance to our regulators, in particular the *treating customers fairly* impacts of mortgage payment deferrals and forbearance (FCA) and the ongoing effectiveness of our operations through *Operational and Prudential Resilience (PRA)*.

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 proposal to introduce a new Consumer Duty that would set higher expectations for the standard of care that firms such as YBS provide to consumers. As a mutual organisation, fair customer treatment is already intrinsic to everything we do, and is aligned to our purpose to provide *Real Help with Real Life*.

Interim Management Report (continued)

Principal risks and uncertainties (continued)

Evolution of Principal Risk Exposures (continued)

Climate change risk (Credit and Operational Risk)

We recognise that climate change is one of the most critical issues facing the UK and global economy. The main climate change risks impacting the Group are how physical risks such as flooding, subsidence, and coastal erosion affect our customers' homes together with 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.

We continue to work towards fully embedding our strategic approach to managing these financial and transition risks by the end of 2021 in line with: regulation that was published during 2019; guidance published in June 2020 by the Climate Financial Risk Forum; and the 'Dear CEO' letter published by the PRA in July 2020. This incorporates consideration of governance, risk management, scenario analysis and disclosure. We are currently developing our capability to assess the impact climate change could have on our mortgage portfolio and on our property estate. We will assess these against the forward-looking climate change scenarios released by the Bank of England on 8 June 2021. We will disclose the results of our assessment as part of our 2021 Annual Report and Accounts.

Developing IT capabilities in line with customer expectations (Operational Risk)

The ageing and diverse IT infrastructure, software, applications, satellite IT and use of third-party packages present within institutions across the UK financial services sector, expose these firms to increasing operational risks. As IT components age, their fit and value often deteriorate whilst cost and risk often conversely grow. Moreover, future digitalisation and modernisation initiatives may force firms to use old technology in ways for which they were not designed.

We have embedded an approach to managing and mitigating our legacy IT risks and progress is being reported to the Board at least annually. We continue to invest in operational resilience and legacy IT risk mitigation.

Increased competition and new technology (Operational Risk)

Our digitalisation programme was well underway before the COVID-19 pandemic brought a sharper focus on the need 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.

There is, however, a residual risk that the cost of delivering the level of 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.

Financial crime threats (Compliance and Conduct Risk)

We already operate in a hostile and constantly evolving financial crime environment. The COVID-19 pandemic has elevated the threat landscape, and the wider financial services industry continues to see increased cyber-crime, 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 the COVID-19 pandemic, the business remains on high alert. The Group's continued focus on its financial crime capability remains paramount in order to keep these evolving financial crime exposures within its risk appetite. Investment continues to be made in this area, focusing particularly on anti-money laundering controls, customer due diligence and Open Banking compliance by constantly assessing and appropriately upgrading business standards, due diligence processes, IT and people capability.

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 threats – including ransomware, data breaches and weaknesses in the supply chain. Resilience to such threats and an ability to effectively respond in the event of an attack remains essential in order to protect the Group, maintain the trust of customers and the confidence of regulators.

Investment is being made in this area to ensure that key controls are appropriately maintained. A programme of work is currently being scoped, focussing particularly on: upgrades to network segregation; security incident and event monitoring; vulnerability management; data encryption; and identity and access management.

Continued risk management effectiveness

Good progress has been made through the first half of 2021, 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. Areas of future focus in the remainder of the year will continue to include how our risk management teams will support the delivery of the 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.

Interim Management Report (continued)

Business highlights

The following summary sets out the important events that have occurred over the six months to 30 June 2021 and their impact on the condensed interim financial statements.

Our financial performance

The table below presents the results of Yorkshire Building Society ('YBS') and its controlled entities (collectively 'the Group' or 'YBS Group') for the half-year ended 30 June 2021. See note 1 to the condensed interim financial statements for more information on the basis of preparation.

Income Statement

Profit before tax was £147.7 million for the six months to 30 June 2021 compared to £67.3 million for the equivalent period in 2020.

Our financial performance is monitored by our Board who, in addition to looking at statutory profit before tax, look at core operating profit. Core operating profit excludes items such as fair value volatility and one-time charges that are either temporary or typically reverse over time and so do not reflect the Group's day to day activities. Our Board considers this to be a more appropriate measure of the underlying performance of the business.

Core operating profit for the six months to 30 June 2021 was £134.9 million (30 June 2020: £74.7 million). The following table shows the adjustments made to the statutory profit before tax to arrive at the core operating profit.

		Half-year ended 30 June 2021			Half-year ended 30 June 2020			Year ended 31 December 2020		
		Statutory	Non-core items	Core	Statutory	Non-core items	Core	Statutory	Non-core items	Core
	Notes	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net interest income	i)	**256.0**	**(1.9)**	**254.1**	211.4	(0.9)	210.5	438.0	(1.2)	436.8
Non-interest income (net)		**6.7**	**(0.1)**	**6.6**	5.6	-	5.6	13.8	(3.1)	10.7
Fair value volatility on derivatives	ii)	**11.0**	**(11.0)**	**-**	(8.7)	8.7	-	(15.7)	15.7	-
Fair value volatility on other financial assets	iii)	**0.4**	**(0.4)**	**-**	0.8	(0.8)	-	5.0	(5.0)	-
Net realised profits		**0.4**	**-**	**0.4**	6.5	-	6.5	12.9	-	12.9
Total income		**274.5**	**(13.4)**	**261.1**	215.6	7.0	222.6	454.0	6.4	460.4
Management expenses		**(132.6)**	**-**	**(132.6)**	(133.6)	-	(133.6)	(275.8)	-	(275.8)
Impairment of financial assets		**6.0**	**-**	**6.0**	(14.3)	-	(14.3)	(12.2)	-	(12.2)
Movement in provisions	iv)	**(0.2)**	**0.6**	**0.4**	(0.4)	0.4	-	(4.7)	2.8	(1.9)
Profit before tax		**147.7**	**(12.8)**	**134.9**	67.3	7.4	74.7	161.3	9.2	170.5

The notes below explain the adjustments made to statutory profit to arrive at the core operating profit figure.

i) Release of fair value adjustments made against assets taken on during mergers.
ii) Fair value timing differences due to rate volatility on financial instruments, largely those not in hedge relationships – see note 5 to the condensed interim financial statements.
iii) See note 5 to the condensed interim financial statements.
iv) Movement in provision for restructuring cost – see note 7 to the condensed interim financial statements.

Interim Management Report (continued)

Business highlights (continued)

Our financial performance (continued)

The main items in the income statement that contribute to profit:

- Net interest income for the year to June is £256.0m representing a net interest margin of 1.05%. This compares favourably to the same period last year (2020 H1: £211.4m and 0.95%) predominantly driven by the strength of our mortgage trading. The deadline for stamp duty relief precipitated increased market activity and we leveraged our mortgage origination platform and pricing capability to help us to meet this demand. In addition, our strong capital position allowed us to participate in purposeful market segments at a time when some providers were retrenched, including those segments serving first-time buyers and customers with lower deposits.
- Core operating profit was £134.9m (2020 H1: £74.7m), with the improvement against 2020 largely influenced by net interest income performance, combined with the impacts that more positive economic outlooks (including house price index and unemployment) have on loan loss provisioning. A release of £6.0m was recognised against the impairment of financial assets (2020 H1: £14.3m charge).
- Non-interest income was £6.7m (2020 H1: £5.6m) and represents fees, commissions and other operating income. Predominantly this relates to our secondary line of business in Insurance and Investments and certain mortgage product fees.
- A fair value volatility gain of £11.4m was recorded in the six months to 30 June 2021 (2020 H1: £7.9m loss), mainly as a consequence of the external interest rate environment and the effect this has on mortgage pipeline interest rate swaps.
- Management expenses were £132.6m (2020 H1: £133.6m), a reduction compared with the same period in 2020 and in line with our expectations. We have also seen a further reduction in our cost to core income ratio, from 59.8% in H1 2020 to 50.4%, despite making additional investments this year to support our growth.

As a mutual we do not pay dividends to external shareholders so our profit requirements are driven solely by our need for ongoing capital to support our activities. Profit remains sufficient to provide capital for our current and future growth aspirations and ensure we are resilient to severe economic stresses. The Group's business activities are focused in the UK and relate predominantly to mortgage lending which is funded primarily through domestic deposits. We continue to have a cautious approach to liquidity management and as at 30 June 2021 our liquidity portfolio consisted predominantly of exposures to the Bank of England and the UK Government.

Balance Sheet

	Half-year ended 30 June 2021	Half-year ended 30 June 2020	Year ended 31 December 2020
	£bn	£bn	£bn
Liquid assets	**7.7**	6.2	8.4
Loan and advances to customers	**41.0**	38.0	38.8
Other assets	**0.7**	0.9	0.7
Total assets	**49.4**	45.1	47.9
Shares - retail savings	**35.2**	30.8	33.4
Wholesale funding and other deposits	**10.2**	10.2	10.5
Other liabilities	**0.5**	0.7	0.6
Total liabilities	**45.9**	41.7	44.5
Subordinated liabilities	**0.6**	0.7	0.6
Member's interest and equity	**2.9**	2.7	2.8
Total members' interest, equity and liabilities	**49.4**	45.1	47.9

Interim Management Report (continued)

Business highlights (continued)

Our financial performance (continued)

- Strong performance in retail flows contributes to increased balance sheet growth, at 3.1% in the first six months of 2021 (2020 H1: 1.9%). Significantly higher net lending performance is driven by our participation in purposeful market segments which are aligned to our strategy; we were the first provider to re-enter and serve the 95% LTV market, and have helped a record number of first-time buyers complete on their mortgage in the first half of the year. These areas experienced reduced levels of competition at the start of this year and this provided an opportunity for us to achieve a larger share of the market. We have also seen improved retention in retail savings, supported by our member pass back activity.
- Our liquidity position remains strong, standing at 17.1% (2020: 19.2%), supported by growth in retail savings and comfortably above regulatory thresholds.
- Our capital ratios remain relatively stable, with CET 1 at 16.6% (2020: 16.7%) and our leverage ratio (UK) at 5.7% (2020: 5.9%). The Society is well-positioned to meet its MREL requirements through retained profits and further issuance of qualifying MREL instruments.
- In March, we issued the latest in our RMBS wholesale funding programme: Brass 10. This issuance was verified as being compliant with the International Capital Markets Associations (ICMA) framework – making this the first social bond to be issued by a building society. The principles aligned well with our purpose, including a commitment to positive social outcomes, access to essential services, affordable housing, and socioeconomic advancement and empowerment. We have also reviewed our existing wholesale funding plan and are in the process of conducting a Liability Management Exercise (LME) on two existing Medium-Term Notes (MTN), alongside a new MTN issuance. This helps us to optimise our overall cost of funding and we expect this transaction to settle in July.
- There has been no deterioration in the quality of our loan book. The value of loans more than 3 months in arrears represents 0.40% of our mortgage book at 30 June 2021 (2020: 0.43%). Our performance for the number of accounts which are more than three months in arrears (including possessions) is 0.56% (2020: 0.59%), which remains significantly better than the industry average* 0.85% (2020: 0.84%). In addition, the much more positive economic outlook, in particular the impact of positive House Price Index movement, has resulted in a release of credit loss provisions in the period.

* Industry average sourced from UK Finance.

Interim Management Report (continued)

Business highlights (continued)

Forward-looking statements

This Interim Management Report has been prepared solely to provide additional information to members to assess the Group's performance and strategies, and should not be relied on by any other party or for any other purpose. It contains certain forward-looking statements, which are made by the directors in good faith based on the information available to them up to the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Changes to the Board

A complete list of the Board of Directors can be found in the 2020 Annual Report and Accounts which also communicated the commencement of a recruitment search in 2020 for a new Non-Executive Director. As a result of that search, the Board was pleased to announce the appointment of Dina Matta as a Non-Executive Director from 27 April 2021. Dina brings more than 25 years' experience in senior management roles in relation to transformation and technological innovation, working across a variety of industries both in Europe and the US.

As signposted in the Annual Report and Accounts, Non-Executive Director, Gordon Ireland, retired from the Board at the conclusion of the Society's Annual General Meeting on 27 April 2021.

Signed on behalf of the Board by:

Mike Regnier, Chief Executive

Alasdair Lenman, Chief Finance Officer

28 July 2021

Condensed Interim Financial Statements

Consolidated Income Statement

	Notes	Half-year to 30 June 2021 (unaudited) £m	Half-year to 30 June 2020 (unaudited) £m	Year to 31 December 2020 (audited) £m
Interest revenue calculated using the effective interest method	3	**461.0**	455.7	900.5
Other interest revenue	3	**18.6**	17.8	37.5
Interest revenue	3	**479.6**	473.5	938.0
Interest expense	4	**(223.6)**	(262.1)	(500.0)
Net interest income		**256.0**	211.4	438.0
Fee and commission revenue		**13.8**	9.9	21.8
Fee and commission expense		**(8.1)**	(5.5)	(12.8)
Net fee and commission income		**5.7**	4.4	9.0
Gains/(losses) from financial instruments held at fair value	5	**11.4**	(7.9)	(10.7)
Net realised gains on disposal of financial instruments		**0.4**	6.5	12.9
Other operating income		**1.0**	1.2	4.8
Total income		**274.5**	215.6	454.0
Administrative expenses		**(121.1)**	(121.3)	(250.0)
Depreciation and amortisation		**(11.5)**	(12.3)	(25.8)
Impairment of financial assets	6	**6.0**	(14.3)	(12.2)
Provisions charge	7	**(0.2)**	(0.4)	(4.7)
Profit before tax		**147.7**	67.3	161.3
Tax expense	8	**(26.5)**	(15.0)	(37.8)
Profit for the period		**121.2**	52.3	123.5

Condensed Interim Financial Statements (continued)

Consolidated Statement of Comprehensive Income

	Half-year to 30 June 2021 (unaudited)	Half-year to 30 June 2020 (unaudited)	Year to 31 December 2020 (audited)
	£m	£m	£m
Net Profit	**121.2**	52.3	123.5
Items that may be reclassified through profit or loss			
Cash flow hedges:			
Amounts transferred to the income statement	**0.2**	0.3	0.6
Tax on amounts recognised in equity	**(0.1)**	(0.1)	(0.2)
Financial assets measured through other comprehensive income:			
Fair value movements taken to equity	**3.6**	13.3	36.6
Amounts transferred to the income statement	**(0.8)**	(13.0)	(29.8)
Tax on amounts recognised in equity	**(0.9)**	(0.3)	(1.8)
Effect of change in corporation tax rate	**(1.1)**	-	(0.2)
Items that will not be reclassified through profit or loss			
Remeasurement of retirement benefit obligations	**4.7**	39.9	4.3
Tax on remeasurement of retirement benefit obligations	**(1.0)**	(10.9)	(1.4)
Effect of change in corporation tax rate	**(5.5)**	(1.7)	(1.7)
Transitional tax adjustment	**-**	(0.4)	-
Total other comprehensive income	**(0.9)**	27.1	6.4
Total comprehensive income for the period	**120.3**	79.4	129.9

Condensed Interim Financial Statements (continued)

Consolidated Statement of Financial Position

	Notes	30 June 2021 (unaudited) £m	30 June 2020 (unaudited) £m	31 December 2020 (audited) £m
Assets				
Cash and balances with the Bank of England		**2,871.1**	2,085.9	4,455.7
Loans and advances to credit institutions		**1,095.5**	1,074.4	1,087.4
Debt securities		**3,776.2**	3,096.9	2,860.1
Loans and advances to customers	6	**41,026.8**	37,962.8	38,798.6
Derivative financial instruments		**308.0**	523.0	416.2
Investments		**14.0**	10.0	13.6
Intangible assets		**27.5**	31.6	30.2
Investment properties		**14.4**	14.7	14.6
Property held for sale		**7.7**	3.1	7.7
Property, plant and equipment		**124.9**	133.0	126.6
Deferred tax assets		**12.7**	4.5	6.0
Retirement benefit surplus	9	**94.8**	127.6	91.0
Other assets		**26.1**	34.2	23.1
Total assets		**49,399.7**	45,101.7	47,930.8
Liabilities				
Shares		**35,190.0**	30,845.8	33,368.3
Amounts owed to credit institutions		**3,954.6**	4,211.3	3,836.9
Other deposits		**472.6**	417.0	535.7
Debt securities in issue		**5,733.8**	5,563.2	6,128.3
Derivative financial instruments		**371.6**	548.9	490.9
Current tax liabilities		**3.1**	-	2.9
Deferred tax liabilities		**44.6**	43.1	34.9
Other liabilities		**75.7**	72.5	82.4
Provisions		**5.6**	5.3	8.6
Subordinated liabilities		**630.9**	648.4	645.0
Total liabilities		**46,482.5**	42,355.5	45,133.9
Members' interests and equity		**2,917.2**	2,746.2	2,796.9
Total members' interest, equity and liabilities		**49,399.7**	45,101.7	47,930.8

Condensed Interim Financial Statements (continued)

Consolidated Statement of Changes in Members' Interest and Equity

	General reserve	Cash flow hedge reserve	Fair value through other comprehensive income	Total
	£m	£m	£m	£m
Half-year to 30 June 2021				
At 1 January 2021 (audited)	2,784.5	-	12.4	**2,796.9**
Profit for the period	121.2	-	-	**121.2**
Net remeasurement of defined benefit obligations	(1.8)	-	-	**(1.8)**
Net movement in cash flow hedges	-	0.1	-	**0.1**
Net fair value changes taken through other comprehensive income	-	-	0.8	**0.8**
At 30 June 2021 (unaudited)	**2,903.9**	**0.1**	**13.2**	**2,917.2**
Half-year to 30 June 2020				
At 1 January 2020 (audited)	2,659.6	(0.4)	7.6	2,666.8
Profit for the period	52.3	-	-	52.3
Transitional tax adjustment	(0.4)	-	-	(0.4)
Net remeasurement of defined benefit obligations	27.3	-	-	27.3
Net movement in cash flow hedges	-	0.2	-	0.2
At 30 June 2020 (unaudited)	2,738.8	(0.2)	7.6	2,746.2
Year to 31 December 2020				
At 1 January 2020 (audited)	2,659.6	(0.4)	7.6	2,666.8
Transitional Tax Adjustment	0.2	-	-	0.2
Profit for the period	123.5	-	-	123.5
Net remeasurement of defined benefit obligations	1.2	-	-	1.2
Net movement in cash flow hedges	-	0.4	-	0.4
Net fair value changes taken through other comprehensive income	-	-	4.8	4.8
At 31 December 2020 (audited)	2,784.5	-	12.4	2,796.9

Condensed Interim Financial Statements (continued)

Consolidated Statement of Cash Flows

	Notes	Half-year to 30 June 2021 (unaudited) £m	Half-year to 30 June 2020 (unaudited) £m	Year to 31 December 2020 (audited) £m
Cash flows from operating activities				
Profit before tax		**147.7**	67.3	161.3
Non-cash items included in profit before tax	11	**(25.8)**	22.5	43.4
Net change in operating assets	11	**(2,114.2)**	(149.8)	(878.7)
Net change in operating liabilities	11	**1,547.0**	1,456.4	3,607.1
Tax paid		**(31.8)**	(36.4)	(51.3)
Net cash flow from operating activities		**(477.1)**	1,360.0	2,881.8
Cash flows from investing activities				
Purchase of property, plant and equipment, and intangible assets		**(7.8)**	(5.1)	(16.3)
Sale of property, plant and equipment		**0.8**	-	5.0
Purchase of debt securities		**(1,217.8)**	(3,037.1)	(3,569.8)
Redemption of debt securities		**304.9**	2,495.2	3,277.6
Net cash flow from investing activities		**(919.9)**	(547.0)	(303.5)
Cash flows from financing activities				
Redemption of debt securities in issue	11	**(660.1)**	(727.5)	(1,129.5)
Issue of debt securities	11	**475.6**	26.0	1,050.0
Interest paid on subordinated liabilities and subscribed capital		**(11.1)**	(11.2)	(22.5)
Interest paid on lease liabilities		**(0.5)**	(0.5)	(0.9)
Capital repayments on lease liabilities		**(2.8)**	(2.8)	(4.2)
Net cash flow from financing activities		**(198.9)**	(716.0)	(107.1)
Net change in cash and cash equivalents		**(1,595.9)**	97.0	2,471.2
Opening balance		**5,421.4**	2,950.2	2,950.2
Closing cash and liquid cash equivalents		**3,825.5**	3,047.2	5,421.4
Cash and liquid cash equivalents				
Cash and cash equivalents		**2,871.1**	2,085.9	4,455.7
Less Bank of England cash ratio deposit		**(141.1)**	(113.1)	(121.7)
Loans and advances to credit institutions		**1,095.5**	1,074.4	1,087.4
Closing cash and liquid cash equivalents		**3,825.5**	3,047.2	5,421.4

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements

1. Basis of Preparation

These condensed interim financial statements present the results of Yorkshire Building Society ('YBS') and its controlled entities (collectively 'the Group' or 'YBS Group') for the half-year ended 30 June 2021.

The accounting policies, presentation and measurement applied during the period are consistent with those applied by the Group in the 31 December 2020 audited annual financial statements being International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the International Accounting Standards Board (IASB) effective as at 31 December 2020 and endorsed by the European Union (EU).

As a result of the United Kingdom's exit from the EU, the Group is now required under the *Building Societies Act 1986* to apply 'UK-adopted international accounting standards.' The condensed interim financial statements have therefore been prepared in accordance with UK-adopted International Accounting Standard 34 *Interim Financial Reporting* and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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 presented in round hundreds of thousands of pounds sterling (£0.0m).

During the half-year to 30 June 2021 there has been one change to the composition of the Group, please see note 10 for further details. The condensed interim financial statements have been subject to a review and have not been audited.

Accounting developments

The information on future accounting developments and their potential effect on the financial statements are provided on page 132 of the 2020 Annual Report and Accounts.

Going concern

The YBS Board of Directors undertake regular rigorous assessments of whether the Group is a going concern in light of changing economic and market conditions, using all available information about future risks and uncertainties. Details of the review undertaken to support the 31 December 2020 financial statements are given on page 112 of the 2020 Annual Report and Accounts.

The directors confirm that, based on the latest formal review undertaken in July 2021, 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 condensed interim financial statements.

2. Critical accounting judgements and key sources of estimation uncertainty

The Group makes judgements in applying its accounting policies that have a significant impact on the amounts recognised in the condensed interim financial statements. In addition, estimates and assumptions are used which could affect the reported amounts of assets and liabilities in subsequent periods.

Other than the specific changes highlighted below, the key sources of estimation uncertainty remain unchanged since those disclosed on pages 138 to 139 of the 2020 Annual Report and Accounts.

Impairment of loans and advances to customers

Expected credit losses (ECL) are calculated using historical default and loss experience but require judgement to be exercised in predicting future economic conditions (e.g. interest rates and house prices) and customer behaviour (e.g. default rates). Judgements are applied in arriving at the economic assumptions and when determining the weightings to be applied to the economic scenarios.

The Group has assessed the level of uncertainty associated with the COVID-19 pandemic and the economic assumptions applied to the ECL model, and the weightings applied to the scenarios, have been updated to reflect the ongoing impact on the UK economy.

The Group has applied a 5% weighting to Upside, 50% to Core, 30% to Downside and 15% to Stress scenarios. This reflects a move of 5 percentage points from Downside to Core compared to 31 December 2020. The Group considered alternative sets of weightings in reaching these results. The most severe applied the same weightings as at 31 December i.e. 45% Core and 35% Downside – this would result in a £2.6m increase in ECL. The least severe applied weightings of 55% Core and 25% Downside - this would result in a £2.5m decrease in ECL. These changes in weightings have been fully modelled and been allowed to impact staging.

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 6.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

3. Interest revenue

	Half-year to 30 June 2021 (unaudited)	Half-year to 30 June 2020 (unaudited)	Year to 31 December 2020 (audited)
	£m	£m	£m
Calculated using the effective interest rate method:			
Loans secured on residential property	**437.2**	425.2	846.4
Other loans	**9.3**	10.2	19.8
Liquid assets	**2.3**	5.9	7.7
On debt securities	**12.2**	14.4	26.6
Interest revenue calculated using the effective interest rate method	**461.0**	455.7	900.5
Other:			
Derivatives in hedge relationships	**9.8**	7.6	16.6
Derivatives not included in hedge relationships	**8.8**	10.2	20.9
Other interest revenue	**18.6**	17.8	37.5
Total interest revenue	**479.6**	473.5	938.0

4. Interest expense

	Half-year to 30 June 2021 (unaudited)	Half-year to 30 June 2020 (unaudited)	Year to 31 December 2020 (audited)
	£m	£m	£m
Shares held by individuals	**105.3**	138.8	246.3
Deposits from banks	**1.8**	6.1	8.0
Other deposits	**0.1**	0.7	0.8
Debt securities in issue	**26.4**	35.5	68.8
Subordinated liabilities	**11.1**	11.2	22.5
Derivatives in hedge relationships	**69.1**	61.0	134.6
Derivatives not included in hedge relationships	**9.3**	8.3	18.1
Interest expense for leasing arrangements	**0.5**	0.5	0.9
Total interest expense	**223.6**	262.1	500.0

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

5. Gains/(losses) from financial instruments held at fair value

	Half-year to 30 June 2021 (unaudited)	Half-year to 30 June 2020 (unaudited)	Year to 31 December 2020 (audited)
	£m	£m	£m
Derivatives not included in hedge relationships	**8.5**	(10.9)	(14.7)
Hedge accounting ineffectiveness	**2.5**	2.2	(1.0)
Other financial assets held at fair value	**0.4**	0.8	5.0
Total net gains/(losses) from financial instruments held at fair value	**11.4**	(7.9)	(10.7)

Derivatives and hedging

Fair value volatility on derivatives and hedging relates to changes in the fair value of derivatives that provide effective economic hedges but where the Group has either not achieved hedge accounting or the nature of the hedge relationship has given rise to ineffectiveness. The gain in the current year has been driven by market rate movements. The £0.4m other item in the current period includes gains on equity instruments held at fair value.

6. Impairment of financial assets

The table below splits the loans and advances to customers balance per the Consolidated Statement of Financial Position into its constituent parts and reconciles to the gross exposures used in the 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 5. 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.

Expected Credit Losses (ECL) are 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 are considered to result in an increased credit risk. When this happens, post model adjustments (PMA) are overlaid to reflect the impact on ECL. The economic scenarios and the PMAs applied at 30 June 2021 are described below.

	30 June 2021 (unaudited)	31 December 2020 (audited)
	£m	£m
Gross contractual exposures	**41,012.9**	38,609.6
EIR	**50.9**	52.0
Hedged risk adjustment	**89.0**	274.4
Fair value rate adjustment	**(57.2)**	(61.4)
Gross loans and advances to customers	**41,095.6**	38,874.6
Impairment	**(38.7)**	(43.9)
Fair value credit adjustment	**(30.1)**	(32.1)
ECL	**(68.8)**	(76.0)
Loans and advances to customers	**41,026.8**	38,798.6

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Impairment of financial assets (continued)

The following table splits the income statement impairment of financial assets into those elements impacting the ECL and other items.

	Half-year to 30 June 2021 (unaudited)	Half-year to 30 June 2020 (unaudited)	Year to 31 December 2020 (audited)
	£m	£m	£m
Impairment (release)/charge recognised in the income statement	**(5.6)**	15.0	13.3
Recoveries relating to loans and advances previously written off	**(0.6)**	(0.8)	(1.2)
Impairment of other financial assets	**0.2**	0.1	0.1
Impairment of financial assets	**(6.0)**	14.3	12.2

The following tables analyse the changes in ECL impairment and fair value credit adjustments.

	Half-year to 30 June 2021 (unaudited)	Half-year to 30 June 2020 (unaudited)	Year to 31 December 2020 (audited)
	£m	£m	£m
Opening Impairment	**43.9**	30.2	30.2
Amounts written off in the period	**(0.3)**	(0.6)	(1.2)
Reduction in discounting recognised in net interest	**0.7**	0.9	1.6
Impairment for the period recognised in the income statement	**(5.6)**	15.0	13.3
Impairment	**38.7**	45.5	43.9

	Half-year to 30 June 2021 (unaudited)	Half-year to 30 June 2020 (unaudited)	Year to 31 December 2020 (audited)
	£m	£m	£m
Opening fair value credit adjustment	**32.1**	34.9	34.9
Release recognised in the income statement through net interest	**(1.8)**	(0.8)	(1.2)
Write-offs	**(0.2)**	(0.7)	(1.6)
Fair value credit adjustment	**30.1**	33.4	32.1

Expected Credit Losses (ECL)

Economic Scenarios

The Group use four economic scenarios generated internally using external data, statistical methodologies, and senior management judgement, to span a wide range of plausible economic conditions. Scenarios are projected over a five-year window, reverting to long term averages past that point. The Group allows all macroeconomic scenarios to impact staging.

The macro-economic baseline, and in particular HPI, has changed considerably since 31 December 2020 as a result of the combination of government intervention and the progress of the vaccination programme. However, the outlook remains uncertain as easing of lockdown restrictions has resulted in increases in the infection rate across the country and early signs of some rises in hospital admissions and fatalities. Despite the efficacy of the various vaccines currently available, there remains the risk of further lockdown restrictions, especially if new variants of the virus continue to develop and supplies of boosters are not available as we head into winter 2021. As such, the economic assumptions applied within our scenarios are showing improvement since December 2020 but our outlook continues to reflect significant downside risks.

The Group continue to use four scenarios: an upside scenario that assumes minimal disruption; our core or central scenario; a more negative downturn scenario; and a worst-case stress scenario.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Impairment of financial assets (continued)

Expected Credit Losses (ECL) (continued)

Economic Scenarios (continued)

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 that lifting of lockdown restrictions across the UK nations happen as planned, with the economic consequences of this less pronounced that the easing of the initial 2020 lockdown because the level of uncertainty has greatly reduced and households and businesses more quickly resume spending and investment plans.

It further assumes that the vaccines continue to be rolled out successfully through the year and that the sustained decline in hospital numbers allows the reopening of all previously closed sectors.

In this scenario gross domestic product (GDP) recovers rapidly in 2021 and 2022, with annual growth rates significantly above those seen since the financial crisis. The UK economy returns to near its pre-pandemic level in Q3 2022 but is structurally marginally smaller due to lost investment, business closure and labour market scarring (i.e. the longer a person is unemployed the more difficult they find it to re-enter the jobs market). In 2022 to 2025 GDP growth then slows to similar rates seen in the past decade.

The impact of Brexit is to leave GDP around 4% lower than the pre-virus level in 2025 due to lower inward investment and productivity.

The Coronavirus Job Retention Scheme (CJRS) has been extended to 30 September 2021 and this is expected to subdue the previously anticipated peak in unemployment. As uncertainty fades and demand continues to grow, we anticipate a recovery in business investment and therefore job creation but we still expect unemployment to remain high compared to recent years, in line with previous recessions.

The house price index (HPI) is predicted to stabilise over the remainder of 2021 due to the unwinding of the CJRS, the end of the Help-to-Buy scheme and the tapering of the stamp duty relief from £500k to £250k which is assumed will dampen activity in the high value areas. We expect the supply of and demand for housing stock to normalise and some of the more recent gains to unwind. The core scenario assumes HPI stays largely flat in 2022 and then starts rising in line with inflation (2.0% per annum) from 2023.

Downturn

The downturn scenario assumes a reduced efficacy of the current vaccines against the new COVID-19 variants resulting in infections continuing to rise but with hospitalisations and fatalities following suit. A lack of effective boosters, new vaccines taking longer due to longer clinical trial periods and production constraints lead to a series of extended lockdowns and tiered restrictions through autumn and winter 2021. This continues to have an impact on trading for sectors deemed non-essential and, over time, this pushes up unemployment.

This scenario assumes a GDP contraction of 5.5% in 2022 and a contraction of 5.0% in 2023 but starts to grow slowly in Q3 2023 as the economy is gradually reopened. However, with weakness in the labour markets, declining real earnings and low demand/business investment, downturn forecasts growth rates of 1.3% and 1.5% for 2024 and 2025.

In terms of unemployment, there is a rapid increase from 4.9% in Q1 2021 to 8.8% in Q4 2022. As recovery sets in, unemployment gradually starts to fall, although it is still high by recent standards.

The tapering of the stamp duty threshold increase over Q3 2021, accelerating unemployment and falling real earnings drive housing demand and prices down sharply in 2022 by 12.7%, resulting in rising repossessions and further downward pressure on prices. Low confidence and a weak labour market continue to add pressure on prices in 2023 (-8%), thereafter a levelling off in 2024 and gradual improvement in line with GDP growth and employment from 2025 onwards.

“The house price index (HPI) is predicted to stabilise over the remainder of 2021”

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Impairment of financial assets (continued)

Expected Credit Losses (ECL) (continued)

Economic Scenarios (continued)

Stress

In the stress scenario there are further challenges with the current vaccines' ability to cope with new strains of COVID-19, requiring the UK government to impose public health measure that remain in place until a new effective vaccine is available at the end of 2023. In addition, increased tensions between the EU and the UK put into doubt the workability of the trade agreement reached on Christmas Eve 2020, increasing uncertainty in the business sector, reducing investment, hiring and growth.

The UK government cannot continue the same levels of support for this extended period which leads to increasing challenges for the economy, with high unemployment, low inflation and low rates. A contracting economy and a large public sector deficit put pressure on sterling, giving rise to imported inflation and a decline in real wage growth.

This adds further stress to household finances and consumer spending in addition to the high level of unemployment. Furthermore, by the end of 2025 the UK government begins to implement debt reduction strategies that take demand out of the economy through higher taxes and spending cuts. This results in a less pronounced GDP fall in 2023 that the downturn scenario but leads to a more prolonged recession.

Upside

This assumes the vaccination rollout is fast, highly effective and significantly reduces hospitalisations and fatalities. The removal of social distancing allows households and businesses to quickly return to normality over Q3 2021. GDP growth starts off strong as the economy bounces back faster in 2021 and 2022 than in the core scenario and reverts to pre-pandemic levels from 2023. Unemployment falls back to multi-decade lows and house prices grow at over 3% per annum.

	2020 Scenario (audited)					2021 Scenario (unaudited)				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
HPI										
Upside	3.2	3.4	3.4	3.6	3.5	**2.2**	**3.4**	**3.4**	**3.6**	**3.5**
Core	(4.0)	-	2.0	2.0	2.0	**2.0**	**-**	**2.0**	**2.0**	**2.0**
Downturn	(17.0)	(4.0)	-	1.5	2.0	**0.2**	**(12.7)**	**(8.0)**	**-**	**1.5**
Stress	(12.0)	(10.0)	(5.0)	(2.0)	-	**0.2**	**(13.0)**	**(10.5)**	**(5.0)**	**(1.0)**
GDP										
Upside	6.5	2.5	2.0	2.0	2.0	**6.2**	**5.8**	**2.0**	**2.0**	**2.0**
Core	5.7	2.5	1.8	1.6	1.6	**5.7**	**5.0**	**1.8**	**1.6**	**1.6**
Downturn	(5.5)	1.3	1.5	1.7	1.8	**3.0**	**(5.5)**	**(5.0)**	**1.3**	**1.5**
Stress	(5.5)	(2.0)	(0.8)	(0.5)	-	**2.0**	**(5.5)**	**(2.0)**	**(0.8)**	**-**
Unemployment										
Upside	5.0	4.0	3.9	3.8	3.8	**5.0**	**4.0**	**3.9**	**3.8**	**3.8**
Core	7.9	7.5	6.5	5.5	4.5	**5.9**	**5.8**	**5.0**	**4.5**	**4.5**
Downturn	9.5	8.5	7.5	7.0	6.0	**7.0**	**8.8**	**7.8**	**7.5**	**7.0**
Stress	8.8	11.9	10.8	9.0	8.0	**7.5**	**10.0**	**11.9**	**9.0**	**8.0**

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Impairment of financial assets (continued)

Expected Credit Losses (ECL) (continued)

The following table shows the average values of the key economic variables used by each economic scenario for the period until December 2025. 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. The values in the table are calculated as either a simple average of the rate across the five-year forecasting window (unemployment and bank rate) or as peak to trough (HPI and GDP).

	Upside		Core		Downturn		Stress	
	31 Dec 2020	30 June 2021	31 Dec 2020	30 June 2021	31 Dec 2020	30 June 2021	31 Dec 2020	30 June 2021
5 Year Average								
GDP	2.3	**3.1**	2.0	**2.6**	(0.5)	**(1.5)**	(2.4)	**(1.8)**
HPI	3.4	**2.6**	0.4	**1.6**	(3.8)	**(4.0)**	(5.9)	**(6.0)**
Unemployment	4.4	**4.4**	6.5	**5.2**	7.8	**7.4**	9.5	**8.9**
Bank Rate	0.7	**0.7**	0.2	**0.5**	0.1	**-**	–	**-**
Peak								
GDP	-	**-**	(8.8)	**(15.0)**	(7.8)	**(13.6)**	(4.9)	**(11.7)**
HPI	-	**-**	(5.8)	**(9.3)**	(16.8)	**(19.7)**	(24.0)	**(26.8)**
Unemployment	7.0	**5.7**	7.9	**6.1**	9.5	**8.8**	11.9	**11.9**

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.

	30 June 2021 (unaudited)		31 December 2020 (audited)	
	Weighted	ECL	Weighted	ECL
Scenario	**%**	**£m**	%	£m
Upside scenario	**5**	**37.8**	5	37.4
Core scenario	**50**	**42.8**	45	42.4
Downturn scenario	**30**	**93.0**	35	105.5
Stress scenario	**15**	**117.3**	15	120.7
Probability weighted ECL	**100**	**68.8**	100	76.0

The relative weighting of the scenarios has been re-assessed as a result of a number of positive economic indicators and developments over the first half of the year. Whilst downside and upside risks remain, the strength of the recovery and the efficacy of the vaccine rollout are considered to signify a return to a more 'normal' set of economic conditions, albeit a post-pandemic 'new normal'. As a result, it was deemed appropriate to reweight the core scenario to 50%, moving a 5% weighting from downturn.

As in prior periods, the stress scenario is an operational measure used to stress test the rigour of the Group's Consolidated Statement of Financial Position and applying a 15% weight to this scenario is still considered appropriate given the heightened COVID-19 risks still in the economy. The upside of 5% is also still deemed appropriate as the improvement in the outlook for the economy since 31 December has been reflected in the 5% move from downturn to core.

If the December 2020 weightings had been applied to the June 2021 balances the ECL would be £2.6 million higher.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Impairment of financial assets (continued)

Expected Credit Losses (ECL) (continued)

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. The first half of 2021 has continued to see a rapidly changing macro-economic environment and there has therefore been an increased focus on identifying and quantifying the resulting risks and exposures. There has also been a rigorous review of previously applied PMAs to determine whether the risks identified are still applicable.

The PMAs applied at 30 June 2021 are as follows:

	30 June 2021 (unaudited)	31 December 2020 (audited)
	£m	£m
Adjustments impacting stage migrations:		
Payment deferrals	**0.2**	3.5
Methodology changes	**3.1**	-
Adjustments not impacting stage migrations:		
Model recalibration	**1.9**	-
Extended time to sale	**2.7**	-
Cladding	**2.4**	-
Uncertainty	**8.1**	3.0
Total PMA	**18.4**	6.5

The PMAs applied are split into those that impacted the staging within the ECL model and those that have not due to them either being temporary in nature or a lack of granularity in the underlying data. The estimated impact of allocating the unstaged PMA against loan assets is that 22% of the £15.1 million would be allocated to stage 1, 47% to stage 2 and 31% to stage 3 and POCI.

Payment Deferrals

The approach to accounts with a COVID-19 payment deferral (or 'payment holiday') has been simplified and the PMA significantly reduced given the positive performance of these accounts following resumption of payments after the deferral period (see table below). The PMA is now calculated by reclassifying any account which is either currently on a payment holiday or has exited one in the last three months as stage 2.

Accounts that applied for a payment deferral over 2020 and 2021	Customer Deferral Accounts	July 2021 Split % of Deferral	July 2021 % of Portfolio
		%	%
Still in payment deferral	**215**	**0.5**	**0.1**
Exited payment deferral	**40,209**	**99.5**	**15.6**
Total Deferrals Accounts	**40,424**	**100.0**	**15.7**

Consistent with Prudential Regulation Authority (PRA) guidance, payment deferrals are not being treated as a forbearance measure and have not impacted the credit reports of customers.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Impairment of financial assets (continued)

Expected Credit Losses (ECL) (continued)

Post Model Adjustments (continued)

Methodology Changes

The Group has updated the definition of default and the probability of default (PD) rating scale. This is on the back of a comprehensive review as part of transition to the fourth-generation internal ratings based (Gen 4 IRB) method of calculating regulatory capital in the second half of 2021.

More accounts are expected to be classed as both stage 2 and stage 3 due to meeting additional default criteria under this method and this PMA estimates the impact this will have on the ECL calculation.

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.

Extended Time to Sale

In response to the COVID-19 pandemic, the FCA put in place a moratorium on the enforcement of lender repossession and this remained in place until 1 April 2021. This has led to a backlog of repossessions at an industry-wide level and impacted some of the model parameters, specifically those related to time to sale.

This post model adjustment adjusts for this by increasing each of the time from default to possession (TFDP) parameters by 12 months to reflect the under-estimation present in the core model.

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. In January 2020 the Ministry for Housing, Communities & Local Government (MHCLG) also published guidelines that introduced a duty on freeholders to obtain a detailed assessment, and undertake remedial works, on any potentially combustible elements of any cladding, of any height, on all blocks of flats.

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 main area of risk therefore is residential leaseholders that have these costs passed on to them and this impacts their ability to meet mortgage payments.

In addition, whilst the Group does not have exposure to individual residential freehold flats, there are a number of block freeholds within the Commercial lending portfolio. In the cases affected, the freeholder is able to recover the costs of any necessary works from the leaseholders but there is a risk of non-recovery if the leaseholder has neither the means nor the desire to pay.

However, at this point in time, there is insufficient data to determine which accounts may be subject to cladding or other fire safety issues and therefore require remedial work. As such, quantification of the Group's exposure has been calculated at this stage via a series of assumptions applied to the portfolio. As more data becomes available, this exposure will be assessed and monitored at a more granular, account-by-account level.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Impairment of financial assets (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 YBS 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

There has been unusually high growth in house prices over the last 18 months and there are a couple of specific areas of uncertainty that have been considered in this PMA as a result.

Both relate to the granularity of HPI application in the ECL models. The first relates to the fact that HPI is applied at a regional level. In a rapidly rising market, there will be significant local variances in house price inflation between areas within a region. The uncertainty being modelled in this PMA is that the HPI increases at a regional level are not evenly distributed and the ECL impact of changes in collateral values is non-linear.

Secondly, is the uncertainty arising from the 'race for space' change in demand for the size and type of property driven by those anticipating home/flexible working being an ongoing part of post-pandemic ways of working. Again, HPI assumptions are applied across all types of property and this PMA covers the risk that the proportion of smaller versus larger homes in the YBS Group portfolio means that the actual underlying house price increase is lower than the average.

Note, that this PMA aims to correct for the standard deviation from the regional/property type mean and not an attempt to adjust for any perceived current market-wide over-valuation. 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.

- Structural Shifts in the Economy

There is already evidence that structural shifts in the UK economy are leading to some changes in the type of customers going into arrears. These customers are typically higher than average earners that have found their employment sector less stable as a result of changing market demands. Many are finding themselves unemployed in the short term, and potentially for the longer term too as their skills may not be easily transferable. This PMA covers the uncertainty that defaults may be on a larger value mortgage than those anticipated by the core models.

- Buy-to-Let (BTL)

Whilst BTL has been very resilient during the COVID-19 pandemic, the level of risk and uncertainty in this book is increasing as a result of two main factors.

Firstly, the UK and Devolved Governments have significantly increased tax rates to landlords in recent years and these are only just starting to impact market behaviour as they have been phased-in gradually.

The second factor is the specific impact of COVID-19 on the rental population. The 18-34 age group have been one the hardest hit by furlough and unemployment and it is this group that make up a large proportion of renters. Whilst there has not been an increase in BTL defaults over the last 12 months, it is assumed that this has been due to landlords meeting mortgage obligations by means other than rental and that this is unlikely to be sustainable in the longer term. In addition, the repossession moratorium for rental properties has meant that landlords have not been able to manage arrears in the same way as they would have been able to.

Note that this element of the uncertainty PMA was included at 31 December 2020.

- Credit Bureau Data

A £2 million PMA was applied at 31 December 2020 to cover the scenario where a Group mortgage customer has been granted a payment deferral on another product with another provider and where there is a delay in this information flowing through credit reference agency data used to generate probability of default estimates.

As discussed above in the Payment Deferrals section, these risks have either now been largely extinguished or the impacts have worked their way through the credit bureau data system and are reflected in the underlying ECL models. As a result, the PMA for this risk has been released at 30 June 2021.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Impairment of financial assets (continued)

Expected Credit Losses (ECL) (continued)

Staging and POCI

The tables below shows the staging of loans and advances plus assets considered to be 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 discount on acquisition is recognised as the fair value credit adjustment.

The Group has £482.7 million of POCI loans. Of these, 87% are now considered performing loans but are not permitted to be reclassified to stage 1 or 2. In the table below, the "problem loans" represent the total of the Group's stage 3 balances and the non-performing portion of our POCI loans. More information on the Group's POCI loans can be found below.

	30 June 2021 (unaudited)						2020	2020
	Balances	% Balance	PMA	Total ECL	Coverage	Average LTV	% Balance	Coverage
Stage	£m	%	£m	£m	%	%	%	%
Stage 1	**36,089.5**	**88.0**	**(0.4)**	**2.6**	**-**	**51.3**	89.3	-
Stage 2	**4,060.2**	**9.9**	**1.6**	**16.0**	**0.4**	**36.1**	8.6	1.1
Stage 3	**380.5**	**0.9**	**2.1**	**15.6**	**4.1**	**45.3**	0.8	5.0
POCI	**482.7**	**1.2**	**-**	**19.5**	**4.0**	**48.1**	1.3	5.1
Unstaged PMA*	**-**	**-**	**15.1**	**15.1**	**-**	**-**	-	-
Total	**41,012.9**	**100.0**	**18.4**	**68.8**	**0.2**	**49.0**	100.0	0.2

** Model recalibration, Extended Time to Sale, Cladding and Uncertainty PMAs are not currently calculated at account level and therefore do not impact stage migration. The Payment Deferrals and Model Recalibration PMAs are assessed at this level so are reflected in the staging.*

The cost of risk measure has been calculated using the impairment charge for the year divided by the average balance over the period.

		30 June 2021 (unaudited)		31 December 2020 (audited)	
		£m	%	£m	%
Gross exposures					
Stage 1	(Balance/proportion)	**36,089.5**	**88.0**	35,228.9	91.2
Stage 2	(Balance/proportion)	**4,060.2**	**9.9**	2,556.6	6.7
Stage 3	(Balance/proportion)	**380.5**	**0.9**	308.7	0.8
POCI	(Balance/proportion)	**482.7**	**1.2**	515.4	1.3
Total Gross exposures		**41,012.9**	**100.0**	38,609.6	100.0
Problem loans	(Balance/proportion)	**443.7**	**1.1**	375.0	1.0
Cost of risk	(Proportion)	**N/A**	**-**	N/A	0.1
Total Expected Losses					
Stage 1	(Balance/coverage)	**2.6**	**-**	4.0	0.0
Stage 2	(Balance/coverage)	**16.0**	**0.4**	27.2	1.1
Stage 3	(Balance/coverage)	**15.6**	**4.1**	15.4	5.0
POCI	(Balance/coverage)	**19.5**	**4.0**	26.4	5.1
Unstaged PMA	(Balance)	**15.1**	**N/A**	3.0	N/A
Total Expected Losses	**(Balance/coverage)**	**68.8**	**0.2**	76.0	0.2
Of which impairment (excluding collective impairment)	(Balance/proportion)	**38.7**	**56.2**	43.9	57.8
Of which fair value credit adjustment	(Balance/proportion)	**30.1**	**43.8**	32.1	42.2

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Impairment of financial assets (continued)

Expected Credit Losses (ECL) (continued)

Staging and POCI (continued)

The following table shows as at the period end, all expected credit exposures on loans, both impairment and fair value credit adjustments, as well as a prudent assessment of collateral held against total loans and advances. The collateral is calculated as the lower of the value of the property and the outstanding loan amount. It is not the overall value of properties secured against the loans. The credit fair value adjustment is a reserve generated on the acquisition of loans as part of business combinations that is used to fund future credit losses. Credit fair value adjustments are distinct from impairment provisions as the loss has already been incurred on acquisition, but together they represent the group's total coverage to fund any expected credit losses and have been disclosed together to aid transparency.

	Gross Exposure	Impairment	Fair Value Credit
Group balances as at 30 June 2021 (unaudited)	**£m**	**£m**	**£m**
Stage 1	**36,089.5**	**2.6**	**-**
Stage 2:	**4,060.2**	**14.9**	**1.1**
Less than 30 days past due	**3,950.2**	**12.8**	**1.0**
More than 30 days past due	**110.0**	**2.1**	**0.1**
Stage 3:	**380.5**	**11.2**	**4.4**
Less than 30 days past due	**168.2**	**2.7**	**1.0**
30 to 90 days past due	**64.9**	**1.0**	**0.4**
More than 90 days past due	**147.4**	**7.5**	**3.0**
POCI:	**482.7**	**(5.1)**	**24.6**
Less than 30 days past due	**427.2**	**(5.0)**	**20.4**
30 to 90 days past due	**33.5**	**0.2**	**1.6**
More than 90 days past due	**22.0**	**(0.3)**	**2.6**
Collective impairment (non-staged element, see PMA section below)	**N/A**	**15.1**	**N/A**
Total	**41,012.9**	**38.7**	**30.1**

	Gross Exposure	Impairment	Fair Value Credit
Group balances as at 31 December 2020 (audited)	£m	£m	£m
Stage 1	35,228.9	4.0	-
Stage 2:	2,556.6	26.1	1.1
Less than 30 days past due	2,435.1	22.3	1.0
More than 30 days past due	121.5	3.8	0.1
Stage 3:	308.7	10.5	4.9
Less than 30 days past due	110.2	1.3	1.0
30 to 90 days past due	67.4	1.2	0.4
More than 90 days past due	131.1	8.0	3.5
POCI:	515.4	0.3	26.1
Less than 30 days past due	461.6	(0.8)	22.0
30 to 90 days past due	30.7	0.6	1.3
More than 90 days past due	23.1	0.5	2.8
Collective impairment (non-staged element, see PMA section below)	N/A	3.0	N/A
Total	38,609.6	43.9	32.1

All accounts in stage 1 are less than 30 days past due.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Impairment of financial assets (continued)

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) ranges, origination year and loan to value.

The risk models cover the majority of loans underwritten by the Group, with exceptions for portfolios subject to bespoke modelling requirements including Accord BTL, Registered Social Landlords (RSL), Commercial lending and POCI accounts. These portfolios are shown within the 'Other' line of the tables. The Accord BTL population currently has very strict underwriting criteria and limited behavioural history, with only a single possession to date. Commercial lending has highly different behavioural characteristics to the retail mortgages.

Lending by Risk Grade

30 June 2021 (unaudited)	Gross Exposure					Impairment Provision	Credit Fair Value Adjustment	Gross Exposure 31 December 2020 (audited)
	Stage 1	Stage 2	Stage 3	POCI	Total			
PD Band	£m	£m	£m	£m	£m	£m	£m	£m
0.00%-<0.15%	29,366.8	2,332.0	-	-	31,698.8	1.7	-	27,443.8
0.15%-<0.25%	698.0	259.2	-	-	957.2	0.5	-	2,970.4
0.25%-<0.50%	342.6	241.1	-	-	583.7	0.4	-	752.7
0.50%-<0.75%	387.7	309.7	-	-	697.4	0.8	0.1	498.0
0.75%-<1.00%	181.9	195.0	-	-	376.9	0.9	0.1	463.8
1.00%-<2.50%	348.0	390.4	-	-	738.4	4.1	0.3	665.9
2.50%-<10.0%	74.8	132.7	-	-	207.5	3.4	0.3	432.6
10.0%-<100%	3.0	122.8	-	-	125.8	2.9	0.2	184.1
Default	-	-	380.5	63.3	443.8	11.2	8.7	375.0
Other	4,686.7	77.3	-	419.4	5,183.4	12.8	20.4	4,823.3
Total	**36,089.5**	**4,060.2**	**380.5**	**482.7**	**41,012.9**	**38.7**	**30.1**	38,609.6

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Impairment of financial assets (continued)

Risk Assessment (continued)

Lending by origination year

The table below shows balances and expected credit losses, captured within both impairment provisions and fair value credit adjustments, 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.

30 June 2021 (unaudited)	Gross Exposure					ECL	Gross Exposure 31 December 2020	ECL 31 December 2020 (audited)
	Stage 1	Stage 2	Stage 3	POCI	Total			
Origination year	**%**	**%**	**%**	**%**	**£m**	**£m**	£m	£m
2021	12.5	0.3	-	-	**5,248.4**	**1.0**	-	-
2020	15.5	0.6	-	-	**6,615.9**	**1.6**	6,438.9	1.0
2019	15.0	0.7	-	-	**6,460.2**	**1.8**	6,999.2	1.5
2018	13.3	0.6	0.1	-	**5,729.2**	**2.1**	6,405.9	2.9
2017	9.4	0.5	0.1	-	**4,053.4**	**1.5**	4,426.4	1.8
2013 – 2016	14.6	2.2	0.1	-	**6,943.2**	**2.1**	7,801.2	3.2
2009 – 2012	2.6	0.9	-	-	**1,436.9**	**0.3**	1,594.9	0.3
Pre-2009	2.4	2.3	0.4	-	**2,102.0**	**11.3**	2,301.7	15.9
Acquired loans	2.7	1.8	0.2	1.2	**2,423.7**	**32.0**	2,641.4	42.9
PMA	-	-	-	-	**-**	**15.1**	-	6.5
Total	**88.0**	**9.9**	**0.9**	**1.2**	**41,012.9**	**68.8**	38,609.6	76.0

Lending by Loan to Value

30 June 2021 (unaudited)	Gross Exposure					Gross Exposure 31 December 2020 (audited)
	Stage 1	Stage 2	Stage 3	POCI	Total	
Loan-to-value	**£m**	**£m**	**£m**	**£m**	**£m**	£m
Less than 60%	17,374.3	2,755.3	224.3	334.4	**20,688.3**	18,618.0
60% to 75%	10,981.2	808.1	106.3	116.0	**12,011.6**	10,669.1
75% to 90%	7,684.3	478.9	43.9	26.4	**8,233.5**	8,882.7
90% or greater	49.7	17.9	6.0	5.9	**79.5**	439.8
Total	**36,089.5**	**4,060.2**	**380.5**	**482.7**	**41,012.9**	38,609.6
Average LTV (%)	51.3	36.1	45.3	48.1	**49.0**	49.8

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Impairment of financial assets (continued)

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.

	30 June 2021 (unaudited)					31 December 2020 (audited)
	Stage 1	Stage 2	Stage 3	POCI	Total	
	£m	£m	£m	£m	£m	£m
Gross exposure brought forward	35,228.9	2,556.6	308.7	515.4	**38,609.6**	37,986.2
Transfers from:						
Stage 1 to 2	(1,848.7)	1,848.7	-	-	**-**	-
Stage 1 to 3	(62.0)	-	62.0	-	**-**	-
Stage 2 to 1	213.1	(213.1)	-	-	**-**	-
Stage 2 to 3	-	(61.2)	61.2	-	**-**	-
Stage 3 to 1	7.4	-	(7.4)	-	**-**	-
Stage 3 to 2	-	22.1	(22.1)	-	**-**	-
Changes to carrying value	(1,027.5)	63.3	2.1	(7.4)	**(969.5)**	(1,395.9)
New financial assets originated or purchased	5,789.0	-	-	-	**5,789.0**	6,756.2
Financial assets derecognised during the period	(2,210.7)	(156.2)	(22.7)	(25.2)	**(2,414.8)**	(4,727.0)
Write-offs	-	-	(1.3)	(0.1)	**(1.4)**	(9.9)
Gross exposure carried forward	**36,089.5**	**4,060.2**	**380.5**	**482.7**	**41,012.9**	38,609.6

Note that the transfer from Stage 1 to 2 is largely as a result of the *Methodology Changes* described in the PMA section above. There has been no deterioration in the quality of our loan book with the value of loans more than 3 months in arrears representing 0.40% of our gross exposure at 30 June 2021 (30 June 2020: 0.43%).

	30 June 2021 (unaudited)					31 December 2020 (audited)
	Stage 1	Stage 2	Stage 3	POCI	Total	
	£m	£m	£m	£m	£m	£m
Impairment brought forward	4.0	26.1	10.5	0.3	**43.9**	30.2
Transfers from:						
Stage 1 to 2	-	3.2	-	-	**3.2**	5.4
Stage 1 to 3	-	-	1.9	-	**1.9**	1.7
Stage 2 to 1	0.1	-	-	-	**0.1**	0.1
Stage 2 to 3	-	-	1.2	-	**1.2**	1.0
Stage 3 to 1	-	-	-	-	**-**	0.1
Stage 3 to 2	-	0.5	-	-	**0.5**	0.9
Changes in PDs/LGDs/EADs	0.6	(11.2)	(0.6)	0.8	**(10.4)**	(11.5)
New financial assets originated or purchased	1.2	-	-	-	**1.2**	1.2
Changes to model assumptions and methodologies	(3.1)	(2.9)	(1.7)	(7.1)	**(14.8)**	13.8
Unwind of discount	-	-	0.6	0.7	**1.3**	1.6
Financial assets derecognised during the period	(0.2)	(0.8)	(0.5)	0.3	**(1.2)**	(2.1)
Write-offs	-	-	(0.2)	(0.1)	**(0.3)**	(1.5)
Movement in unstaged PMA	-	-	-	-	**12.1**	3.0
Impairment carried forward	**2.6**	**14.9**	**11.2**	**(5.1)**	**38.7**	43.9

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Impairment of financial assets (continued)

Loans Purchased Credit Impaired (POCI)

Given the size of the Group's POCI population, further information has been provided below showing current performance of these loans and how they are currently distributed across loan-to-value (LTV) bands. A substantial proportion of POCI balances, were they not classified as POCI, would transfer to other stages. The table shows that 70.4% (31 Dec 2020: 71.3%) of balances have been fully up to date for the last 24 months and only 13.1% (31 Dec 2020: 12.9%) of balances would be classified as in default.

	Up to date for the last 24 months	Some arrears in the last 24 months	Meets definition of default	Total
	£m	£m	£m	£m
At 30 June 2021 (unaudited)				
Gross Exposure	339.7	79.7	63.3	**482.7**
Impairment Provision	(3.5)	(1.3)	(0.3)	**(5.1)**
Credit Fair Value Adjustment	14.2	6.1	4.3	**24.6**
At 31 December 2020 (audited)				
Gross Exposure	367.3	81.9	66.2	**515.4**
Impairment Provision	(0.7)	0.6	0.4	**0.3**
Credit Fair Value Adjustment	15.8	6.0	4.3	**26.1**
LTV Split at 30 June 2021 (unaudited)				
Less than 60%	235.7	50.0	27.7	**313.4**
From 60 to 70%	60.3	15.8	19.2	**95.3**
From 70 to 80%	28.5	8.6	12.5	**49.6**
From 80 to 90%	7.5	3.0	2.6	**13.1**
90% or greater	7.8	2.3	1.2	**11.3**
Total	**339.8**	**79.7**	**63.2**	**482.7**
LTV Split at 31 December 2020 (audited)				
Less than 60%	236.8	47.1	25.7	309.6
From 60 to 70%	71.3	18.4	18.0	107.7
From 70 to 80%	36.3	9.8	14.8	60.9
From 80 to 90%	13.0	2.7	6.2	21.9
90% or greater	9.9	3.9	1.5	15.3
Total	367.3	81.9	66.2	515.4

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

7. Provisions

The provisions charge for the period is outlined below:

	Half-year to 30 June 2021 (unaudited)	Half-year to 30 June 2020 (unaudited)	Year to 31 December 2020 (audited)
	£m	£m	£m
Customer redress	**(0.1)**	-	(0.3)
Restructuring	**0.2**	0.4	4.2
Property related provision	**0.3**	-	0.8
Other	**(0.2)**	-	-
Total provisions charge	**0.2**	0.4	4.7

8. Tax

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's future current tax charge accordingly. The deferred tax assets and liabilities at 30 June 2021 have been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences.

The Group has an effective tax rate of 17.92%, which is slightly lower than the UK statutory corporation tax rate of 19%. This is mainly due to the 8% banking surcharge on the taxable profits of the Society above £25m (which increases the rate) and in contrast, a newly recognised deferred tax asset in respect of capital losses which are expected to be utilised (which reduces the rate).

9. Retirement benefit obligations

	30 June 2021 (unaudited)	Movements (unaudited)	31 December 2020 (audited)
	£m	£m	£m
Assets at fair value	**1,002.3**	(69.8)	1,072.1
Present value of defined benefit retirement obligations	**(907.5)**	73.6	(981.1)
Funded status/defined benefit asset	**94.8**	**3.8**	**91.0**

The present value of the defined benefit obligation as at 30 June 2021 has been derived applying the same methodology as that used at 31 December 2020.

Corporate bond yields have increased over the first half of 2021, which has the effect of increasing the discount rate, and decreasing liabilities. Actual and future expectations of inflation have increased. In addition, there has been a reduction in the amount of benefits transferred out of the scheme over the first half of the year, totalling £3.5 million, compared with £10.9 million in H1 2020; these transfers have been reflected within liabilities.

Asset returns over the first half of the year have been less than the discount rate. However, this has been offset by the decrease in liabilities over the half year, resulting in a slight strengthening in the funding position (£3.8m).

10. Related parties

Brass No.10 Plc, a new securitisation vehicle launched during the period, was deemed to be a controlled entity of the Group. There have been no further material changes to related parties and the associated related party transactions since the year end. For further information on these see pages 210 to 212 of the 2020 Annual Report and Accounts.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

11. Notes to the consolidated statement of cash flows

	Half-year to 30 June 2021 (unaudited)	Half-year to 30 June 2020 (unaudited)	Year to 31 December 2020 (audited)
	£m	£m	£m
Non-cash items included in profit before tax			
Depreciation and amortisation	**11.5**	12.3	25.8
Loss/(profit) on sale of assets	**(0.1)**	-	(2.9)
Interest on subordinated liabilities	**11.1**	11.2	22.5
Impairment of financial assets	**(6.0)**	14.3	12.2
Provisions charge	**0.2**	0.4	4.7
Non-cash movement in subordinated liabilities	**(14.1)**	22.0	18.6
Gain on realisation of debt securities	**(0.4)**	(6.5)	(12.9)
Non-cash increases in other assets	**(21.5)**	(4.4)	(8.6)
Non-cash decreases in other liabilities	**(6.5)**	(26.8)	(16.0)
	(25.8)	22.5	43.4
Net change in operating assets			
Loans and advances to customers	**(2,222.2)**	7.3	(826.3)
Investments	**(0.4)**	(0.8)	(4.4)
Derivative financial instruments	**108.4**	(156.3)	(48.0)
	(2,114.2)	(149.8)	(878.7)
Net change in operating liabilities			
Shares	**1,821.7**	168.5	2,691.0
Amounts owed to credit institutions	**117.7**	906.3	531.9
Debt securities in issue	**(210.0)**	229.9	173.0
Other deposits	**(63.1)**	(167.6)	(48.9)
Derivative financial instruments	**(119.3)**	319.3	260.1
	1,547.0	1,456.4	3,607.1

The following tables reconcile liabilities arising from financing activities.

	31 December 2020 (audited)	Cash flows		Non-cash			30 June 2021 (unaudited)
		Redemption	Issue	Foreign exchange	Accrued interest	Fair value adjustments	
	£m	£m	£m	£m	£m	£m	**£m**
Debt securities in issue	6,128.3	(660.1)	475.6	(166.0)	(12.9)	(31.1)	**5,733.8**
Subordinated liabilities	645.0	-	-	-	0.9	(15.0)	**630.9**
	6,773.3	(660.1)	475.6	(166.0)	(12.0)	(46.1)	**6,364.7**

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

11. Notes to the consolidated statement of cash flows (continued)

	31 December 2019 (audited)	Cash flows		Non-cash			30 June 2020 (unaudited)
		Redemption	Issue	Foreign exchange	Accrued interest	Fair value adjustments	
	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	6,034.8	(727.5)	26.0	226.2	(19.7)	23.4	5,563.2
Subordinated liabilities	626.4	-	-	-	1.0	21.0	648.4
	6,661.2	(727.5)	26.0	226.2	(18.7)	44.4	6,211.6

	31 December 2019 (audited)	Cash flows		Non-cash			31 December 2020 (audited)
		Redemption	Issue	Foreign exchange	Accrued interest	Fair value adjustments	
	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	6,034.8	(1,129.5)	1,050.0	169.4	(6.2)	9.9	6,128.3
Subordinated liabilities	626.4	-	-	-	-	18.6	645.0
	6,661.2	(1,129.5)	1,050.0	169.4	(6.2)	28.5	6,773.3

Cash and balances with central banks

Cash and cash equivalents excludes cash ratio deposits of £141.1 million held with the Bank of England, which are not available for use in the Group's day-to-day operations.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

12. Fair values

Fair value is the price that would be received on the sale of 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 Statement of Financial Position date.

At 30 June 2021 (unaudited)	Carrying value	Fair values			Total fair value
		Level 1	Level 2	Level 3	
Held at amortised cost	**£m**	**£m**	**£m**	**£m**	**£m**
Assets					
Loans and advances to credit institutions	1,095.5	-	1,095.5	-	**1,095.5**
Debt securities – amortised cost	562.8	562.8	-	-	**562.8**
Loans and advances to customers	41,026.8	-	-	41,151.2	**41,151.2**
Liabilities					
Shares	35,190.0	-	35,194.4	-	**35,194.4**
Amounts owed to credit institutions	3,954.6	-	3,954.6	-	**3,954.6**
Other deposits	472.6	-	472.6	-	**472.6**
Debt securities in issue	5,733.8	4,808.0	991.0	-	**5,799.0**
Subordinated liabilities	630.9	621.6	41.8	-	**663.4**

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

12. Fair values (continued)

At 31 December 2020 (audited)	Carrying value	Fair values			Total fair value
		Level 1	Level 2	Level 3	
Held at amortised cost	£m	£m	£m	£m	£m
Assets					
Loans and advances to credit institutions	1,087.4	-	1,087.4	-	1,087.4
Debt securities – amortised cost	389.1	396.0	-	-	396.0
Loans and advances to customers	38,798.6	-	-	38,695.3	38,695.3
Liabilities					
Shares	33,368.3	-	33,413.8	-	33,413.8
Amounts owed to credit institutions	3,836.9	-	3,836.9	-	3,836.9
Other deposits	535.7	-	535.7	-	535.7
Debt securities in issue	6,128.3	5,520.7	706.9	-	6,227.6
Subordinated liabilities	645.0	627.1	42.7	-	669.8

The table below classifies all financial instruments held at fair value according to the method used to establish the fair value.

At 30 June 2021 (unaudited)	Fair values			Total fair value
	Level 1	Level 2	Level 3	
Held at fair value	**£m**	**£m**	**£m**	**£m**
Assets				
Debt securities – fair value through income statement	26.6	-	-	**26.6**
Debt securities – fair value through other comprehensive income	3,186.8	-	-	**3,186.8**
Derivative financial instruments	-	308.0	-	**308.0**
Investments	8.3	-	5.7	**14.0**
Liabilities				
Derivative financial instruments	-	358.7	12.9	**371.6**

At 31 December 2020 (audited)	Fair values			Total fair value
	Level 1	Level 2	Level 3	
Held at fair value	£m	£m	£m	£m
Assets				
Debt securities – fair value through other comprehensive income	2,471.0	-	-	2,471.0
Derivative financial instruments	-	416.1	0.1	416.2
Investments	8.1	-	5.5	13.6
Liabilities				
Derivative financial instruments	-	473.8	17.1	490.9

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

12. Fair values (continued)

The following table analyses movements in assets classified as level 3:

	As at 31 December 2020 (audited)	Amounts recognised in the income statement	Amounts recognised in other comprehensive income	Net repayments in the period	Transfers into/ (out of) Level 3 portfolio	As at 30 June 2021 (unaudited)
	£m	£m	£m	£m	£m	£m
Assets						
Derivative financial instruments	0.1	-	-	(0.1)	-	-
Investments	5.5	0.2	-	-	-	**5.7**
Liabilities						
Derivative financial instruments	17.1	(4.2)	-	-	-	**12.9**

	As at 31 December 2019 (audited)	Amounts recognised in the income statement	Amounts recognised in other comprehensive income	Net repayments in the period	Transfers into/ (out of) Level 3 portfolio	As at 31 December 2020 (unaudited)
	£m	£m	£m	£m	£m	£m
Assets						
Derivative financial instruments	2.4	-	(2.3)	-	-	0.1
Investments	9.2	4.4	-	-	(8.1)	5.5
Liabilities						
Derivative financial instruments	16.7	0.4	-	-	-	17.1

Movements in Level 3 items through the income statement are recognised in Net gains/(losses) from fair value volatility on financial instruments.

Details of valuation techniques are disclosed on page 208 of the 2020 Annual Report and Accounts.

There have been no transfers of assets or liabilities between the levels of the fair value hierarchy during the period.

13. Events occurring after the end the reporting period

There have been no material post balance sheet events between 30 June 2021 and the approval of the condensed interim financial statements.

Responsibility statements

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting; and
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year).

By order of the Board

Mike Regnier, Chief Executive

Alasdair Lenman, Chief Finance Officer
28 July 2021

Independent review report to Yorkshire Building Society

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Yorkshire Building Society's condensed consolidated interim financial statements (the "interim financial statements") in the Half-Yearly Financial Report of Yorkshire Building Society for the 6 month period ended 30 June 2021 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Consolidated Statement of Financial Position as at 30 June 2021;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period then ended;
- the Consolidated Statement of Cash Flows for the period then ended;
- the Consolidated Statement of Changes in Members' Interest and Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Half-Yearly Financial Report of Yorkshire Building Society have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Half-Yearly Financial Report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half-Yearly Financial Report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Half-Yearly Financial Report based on our review. This report, including the conclusion, has been prepared for and only for the Group for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Half-Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
28 July 2021

Other information

The information set out in this document is unaudited and does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986. The financial information for the year ended 31 December 2020 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2020 have been filed with the Financial Conduct Authority.

The Auditor's report on the Annual Accounts was unqualified and did not include any matters to which the Auditor drew attention by way of emphasis without qualifying their report.

A copy of the Half-Yearly Financial Report is placed on Yorkshire Building Society's website. The directors are responsible for the maintenance and integrity of the information on the website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

YORKSHIRE
BUILDING SOCIETY

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