YORKSHIRE BUILDING SOCIETY

HERE FOR GENERATIONS

Yorkshire Building Society
Annual Report and Accounts 2023

WELCOME

CONTENTS

PERFORMANCE AT A GLANCE

Member value

Statutory profit before tax	Core operating profit[1]	Cost to core income ratio[1]	Common equity tier 1 ratio
£450.3m	£449.9m	42%	16.7%
£502.5m in 2022	£425.6m in 2022	41% in 2022	16.8% in 2022

Leverage ratio	Liquidity coverage ratio	Average savings rate differential[2]	Net Promoter Score (NPS®)[3]
6.2%	156.4%	1.01pp higher than market average	+61
6.2% in 2022	164.0% in 2022	0.56pp higher in 2022	+54 in 2022

Place to call home

Gross lending	Gross mortgage lending market share[4]	Growth in mortgage balances[5]	New residential mortgages provided
£9.2bn	3.9%	3.6%	44,000
£10.3bn in 2022	3.1% in 2022	7.2% in 2022	47,000 in 2022

Financial wellbeing

Savings accounts opened	Savings balance market share[6]	Growth in shares balances	Average savings rate paid
693,000	2.3%	12.0%	3.43% over 2023
537,000 in 2022	2.2% in 2022	18.3% in 2022	1.20% over 2022

1 See the Glossary definitions for alternative performance measures

2 YBS Group average savings rate compared to rest of market average rates. Source: CACI's Current Account and Savings Database (CSDB), Stock. Data period January – December 2023.

3 Net Promoter Score and NPS are trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc. Data period January – December 2023, based on 58,586 responses.

4 Based on Bank of England total industry gross lending. Data period January – December 2023.

5 Growth in mortgage balances excludes fair value adjustments for hedged risk on loans and advances to customers. Prior year comparative restated on a consistent basis.

6 Source: YBS analysis of BSA Household savings. Data period January – December 2023.

7 Carbon footprint year on year measure only includes data where data is available for both 2022 and 2023. The increase is due to a return to business as usual in 2023 post the reduction in travel due to COVID in the periods 2020-2022. The Society's overall carbon footprint remains below pre-COVID levels. The full breakdown of emissions is available in the SECR part of the Directors report.

Climate-related disclosures

Carbon footprint[7]	Landfill diversion
+34%	98.7% of waste
-79% in 2022	97.4% in 2022

WELCOME FROM THE CHAIR OF THE BOARD

Welcome to the 2023 Annual Report and Accounts for Yorkshire Building Society.

I am pleased to be able to report that the Society has delivered a strong set of results during a period of some economic turmoil.

This will be my final report on the performance of the Society as I shall be stepping down after nine years as Chair of the Board at the conclusion of the Annual General Meeting on 23 April 2024 in accordance with good corporate governance.

Whilst a great deal has changed during my time as Chair, a great many important characteristics of the Society have remained the same. We continue to be a member-owned mutual building society with the same priorities that have guided us through our 160-year history; helping people to have a place to call home, supporting the development of financial wellbeing, and delivering lasting value for our members. These priorities sit at the heart of our purpose to provide Real Help with Real Life.

The things that have changed since my becoming Chair include our size and scale (having grown our balance sheet from £38.2bn in 2015, to £61.0bn), our digital and technological capabilities, and, of course, some of the incredibly talented and caring people who served the Society so well have now retired or moved on to new challenges. I would like to take this opportunity to thank them all for their dedication, skill, and commitment.

A persistent theme over the course of 2023 has been the increased cost of living and the related challenges faced by our members and by the communities we serve. The level of price inflation began rising sharply in 2022, and has remained a primary concern since. The longer the cost-of-living pressures go on, the more pronounced and widespread their effects become, requiring the Government, regulators, and the Bank of England to monitor developments closely and effect changes where they deem necessary.

For much of 2023, Bank Rate has continued to increase, now standing at 5.25% - a level not seen for a number of years. Interest rates, having risen at a significant magnitude and pace, have had a pronounced impact on the markets for savings and mortgages. At times throughout the year, the degree of uncertainty around likely policy decisions has resulted in the market being highly responsive to the releases of key macroeconomic data. As a result, expectations shifted frequently, and sometimes materially, in short spaces of time.

For savers, increases to interest rates have brought some good news. Significant increases in the rates of return available across the market have been observed, and at the Society we were pleased to have been able to widen our average savings rate differential to the market whilst at the same time continuing to grow our saving balances. Taken together, these have enabled us to return more value to our members than ever before.

Higher rates of interest also mean an increase in the cost of borrowing, which poses challenges to mortgage customers. Those who currently have a mortgage face much higher rates when their fixed terms come to an end, after which their monthly obligations could increase significantly. We always seek to work with any of our borrowers who are experiencing difficulties, and it will remain our priority to help them to navigate these difficult periods. Aligned to this, we signed up to the Mortgage Charter in June, along with many other lenders, which expanded the range of options available to borrowers.

Many prospective borrowers also face challenges as higher rates, coupled with the pressures on household incomes, can result in difficulties saving enough for a deposit, or meeting affordability criteria. We have continued to focus on developing new propositions to support those segments of the market most impacted, including those that align strongly to our purpose such as first-time buyers.

In delivering our purpose of providing Real Help with Real Life, we seek to have a positive effect not just on the lives of our members and customers, but more broadly on society. A strong sense of social purpose has long been a defining characteristic of the Society, and today we can see this reflected in our active community programmes. Supporting causes relating to employability skills and building financial wellbeing is one of the ways we can give back to our communities, and I am proud of all of the contributions made by our volunteers and partners. Our journey to deepen our understanding of the impact that our operations have on the natural environment also continues, assessing the potential risks we face, and the role we can play in building a greener society.

Changes to our Board and Executive team

Annemarie Durbin

Among my key responsibilities is ensuring that the Board comprises members who hold an appropriately diverse combination of skills and experience to operate effectively. We have continued to place significant focus on succession planning this year in order to ensure continued effectiveness of the Board as we progress toward our strategic goals.

A number of changes have been made to the Board and our Executive team this year.

As I mentioned above, after nine years as Chair of the Board, I will be handing over the role to Annemarie Durbin, who joined our Board as Chair Designate in December 2023. I am delighted to be able to welcome Annemarie to the Board and to the Society, and I have every faith in her considerable ability to lead our Board in navigating the challenges of the years to come.

The Society's Chief Executive, Susan Allen, commenced her role in March 2023, taking over from Alasdair Lenman who held the role on an interim basis before returning to his role as Chief Finance Officer. Alasdair has announced his intention to retire in June this year and I would like to take this opportunity to thank him for his outstanding contribution to the Society. The Board and I will be pleased to welcome Tom Ranger who, subject to regulatory approval, will join the Society as Chief Finance Officer later in the year.

We were pleased to welcome Debra Davies to our Board as Non-Executive Director in July 2023. Debra will be a valued addition to the Board, bringing her extensive experience and knowledge of the financial services sector, with a particular focus on remuneration and risk.

I would also like to extend a welcome to Fraser Ingram, who joined the Society this year as Chief Operating Officer. Fraser has a wide range of experience including business transformation and IT and change management, which will support our organisation greatly as we continue our change journey.

Our long-term sustainability

One of the key considerations when making appointments to the Board is ensuring that we have a diverse range of thought, supported by the appropriate levels of skills and experience. The Society aims for the highest standards of corporate governance and our overriding responsibility is to ensure that we operate a financially secure and sustainable business in the interests of our membership. Our Board remains committed to maintaining a robust and effective governance framework, which supports the delivery of our purpose.

Creating a solid foundation and the careful deployment of our resources are fundamental to ensuring that we are able to continue to meet our purpose in the years ahead. As the initial phase of our transformation journey comes to a close, our focus turns to the next stage of our growth as an organisation. A key element of sustainability is ensuring that we keep pace with technological change, and understand what our customers need as well as the ways in which they want to interact with us. Customer expectations are evolving at an increasing rate, and our continued prioritising of transformational change recognises the need to advance in the same direction to remain competitive. To ensure that we are well-equipped for this journey, we are undertaking significant further investment in our risk and control framework and have finalised the next stage of our strategy that will take us into 2024 and beyond. It is important that we find the right balance so that we serve our existing members well and invest for our growth, while at the same time ensuring that we maintain our long-term financial strength and stability.

Welcome from the Chair of the Board (continued)

Regulatory factors

Key updates from the regulatory environment this year include:

- The Financial Conduct Authority ('FCA') Consumer Duty came into force for all on-sale products in July this year, with a second deadline related to 'closed' products in July 2024. The impact of the Duty is far-reaching, with firms expected to embed a 'consumer first' approach into how they run their organisations including how they price and service products, how they communicate with customers, and how they provide customer support. In recent months, the FCA has been paying particular attention to whether firms are giving customers fair value with the products and services they offer given the current economic climate. We are engaging with the FCA to share with them the progress made toward the implementation of the Duty in advance of the key dates.
- June 2023 saw the introduction of the Mortgage Charter with the support of the UK Government, the FCA, and the majority of UK mortgage lenders. The Charter outlined a set of standards that lenders will adopt to help borrowers who are concerned about higher mortgage rates and the rising cost of living. The Mortgage Charter is designed to offer more options to people who are struggling with their mortgage repayments, or are uncertain about the impact of their existing fixed-rate deal coming to an end.

Facing the years ahead

The outlook for the UK economy is always exposed to a degree of uncertainty; many factors, whether national or international, can exert an influence. The current consensus view among economic commentators suggests that the near term will be characterised by the ongoing effects of the rising cost of living and limited economic growth. This is likely to continue to pose constraints on the size of the mortgage market due to lower consumer demand, and reinforces our need to lend in a purposeful way.

We anticipate an elevated level of competition in the market for savings deposits, having already observed some of these pressures in the second half of this year. The requirement for financial institutions to refinance government funding ahead of its contractual maturity in 2025 has resulted in at times disruptive pricing strategies being employed by market participants. This pattern appears likely to continue into 2024.

In the context of these potentially challenging market environments, it is important that we responsibly manage our costs as we address many of the same challenges faced by our members and customers. We will invest purposefully in our transformation programme, which will be essential in ensuring we continue to meet customer needs and expectations now, and in the future.

The Society's business model has once again demonstrated its resilience. We close the year in a strong financial position and ready to meet the challenges that lie ahead. Our strategy, recently refreshed, will see the Society working collaboratively, in a clear direction toward further improving on what we can deliver for our members and customers.

It has been a genuine pleasure to have served our membership over the last nine years, and to have had the opportunity to engage with such a talented and diverse range of people. I would like to conclude with a note of gratitude to both our members and dedicated colleagues for their long-standing trust and support, and express my firm belief that the Yorkshire Building Society is well-equipped to succeed as a mutual building society for many years to come.

John Heaps
Chair of the Board

INTRODUCTION FROM THE CHIEF EXECUTIVE

It is my pleasure to present the 2023 Annual Report and Accounts for the Yorkshire Building Society.

As a mutual, Yorkshire Building Society is owned by and run for the benefit of our members. Our rich heritage spans 160 years and we have demonstrated a successful track record of providing Real Help with Real Life for our customers over that time.

The Society's commitment to delivering for our members is evident in the passion and enthusiasm shown by our colleagues and teams, and through a culture that places our customers at the centre of all that we do. The challenging economic backdrop of recent years has only reinforced the importance of our approach to supporting customers.

This report marks the conclusion of my first year as Chief Executive. I am delighted to lead such a strong and sustainable organisation. The great range of competitive products and services we offer are valued highly by our customers, and the strength of the feedback we have received shows that they would more strongly recommend the Society to their family and friends compared to last year. In 2023, we were also proud to be recognised as a Which? Recommended Provider for mortgages.

Introduction from the Chief Executive (continued)

Over the last few years, our members, customers, and many others across the UK have had to adapt to a volatile external environment. Price inflation became a global concern in the first half of 2022 and remains a key theme and driver of monetary policy. The Bank of England continues to monitor developments in the economy closely, aiming to reduce inflation towards their medium-term target of 2%. Over 2023, Bank Rate rose from 3.50% to 5.25%.

This environment has created challenges for those who are looking to buy a home and those wanting to build their financial wellbeing.

We are here to support our members and customers

Among our core priorities is supporting and promoting Financial Wellbeing. Savings balances represent a primary source of financial wellbeing and, at times like these, the peace of mind that comes from having a rainy-day fund can make all the difference. However, although savings rates are much higher than they were one or two years ago, we know that saving is not easy for all, especially when the cost of day-to-day essentials is increasing.

Our own research, published within our Saving the Nation report[8], illustrated the dynamics of savings behaviour in the UK over the last five years. The report highlighted the widening gap between those who are able to save on a regular basis and those who are not. It also called out the need to raise awareness of the benefits of products like Individual Savings Accounts ('ISAs') and pointed to strategies to establish good habits, and the resources available to support customers.

As a mutual, we are proud to provide value to our members by paying higher interest rates on our savings. Over 2023, the rates we provided were on average 1.01 percentage points higher than the market average, which equates to c.£441.1m additional interest paid to our savers[9].

Our proactivity in passing on Bank Rate increases to our savers, as well as the four new member loyalty products we launched this year, supports the meaningful widening of this differential year on year (0.56 percentage points higher over 2022; £198.6m in additional interest).

Providing support to our borrowers is also important to us. Research in our Home Truths[10] report highlighted how home ownership is moving further out of reach for many. Product innovation under our Place to Call Home priority is one way that we seek to support prospective borrowers. We have launched products through our intermediary lender, Accord Mortgages Limited ('Accord'), which allow family members to support younger generations and we continue to explore ways to make our products available to a wider range of customers.

We are also mindful of the challenges faced by our existing mortgage holders and our teams have worked hard to understand, and respond to, individual circumstances. We proactively reached out to customers most impacted by interest rate increases and we signed up to the government-led Mortgage Charter to help customers navigate the higher cost of living.

We are committed to our communities

Positively impacting the communities in which we operate reflects our commitment to serving a broader social purpose and will remain a key part of our future strategy.

Our support for building financial wellbeing extends beyond the range of competitive savings products we offer into our community activities, like our award-winning partnership with Citizens Advice. In selected branches across the country, representatives from Citizens Advice offer free, confidential advice on matters including financial wellbeing.

This service is available to members and non-members alike and is a great example of targeted support in action. Feedback shows that it is making a real difference in local communities.

The Society is committed to maintaining a branch presence. Many of our members value the personal touch they receive in a YBS branch, especially when they require support in more complex situations. Our research shows that both local branches and passbooks remain in demand with more than a quarter of people surveyed visiting a branch once a month, and over half a million of our members using passbooks[11]. Branches also provide an important link with our local communities, as the Citizens Advice partnership demonstrates.

Our flagship volunteering program, Money Minds, continues to provide valuable resources on financial education and to help people to prepare for work. This is just one of our volunteering programmes which enable our colleagues to make a real impact in their communities.

I am pleased to announce that the Society's latest charity partner is FareShare. FareShare is a national network of charitable food redistributors who, alongside providing meals for vulnerable people, strive to alleviate the impact, and root causes, of food poverty in the UK. This partnership aligns strongly to our purpose and values, and offers excellent opportunities for our colleagues to contribute towards our common goals. From November 2023 until June 2026, fundraising activity and donations from the Society will fund FareShare's Building Skills for the Future programme which will provide valuable support for matters relating to financial hardship and employability. We aim to lift over 2,500 people out of financial hardship. I look forward to the positive impacts that this collaboration will bring.

[8] Saving the Nation report available on our website

[9] YBS Group average savings rate compared to rest of market average rates. Source: CACI's Current Account and Savings Database (CSDB), Stock. Data period January – December 2023

[10] Home Truths report available on our website

[11] Yorkshire Building Society Savings survey: The research was carried out online by Opinium. All surveys were conducted between 24th and 27th October 2023 and the sample comprised of 2,000 UK adults. 550,000 members of Yorkshire Building Society used a passbook to the end of September 2023.

We are a strong and sustainable organisation

We have delivered another strong set of results for the Society in 2023, further supporting our financial position, and our long-term sustainability.

Our targeted growth in retail savings drove an increase of £5.1bn in savings balances year on year. Whilst paying above average savings rates to our customers, we also made a strategic decision to continue making early repayments of government funding. The vast majority of our initial TFSME[12] funding has now been repaid, of which £2.2bn was repaid in 2023. Carrying a lower amount of this funding helps to mitigate the risk held on our balance sheet as the first market-wide maturity draws closer, and many lenders will be seeking to refinance.

2023 gross lending volumes were £9.2bn (2022: £10.3bn) and net lending was £1.6bn (2022: £3.0bn). This is a good level of growth in the context of the disruptions to the mortgage market in late 2022, the larger population of maturities, and a reduced market size in 2023.

Net interest margin increased to 1.31% over 2023 (2022: 1.30%). The rate of balance sheet growth achieved, coupled with the impacts of the rising interest rate environment, has supported higher levels of profit in 2023. This is also in the context of having continually increased our savings rates, as well as the cost impacts of the inflationary environment and accelerated transformation activity. Core operating profit for 2023 was £449.9m, an increase of £24.3m on the previous year, and statutory profit before tax was £450.3m (2022: £502.5m). Our capital generation remains sufficient to support our financial position, both now and under our growth aspirations.

We have built strong foundations

In 2020, we set out a plan to transform our capabilities and enhance our customer experience by the end of 2023. We called this our Strategic Blueprint. As the Blueprint comes to a close, we are pleased that we have accomplished much of what we set out to achieve.

We developed and launched new, better ways to support our Place to Call Home priority. Supported by enhanced capabilities and data analytics, we broadened our mortgage offering, making it accessible to a wider range of customers and expanding our product range. A deeper understanding of associated risks and their management means that we are able to accept more borrowers than ever before. We have been able to launch targeted products to support those segments that are less well served by the wider market, such as those with lower credit scores.

Our online savings experience was also a key focus, including launching our mobile app in 2020. The step-change in the level of growth achieved in our savings balances, and the continued increase in our customer satisfaction scores, are testament to the progress made. The Society's overall Net Promoter Score ('NPS'), which is a measure of how willing our customers are to recommend us to others increased to +61 in 2023. This is an increase of +7 on our score in 2022, and +10 on the score in 2021. We also continue to receive excellent feedback from brokers who praise Accord's swift and helpful service.

We must always remain focused on achieving the standards of service that our customers deserve. If ever we fall short, we act quickly and decisively. After some customer outcomes did not meet our internal standards earlier in the year, we increased our focus on complaint handling processes. As a result, customer outcomes improved over the second half of the year, and we remain focused on ensuring good outcomes are consistently delivered to our customers. We will continue to tackle challenges like this head on.

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

Introduction from the Chief Executive (continued)

Our Member Value priority represents the duty we have to our members to operate a responsible business, resilient to what the years ahead may bring. This covers everything from the products we offer, to the service we provide and how we steward the resources at our disposal.

Our mutual structure allows us to make decisions in the interests of our membership. I have enjoyed having open and honest conversations with our members in our branches across the UK and at events like Your Time to Talk. Insight into what matters most to our members is absolutely vital to ensure that we continue to invest in the right areas.

We are ambitious about the future

The Society has evolved over the last three years. Of course, it is not just our organisation that has changed, the outside world looks much different too. Since the Blueprint was set, the environment we operate within is now faster paced, far more challenging, and customer expectations have continued to accelerate. After taking time to carefully reflect on where we are now and where we would like to be, as well as drawing on the wealth of experience of our colleagues and members, we have refreshed our strategy for 2024 and beyond.

Our Strategy remains firmly centred on our purpose of providing Real Help with Real Life. Our vision for the future of YBS is ambitious and it will see us build an agile organisation that can respond to market conditions quickly and help us keep better pace with changing customer needs. It will see us extend our reach to more customers and do more to support our existing customers who trust us and would like us to help them meet more of their needs. Customer experience will remain a priority, as will simplifying our internal processes.

This next phase in our journey will see us grow even further. To ensure that we are well prepared for this, we commissioned a review of our governance, risk, and controls in 2023. This work builds on our investments in security improvements, data protection, and IT risk in the last few years, and is good practice to ensure that our capabilities remain resilient.

Our capacity to achieve the goals we have set in Our Strategy will only be fulfilled through the ability of our colleagues to reach for better, for themselves, for each other, and for our members. I am thankful for the hard work and genuine care for our customers that they demonstrate every day.

We are strongly positioned for the future

With world events driving continued economic volatility and increasing levels of competition compressing net interest margin across the industry, continued challenges lie ahead. A good deal remains dependent on how the interest rate environment evolves, and the speed and efficacy at which monetary policy action can return inflation to the levels targeted by the Bank of England. At the time of writing, the current sentiment of the market indicates a possibility that we have reached the end of the cycle of increases to Bank Rate though, as ever, this view is subject to change.

The future of the mortgage market will continue to be strongly influenced by the interest rate environment and its consequences for borrower affordability, and the supply and demand dynamics in the housing market. In the retail savings market, the upcoming maturity of TFSME funding may precipitate an even greater degree of competition for balances than that observed over the second half of 2023.

In such a context it becomes increasingly important that we invest our resources purposefully and selectively, focusing on the things that will bring the most benefit to our membership in the long term. Both 2022 and 2023 represent periods where the levels of profits made were higher than historical levels. This will help to protect the long-term interests of our membership, providing stability for when the anticipated challenges crystallise, and allowing us to reinvest in our products and services.

It truly is a privilege to be leading the Yorkshire Building Society into its next phase. I look forward to collaborating with our members, our Board, and our colleagues across the organisation as we unite behind our refreshed strategic vision, and work to evolve the Yorkshire Building Society into a future-ready organisation, fit to provide even more *Real Help with Real Life* for generations to come. Thank you for your continued support for the Society.

Susan Allen, OBE
Chief Executive

STRATEGIC REPORT

The external environment

The Society's operations, and the extent to which we can deliver value to our membership over the long term, can be impacted by factors beyond our control. For this reason, the external environment in which we operate is monitored closely and continuously. Identifying and understanding risks and opportunities as they emerge is how we can best prepare for, and adapt to, the changing external context.

Economic and political overview

Many of the features of the UK economic and political landscape have continued along the themes established in 2022. The impact of increased energy costs and disruption to the global supply chain began to feed through to inflation in wages and the cost of services, with the peak 12-month Consumer Prices Index ('CPI') inflation standing at 10.4% in February 2023[13]. In response, the Monetary Policy Committee ('MPC') elected to increase Bank Rate five times in succession up to and including its August meeting, increasing from 3.50% as the year opened, to 5.25%[14]. At the September and November meetings, the MPC chose to maintain Bank Rate at its current level, pausing the cycle of increases which was previously unbroken since early 2022. This decision followed the release of inflation data which showed headline and services CPI inflation had fallen back to a level lower than had been expected.

Over the remainder of the year, 12-month CPI fell further to 4.0% by the end of the year, with an expectation from the UK Government that it will reduce to be in line with the 2.0% target in 2024. The impact of inflationary pressures on household incomes has been severe for many, with the increased cost of everyday goods and services, coupled with higher mortgage or rental payments, forcing many to use their savings or borrow to meet every day running costs. The rate of inflation outpaced wage growth for much of the year, and only in the second half was real wage growth observed.

[13] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/december2023

[14] https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2023/september-2023

The broad consensus view among economists is that the UK is set for a period of minimal economic growth due to the greater cost of investment in a high rate environment, coupled with issues in the labour market around key skills and productivity. As a consequence, the market expectation now includes a possibility of rate cuts on the horizon, though how closely the policy decisions made resemble this expectation is subject to a high degree of uncertainty.

In November 2023, the Chancellor of the Exchequer delivered the Autumn Statement. This package set out a number of tax measures designed to strengthen economic growth through supporting British businesses and increasing the number of people in work. The statement also announced a range of administrative changes which make the tax system simpler and more modern, ensuring businesses can interact with it more easily.

The political landscape, both within the UK and globally, remains uncertain. A UK general election is expected to take place during 2024 and a US election is due in November, both of which may have some bearing on the level of volatility in the markets. The ongoing military activities in Ukraine and Gaza continue to be a source of global political tension, with the timing of a cessation in these conflicts highly uncertain.

The wholesale funding market

Wholesale funding markets saw several periods of volatility and disruption throughout the course of 2023. The spring banking crisis that began in the US, along with ongoing conflicts in both Ukraine and the Middle East, served to dampen investor confidence. These events, alongside broader volatility in the macro-economic backdrop resulted in multiple periods where the conditions for accessing wholesale funding markets were unfavourable.

Despite this, the volume of issuance in secured funding markets increased in 2023 as institutions continued to refinance TFSME borrowings ahead of contractual maturities in 2025. This placed increased demand on the Covered Bond market in particular, though the higher level of supply has been generally well absorbed. This trend is expected to continue in 2024 as significant refinancing activity is required across the market.

The UK mortgages market

The degree of change the housing market has been subject to in recent years has been significant. A period of stable, historically low interest rates has been succeeded by one in which Bank Rate changes are much more frequent and bring greater consequences. With the inflationary and cost-of-living pressures having led to Bank Rate standing over 5.00 percentage points higher than that in December 2021, the impact on mortgage affordability and its consequences for the level of demand in the market has been considerable.

2023 opened in the wake of the impacts of the economic disruption experienced in late-2022, resulting from the Autumn budget announcements. Although there were some positive signs of the mortgage market recovering in the first half of the year – customer rates had begun to reduce, and lenders resumed their presence in higher-LTV segments from January – much of 2023 has remained characterised by volatility.

As markets and lenders reacted to the changing external environment, funding costs were subject to frequent, and sometimes material, changes. The market continually revised its expectations of the future rate path, factoring in the latest macroeconomic data and latest monetary policy action. These fluctuations have a direct bearing on the stability of mortgage pricing and, as such, repricing activity continued at great pace and regularity.

Mortgage customer rates continued to trend upward in the first half of 2023, before beginning to gradually decline over subsequent months. Even so, the cost of taking out mortgages is significantly higher than in recent years, which is a potential cause for concern for those seeking a new mortgage and those with an existing mortgage approaching the end its fixed term. Potential for higher repayment obligations, combined with the increased cost of living, led the Government to announce the Mortgage Charter in June 2023. The charter set out to reassure and support borrowers who are facing difficulties, setting a number of universal standards for lenders to implement. A number of lenders signed up to the Mortgage Charter, including YBS, representing around 90% of the market[15].

Compared to 2022, the size of the market for mortgages has reduced, illustrating the pressures that new borrowers are facing as they either exercise greater caution, find themselves unable to save, or have difficulty meeting lending criteria. A more acute impact has been seen in the market for buy-to-let mortgages, as affordability considerations can directly limit the amount landlords can borrow.

[15] https://www.gov.uk/government/publications/mortgage-charter/mortgage-charter

The external environment (continued)

In turn, this lower level of demand has served to steadily reduce house price growth over the course of the year. According to the Office for National Statistics, average UK house price annual inflation has been generally slowing since July 2022 when the rate of growth was as high as 13.8%; the latest data available at the time of writing shows the rate for the 12 months to November 2023 as a 2.1% decrease[16].

The outlook for the mortgages market heavily depends on the future interest rate environment. In the short to medium term, it is likely that both existing and prospective borrowers will continue to face challenges amid this context of uncertainty. In addition, because of the long-held customer preference for fixed-rate mortgages, the impacts of the higher interest rate environment will be staggered over time, with some of this impact yet to be seen.

The UK savings market

In the first half of the year, fixed-rate products continued to increase in popularity, aligned to the higher interest rate environment. This led to a premium in pricing for those with the ability to lock money away for a period of time, and drove a shift in customer preferences. Across the market, deposit balances were observed to migrate away from current accounts or variable-rate, easy access alternatives.

The rate and pace at which the changes to Bank Rate have been passed through to variable customer rates has differed across the market, sometimes significantly so. As the year progressed, a greater proportion of the more recent Bank Rate increases was observed to be passed through to customers as the general level of competition for attracting deposits heightened further.

The drivers of the increase in competitive intensity are likely many, though one important factor is the overall size of the savings market. Despite the higher interest rates of recent years leading to greater interest capitalisation, overall growth appears to have been limited as people find themselves less able to save amid the broader context of inflationary and cost-of-living pressures.

Savings providers also came under greater scrutiny from both the media and regulators to demonstrate that the benefits of higher rates are being passed on at an appropriate level, at a time where the interest rate environment supports income performance across the banking industry. Alongside the implementation of the first stage of the Consumer Duty, which brought a focus on firms providing fair value to customers, in July, the FCA also published a review of the cash savings market. This review further emphasised fair value – both in the differential between new and existing customer rates, as well as the level of benefit savers receive from increases to Bank Rate.

The banking sector is also preparing for the maturity of TFSME, the government-backed funding scheme which provided systemic liquidity to the industry at the onset of the pandemic. Scheme participants are in the process of refinancing their drawings, through a combination of retail savings and wholesale funding.

By the fourth quarter, the markets for both fixed- and variable-rate savings products had become highly competitive, with some institutions taking pricing positions significantly ahead of the rest of the market. Looking forward, it appears unlikely that the intensity of competition for savings balances will lessen in 2024. If the central banking interventions are successful, inflationary pressures will subside gradually. If and when the interest rate path starts reducing, this may drive different dynamics for both competition, and for customer behaviours.

Regulatory overview

Relevant updates from the regulatory environment:

Financial Conduct Authority ('FCA') Consumer Duty

The FCA Consumer Duty ('the Duty') came into force for all on-sale, or 'open', products in July 2023. A second deadline is approaching to ensure all 'closed' products are compliant with the Duty, by 31 July 2024. This means that firms must ensure the same higher standards of consumer protection are in place for all products that are no longer on sale but are still being serviced.

The impact of the Duty is far-reaching, with firms expected to embed a 'consumer first' approach into how they run their organisations across how they price and service products, how they communicate with customers, and how they provide customer support.

One year on from the initial implementation of the Duty, firms will be expected to provide their Board with the first annual assessment of how the firm is meeting the Duty, and report on any areas of potential harm to customers. Where issues are identified, a plan to address these should be included. The FCA recognises that lasting change can only take effect when a firm changes its culture, behaviour, and processes using a top-down approach with strong senior championing and oversight.

In recent months, the FCA has been paying particular attention to whether firms are giving customers fair value with the products and services they offer given the current economic climate and volatility with inflation and interest rates. The regulator intends to move at pace to highlight firms where weaknesses exist and hold their senior leaders to account where they are not delivering good consumer outcomes within their areas of responsibility, in line with the Senior Managers and Conduct Rule Duty of Responsibility and the Conduct Rules.

YBS has engaged with the FCA to share with them the progress made toward the implementation of the Duty in advance of both of the key dates. YBS also commissioned an independent review of its Consumer Duty MI (and supporting framework) and the overall position of YBS Consumer Duty project.

Mortgage Charter

June 2023 saw the introduction of the Mortgage Charter with the support of the UK Government, the FCA, and lenders. The Charter outlined a set of standards that lenders will adopt to help borrowers who are worried about higher mortgage rates and the rising cost of living. The Mortgage Charter is designed to offer some consistent and clear options to people who are struggling with their mortgage repayments or anxious about the impact of their existing fixed-rate deal coming to an end. YBS are among the lenders that signed up to the Charter and we believe this provides a valuable addition to the support available to customers who are struggling with the rising cost of mortgages.

[16] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/september2023

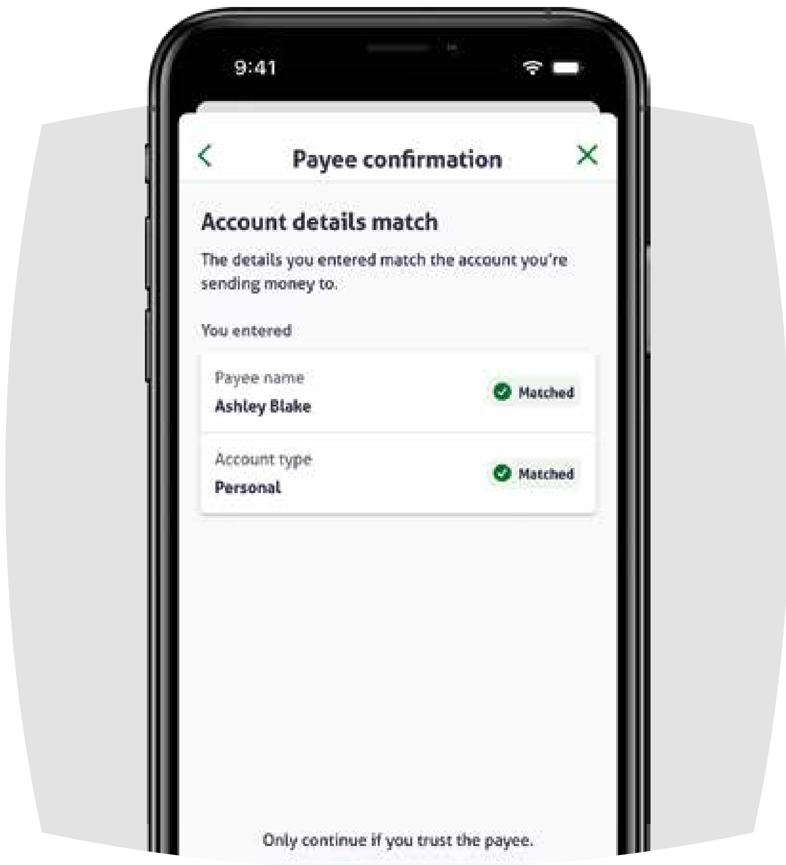
Confirmation of Payee

YBS implemented its Confirmation of Payee service. This allows customers to check if the bank account they are sending funds to matches the name they are expecting. YBS was part of the second phase of providers who were directed to implement this service (the six largest banking groups being part of the first phase). Confirmation of Payee provides customers with more comfort when they are paying people or businesses they have not transacted with before. It allows the customer to check that they have entered details correctly, aiming to prevent them being subject to fraud.

Economic Crime and Corporate Transparency Act

The Economic Crime and Corporate Transparency Act 2023 ('the Act') received Royal Assent in October 2023. The Act introduces significant powers which will allow UK authorities to proactively target organised criminals and others seeking to abuse the UK's open economy. Companies House will receive enhanced abilities to verify the identities of company directors, remove fraudulent organisations from the company register, and share information with criminal investigation agencies.

The Act also makes significant changes to the law of corporate criminal liability by materially expanding the scope of persons whose criminal conduct can be attributed to a company and by introducing a new offence of failing to prevent fraud. Large corporations, including YBS, have the potential to be impacted by these changes as prosecutors will be better able to hold them accountable should malpractice occur.



Diversity equity and inclusion in the financial sector

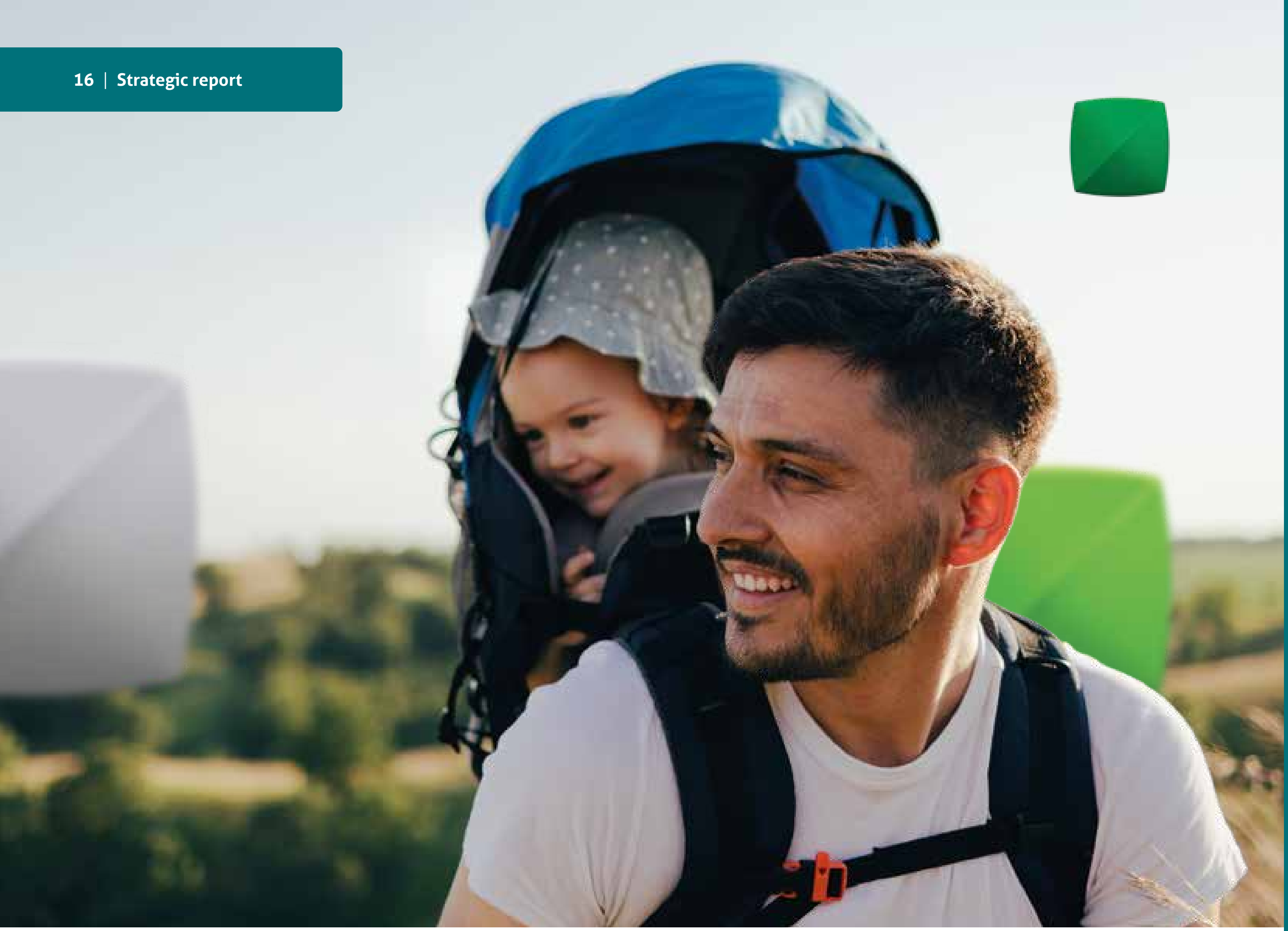
The Financial Conduct Authority, Prudential Regulation Authority, and Bank of England jointly published a discussion paper (DP2/21) on Diversity and Inclusion ('D&I') in the financial sector in July 2021 and have since followed this up with a public consultation in September 2023. The regulators set out policy options including, among others, the use of targets for representation, measures to make senior leaders directly accountable for D&I in their firms, linking remuneration to D&I metrics, and the regulators' approach to considering D&I in non-financial misconduct.

The regulators believe increased D&I will advance their statutory objectives by resulting in improved governance, decision making, and risk management in firms, in turn leading to a more innovative industry that provides products and services better suited to the diverse needs of customers.

The proposals include that firms will be required to reflect D&I in their Board-level strategy, have D&I targets, reflect D&I in appropriate Senior Management Function responsibilities, include non-financial misconduct in their Conduct Rules considerations, and submit an annual regulatory return.

At YBS, we are guided by a clear set of behaviours. A key part of how we seek to demonstrate these behaviours is to work to create a fully inclusive environment for all our colleagues, customers, and communities: one that is truly representative of modern-day society. Striving to ensure YBS is welcoming to and representative of the communities we serve, and that we attract, retain, and develop our talent, will only lead to greater success. We are signatories to the Women in Finance Charter, the Race at Work Charter, have achieved Level 2: Disability Confident Employer and are working toward Level 3: Disability Confident Leader.

The recommendations made in the FCA and PRA consultation papers broadly align to the Society's direction of travel for Diversity, Equity, & Inclusion ('DE&I'). We will fully consider the recommendations as part of our DE&I Strategy review and measures, which was presented to ESG Committee in December 2023.



OUR PURPOSE AND STRATEGY

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

The actions we take are in service of achieving this purpose. Our three core priorities underpin this purpose, and are: helping people to have a place to call home, helping to support and build greater financial wellbeing, and delivering value for our members over the long term.

Our business model

The Society operates a simple business model. As a member-owned mutual we exist to provide those saving with us a safe place to keep, and earn interest on, their deposits. These savings balances are then primarily used to fund mortgage lending, enabling customers to secure a property they can call home. Alongside savings deposits from our members, the Society accesses the wholesale markets for additional funding and to provide diversity and stability to our business.

We always act in the long-term interests of our membership. As we do not have external shareholders, the level of profit the Society generates is required to be such that our financial position remains secure, that sufficient capital is generated to support our growth plans, and that we can continue developing products and services that fulfil the needs of our members and customers.

Our business model

How our business is funded

- Savings balances from members and customers are held, after being deposited through our branches or online (c.79%).
- Our capital reserves, predominantly comprising profits generated from previous years (c.5%). Capital provides protection and flexibility against the possibility of losses or unforeseen events.
- Additional funding is raised through the wholesale markets by issuing bonds or debt securities (c.14%) as well as drawings from Government funding schemes where applicable (c.2%). This provides diversification and prevents overreliance on any one source of funding.

How this funding is used

- Providing residential mortgages to owner-occupier and buy-to-let customers (c.75%) and providing commercial mortgages through our specialised lending channel (c.3%).
- Our lending strategy is to balance our lending across segments which serve a large proportion of the market as well as specifically targeting those segments which are aligned to our purpose or currently underserved. Being selective about the segments in which we choose to compete can be a source of value generation – value which can then be sustainably returned to our members.
- The Society holds cash and Treasury Investments (c.22%). The purpose of holding sufficient High Quality Liquid Assets (HQLA) is to ensure that we can meet our obligations as they fall due, to comfortably exceed the minimum thresholds prescribed by regulators, and to support financial stability as invested assets also provide income and risk diversification.

How our income is earned

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

How we spend and invest

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

How we manage our long-term stability and sustainability

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

Our purpose and strategy (continued)

Our purpose

Our three core purpose priorities guide where our focus is placed, including when developing new product propositions and undertaking transformation activities.

Place to call home

Helping people to have a place to call home is a long-standing aim of YBS. As a building society, we exist to bring home ownership within reach of more people through our responsible mortgage lending. Our Place to Call Home priority covers existing homeowners who are looking to refinance with us, as well as first-time buyers who are seeking to take that first step on the property ladder – both of which are groups who have faced new challenges of late. The Society also lends to the buy-to-let sector, allowing landlords to provide rental accommodation.

Those remortgaging face substantially higher interest rates and therefore increased monthly repayments. First-time buyers may find greater obstacles in their path than before – in the raising of deposits, and in demonstrating they can meet affordability criteria.

Our proposition development centres around three key considerations:

- **Our purpose** - offering products that provide Real Help with Real Life and help more people have a place to call home,
- **Optimising our existing capabilities** - developing propositions whilst ensuring that we understand and we manage the associated risks,
- **Offering propositions that enable us to compete** - allowing us to differentiate our business from the rest of the market and compete sustainably.

Propositions delivered during the year include an expansion of the Cascade Score risk-based pricing products to include 95% LTV, which offers products to customers who meet a lower scorecard criteria than our standard lending. Alongside this, policy enhancements have been a key focus, with improvements in lending types such as the self-employed, interest only and contractors. The Society's new inter-generational proposition, Joint Borrower-Sole Proprietor, was launched in 2023, and allows customers to add a family member to their mortgage to improve their affordability. Rising house prices and the growing cost of living means people are increasingly reliant upon family members to provide support to meet their financial goals, and supporting these underserved segments of the market aligns strongly to our purpose.

Our transformation journey for mortgages remains a focus, with activity underway to utilise our Mortgage Sales Origination (MSO) platform further. YBS's direct lending arm was supported by the implementation of the MSO system for telephone applications, aligning with the application process used by Accord. This will deliver an improved application process and increased efficiency, allowing advisors to have more quality, focused conversations with customers.

In order to support our existing mortgage customers, we formed a dedicated working group that reviewed and proactively communicated with those borrowers who may be most impacted by a significant increase in their monthly repayments, with a view to helping them reach a sustainable and affordable solution. The Mortgage Charter was implemented during July 2023, with the aim of providing additional support to existing customers at product maturity. Following implementation, the new processes have been monitored to develop improved insight in relation to customer behaviour and experience.

In 2023, we have helped 52,000 people to have a place to call home through our residential mortgages, our buy-to-let mortgages to landlords, and social housing lending[17] (2022: 55,000).

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

Financial wellbeing

For many people in the UK, building and protecting their financial wellbeing has become more important than ever. Whether they are saving to cover unexpected bills, avoiding potentially expensive forms of debt, or simply to feel secure in their personal finances.

Along with the Building Societies Association, we played an active role in championing UK Savings Week in September 2023. The target audience for this initiative is the 11.5 million adults in the UK who have less than £100 of savings to fall back on in an emergency. The initiative aims to help people understand how to develop and build a savings habit, something that has a clear alignment to our purpose.

We recognise the need to keep up with evolving customer needs, and our transformation programme has delivered tangible customer benefits in 2023, with the introduction of a more accessible, user-friendly experience and a raft of new features for our savings app. This includes easier feedback options to get in touch or raise concerns, and providing customers with what they need to manage their account online or on the app, through a greater range of self-service functionality. We will continue to expand and enhance the functionality available to customers. Our progress so far has been recognised by customers and is reflected in the NPS of our mobile app increasing from +48 to +63.

Good progress has been made in our customer payments processes, although our work in this area also highlighted the complexity of the changes we needed to make. Confirmation of Payee is a name-checking service for UK-based payments that allows users to verify that the account details match those intended when a new payee is set up. This will help customers avoid accidentally misdirected payments, as well as providing another layer of protection against fraud and scams.

In June, we launched our new virtual assistant. This assists customers with ISA journeys, cards, FSCS and fraud topics so customers have the option to ask questions about these topics without needing to verify their identity. If the virtual assistant cannot answer the question, or the customer decides they want to speak with us, they also have the option to connect with a colleague via our new live chat service during Customer Services opening hours.

Our community activities also align to our financial wellbeing goals. More information on our community activities can be found in the Engaging with our stakeholders section. Through our savings products and community initiatives, we have supported 263,000 people toward greater financial wellbeing in 2023, compared to 248,000 in 2022.

Member value

As a building society, we exist to serve our membership, as we do not have external shareholders. Our decisions have an appropriate long-term focus, and our aim is to sustainably return value. One way we accomplish this is through offering rewarding rates to those saving with us. We achieve this through the development of member loyalty propositions, which offer competitive rates, and through passing on increases to our variable-rate customers when Bank Rate increases. There is always a balance to be struck when considering the scale and timing of these decisions as all of our decisions need to support our long-term sustainability. This is important in protecting the strength of our financial position and allowing us to continue investing in our security and risk management processes, and ultimately provide great products and services.

Our overall NPS could be considered a proof-point of how well we are balancing these decisions and we have improved our performance when compared to last year, with particularly good progress being made in the areas of savings and digital.

We do however know that we do not always get it right and that there is always room for improvement. Our intention will always be to provide the best standard of service possible, but sometimes we fall short of the quality that our customers expect and deserve. We will continue to monitor key metrics for customer satisfaction and evolve our approach accordingly.

We have supported 263,000 people toward greater financial wellbeing this year, compared to 248,000 in 2022.

Our purpose and strategy (continued)

Our strategy

Since the Society's founding over 160 years ago, our fundamental purpose has not changed; we exist to provide Real Help with Real Life. Our strategy on the other hand is adapted more closely to our current environment and capabilities.

In 2023, the Board were pleased to approve the new Our Strategy, which sets the direction for the future of the Society, 2024 and beyond.

The end of the Strategic Blueprint

2023 marked the final year of our Strategic Blueprint, which was launched in 2020. Having invested our time and resources in achieving our strategic priorities of Savings Supercharged, Purposeful Analytics, and Unbelievably Easy and Efficient, the Society as it stands today is much different to that of three years ago.

Our digital customer experience is much improved, our data and analytical capabilities are advancing our new product development, and progress has been made in simplifying and harmonising some of our processes.

The external context within which we operate has also evolved over the course of the years under the Blueprint. Whilst it is not possible to predict the future or control external factors, we can build an organisation that responds quickly to changing market conditions, and to evolving customer expectations, all supported by a culture that reaches for better.

This is why, in 2023, we have undertaken a refresh of our strategy, which will serve to underpin the ambitious next phase of the Society's growth.

The beginning of Our Strategy

Providing Real Help with Real Life speaks to our mutual values, and remains firmly at the centre of all that we do. Our Strategy will see the Society aim higher, and provides a North Star to which all of the decisions we make will be aligned.

For 2024, we have identified three territories which represent areas where the Society can stand out from the rest of the market and make a real difference for our members, for our customers, and for society more widely.

Our three territories

Standing with savers

Through our products and propositions, competitive rates, and using our platform to support the nation's savers.

Helping first homes happen

Through our lending decisions and targeted product development, as well as working to support those facing challenges in finding a place on the property ladder.

Financial education

Through community engagement, and providing accessible resources to support greater education in matters of money management and personal finances.

The four strategic pillars

Our Strategy is articulated through four pillars:

Double reach and deepen impact	Create joyful experiences	Cultivate an ambitious culture	Build a future ready Society

The first will see us **extend our customer reach and deepen the impact** we have on their lives, whether through rewarding loyalty, or through specific mortgage and savings propositions that work in harmony.

The second pillar will see us **create joyful experiences** for our customers that are simple and free from stress whether they are interacting with us in person, online, or by phone.

The third seeks to promote an **ambitious culture** within the Society, one that enables us to move together at pace. Within this pillar are our four existing behaviours, which reflect the principles that guide our actions on a day-to-day basis, and which remain a key component of how we will unlock our cultural potential.

We care about people	We say it straight	We reach for better	We make it happen
This is about fostering human connection both within the Society and without. It means acting with empathy and being aware of the impact that action, or inaction, can have on others.	The ability to have honest, straightforward conversations builds trust and gets results. This means speaking up with positive intent, and being open and prepared for feedback whether positive or negative.	We should aim for continuous improvement across all levels of the organisation. Reaching for better invites colleagues to be innovative and empowers them to take responsibility for their own learning and development.	This is about moving at pace and with purpose, focusing on removing any barriers that exist, adapting to challenges, and ultimately finding solutions.

Lastly, the fourth pillar focuses on **building a future-ready Society**. This includes improving our ability to scale as well as simplifying some of the internal processes and procedures that we have not yet been able to optimise, and improving the maturity of our control environment in respect of disclosures and regulatory reporting. Our next phase will see us grow even further, and this pillar seeks to ensure that we are well prepared for this future and fit to serve more generations to come.

OUR ESG PRIORITIES

Working in harmony alongside our three core purpose priorities are our three responsible business priorities, which form our strategy for Environmental, Social, and Governance ('ESG') matters. These represent the topics of the most material relevance to the Society and our operations, having been identified through stakeholder engagement.

Our responsible business priorities are Investing in our people; Operating responsibly; and Building a greener society.

Investing in our people

Our people are our greatest asset; without them, we would not be able to provide the level of service that our customers and members deserve. To ensure we have an engaged and motivated workforce we invest in our colleagues allowing them to thrive in an environment where they can be at their best.

More detail on the topics relating to our Investing in our people priority can be found in our 2023 ESG report, which will be available on our website mid-2024.

Wellbeing

The health and wellbeing of our colleagues is as important to us now as it ever has been. Our approach to supporting wellbeing focuses on four pillars: mental health, physical health, financial health, and social health. This year, we published a series of guides bringing together all of the information and support colleagues need to improve and maintain their wellbeing across each of these pillars.

The importance we place on colleague wellbeing is also reflected in our benefit and leave policies. A range of benefits can be purchased via monthly salary deductions over a 12-month period, and include discounted access to critical illness cover, private medical insurance, and a health cash plan. In addition, all colleagues have access to a wellbeing platform which provides a library of content including sleep tools, emotional resilience guidance, and educational videos on topics like menopause, nutrition, and neurodiversity.

As a means of gauging whether our colleagues are receiving the right levels of support, we closely monitor key metrics, including the levels of absence. The sickness rate in 2023 was 4.23% (on a rolling 12-month basis) compared to 4.43% in 2022. We will continue to monitor data for any emerging trends, and to inform our ongoing commitment to colleague wellbeing.

Colleague engagement

We place great emphasis on our colleagues feeling valued, listened to, and fairly rewarded for the contributions they make. A workplace that succeeds in meeting all of these will demonstrate high levels of contentment, productivity, and engagement.

An annual survey is our primary means through which the levels of engagement across the Society are measured, which is later supplemented by periodic check-ins.

In 2023, 90% of colleagues completed the annual survey, and the Society's overall engagement score was 8.6 (2022: 8.6) which maintains our position in the top quartile for engagement amongst financial organisations[18]. Our employee NPS ('eNPS') improved to +68 (2022: +66), which keeps us firmly in the top 5% of financial organisations.

To promote an open and supportive culture, we seek to embrace and understand a range of perspectives, offering various platforms for colleagues to share their thoughts. Our Colleague Forum was established in 2019 and hosts regular discussions between colleagues, senior leadership, and members of our Board. These conversations ensure that the voices of everyone can be heard, and provide an opportunity for actions to be taken based on their input. Twice a year, we also hold sessions to facilitate open communication between Non-Executive Directors, and the members of our teams who are integral to the day-to-day operations.

Maintaining good levels of engagement is an ongoing process and we continually assess, and develop tools to further enhance, how engaged and valued our colleagues feel.

[18] Benchmark sourced from Peakon.

Diversity, Equity, & Inclusion

The Society has evolved our approach from Inclusion & Diversity ('I&D') to one that encompasses Diversity, Equity, and Inclusion (DE&I). This is aligned to the recognition that in order to foster an inclusive place of work, there exists a need to offer initiatives or interventions aimed toward ensuring all colleagues can, and want to, fulfil their career potential with us. These may need to vary depending on the individual needs or circumstances in order to ensure a fair outcome for all.

Governance, strategy, and DE&I measures

In 2023, we have strengthened the governance of DE&I by splitting what was one committee into the DE&I Working Group and the DE&I Forum, with the latter reporting into our ESG Committee. These changes will be formalised as part of a three-year strategy from 2024, and will empower the Working Group to deliver change, while the role of the Forum will be providing challenge and monitoring wider strategic progress. We have also enhanced accountability across all levels, integrating a DE&I objective into our Leading for Value bonus plan. We set out DE&I measures as part of our strategy, which are reviewed each quarter, and presented to the DE&I Forum to measure progress toward our plans.

Each year, we conduct an annual DE&I engagement survey to gather colleague views on how inclusive and diverse the environment at YBS is. The 2022 survey informed our areas of focus in 2023: recruitment, opportunities, and data. Robust data and reporting on colleague and applicant demographics has allowed us to measure the inclusivity of our culture and begin to address areas of underrepresentation. Our processes for attraction and recruitment themselves were also a focus, ensuring hiring managers are equipped to facilitate reasonable adjustments throughout the interview and onboarding process. We also wanted to provide better visibility of internal career opportunities for colleagues across the breadth of the Society. Together, these improvements helped us to improve the overall colleague experience, as well as informing our refreshed DE&I strategy.

We were able to measure progress against our areas of focus with the latest DE&I survey, which was conducted in November 2023. We maintained our score of 8.8 and our place in the upper quartile of financial services organisations. 72% of colleagues completed the survey, up from 62% in 2022 and we have seen an increase in colleagues sharing their characteristics, specifically those with a hidden disability and caring responsibilities.

The results and colleague feedback have been used to validate our refreshed DE&I strategy for 2024.

Colleague networks

We have five colleague networks: Accessibility, Ethnicity, Parents & Carers, Proud, and Women. Each of the networks are supported by senior leader sponsors, and the co-Chairs of the networks regularly interact with the DE&I forum. Colleague Networks have been instrumental in effecting positive change and advancing our initiatives in promoting diversity, equity, and inclusion. Notable contributions, among others, include the Accessibility Network's support for the refurbishment of our Bradford office, the Ethnicity Network's improvements to contemplation and prayer facilities, and the Women's Network's contribution to reshaping our absence policy and menopause guides.

Reporting & accreditations

Over the past 12 months we have retained our place within the Top 10 employers for Working Families for the third year running, continued to work toward achieving Disability Confident Leader Level 3, and have continued our work in connection with the Race at Work Charter commitments.

Our 2023 Gender Pay Gap report showed 23.4% and 23.8% for mean and median respectively (2022: 25.7% and 24.0%). We have seen a reduction in our Gender Pay Gap for the past five years, the main driver of which continues to be the imbalance of women and men at different levels of the organisation. Aligned to our commitment to the Women in Finance Charter, we are building a talent pipeline for senior manager and director roles, and we regularly review our talent data with senior leaders. We have made progress in this area, as evidenced in the reduction of our Gender Pay Gap and the achievement of our Women in Finance target of a 50:50 split at grade E and above level.

Learning and development

All colleagues, no matter their current level in the Society, are encouraged to undertake professional development and progress toward their career goals. In order to reach the most people, through the most convenient means, we utilise a blended approach that combines face-to-face workshops, virtual workshops, and online-based resources. This empowers colleagues to work on their individual development in a way that suits them.

In 2023, a key focus was improving our understanding of both current and future skill requirements. We have supported business areas through a skills diagnostic that aimed to

Our ESG priorities (continued)

identify current skill proficiency levels, compared to our future needs. Skills relating to digital literacy and data analytics & insights were identified as priorities for our roadmap, which will be developed through both self-led and programme-based learning, including apprenticeships.

Our apprenticeship schemes continue to provide colleagues with an opportunity to gain a professional qualification whilst learning on the job. We are proud that 60 colleagues are actively studying through various apprenticeships, which includes 24 colleagues developing their data capability through both Literacy and Fellowship Programmes.

Our newly launched mentoring platform, made available to all YBS colleagues, also represents a useful tool to better enable the sharing of knowledge and expertise across the business, as well as supporting talent mobility, and our DE&I agenda.

Our people leaders have important roles to play in supporting our teams, in managing people risks, and supporting our business through changes of all kinds. In 2024, we will focus on the introduction of leader-specific programmes, which will complement our existing frameworks and guides and continue developing our talent and talent pipelines as our organisation continues its transformation journey.

Reward & recognition

It is important that our colleagues are fairly rewarded for their contribution to the Society's ability to deliver exceptional products and services for our members and customers. In 2023, we made significant investments in base pay, providing eligible colleagues with a 6% increase, supplemented by an additional 1% which leaders were able to allocate on a discretionary basis where further adjustments were felt necessary. We also reinforced our support for those colleagues within the lowest pay bands, introducing a Society-wide minimum salary of £22,000. This supported colleagues amidst inflationary and cost-of-living pressures, as well as aligning to our commitment to maintain wages at or above the Real Living Wage.

The Remuneration Policy has been reviewed in 2023 for all colleagues and the Directors Remuneration Policy is subject to an advisory vote at the 2024 Annual General Meeting.

Further details of this review are covered in the Directors Remuneration report.

Our commitment to colleague recognition continues to evolve. In 2023, we initiated a pilot programme for a new approach to recognition led by people leaders. The output of this pilot has supported the designing and developing of a new recognition framework for 2024. The new framework recognises the 'how' - how our colleagues make decisions, how they collaborate and how they nurture innovation. This will enable more flexible and timely recognition focused across all levels of the organisation.

Operating responsibly

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

Risk management

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

Human rights

Inherent within our purpose of Real Help with Real Life is a commitment that the way we conduct our business should not negatively impact the human rights of others. This includes how we interact with our customers, colleagues, and communities as well as the way we manage our supply chain.

The Society's Modern Slavery Act Transparency Statement, which describes the steps put in place to prevent slavery and human trafficking in our supply chain, or any part of our business, can be found on our website.

Anti-bribery and anti-corruption

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

We are proud that 60 colleagues are actively studying through various apprenticeships, which includes 24 colleagues developing their data capability through both Literacy and Fellowship Programmes.

Non-financial reporting measures

Presented below are the Society's most recent ratings from non-financial reporting agencies.

Rating Provider	Rating/Score	Scale (best to worst)
MSCI*	AAA	AAA – CCC
Morningstar Sustainalytics**	12.9	0 – 100
S&P Corporate Sustainability Assessment (CSA)	51	100 – 0
CDP***	Submitted - Not Scored	A to F
ISS ESG	C	A+ to D-
Moody's Analytics	67	0 – 100

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*** Due to the transition to the new Environmental Sustainability Team, the Society was not able to complete the submission in time to be rated. However, a full submission was completed after the deadline and is available on CDP's website.

Our ESG priorities (continued)

Building a greener society

As part of our 2023 Annual Report and Accounts, we present an update on our commitment to Building a greener society, developing on the foundation laid out in our 2022 Taskforce on Climate-related Financial Disclosure ('TCFD').

This report is structured to show the Society's understanding of the risks associated with climate change, and how the Society has continued to adhere to the Financial Stability Board's TCFD recommendations for developing climate and environmental disclosures. The Society remains committed to progressing further on the path to full compliance in a transparent way.

The table below illustrates the integration of TCFD recommendations across the Annual Report and Accounts:

Contents

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

Climate governance

Board and executive oversight

YBS Board

Ultimate accountability of financial risks for climate change and associated responsibilities. The Board is supported by the below sub-committees:

Group Risk Committee	Audit Committee	Executive Committee
Provides climate risk oversight and sets Group risk appetite.	Non-financial disclosure in relation to environment, social and governance agenda.	Oversight of implementation of environmental strategy and approval of climate risk matters for recommendation to the Board.
Executive Risk Committee	**Asset and Liability Committee**	**Environment, Social and Governance Committee**
Management of the governance framework for climate risk.	Focus on financial risks arising from climate change.	Delegated authority from Executive Committee to support the Board in overseeing the environmental strategy.

The Board assumes ultimate accountability for addressing climate change risks and opportunities and is supported by the governance structure laid out above. Regular Board meetings are complemented by the existing governance framework, which actively manages climate change risks on a day-to-day basis. Progress against the Society's climate commitments and internal plans are shared with the Board and its sub-committees.

In 2023, the Society continued to embed climate change and environmental governance into the corporate structure. We continue to assign key accountabilities in environmental stewardship and climate change risks, in order that a clear sense of ownership and responsibility is demonstrated across the Society.

Senior management accountability

The accountability for the senior management function remains shared between our Chief Finance Officer and our Chief Risk Officer. This collaborative approach ensures that all elements of environmental and climate-related matters are captured within the accountability documents.

The Chief People Officer is Executive Committee sponsor for overarching ESG reporting.

Our ESG priorities (continued)

Building a greener society (continued)

Climate governance (continued)

Operational working groups and forums

In 2023, we enhanced the approach to governance below the level of committees to strengthen our overall climate governance. Two working groups which meet on alternate months, and a forum that meets every two months support focused work on the key climate and environmental challenges that the Society faces.

Setting ESG strategy and direction

ESG Committee

The ESG Committee has delegated authority from the Executive Committee to consider and provide guidance on matters relating to the environment and climate change. It meets every other month and brings together C-suite level representation from across the Society. In 2023, the Committee met 11 times and received six papers relating to environmental matters. The Committee is chaired by the Society's Chief Executive.

Environmental Sustainability Forum

The Environmental Sustainability Forum brings together directors and senior leaders from across the Society to provide opportunity to challenge and review the approach taken in delivering our climate strategy, prior to presentation at ESG Committee. The forum is chaired by the Senior Manager – Environmental Sustainability.

Environmental Sustainability Working Group

The Environmental Sustainability Working Group consists of subject matter experts from across the Society to deliver tactical and strategic change with regard to understanding and reducing our operational emissions.

Climate Risk Working Group

The Climate Risk Working Group utilises subject matter experts from across the Society to deliver tactical and strategic change with regards to understanding and reducing our Financed Emissions and exposure to physical risk. It includes a focus on lending policies and new products.

Delivering updates on progress and metrics

Both the Environmental and Climate Risk working groups are chaired by the Managers within Environmental Sustainability and are crucial in prioritising related workstreams.

Each Committee, Forum, and Working Group is focused on delivering change aligned to our Climate Commitments. As the Society's understanding of climate change risks and opportunities develops, so too will our approach to governance. A primary way that we will strengthen our climate governance during 2024 is by providing information and training on carbon literacy across the Society.

Strategy

The YBS team

The most prominent milestone for 2023 has been the establishment of a dedicated Environmental Sustainability team, comprising one Senior Manager and three Managers, which was fully resourced in 2023 Q4. As part of the embedding of this team, the foundations have been laid to integrate environmental sustainability throughout the organisation, which we have considered further within this report.

During Q4 of 2023, the new team bolstered existing processes to monitor our Scope 1 and Scope 2 emissions and improve our understanding of climate change risk and opportunities across the breadth of the Society. By expanding our resources, we have been able to increase our capabilities to measure, monitor, and effectively manage the multifaceted impacts of climate change. This includes embedding the ambition to reach Net Zero by 2050 within our Financed Emissions.

The Society's interpretation of Net Zero means a focused effort to significantly reduce our carbon footprint across all Scopes.

Identifying and assessing the impacts of climate risks

On the Group

Climate change poses a risk to the Society, both in the short-term as economies and individuals transition to a low carbon economy, and over the longer term as extreme weather events are expected to become more frequent. To understand the size of this risk, we have developed internal climate models, which align to the Bank of England's Climate Biennial Exploratory Scenarios ('CBES').

Our most recent climate scenario exercise was undertaken in 2022 and we plan to refresh the models during 2024. Our scenario model is built around existing credit risk stress testing models with a modular design to add components specifically for assessing the impact of climate-related risks. The climate-related risk components of the models are integrated into the Probability of Default and the Loss Given Default models to enable the impact of such risks on credit losses to be generated over short-, medium-, and long-term time horizons[19]. Currently our climate scenario model is built on an incurred loss basis, and development is underway to align this to IFRS9.

Our analysis, based on a static balance sheet, used third-party data to model the CBES scenarios over various time horizons, up to 30 years. Physical risks considered included flooding, subsidence, and coastal erosion. Transition risks used EPC data to understand the risk of retrofitting and potential stranded asset assessments. The 2022 scenario analysis includes assumptions that do not account for the ability of the Society to manage its balance sheet effectively or, account for mortgage redemption and new lending. Even on this basis, the outputs show minimal exposure to potential losses over the medium and long-term. This result is reflected in the Society's decision to not change its business planning activities materially in response to climate change. Alongside the refreshed scenario analysis, our consideration of material losses and our risk appetite will be reviewed.

For further detail on the scenario analysis undertaken in 2022 please see the Strategic report of our 2022 Annual Report and Accounts[20].

To better understand and model the Society's long-term exposure to climate risk, a dynamic version of the model was developed; this allowed the model to apply assumptions for loan redemptions and new lending. This improved the model's ability to reflect the growth plans, and is therefore a more accurate representation of the Society's balance sheet in the future, though it is worthy of note that the models are still in their infancy and as such have several limitations, including:

- Underestimation, as scenarios do not account for potential climate tipping points, after which climate change is likely to accelerate.
- The time horizons used are much longer than traditional financial models, exposing them to increased risk from forecast assumptions.
- Data is being used in ways for which it was not designed, an example being EPC data (see Energy Performance Certificates).
- The inability to back-test climate scenario modelling in order to gauge the accuracy of results.

All model risks, including data and assumptions, are managed internally through the Society's Model Risk Framework, which is embedded into the Enterprise Risk Management Framework. The models are developed by an independent team allowing for challenge around their limitations and outputs. The Society's ability to continuously evolve the climate models will benefit from the additional resource of a dedicated climate modeller, who will be recruited at the start of 2024. In 2024, we aim to update the model outputs, review the scenarios being utilised, and identify further scenarios relevant to the Society's portfolio. The models will continue to be used for the climate section of the Internal Capital Adequacy Assessment Process ('ICAAP'), which measures the amount of capital holdings required to protect the Society from potential risk whilst remaining financially stable.

On our customers and members

We are committed to assisting our customers as they transition to a low-carbon society and enhance the energy efficiency of their homes. The Society continues to develop a customer Net Zero transition plan, focusing on supporting those with the highest exposure to the risks stemming from this transition. We believe that the transition to a Net Zero economy should be fair and just for all, and we recognise the potential challenges that many will face in reaching that goal.

By balancing the pursuit of Science-Based Targets with our commitment to providing *Real Help with Real Life*, we prioritise avoiding activities that may harm the social and financial wellbeing of our customers.

[19] Horizons: Short 0-5 years; Medium 5-15 years; Long 15+ years.
[20] Annual Reports and Accounts 2022 (ybs.co.uk)

Our ESG priorities (continued)

Building a greener society (continued)

Strategy (continued)

Identifying and assessing climate opportunities

For our organisation

The Society recognises that climate change offers opportunities for those that can recognise and act on them. For YBS this includes increased operational resilience and cost savings as the Society transitions to low-carbon technology and sustainable practices. By considering climate change in our operational planning and risk management, the Society can be better prepared for potential extreme weather events and supply chain vulnerabilities.

Climate change also provides an opportunity for the Society to bolster our reputation as an organisation with a strong social purpose by addressing our impact, being transparent about our progress, and supporting our customers with transitional changes. This would enhance the positive relationships we have with our customers, members, and colleagues.

For our colleagues

Our colleagues will play a pivotal role in contributing to our sustainability journey and climate initiatives. We have made noteworthy progress in fostering colleague engagement across all departments, including our branch network. In 2023, we embarked on a journey to raise awareness on environmental sustainability through a series of educational blogs, insights, and interactive polls.

In 2024, we will launch the Climate Champion network, which is designed to work in harmony with the normal roles and responsibilities of our colleagues. Sustainability is not a standalone effort, but rather an integral part of every role within our organisation. The Climate Champions will lead by example, inspiring others to adopt sustainable practices and highlighting potential opportunities and challenges that may not have been considered. The network will be key to delivering carbon literacy upskilling across the Society. It is intended that this will support colleagues to make informed decisions around energy use and waste management.

For our customers and members

The transition to low-carbon homes requires us to support our customers and members in new ways. We have launched our first mortgage proposition dedicated to improving energy efficiency within homes and collaborated with the Energy Savings Trust ('EST') to provide customers with an assessment tool on how they can reduce their energy consumption. Since the tool was launched in November 2022, 2,545 people have used it to assess how they can make home energy efficiency improvements.

Our partnerships with the Building Societies Association and Green Finance Institute allow us to take part in and benefit from the collective experience and learnings of our industry. These forums have highlighted to the Society that the market for green retail products is still emerging, with low customer demand at present. The setting of clear strategy and policy direction from the UK Government will enable this market to gain traction and provide simple and affordable products that help decarbonise homes. Additionally, guidance from regulators, such as the Financial Conduct Authority's anti-greenwashing guidance[21], is valuable in helping the industry transition to a greener economy with integrity.

Throughout 2024, we plan to increase the amount of information on this topic available to our customers through our website, supported by social media activity to understand what kind of information our customers value most. We will also continue to review our products, both mortgages and savings, in line with the demand in the market to ensure that we support the reduction of emissions.

[21] GC23/3: Guidance on the anti-greenwashing rule | FCA

Risk management

Climate-related financial risks

Climate-related financial risks are characterised by their uncertainty, which adds complexity to their management and modelling. Risk is managed on an ongoing basis through policies, governance, and risk appetite statements, which articulate the level that is acceptable to the Society. The financial risks associated with climate change can be categorised as either physical or transition, with the two being strongly interrelated. The Society seeks to identify and understand all key risks under these categories, including their impact on our ability to serve our members and customers. Our approach to managing these risks will mature alongside our understanding of them.

Physical risk

Physical risks arise from changes to the environment that may damage the integrity of a property, including specific weather events (acute risks) and long-term changes in the climate (chronic risks). This impacts the Society by altering the value of assets held and increasing the credit risk of our customers. The top three physical risks we have identified are noted in the table below.

Flooding	Subsidence	Coastal erosion
Flooding is one of the biggest climate change risks in the UK, and is the risk most closely associated with climate change in the public perception. It is expected to occur with increasing frequency and severity in the future. Flood Re currently provide government-backed reinsurance for flood risk for most properties, but this is due to stop in 2039. This is an example of how changes in government policy (a transition risk) can alter the impact of a physical risk; since many homes in flood zones would likely face unaffordable home insurance without a similar scheme.	Subsidence is caused by the shrinking of soil beneath a home, which is likely to become more common in drought conditions brought on by climate change. It results in cracked walls and foundations, damaging the integrity of the building. Better technological solutions are now in place to rectify subsidence, and the issue is currently treated by insurers as a one-off damage repair with a 10-year uncertainty period. Currently no government-backed support exists for homes experiencing subsidence, and there are no known proposals to introduce such a scheme.	Coastal erosion is exacerbated by extreme weather events, and usually results in the complete loss of a property unless government-funded defences are put in place. Local authorities in coastal areas, together with the Government's Department for Environment, Food and Rural Affairs ('DEFRA'), create Shoreline Management Plans, which set out a strategy and action plan for how coastal risks will be managed. These can provide information about how coastal erosion will impact homes but are subject to change.

The Society quantifies physical risks through data provided by a third-party supplier, Hometrack, which covers all three of the risks shown in the preceding table. The data includes a view of how the risk will change under several climate scenarios and time horizons and is provided on a regional basis, which is updated quarterly. Using this data to benchmark YBS against the UK average shows the Society has a slightly lower than average level of risk across all of the three physical risks.

As the physical risks manifest, they can impact other risk areas:

Credit risk is increased as damaged homes reduce in value, and owners have reduced ability to pay or find challenges in securing insurance. This may increase the likelihood of default.

Operational risk is increased as weather events may damage our branches, offices, or supply chain. Our employee's homes may be impacted, impacting their ability to work, and our customers' homes may be impacted which would drive up call volumes.

Capital risk increases as physical damage to homes can deteriorate balance sheet assets.

Workstreams to manage the risks and opportunities associated with flooding, subsidence and coastal erosion are discussed and prioritised within the Climate Risk Working Group (see Climate governance).

Our ESG priorities (continued)

Building a greener society (continued)

Risk management (continued)

Transition risk

Transition risks arise from changes in the wider economy as it moves toward a low-carbon state, including changes to climate policy and regulation, technology developments, and shifting consumer attitudes. Transition risk impacts YBS by presenting uncertainty for the future state of the economic, regulatory, and market landscapes, and results in different business threats and opportunities. The top transition risks we've identified are noted in the table below.

Economic downturn	Regulatory change
Depending on the route taken by the UK to transition to a low-carbon economy, the country may experience economic growth or slowdown, including changes to the unemployment rate and property prices.	The UK central and devolved governments continue to alter the course of the climate policy landscape. This impacts the obligations placed on lenders, landlords, and homeowners to understand and reduce the emissions associated with buildings.

Transition risks may be revealed through other risk areas:

Credit risk could increase during the shift to a low carbon economy, for example, due to job losses or changes to household income. It may also impact on the value of the property if new legislation around energy efficiency makes the property undesirable.

Operational risk may occur if supply chains are impacted by the changes, which could result in cost increases.

Transitioning to a low-carbon economy could also impact other financial risks such as liquidity and market risk. Shifts in the economy can have a bearing on financial markets, potentially causing interest rate volatility which could impact the Society's financial stability, or our ability to access funding markets.

As the industry considers ways to protect against climate risk and encourage sustainable finance, there is a risk that capital regulation could change, increasing the amount of capital it would be necessary to hold. The Society performs an ICAAP annually. In the ICAAP, we consider the potential impact of physical and transitional risks of climate change.

It is our intention to introduce more quantitative disclosures in the short-term as our modelling methodologies evolve over time, including publication of our Financed Emissions in the 2023 ESG report (expected June 2024).

Workstreams to manage the risks and opportunities associated with economic and regulatory change are discussed and prioritised within the Climate Risk Working Group (see Climate governance).

Climate risk and Enterprise Risk Management Framework ('ERMF')

Climate change is identified as a cross-cutting risk in our ERMF, which is the overarching framework used to identify, assess, and manage risks to the Society. The ERMF sets the expectation that all risk category owners consider the risks arising from climate change when constructing and renewing their risk policies. In addition, the Environmental & Climate Change Risk Policy[22] ('ECCRP') was designed to manage the Society's environmental and climate change strategy commitments. All risk policies are reviewed at least annually to ensure that emerging risks are captured. Maintaining the ECCRP illustrates an evolution in our approach to better integrate climate considerations within our operational framework, and we have decided to discontinue our Environmental Management Manual as a result.

Climate risk is incorporated in the ERMF in line with the PRA Supervisory Statement (SS)3/19, including the Dear CEO and Dear CFO letters released by the PRA, which provide further guidance for firms. The ECCRP is owned by the Environmental Sustainability team, with any material changes and/or policy renewals approved by Executive Risk Committee. The Society recognises that the understanding of climate risks, and the implementation of any mitigants, will develop over time as we progress through this journey and enhance our understanding and approach. Throughout 2024, the Environmental Sustainability team will work with risk owners to further develop understanding of how climate change will impact the management and measurement of each risk.

Climate risk has been integrated into the three lines of defence model employed by the Society, with both Second- and Third-Line teams having conducted reviews of the First-Line's approach to managing climate risk in 2023.

More detail can be found in the Risk Management report.

[22] Our policies | Corporate Governance | Your Society | YBS

Climate risk exposure and risk appetite

The Society manages the risks arising from climate change through its risk appetite statements. The Society is working to evolve these statements over the short term; the current statements are set out in the following table.

Principal risk	Risk appetite statement
Strategic risk	None of the Society's direct lending, including to Commercial properties, supports development in sectors of the economy which carry heightened risk[23]. The Group does not engage in project finance and would not support a project that directly harms the environment. However, the Group is not able to rule out indirect involvement through third-party investment.
Retail & commercial credit risk	The Society's level of exposure to transition and physical risks will continue to be stress tested in compliance with PRA SS3/19 to ensure that it does not knowingly threaten the Society's financial sustainability. This approach is set out in the Environmental and Climate Change Risk Policy (see Enterprise Risk Management Framework).
Compliance & conduct risk	We will only offer products and services that meet customer needs, and where we can manage any conduct risks which arise, including consideration of customer vulnerability and impacts on and of climate change. If failures occur, we proactively identify, establish the root cause of, and take remedial action.
Operational risk	We will seek to limit, understand, and mitigate exposure to climate change risk. The Society is committed to reducing its impact on the environment and this includes ensuring that its suppliers are also actively taking steps to reduce the impact they have on the environment.

Impacts on Accord

The Society considers climate risk at a Group level, which incorporates all brands and subsidiaries including Accord Mortgages and its customers.

Horizon scanning

To keep abreast of new regulation, including policy changes and legislation that relate to climate-related financial disclosures or government policy relating to housing, the Society undertakes horizon scanning activities on a regular basis.

Metrics and targets

Addressing climate change is not only a societal issue of great importance, but is also essential for our long-term organisational sustainability. Therefore, we continue to design and embed metrics to monitor progress against climate targets. Further to this, climate risk is among several measures within the Society's Leading for Value bonus scheme.

For further information on this scheme please refer to the Directors remuneration report.

Our carbon footprint

The Society's operational carbon footprint is 4,206 tonnes of carbon dioxide equivalent ('tCO2e')[24]. This total footprint includes our Scope 1, Scope 2, and Scope 3 emissions for the reporting period January – December 2023, as detailed below[25].

Scope 1 5 tCO_2e	Scope 2 0 tCO_2e	Scope 3 4,201 tCO_2e
Direct emissions from our own operations and assets that we directly control or own, such as gas usage.	Indirect emissions associated with the purchase of electricity in our operations.	Indirect emissions from sources not owned or controlled by us but are part of our value chain. This includes employee commuting and waste generation.

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

[24] The Society uses a both a market-based and location-based methodology to report its carbon emissions however you can find our location-based carbon footprint within the Directors' report.

[25] This footprint was produced in accordance with 'GHG Reporting Protocol - Corporate Standard' methodology.

Our ESG priorities (continued)

Building a greener society (continued)

Metrics and targets (continued)

Progressing our Scope 3 disclosures

The Society continues to improve the quality of our disclosures by increasing the coverage relating to Scope 3 emissions, with the intention that material remaining categories will be calculated and disclosed by 2025, if not before. During 2023, the Society worked in collaboration with an external sustainability consultant to calculate our baseline operational Scope 3 emissions, and we are pleased to have expanded our disclosures to include emissions generated from our employees through both working from home and their commute journeys.

We recalculated our 2022 supply chain emissions based on spend factors to highlight where we need to focus our attention within our procurement process. This supply chain analysis is in its early stages, and we are actively preparing to engage with our suppliers, as well as external partners, to further our understanding of our supply chain emissions. In the interim, we will be using these figures internally to identify areas for improvement and serve as a foundation for emission reduction plans.

In 2023 we recalculated our Financed Emissions across the residential mortgage portfolio and will be publishing them in the ESG report which is due mid-2024.

Upstream emissions

Scope 3 Category[26]	Sub-Category	Status	Data Quality[27]	tCO_2e
1. Purchased goods & services	Procurement and supply chain of goods	2022 spend based emissions factors calculated	Low	Initial understanding
2. Capital goods	Procurement and supply chain of goods	2022 spend based emissions factors calculated	Low	Initial understanding
3. Fuel & energy related activities	Extraction, production and transportation of fuels and energy purchased in the reporting period	Externally published	High	240 tCO_2e
4. Upstream transportation & distribution	Supplier delivery emissions	Initial understanding of the available data	Low	Not calculated
5. Waste generated in operations	Waste disposal and treatment in operations	Externally published data	Low	21 tCO_2e
	Capital project waste	Externally published data		Not calculated
	End of life customer communications	Initial understanding		
6. Business travel	Business related travel activity	Externally published	Medium	292 tCO_2e
7. Employee commuting & working from home	Colleague commuting Work from home energy emissions	Externally published	Medium	3,648 tCO_2e
8. Upstream leased assets	Operation of assets leased during reporting period	Initial understanding	Medium	Not calculated

[26] Scope 3 figures are calculated on a market-based emissions basis. Assurance of all our carbon footprint calculations and methodology details can be found in the SECR section of the Directors report

[27] Data quality reflects the availability and completeness of data used to calculate emissions (low to high)

Downstream emissions

Scope 3 Category	Sub-Category	Status	Data Quality	tCO_2e
9. Downstream transportation and distribution	Transportation and distribution of products and services sold during the reporting period	Initial understanding of the available data	Low	Not calculated
10 - 12.	Processing/ Use of sold/ End of life of products sold	Not applicable	Not applicable	Not applicable
13. Downstream leased assets	Operation of assets owned	Initial understanding of the available data	Low	Not calculated
14. Franchises	Not applicable	Not applicable	Not applicable	Not applicable
15. Investments	Properties financed, and other applicable securities financed, through the Society's operations	Calculated data and gained initial understanding	Medium	To follow in ESG report

Carbon reduction plans

Scope 1 and 2

The path to Net Zero sets out the route and timing of reducing the Society's carbon emissions as far as possible, and only then considering carbon removals. The Society remains committed to its Net Zero target for Scope 1 and Scope 2 operational emissions of 2035 or sooner. Supporting this, we have continued to procure electricity and gas backed by 100% Renewable Energy Guarantees of Origin and Renewable Gas Guarantees of Origin certificates. In 2023, the Society completed several retrofit improvements, including upgrading 31 branches to fully LED lighting systems, with a further 48 branches to be completed by 2025. In 2024, the Society will finalise the Net Zero plan for these scopes and will be disclosing short-term targets and approaches once implemented.

The Society took the decision to not renew any carbon offsetting contracts in 2023 to allow us to consider our Net Zero approach and prioritise emission reductions, prior to offsetting. This approach will also deepen the Society's understanding of effective and purpose-driven offsetting projects.

Scope 3

The Society maintains the 2050 Net Zero ambition for all applicable operational emissions, and is developing a comprehensive reduction strategy in support of this. This roadmap is expected to be complete by mid-2024 and is being developed in conjunction with our external sustainability consultants. The result will yield recommendations to address our sustainability targets, ensuring that our journey towards Net Zero remains well informed and effective.

During 2023, we continued to responsibly manage our operational and capital project waste, and we remain committed to making sure that at least 97% of our operational waste is diverted from landfill. Only 1.3% of the waste generated was directed to landfill, reflecting our commitment to minimise such disposal.

Notably, a significant 98.7% of our waste was recycled, recovered, or reused and therefore diverted from landfill sites.

For Category 15 Financed Emissions, the Society is committed to supporting the UK Government's ambition to be Net Zero by 2050. In 2024, we will explore opportunities to support customers to decarbonise, however our ability to reduce overall Financed Emissions will only be possible with strong government policy. Retrofitting the UK's entire residential property requires effective leadership that demonstrates the benefits of reducing household emissions. This approach needs to support homeowners, construction industry developments, and the decarbonisation of electricity networks. An approach of this nature will not only reduce the Society's emissions but that of the whole country.

Our ESG priorities (continued)

Building a greener society (continued)

Metrics and targets (continued)

Energy Performance Certificates ('EPCs')

EPCs capture the energy efficiency of a property and act as a proxy for understanding the emissions the property generates. They also provide insight on how, through retrofit, the property's energy efficiency could improve. Therefore, the data can be used to understand the potential risk the Society faces should property-related regulation change and the opportunities available to support our customers transition to a more energy efficient home.

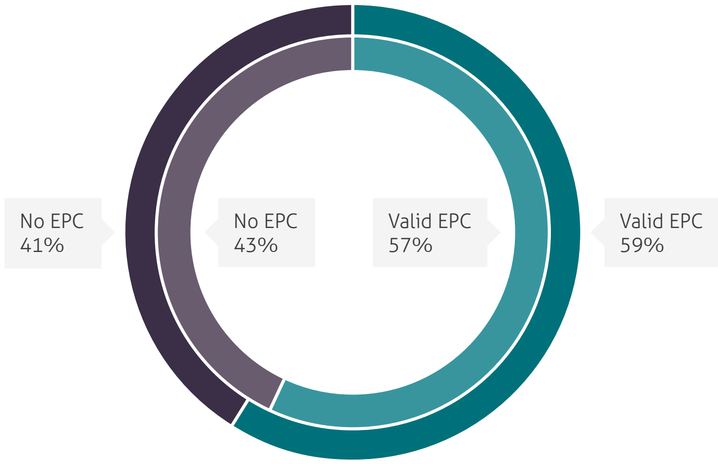
There are several known limitations to EPC data, which should be considered when gaining insight or making any decisions from them. Firstly, the rating reflects the cost to heat a home, rather than the emissions generated from it. Therefore, a low-carbon home does not necessarily relate to a better EPC rating[28]. Additionally, a rating is only required when a home is sold or let, and is only valid for 10 years, reducing the number of properties with a valid rating. Finally, some of the recommendations included on an EPC can be prohibitively expensive improvement measures, bringing into question the feasibility of the potential rating.

The Society uses EPC data to understand the exposure to transition risk and opportunity within the loan portfolio. EPC's are the underlying data tool that can help us understand the climate-related opportunities (see Strategy). In 2023, we have EPC data for 59% of our residential mortgage book ('match rate'), of which 42% are EPC C or above. Both figures have increased since 2022, and throughout 2024 we will seek opportunities to improve our EPC coverage.

Of the properties in our residential mortgage book with a valid EPC, 98% show potential to be rated C or above. This demonstrates the scale of change possible within residential property, but also the urgent need for good-quality and scaled retrofit supply chains, to enable nation-wide upgrades to homes to meet Net Zero targets. In many ways the retrofit market is still emerging, and therefore it is vital that strategy, direction, and funding are set through government policies and leadership to ensure that supply meets demand.

Proportion of residential mortgage book with a valid EPC

Outer circle: 2023 | Inner circle: 2022



Valid EPC No EPC

Proportion of properties with a valid EPC that have EPC C or above

Outer circle: 2023 | Inner circle: 2022

EPC C or above EPC D or below

Retail EPC Coverage

	2023						2022	
	Current EPC			Potential EPC			Current	Potential
	Total	Owner-occupied	BTL	Total	Owner-occupied	BTL	Total	Total
A	418	397	21	16,413	14,922	1,491	331	14,409
B	20,946	18,415	2,531	95,171	71,800	23,371	18,689	92,906
C	46,256	32,127	14,129	47,041	35,157	11,884	41,126	44,592
D	69,014	52,611	16,403	3,268	2,507	761	68,693	3,198
E	21,325	17,040	4,285	308	258	50	22,150	265
F	3,516	3,371	145	44	41	3	3,648	40
G	778	731	47	8	7	1	784	11
Total with EPC	**162,253**	**124,692**	**37,561**	**162,253**	**124,692**	**37,561**	**155,421**	**155,421**
Properties without valid EPC	**110,469**	**98,972**	**11,497**				**117,610**	

[28] Why EPCs aren't ready for low-carbon heating - Which? News

Our ESG priorities (continued)

Building a greener society (continued)

Our top 10 climate commitments

1. Achieve Net Zero Scope 1 and Scope 2 emissions by 2035, and Net Zero Scope 3 operational emissions by 2050.
2. Maintain a 100% renewable operational energy supply in line with RE100 requirements. YBS will move towards non-burning green energy and install heat pump systems in all properties where this is feasible.
3. Add only hybrid or electric vehicles to our fleet from 2025, working towards a full electric fleet as soon as operationally possible.
4. Improve climate change resilience across all areas.
5. Target and maintain a minimum annual landfill diversion rate of 97%.
6. Implement further policies to prevent lending or investing in economic sectors that have a heightened climate risk and/or are environmentally damaging.
7. Launch a customer Net Zero transition plan, increase understanding of our financed emissions, and support our customers with their Net Zero transition.
8. Support customers to make better environmental choices by helping them understand climate change and how it impacts housing.
9. Launch a member-focused Net Zero transition plan, which will include green savings product initiatives.
10. Continue to make progress towards alignment on our Taskforce for Climate-related Financial Disclosures with best practice and create a platform on the YBS website to showcase our progress and future plans on climate thinking.

[29] You can find further details of our progress up to 2022 in the Building a Greener Society Section of the 2022 Annual Report and Accounts available on our website.

The Society aims to align its commitments with our transition plans and all short-, medium-, and long-term targets. As a result, we anticipate streamlining these commitments gradually to mirror the progress made and the actions that are yet to be taken.

Environmental progress and achievements

2012-2020:

In this period, we initiated carbon footprint disclosures, supported local communities, adopted renewable electricity, and introduced various green initiatives. Our commitment to sustainability was formalised through the launch of Building a greener society.

2021-2022:

In recent years[29] we have deepened our commitment to Building a greener society by collaborating with local climate commissions and transitioning to more renewable energy sources. Participation in climate scenarios and a significant carbon reduction in our direct emissions highlighted our dedication to mitigating environmental impact. We initiated our understanding of our supply chain emissions and enacted lending rules against sectors known to be environmentally harmful. Furthermore, we committed to responsible banking, improved our branch infrastructure, and developed the capability to understand Financed Emissions.

2023:

The Society continues to support wider Net Zero ambitions through ongoing partnerships with the Building Societies Association ('BSA') and the Yorkshire & Humber Climate Commission ('YHCC'). Through the BSA we can exert governmental influence through a collective industry voice, while YHCC allows us to utilise our skillsets to support local climate action. As part of this commitment, we have renewed our sponsorship of YHCC for a further 3 years, to 2026.

Establishing the Environmental Sustainability team during 2023 underpins our commitment to environmental sustainability. This dedicated resource will provide the expertise and focus required to effectively manage and mitigate environmental risks, whilst also identifying opportunities for the Society to further align YBS with disclosure recommendations and global sustainability objectives.

ENGAGING WITH OUR STAKEHOLDERS

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

More information on our stakeholder engagement and Our ESG priorities will be made available in our 2023 ESG report.

Key stakeholders	Who they are	How we listen and engage	What they expect from YBS	Material ESG topics identified
Members and customers	■ Members ■ Mortgages and savings customers ■ Commercial lending customers ■ Registered providers of Social Housing.	■ Member events (Your Time to Talk sessions, in-branch events). ■ Annual General Meetings. ■ Our Member Panel, My Voice, and regular surveys on customer experience and brand. ■ Direct engagement through specialist teams (face-to-face, online web chat, telephone calls, letters, emails, and social media).	■ Offer good value and flexible savings accounts and mortgages ■ Deliver helpful, effective, approachable, friendly, and efficient service ■ Invest in the products and services they need to gain better financial wellbeing or secure a mortgage ■ Run a strong, secure, and sustainable business in their long-term interests ■ Demonstrate action to support a wider societal purpose ■ Provide adaptable support to customers in vulnerable situations ■ Invest in transforming our digital offering.	■ Sustainable homes ■ Flexible access to products and services ■ Home ownership ■ Business resilience ■ Data privacy and information security ■ Community impact ■ Financial resilience ■ Financial inclusion ■ Vulnerable member support ■ Responsible lending ■ Alignment to purpose.
Colleagues	■ All colleagues ■ Contractors ■ Agency colleagues.	■ Colleague Forum, which is attended by a Non-Executive Director for Workforce Engagement ■ Focus groups and surveys ■ Chat Pack strategy updates ■ Colleague events and virtual conferences ■ Intranet (live Q&As, news, blogs) ■ People Experience Forum ■ Direct engagement through leadership teams ■ Colleague listening groups with Non-Executive Directors ■ Colleague networks.	■ Provide a forum where views are heard both in terms of their experience at YBS and also business strategy ■ Treat people with empathy, respect, and fairness ■ Encourage and support their development and training ■ Provide fair reward and remuneration policies ■ Support a good work-life balance ■ Care about their physical, mental, and financial wellbeing ■ Provide an inclusive culture where diversity is valued and celebrated.	■ Business resilience ■ Responsible operations ■ Alignment to purpose ■ Pathway to net-zero ■ Impact of climate change ■ Diversity, equity, and inclusion ■ Colleague health and wellbeing ■ Talent attraction and retention ■ Community impact ■ Data privacy and information security.
Government and Regulators	■ Central and local Governments ■ Financial Conduct Authority ■ Prudential Regulation Authority ■ Information Commissioner's Office ■ Payment Systems Regulator.	■ Direct engagement through specialist teams (face-to- face, telephone calls, letters, emails) ■ Engaging with consultations, including through industry bodies ■ Monitoring, engaging, and complying with regulatory change and reporting.	■ Act within the law and regulation and in the interests of our customers ■ Operational resilience ■ Swiftly and proactively resolve customer issues ■ Be financially strong and secure by maintaining adequate resources including capital and liquidity ■ Act with integrity and transparency.	■ Business resilience ■ Responsible operations ■ Pathway to net-zero ■ Sustainable homes ■ Diversity, equity, and inclusion ■ Data privacy and information security ■ Responsible lending.
Investor Relations	■ Wholesale investors ■ Ratings agencies.	■ Direct engagement through face-to-face meetings and events ■ Annual Report and Accounts ■ Regulatory News Service announcements ■ Investor reporting.	■ Offer appropriately priced debt securities in the wholesale markets which adequately reward them for the level of risk ■ Operate in a prudent manner, protecting our financial sustainability and ability to service our debt ■ Act responsibly in wholesale markets ■ Provide regular information and updates on our strategy, financial performance, and principal risks ■ Share details of our funding strategy and the expected volumes of securities being issued ■ Demonstrate good ESG practices, validated by Non-Financial Ratings Agencies.	■ Business resilience ■ Responsible operations ■ Pathway to net-zero ■ Impact of climate change ■ Diversity, equity, and inclusion ■ Sustainable homes ■ Financial resilience ■ Financial inclusion ■ Responsible lending.
Partners	■ Brokers ■ Agency proprietors ■ Suppliers ■ Trade unions ■ Industry bodies.	■ Direct engagement through specialist relationship management teams (face-to-face meetings and events, telephone calls, letters, emails).	■ Be simple and straightforward to deal with ■ Collaborate as trusted partners to achieve mutual success ■ Deliver helpful, effective, approachable, and efficient service ■ Demonstrate action to support a wider societal purpose.	■ Business resilience ■ Responsible operations ■ Supply chain engagement ■ Data privacy and information security.
Communities	■ The local, regional, and national communities in which we operate ■ Charities and community groups.	■ Charitable partnerships ■ A range of initiatives to support the Bradford community at a local level ■ Financial education initiatives including Money Minds.	■ Invest resources in support of the social economic welfare of communities ■ Demonstrate action to support a wider societal purpose ■ Provide an inclusive culture where diversity is valued and celebrated.	■ Sustainable homes ■ Flexible access to products and services ■ Home ownership ■ Community impact ■ Financial resilience ■ Financial inclusion ■ Talent attraction and retention ■ Diversity, equity, & inclusion.

Engaging with our stakeholders (continued)

Our Communities

Through our community programmes, we aim to have a positive impact across the nation as we provide people with real help toward improving their financial wellbeing.

To maximise the reach of our programmes, we collaborate with national partners, provide funding for local charities through the Yorkshire Building Society Charitable Foundation, and offer a range of volunteering options for our colleagues to provide practical, hands-on support where they live and work. Financial wellbeing programmes like the ones we support have only become more important and more necessary in recent years, given the financial and economic challenges facing households. As a result the number of people we supported in 2023 increased to 105,000 (2022: 96,000).

More detail on the topics relating to our community activities can be found in our 2023 ESG report, which is available on our website ybs.co.uk.

Purposeful partnerships

Working alongside carefully selected partners allows us to deliver expert help and support to those who need it, at the right time and in the right place.

Citizens Advice

Our award-winning partnership with Citizens Advice continued to go from strength to strength in 2023, with the Society increasing the funding to sustain this valuable service. Representatives from Citizens Advice have been positioned within select branch locations to offer free, face-to-face, independent advice on a wide range of issues, with a particular focus on financial wellbeing. This service is accessible to the entire community, whether they are YBS members or not.

Due to the success of this partnership in 2022, and the growing levels of demand, we have expanded the program to encompass 46 locations across Scotland, Yorkshire, the Northwest, East Anglia, and the Southwest. Feedback from branch colleagues continues to highlight the positive impact the service is having in communities, and thanks to the Society's increased investment in the service in 2023, the partnership helped 3,800 clients – more than double the number in the previous year.

Since the start of the partnership in May 2021, we have helped to unlock over £2.5m worth of estimated additional income for clients, which represents income they could expect if they act on the advice given, often relating to missed benefits, or tax credits and grants.

Age UK

Our partnership with the leading charity for older people, Age UK, concluded in June 2023, and we take immense pride in the contributions made during our two-and-a-half-year collaboration, which reached a total of £1.02 million. Donations from our customers, and members of the public, combined with the launch of an innovative savings account and additional funding from the Yorkshire Building Society, helped to fund Age UK's Building Better Lives programme.

This service played a vital role for many during challenging times, including the COVID-19 pandemic and the ongoing cost-of-living crisis. This initiative was designed to provide one-to-one support sessions with trained advisors, focusing on addressing financial hardship resulting from significant life events such as health diagnoses, the loss of a partner, or changing care needs. In the course of this partnership, we are proud to say that over 4,900 older individuals received support, and more than 3,600 benefit claims were made.

FareShare

In November 2023, we launched our new charity partnership with FareShare, the UK's biggest charity fighting hunger and food waste. The important work FareShare undertake involves redistributing surplus food to over 8,500 local charities and community groups, supporting thousands of vulnerable people every week – not just with food, but with skills to help lift themselves out of financial hardship.

Our goal is to raise £1 million to fund FareShare's Building Skills for the Future programme.

We kicked off the partnership with a £150,000 donation to FareShare in 2023, and added to fundraising efforts from colleagues and members, we have so far raised £184,670 towards our goal. This initiative will support 2,500 people and help to prepare them for employment. Through community outreach programs and an intensive employability program spanning London, Bristol, Milton Keynes, Leeds, Barnsley, Edinburgh, and Cardiff, we aim to help individuals regain their financial independence. This partnership will run until June 2026, and we look forward to what our collaboration will be able to accomplish.

Good Things Foundation

In 2023, we continued to work with Good Things Foundation, supported by local community partners, to help deliver essential digital skills training to Black, Asian, and ethnically diverse people in Bradford. The project aims to help people acquire and improve their digital skills and is specifically targeted toward ethnic minority communities where the social exclusion and skills gaps may be more pronounced.

The programme supported 489 people in 2023 (2022: 442), 72% of whom said they feel more confident using a digital device and the internet, and 73% said they felt the digital skills learned have enabled them to apply for a job or training that they would not have been able to do previously.

Engaging with our stakeholders (continued)

Our Communities (continued)

Yorkshire Building Society Charitable Foundation

The Charitable Foundation is an independent, registered charity with its own Board of Trustees, of which Yorkshire Building Society funds the running costs.

The Charitable Foundation is predominantly funded by members opting into the Small Change Big Difference® Scheme, which enables them to donate to the Foundation the pennies from the interest earned on their savings accounts, or rounding up their mortgage payments to the nearest pound. As at the end of 2023, 923,000 accounts were signed up, and £358,000 was raised for the Foundation (2022: 829,000 accounts, and £308,000 raised).

In 2023, in order that the funding is directed to areas where it is most needed, the Board of Trustees agreed to focus the Foundation's support on areas of deprivation and charities that support marginalised groups. Similarly, smaller, grassroots charities are often beneficiaries of the Foundation's support to ensure that donations make the biggest difference. The Board also increased the maximum donation amount to £2,500 and made application guidelines less restrictive to give charities greater freedom to spend donations flexibly. As a result of these changes, in 2023 the Foundation donated £285,000, distributed among 257 charities (2022: £283,000).

Each year, the Society donates £100,000 to the Charitable Foundation's Real Help for Real Life Fund. The funding donated in 2022 was distributed to four projects in November, delivering support for those experiencing financial hardship and supporting people with employability skills. The charities have been carefully selected to help reach underserved groups, such as vulnerable young people and those from ethnic minority communities.

- Albert Kennedy Trust was awarded £29,000 to support homeless and vulnerable LGBTQIA+ individuals in Manchester, providing access to emergency support and accommodation.
- Bradford Foodbank received a donation of £10,680 to fund a staff member at a Job Club and IT Help Hub for those using the foodbank. To date, this has supported 153 people, with 10 securing employment and 8 into further education or training.
- The Foundation's partnership with Refugee Action launched in 2021 has continued and will now run until 2024. The charity has benefited from £60,000 to date which has funded an employability skills course for 79 refugees and those seeking asylum - the Pathways to Work Project. Society colleagues are also mentoring refugees to help them into secure employment after re-settling in the UK, and to support their independence.
- Vulnerable individuals in a deprived area of Hull have been supported into employment and training opportunities thanks to a £28,000 donation to the Vulcan Learning Centre – helping 332 people in 2023.

A further £100,000 was donated to the Foundation in 2023 which will go towards projects in 2024.

Colleagues in communities

Each colleague employed by the Society is provided an allowance of up to 31 hours per year to volunteer across our community programmes. In 2023, 23% of colleagues volunteered, collectively contributing 6,500 hours which is 19 percentage points higher than in 2022. The Society's volunteering efforts initially focused on financial education and employability skills, however in the autumn of 2023, our focus widened to include addressing financial hardship. This broader approach allowed colleagues to utilise their skills and time to meet immediate needs in local charities and community organisations. Colleagues can also use their volunteer allowance to support the Society's charity partner, FareShare, and use their professional skills to provide pro-bono support, become a trustee, school governor, or mentor.

Our flagship volunteering program, Money Minds, teaches young people about money, and prepares them for work. In 2023 we continued to deliver hundreds of sessions, reaching 16,000 children and young people aged five to nineteen (2022: 16,000). UK Savings Week took place in September 2023, and over the course of the month branch colleagues delivered over 200 sessions to over 3,100 people. The recent expansion to include an online platform provided educators, parents, and caregivers with a resource for enhancing financial literacy, both within the classroom and without.

Our Emerging Talent program represents an innovative collaboration with two carefully selected schools and colleges in Bradford, prioritising institutions with a significant number of students on a pupil premium grant, or situated in diverse communities. It delivers tailored educational sessions focused on employability skills and meaningful workplace experiences, preparing students for the world of work. In 2023, the program evolved by introducing a two-day employability program with AQA-certified workshops. This development enabled us to support 82 students and the outcomes were resoundingly positive, as evidenced by the feedback received from both students and the teachers involved.

Community contribution

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

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

Community Contributions	2023					2022				
	YBS Donations					YBS Donations				
£000	Charitable	Community	Customer Colleague	YBS Costs	Total	Charitable	Community	Customer Colleague	YBS Costs	Total
Age UK	**175**	**-**	**119**	**26**	**320**	272	-	139	18	429
The Foundation	**100**	**-**	**358**	**-**	**458**	100	-	308	12	420
Other charity	**15**	**-**	**65**	**-**	**80**	100	-	66	-	166
Citizens Advice	**521**	**-**	**-**	**14**	**535**	299	-	-	-	299
Employability/digital skills*	**90**	**-**	**-**	**59**	**149**	109	64	-	18	191
In kind donations	**-**	**97**	**15**	**-**	**112**	-	92	19	-	111
Volunteering time	**-**	**141**	**-**	**4**	**145**	-	110	-	1	111
Other	**-**	**15**	**-**	**588**	**603**	-	-	-	624	624
Total	**901**	**253**	**557**	**691**	**2,402**	**880**	**266**	**532**	**673**	**2,351**

* Charitable donations paid to Good Things Foundation (2022 and 2023)

Mortgages performance

Mortgages	2023	2022
Gross lending	**£9.2bn**	£10.3bn
Net lending	**£1.6bn**	£3.0bn
Growth in mortgage balances*	**3.6%**	7.2%
Market share of residential gross lending	**3.9%**	3.1%

* Growth in mortgage balances excludes fair value adjustments for hedged risk on loans and advances to customers. Prior year comparative restated on a consistent basis.

The Society's strategy for participating in the mortgages market is unchanged: we continue to balance serving large sections of the market through high-quality mortgages, at relatively low loan-to-value categories, with more specific offerings that target underserved segments. This allows us to operate responsibly and within risk appetite, whilst working toward delivering on our purpose.

In the context of a reduced market size as economic factors served to subdue the level of activity, strong levels of gross lending were achieved by the Society. Total gross lending was £9.2bn in 2023 (2022: £10.3bn). The disruptions to the lending market in Q4 2022 led to a lower new business pipeline being carried into the year, but strong application performance from Q1 2023 onward compensated for this initial shortfall.

The share of the residential lending market captured has increased 0.8 percentage points compared to 2022, and has continued to be supported by the performance of Accord buy-to-let which was relaunched early in 2023. The Accord residential range has been buoyed by its excellent reputation for service and flexibility, along with the breadth of our propositions, allowing Accord to continue to perform well in an increasingly competitive market.

The profile of maturities from our mortgage book led to a larger population coming to the end of their fixed-rate terms compared to 2022. In turn, this contributed to a lower net lending volume, which aligns to expectations. Net lending was £1.6bn in 2023 (2022: £3.0bn).

We have observed changes in mortgage customer behaviour relating to price sensitivity; this is likely to be partly a result of higher interest rates making the choice of mortgage provider more consequential, and also partly the introduction of the Mortgage Charter precipitating product switching activity. These factors, and their related operational implications, continue to be tracked and monitored.

More information on the external mortgages market can be found in The External Environment section, and more information on our Place to Call Home priority can be found in the Our Purpose section.

Savings performance

Savings	2023	2022
Shares balance growth	**12.0%**	18.3%
Shares balance growth	**£5.1bn**	£6.5bn
Average savings rate differential to the market average	**1.01pp**	0.56pp
Market share of retail savings balances	**2.3%**	2.2%

The Society has delivered strong growth in the year, with shares balances having increased £5.1bn (2022: £6.5bn increase) representing a growth rate of 12.0% (2022: 18.3%). Sustaining a high rate of growth has allowed the amount of value returned to our members through savings rates to increase meaningfully. This is demonstrated through a widening of the differential in our average savings rate when compared to the market from 0.56% to 1.01%. This equates to c.£441.1m of additional value returned to members (2022: £198.6m additional value). Providing this support has been particularly important at a time when the increased cost of living is making it difficult for more and more people.

The savings market in 2023 continued to be heavily influenced by the rising Bank Rate environment. Since the start of the year, we have increased our variable savings rates in response to Bank Rate four times, increasing rates across all segments to support both new and existing members.

In a high interest rate environment the utility of Individual Savings Accounts (ISAs) is greater and, as such, the period leading up to when subscriptions can be made for the new tax year, usually between March and May, sees a marked increase in activity from savers and from savings providers. Inflows of new money over this period, driven by our market-leading Loyalty Six Access ISA, as well as our competitively priced Limited Access ISA and fixed-rate ISA range, contributed to the growth in the first half of 2023.

Our savings range remains supported by purpose-led propositions, with a total of 8 variations on loyalty products being launched in the year (4 products, with variations across both branch and online channels). A regular saver that will form a core part of our range was also added in June, offering a higher interest rate for those wishing to start their savings journey. Separately, our smarter-tiered products, which pay a higher rate for the lowest balance tier, have been well-received by customers.

A shift in the competitive dynamics in the savings market was observed when comparing halves one and two of 2023. The general level of competition for balances intensified significantly as the year progressed, with new products putting upward pressure on the top-of-the-market rates across both fixed- and variable-rate segments. This drove an increase in outflow and a reduction in new money inflow, leading to a much slower rate of growth in the second half of the year.

We do not expect the degree of competition for savings deposits to lessen in the near future, given the sizeable TFSME balances that the market will need to refinance over the short and medium term. Looking ahead, our focus will be to support our long-term members with further loyalty propositions, and maintain stable acquisition pricing to demonstrate sustainable growth.

More information on the external savings market can be found in The External Environment section, and more information on our Financial Wellbeing priority can be found in the Our Purpose section.

Since the start of the year, we have increased the rates on our variable-rate back book in response to Bank Rate four times, increasing rates across all segments to support both new and existing members.

Our Financial Review (continued)

Financial performance

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

The financial results achieved in 2023 demonstrate sustained growth and strong levels of profitability, set in the context of the rising interest rate environment and increasingly challenging market conditions. We have delivered these results whilst continuing to reward our members with competitive rates and managing the inflationary pressures on our costs. The strong growth in our savings balances has enabled us to repay a further portion of government funding at a time when the market requirement to refinance is elevating competition for funding. The resulting strength of capital and liquidity positions will support the Society in navigating the challenges ahead.

	2023	2022
Statutory profit before tax	**£450.3m**	£502.5m
Core operating profit	**£449.9m**	£425.6m
Net interest margin	**1.31%**	1.30%
Cost to core income ratio	**42%**	41%
Management expense ratio	**0.56%**	0.54%
Liquidity coverage ratio ('LCR')	**156.4%**	164.0%
Liquidity ratio	**23.3%**	23.3%
Common equity tier 1 capital ratio	**16.7%**	16.8%
Leverage ratio (UK)	**6.2%**	6.2%

Summary Income Statement

£m		2023 Statutory	2023 Remove non-core items	2023 Core	2022 Statutory	2022 Remove non-core items	2022 Core
Net interest income	i	**786.0**	**(2.3)**	**783.7**	724.1	(2.4)	721.7
Fair value gains and losses	ii	**(5.5)**	**2.2**	**(3.3)**	75.6	(74.9)	0.7
Net realised gains		**1.6**	**-**	**1.6**	2.9	-	2.9
Other income		**4.3**	**-**	**4.3**	8.8	0.3	9.1
Total income/core income		**786.4**	**(0.2)**	**786.2**	**811.4**	**(77.0)**	**734.4**
Management expenses		**(332.7)**	**-**	**(332.7)**	(298.7)	-	(298.7)
Impairment of financial assets		**(4.0)**	**-**	**(4.0)**	(6.0)	-	(6.0)
Movement in provisions	iii	**0.6**	**(0.2)**	**0.4**	(4.2)	0.1	(4.1)
Profit before tax/core operating profit		**450.3**	**(0.4)**	**449.9**	**502.5**	**(76.9)**	**425.6**

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

i) Historical fair value credit adjustments on acquired loans.

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

iii) Non-core elements of the restructuring provision.

Core operating profit

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

Statutory profit before tax in 2023 was £450.3m (2022: £502.5m) and core operating profit was £449.9m (2022: £425.6m). The difference between statutory profit before tax and core operating profit is much lower in 2023 than the previous year; 2022 saw a large fair value gain relating to swaps not in hedge accounting relationships.

Net interest income

Net interest income was £786.0m in 2023, increasing £61.9m year on year (2022: £724.1m), and represents an improved net interest margin of 1.31% (2022: 1.30%). Further increases to Bank Rate along with growth in both mortgage and savings books have served to increase net income, despite a series of rate increases to the savings back book and widening our differential to the average market rate.

Our structural hedging portfolio contributed £215.7m of gross interest income in 2023 (2022: £67.6m). Gross structural hedge contributions represent the income earned from the fixed receipts on the swaps within the portfolios.

Fair value gains and losses

A fair value loss of £5.5m was recorded in 2023 (2022: £75.6m gain). The most significant driver of the year-on-year change in fair value gains and losses relates to derivatives not in hedge accounting relationship, including swaps entered into to hedge the mortgage pipeline as well as shorter-term swaps to hedge fixed-rate savings balances. Whilst swaps rates remained volatile in 2023, the movement across the year has been less significant than in 2022, in turn having a lower impact on the fair value of the interest rate swaps not designated in the accounting hedge. More detail on the fair value gains and losses in the period is available in Note 5.

Other income

Other income received in the year was £4.3m (2022: £8.8m) and includes income from our secondary lines of business, including commission from insurance brokering, which are less material in nature.

Management expenses

Overall management expenses were £332.7m in 2023 (2022: £298.7m). A number of factors have influenced this outcome, including the growth of the business, increased purposeful investment in change activities, and the effect of inflationary pressures on our cost base.

In 2023, £63.8m was invested in change activities which is a material increase from £54.6m in 2022. This aims to accelerate the delivery of future benefits and enable us to commence the second phase of our programme. The main activities accelerated in 2023 related to payments functionality and journey and experience improvements for savings customers.

Given the elevated levels of price inflation observed in the wider economy, we made the decision to award a salary increase which was higher than in a typical year to help our employees deal with the cost-of-living pressures, and to maintain a competitive position in the labour market. High inflation also drove up some of our third-party costs at a greater rate than usual as a result of contractual obligations. This has led to an increased cost to core income ratio of 42%, up 1 percentage point on 2022.

Impairment of financial assets

A total net impairment charge of £4.0m (2022: £6.0m charge) was recorded in the period. More information on the impairment of financial assets can be found in Notes 2 and 7 to the financial statements.

Provisions

A release of £0.6m was recognised in the period relating to provisions which include customer redress, restructuring and other specific items (2022: £4.2m charge).

Summary Balance Sheet

£bn	2023	2022
Liquid assets	**12.8**	12.5
Loans and advances to customers	**46.8**	45.2
Fair value adjustment for hedged risk on loans and advances to customers	**(0.6)**	(1.5)
Other assets	**2.0**	2.6
Total assets	**61.0**	**58.8**
Shares	**47.1**	42.0
Wholesale funding and other deposits	**7.8**	11.6
Subordinated liabilities	**1.6**	1.0
Other liabilities	**0.8**	0.8
Total liabilities	**57.3**	**55.4**
Members' interest and equity	**3.7**	3.4
Total members' interest, equity and liabilities	**61.0**	**58.8**

Good levels of savings balance growth were achieved again in the year, although heightened market competition saw the rate of growth slow in the second half. Mortgage growth was more subdued than last year, with a lower application pipeline carried into the year as a result of market disruption toward the end of 2022. In addition, 2023 saw a higher level of mortgage maturities, which served to suppress net lending. As at December 2023 the Society's retail loan to deposit ratio stands at 98.2% (2022: 106.4%).

Our Financial Review (continued)

Financial performance (continued)

Liquidity

Liquidity levels remain strong, with a liquidity balance sheet ratio standing at 23.3% (2022: 23.3%), and a Liquidity Coverage Ratio at 156.4% (2022: 164.0%). Strong savings inflows in the year have helped to facilitate further repayment of TFSME funding. Sufficient headroom to regulatory requirements for liquidity was maintained throughout 2023. Our investment portfolio was further diversified in the year, in line with our balance sheet strategy.

High-quality liquid assets ('HQLA') balances stood at £10.7bn as at 31 December 2023 (2022: £11.0bn). 44% of the HQLA portfolio is rated as AAA (2022: 38%), with the remainder rated between AA+ and A.

Loans and advances to customers

The rate of mortgage book growth achieved was 3.6% (2022: 7.2%). The credit quality of our mortgage book is monitored using a number of indicators on a regular monthly basis. An important indicator is the percentage of outstanding retail mortgage balances in arrears by three months or more (including possessions). The quality of our loan book has remained strong; the proportion of loans meeting these criteria now stands at 0.39% by value (2022: 0.31%).

The industry average for mortgage arrears is measured as the number of accounts in arrears by three months or more (including possessions). At 0.50% (2022: 0.44%) our performance continues to remain better than the industry average of 0.87% (2022: 0.74%). More information on arrears can be found in the Directors' report and in Note 31 to the financial statements.

Whilst no material deterioration in the credit performance of our mortgage book has been observed, risks are present, and the level of arrears will continue to be monitored closely through our established risk management processes. There also exists the potential for affordability and cost-of-living challenges to influence our mortgage book through future house price movements. As of December 2023, the average indexed loan to value of our mortgage book is 49.0% (December 2022: 46.8%).

As a proportion of gross mortgage exposure, ECL coverage is 0.1%, (December 2022: 0.1%). Cost of risk, as calculated by expressing the impairment charge for the year over the average balance in the period was 0.01% (2022: 0.01%).

Wholesale funding

Following a period of disruption to wholesale markets toward the end of 2022, the Society successfully issued within the RMBS, covered bond and senior non-preferred markets in 2023. These issuances represent a continuation of the strategy to maintain a presence in our key issuance markets and ensure access to a diverse range of funding.

In 2023, we repaid a further £2.2bn in respect of the government funding scheme, TFSME, adopting a prudent approach to refinancing in anticipation of heightened competition for funds as market-wide maturities draw nearer. As at December 2023, Society has repaid 82.5% of the total amount drawn under the scheme.

Capital

Introduction to capital

The Society maintains capital reserves to safeguard the interests of its members throughout the economic cycle.

The Society is subject to regulatory capital requirements enforced in the United Kingdom (UK) by the Prudential Regulation Authority (PRA). Regulatory capital resources include general reserves, fair value through other comprehensive income reserves, and subordinated liabilities; these are subject to regulatory adjustments and IFRS9 transitional arrangements. MREL resources such as Secondary Non-Preferential Liabilities ('SNP') are not included as part of regulatory capital, but have been disclosed to show the impact on resources.

The Society has complied with the PRA's regulatory capital requirements during the year, further details of the Society's capital position can be found in the 2023 Pillar 3 Disclosures.

The ratios, deductions, and definitions below are in accordance with CRD IV regulations.

Management of capital

Capital risk is managed via Board-approved Capital Policy and risk appetite. The Society's management of capital encompasses adhering to regulatory requirements and risk appetite levels whilst supporting the Society's strategic objectives through sustainable growth.

The Asset & Liability Committee ('ALCO') is the Society's governance committee with responsibility for capital management. Under its delegated Board authority, it retains responsibility for monitoring the Society's capital adequacy and recommending/approving actions, as appropriate.

Current and projected capital positions are regularly monitored and form a pivotal part of the Society's approach to capital management.

The Society undertakes an Internal Capital Adequacy Assessment Process (ICAAP) annually. Under Pillar 2A, the Society considers extreme stresses on individual risks in isolation. Under Pillar 2B the Society applies economic stress scenarios over the planning horizon. This process allows the Society to assess the impact on its capital headroom were these stresses to materialise.

In addition to the ICAAP, the Society regularly operates additional internal stress tests to ensure that sufficient capital is available throughout the planning horizon. Reverse stress testing allows the Society to understand the potential scenarios and risk drivers that could cause the potential failure of the Society, and to ensure that sufficient mitigations are in place.

Specific details on capital management can be seen in the Society's Pillar 3 disclosures available on the Society's website.

Capital ratios

The Society's CET1 ratio at year-end 2023 stood at 16.7%, showing a marginal decrease from the prior year (2022: 16.8%). The Society's UK leverage ratio was maintained at 6.2% (2022: 6.2%).

Growth in the Society's CET1 resources of £0.3bn has been offset by risk-weighted asset (RWA) growth of £1.9bn. The RWA growth was a result of net mortgage lending, diversification of the Society's treasury investments (which attract a higher risk-weight), and an increase in the operational risk component given the inclusion of higher profit levels in the calculation which is based on a three-year average. The CET1 ratio remains comfortably above regulatory requirements and risk appetite.

MREL (Minimum requirement for own funds and eligible liabilities)

The Society's MREL RWA ratio at year-end stood at 24.2%, compared to the prior year's position of 21.9%. This increase recognises Senior Non-Preferred ('SNP') issuance activity undertaken during 2023 to strengthen the Society's MREL resources.

Capital outlook

Whilst the Society currently monitors and reports its Leverage-based capital position, Leverage requirements will become binding when the Society surpasses £50bn of retail deposits and is classified as LREQ. The Society is well capitalised to meet these requirements on both a UK and MREL Leverage basis.

The Society continues to progress towards Internal Ratings Based (IRB) accreditation, and preparations are also underway to implement Basel 3.1 per the PRA's near-final policy statement (PS17/23) on 1 July 2025.

Our Financial Review (continued)

Financial performance (continued)

£m	2023	2022
Common Equity Tier 1 ('CET1')		
General reserve[30]	3,702.9	3,379.2
Fair value through other comprehensive income reserve	(10.2)	1.9
Cash flow hedge reserve	0.4	9.9
Common Equity Tier 1 prior to regulatory adjustments	**3,693.1**	**3,391.0**
Common Equity Tier 1 regulatory adjustments	-	-
IFRS 9 transitional arrangements	-	-
Pension fund adjustments	(27.8)	(23.3)
Intangible fixed assets	(18.4)	(20.2)
Prudent valuation adjustment	(7.7)	(7.3)
Cash flow hedge reserve	(0.4)	(9.9)
Total Common Equity Tier 1 capital	**3,638.8**	**3,330.3**
Tier 2		
Subordinated liabilities	267.9	278.7
Collective provisions for impairment	-	-
Total Tier 2 Capital	**267.9**	**278.7**
Total capital (audited)	**3,906.7**	**3,609.0**
MREL Resources		
Secondary Non-Preferential Liabilities	1,313.0	739.4
Tier 2 MREL Eligible	37.1	16.9
Total MREL Resources (unaudited)	**5,256.8**	**4,365.3**
Risk weighted assets (unaudited)	21,756.1	19,846.6
Common Equity Tier 1 capital ratio	16.7%	16.8%
Tier 1 ratio	16.7%	16.8%
Total capital ratio	18.0%	18.2%
Total MREL Resources ratio	24.2%	22.0%
CRR Leverage ratio	5.8%	5.6%
UK Leverage ratio (excluding claims on central banks)	6.2%	6.2%

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

RISK OVERVIEW

The environment in which we operate, and the nature of the risks that we face, are continually evolving. Effective risk management is fundamental to ensure that we maintain the trust of our members, customers, and regulators.

How we manage risk

We categorise the emerging and evolving risks that we face into nine principal risks, defined in our Enterprise Risk Management Framework (see the Risk Management report). This ensures that we identify, assess, and manage these risks carefully and consistently.

The most significant emerging and evolving risks are reviewed regularly through our senior risk committees and are considered during our business planning processes.

We continue to monitor the effectiveness of, and invest in, our risk management capabilities to ensure timely and appropriate action is taken to protect the interests of the Group and its members and customers.

Our robust risk management framework, strong capital position, diverse funding sources, and high liquidity levels lead us to be confident in the Group's financial and operational resilience.

Our top emerging and evolving risks

Emerging or evolving risk	Principal risk(s)	Commentary
The political and economic environment	**Retail and commercial credit risk** **Market risk** **Funding and liquidity risk**	At a UK level, persistently high inflation, higher interest rates and an uncertain economic outlook continue to add pressure to household incomes. This has reduced affordability for both mortgage borrowers and tenants of buy-to-let landlords, contributing to a slowdown in the UK residential market. We assess affordability for new lending using a sophisticated model which uses a stressed interest rate, and is reviewed at least every six months. Our lending criteria aim to balance the level of purposeful risk we take with lending responsibly to deliver good customer outcomes, minimise arrears, and comply with the Consumer Duty regulations. We ensure that our products are carefully priced, and we are disciplined in our approach to hedging, so that we do not exceed the Board-approved risk appetite. We stress test our liquidity position regularly and our liquidity ratios continue to remain significantly within the Board-approved risk appetite. The international political and economic environment affects us too; we have seen nervousness in some wholesale funding markets arising from the failures of banks in the US and Europe.

Risk Overview (continued)

Our top emerging and evolving risks (continued)

Emerging or evolving risk	Principal risk(s)	Commentary
Attracting and retaining the right people	**Operational risk**	Employer competition continues for in-demand skills, such as those relating to change, cybersecurity, digital, and analytics. Coupled with low levels of unemployment and higher wage inflation, attracting, and retaining the right people to deliver our strategy is vital and challenging. Effective resource planning, forecasting, and succession planning remain priorities. We have also strengthened our risk management capabilities for people risk and have improved our people policies, particularly for working families.
The use of sophisticated models	**Model risk**	We use sophisticated models to help manage our financial risks. These use historical data and assumptions based on the past, to provide future estimates to assist with running the business and in understanding our risks. Any approach that seeks to predict the future carries inherent risk. Our Model Risk Committee reviews the specific risks associated with the models regularly. We also ensure that our model risk framework meets regulatory requirements.
The regulatory environment	**Compliance and conduct risk**	The regulatory environment for the UK financial services sector continues to evolve, with the FCA's Consumer Duty rules and the Government's Mortgage Charter both starting in 2023. We continue to have open and constructive dialogue with our regulators, and work with them and industry bodies to contribute to the regulatory agenda. Monitoring and maintaining our actual regulatory compliance positions is of the highest priority across management.
Climate change	**Credit risk** **Operational risk**	The main risks from climate change for the Society arise in the physical risks to our customers' properties, such as from flooding, subsidence, and coastal erosion, and those posed by the transition to a lower-carbon economy, such as changes in energy efficiency regulation. We continue to develop our environmental and climate change risk management capabilities, to ensure that we align with industry good practice and meet reporting and disclosure requirements.
Financial crime threats	**Compliance and conduct risk**	Financial crime threats arise both from customers falling victim to fraud attempts, particularly through digital channels, as well as from individuals attempting to use the Society for unlawful reasons such as to launder money or evade sanctions. These threats are heightened in the uncertain economic and geopolitical environment. Our continued focus on our financial crime capability remains paramount, and we continue to invest to deliver proportionate and effective monitoring, and prevention controls.
Cyber security threats	**Operational risk**	The increasing use of technology and digital services means the UK financial services sector is exposed to increasing cyber security risks. These are heightened further because of geopolitical tensions, such as the war in Ukraine. Resilience to such threats, and an ability to respond effectively in the event of an attack, remains essential to protect the Society and our customers, and to maintain the confidence of regulators. We have significantly enhanced our cyber threat monitoring and response capability and will continue to do so.
IT resilience	**Operational risk**	As IT components age, their health and value can deteriorate. This poses a risk to our customers who increasingly rely on our digital channels, and our colleagues who use our systems to deliver services to our customers. We are continually modernising and simplifying our IT estate to improve its resilience so we can deliver the services our customers expect.

OUR BOARD AND EXECUTIVE TEAM

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

For information regarding our Board and any changes during 2023 see the Corporate Governance report.

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

Our Board and Executive Team (continued)

Chair of the Board

John Heaps

LLB

Chair of the Board

BGNC Chair

Joined our Board in 2014 as Chairman Designate, becoming Chair of the Board in 2015.

Background and career

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

Skills and experience

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

Other roles

Member of the Audit and Risk Committee and Constitutional and Governance Committee of the International Bar Association. Member of the Advisory Board of the International Business and Diplomatic Exchange .

John will retire from his role as Chair of the Board in April 2024.

Chair of the Board Designate

Annemarie Durbin

BComm LLB MSc

Chair of the Board Designate

Joined our Board in 2023 as Chair of the Board Designate.

Background and career

Annemarie Durbin has 35 years' international business and banking experience, including retail, commercial, corporate and institutional banking. She spent the majority of her executive career with Standard Chartered, a FTSE 100 international bank, culminating in membership of the Group Executive Committee. She held a variety of global and business roles, including being CEO and Executive Director of Standard Chartered's publicly listed entity in Thailand and CEO in the Philippines. Annemarie has also held a range of non-executive positions, including WH Smith Plc, Santander UK plc and was Chair of Cater Allen Limited. Annemarie is also an executive coach and mentor.

Skills and experience

Annemarie is a highly experienced executive with a strong background in banking, leadership and talent, transformation, and corporate governance. She also has significant experience in relation to remuneration, including as a Remuneration Committee Chair, and extensive experience in respect of audit, risk and responsible banking from her membership of the relevant Committees at Santander UK plc.

Other roles

Non-Executive Director, Chair of Remuneration Committee and member of Nomination Committee at Persimmon Plc. Non-Executive Director, Chair of Remuneration Committee and member of Management Engagement, Audit and Risk and Nominations Committees at Petershill Partners LLC.

Non-Executive Director

Alison Hutchinson

BSc, CBE

Senior Independent Non-Executive Director and Vice Chair

Non-executive Director for Workforce Engagement (to 31 December 2023)

BGNC GRC RC

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

Background and career

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

Skills and experience

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

Other roles

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

Non-Executive Director

Guy Bainbridge

MA (Cantab), ACA

Independent Non-Executive Director

Whistleblowing Champion

AC Chair BGNC GRC

Joined our Board in 2019.

Background and career

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

Skills and experience

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

Other roles

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

Our Board and Executive Team (continued)

Non-Executive Director

Angela Darlington

BSc, FIA

Independent Non-Executive Director

GRC Chair AC

Joined our Board in 2022.

Background and career

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

Skills and experience

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

Other roles

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

Non-Executive Director

Debra Davies

BA (Hons)

Independent Non-Executive Director

RC Chair GRC

Joined our Board in 2023.

Background and career

Debra has over 25 years of experience in financial services. After starting in Market Research, she spent the remainder of her executive career with American Express, in a variety of senior roles including leading the UK Consumer Business, leading Product Marketing globally and rolling out the American Express business across 55 Countries. She represented the Company's interests in major Joint Ventures in the Middle East, Belgium and Switzerland where she was the Chair of Swisscard. She has held a range of non-executive and committee Chair roles with AXA UK plc and Credit Suisse international.

Skills and experience

Debra has a strong background in profit and loss leadership, customer service, marketing, technology transformation and digital innovation, as well as Partnership development and management. Her experience spans business to consumer and business to business across many countries and cultures.

Other roles

Non-Executive Director at AXA UK plc, Chair of the Remuneration Committee and member of the Audit and Risk Committees. Non-Executive Director of Intrum AB, member of the Transformation Committee.

Non-Executive Director

Dina Matta

BSc, BA (Hons)

Independent Non-Executive Director

RC

Joined our Board in 2021.

Background and career

Dina began her career in strategy and technology consulting prior to joining HSBC/Midland Bank in London. She subsequently worked with UBS, British Telecom and ING Bank in a transformation capacity within their retail, corporate and wholesale business divisions. More recently, Dina joined the European Bank for Reconstruction and Development in October 2021 as the Vice President and Chief Transformation Officer overseeing the Bank's digital transformation with direct responsibility for the Bank's data management, technology and administrative service departments as well as the bank wide transformation office.

Skills and experience

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

Other roles

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

Non-Executive Director

Mark Parsons

BA, FCMA

Independent Non-Executive Director

Board Consumer Duty / Member Champion

AC GRC

Joined our Board in 2020.

Background and career

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

Skills and experience

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

Other roles

Non-Executive Director of Fairstone Capital Group Ltd.

Our Board and Executive Team (continued)

Non-Executive Director

Jennelle Tilling

B.Bus, BA

Independent Non-Executive Director

RC

Joined our Board in 2021.

Background and career

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

Skills and experience

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

Other roles

Non-Executive Director of Shaftesbury Capital Plc, Senior Independent Director of Camelot UK Lotteries Ltd and Trustee for The Guide Dogs for the Blind Association.

Executive Director

Susan Allen

BA Hons (Econ), ACIB, ACT, OBE

Chief Executive Officer

Joined the Society and our Board in 2023.

Background and career

Susan was most recently Head of Customer Transformation at Barclays where she was responsible for leading and supporting all colleagues in frontline teams to deliver a differentiated customer experience. Prior to that Susan was responsible for all of Santander's UK Retail and Business banking businesses, supporting 15 million customers and with a nationwide network of branches and customer contact centres, following her role as Chief Transformation Officer. Susan is a former Board member of UK Finance.

Skills and experience

Susan has more than 25 years of experience in financial services having held senior executive positions at a number of large retail banks in the UK. Susan has been a proud champion of diversity and inclusivity throughout her career. She is also a member of the Building Societies Association Council.

Other roles

Member of the Board of Trustees for the Alzheimer's Society.

Executive Director

Alasdair Lenman

MA, ACMA

Chief Finance Officer

Joined the Society and our Board in 2017.

Background and career

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

Skills and experience

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

Alasdair will retire from his role with the Society in 2024.

Executive Director

David Morris

BA, MA

Chief Commercial Officer

Joined the Society in 2018 and our Board in 2022.

Background and career

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

Skills and experience

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

Our Board and Executive Team (continued)

Chief Officer

Joined the Society in 2019.

Orlagh Hunt
BA, FCIPD
Chief People Officer

Background and career

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

Skills and experience

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

Chief Officer

Joined the Society in 2023.

Fraser Ingram
MBA FCB
Chief Operating Officer

Background and career

Fraser was most recently Chief Digital and Innovation Officer at Virgin Money. Prior to this he held a range of roles including Group Chief Operating Officer, Chief Information Officer and Innovation and Change Director. Before joining Virgin Money his most recent roles included Chief Operating Officer at Kleinwort Benson and CIO of Citizens Bank in the USA.

Skills and experience

Fraser has a wide range of experience across businesses, functions and geographies – including business transformation, IT and change management.

Chief Officer

Joined the Society in 2022.

Kate Ireland*
BSc, FCA
Chief Internal Audit Officer

Background and career

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

Skills and experience

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

Kate will be leaving the Society in 2024 to take up a new opportunity.

***Also known as Katherine Remington**

Chief Officer

Joined the Society in 2010.

Richard Wells
FCIB
Chief Risk Officer

Background and career

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

Skills and experience

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

Richard will retire from his role with the Society in 2024.

Corporate Governance report

A WORD FROM THE CHAIR OF OUR BOARD

I am pleased to present our Corporate Governance report for 2023, which sets out the role of the Board and its key activities during the year.

As a Board we remain committed to maintaining a robust and effective governance framework which supports the delivery of our strategy and purpose whilst remaining adaptable to the challenges brought by external events arising in the UK and around the world.

Our approach to Corporate Governance

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

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

Changes to the Board

As reported in the Annual Report and Accounts 2022, we were pleased to announce in August 2022 that the Society had appointed Susan Allen OBE as our new Chief Executive. Susan joined us in March 2023 and brought more than 25 years of experience in financial services. Her skills and expertise are already proving to be a significant benefit to the Society as we deliver our strategy.

We announced in January 2024 that Alasdair Lenman, our Chief Finance Officer, will be retiring from his role with the Society and from the Board in June 2024. I would like to take the opportunity to thank him for his outstanding contribution to the Society not least for his role as Interim Chief Executive.

There has continued to be a significant focus on Non-Executive Director succession planning for our Board during 2023 to ensure it remains effective now and in the future, including managing a smooth transition of key roles on the Board.

In July 2023 we announced that, after nine years as Chair of the Board, I will be succeeded by Annemarie Durbin who joined our Board as Chair of the Board Designate on 18 December 2023. Annemarie has over 35 years' experience in retail, commercial, corporate and institutional banking, she is a qualified lawyer with expertise across general management, operations, HR, legal and compliance, as well as being an executive coach and mentor. I was delighted that Annemarie agreed to join the Society and to be able to welcome her on the Board. Moving into 2024 we will be working together to complete a detailed handover process to ensure the ongoing smooth running and effectiveness of our Board.

We were pleased to welcome Debra Davies to our Board in July 2023 who's experience and knowledge of the financial services sector, together with her focus on remuneration and risk, is a considerable value as we continue to grow and develop. Debra became Chair of our Remuneration Committee in September 2023.

I would like to take this opportunity to thank Alison Hutchinson for undertaking the Chair of Remuneration Committee role during the interim period, ensuring ongoing stability during a period of transition through her significant experience both with the Society and as a Remuneration Committee Chair.

Further details can be found in the Board Governance and Nominations Committee report.

Strategy

During 2024 the Board and Executive Team have been working to refresh and finalise the next stage of our strategy which will take the Society into 2024 and beyond. This will provide us with a clear direction and ensure we build on our achievements to date and continue to improve on what we deliver to our members and customers.

Engaging with our stakeholders

The Board recognises the value of insight gained from our stakeholders and the importance of taking into account their views as part of decision making.

Our Annual General Meeting is always one of the key events in the year for us to meet and obtain the views of our members on how the Society is run. For our Annual General Meeting in 2023 we were pleased to offer even more choice on how to take part, as well as being able to vote ahead of the meeting or attend the meeting in person, for the first time those members participating online were also able to vote and ask questions.

Consumer Duty

The Consumer Duty has been a key area of focus for the Board in 2023 and this will continue into 2024 as we have the second phase of requirements to meet for our closed products and services. This will lead us to the first Board attestation in July 2024.

To support the Board's oversight we have continued to have regular updates and training during 2023 and we have our own Consumer Duty Champion in Mark Parsons one of our Non-Executive Directors.

Board evaluation

The last external evaluation of the Board was completed in 2020 and, as such, based on the requirements of the Code an external valuation was due in 2023.

The Board is committed to complying with the Code requirements for an external evaluation which provides the opportunity for an independent view of progress, effectiveness and provides insights into potential new areas of focus. As such, Linstock were appointed to support an external review process in 2023.

For 2023 and into 2024 the review process also provides us with the opportunity to support the transition of the Chair of the Board role.

Further details on the external review process can be found in the Corporate Governance report and Board Governance and Nominations Committee report.

Board priorities in 2024

The composition of the Board and ongoing succession planning for key roles will remain a focus in 2024. The Board Governance and Nominations Committee will continue to support the Board to ensure robust plans are in place to maintain the ongoing effectiveness and stability of the Board.

I will be retiring as Chair of the Board at the end of our Annual General Meeting in April 2024 and I look forward to working with Annemarie until she succeeds me as the Chair of the YBS Board. It has been a privilege to serve such a resilient organisation with a strong sense of purpose over the last nine years.

John Heaps
Chair of the Board

Corporate Governance report (continued)

UK Corporate Governance Code Compliance 2023

For the 2023 financial year we have applied the principles and complied with the provisions of the Code published in July 2018 (available on the Financial Reporting Council's website frc.org.uk) as far as they apply to building societies (as set out in the Building Societies Association (BSA) Guidance available at bsa.org.uk) subject to the following:

- As a mutual organisation we do not have shares or shareholders therefore references to long-term shareholdings in relation to remuneration (Provision 36) do not apply. We do, however, seek to apply the provisions of the Code that reference shareholders as appropriate to our members and in accordance with the BSA's guidance.
- Provision 19 of the Code expects that the Chair should not remain in post beyond nine years from the date of their first appointment to the Board. However, to facilitate effective succession planning the period can be extended for a limited time, particularly in those cases where the chair was an existing Non-Executive Director on appointment. John Heaps, our current Chair of the Board reached nine years of service in November 2023 having joined the Board as Chair of the Board Designate in November 2014 before formally becoming the Chair of the Board at the Annual General Meeting in April 2015. Following careful consideration, and on the recommendation of the Board Governance and Nominations Committee, the Board agreed to extend Mr Heaps term of office to the end of the Annual General Meeting in 2024. Mr Heaps did not take part in the decisions in relation to his term of office.

  The decision to extend Mr Heaps' term of office beyond nine years, for a short, time-limited period, was specifically to support the succession of the Chair of the Board role and allow for an appropriate handover period with Annemarie Durbin after she joined the Board as Chair of the Board Designate in December 2023. This approach will ensure the ongoing continuity and stability of the Board during this period and support its ongoing effectiveness.

Board leadership and the Society's purpose

Our Board and Committee structure

Board

Chair – John Heaps
Collectively responsible for the long-term success of the Society.

Board Committees

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

Chair's Committee	Remuneration Committee	Audit Committee	Group Risk Committee	Board Governance and Nominations Committee
Chair - John Heaps	**Chair - Debra Davies**	**Chair - Guy Bainbridge**	**Chair - Angela Darlington**	**Chair - John Heaps**
Considers ad hoc matters specifically delegated to it by the Board. Members are the Chair of the Board, Vice Chair and Chief Executive or any other Director appointed by the Board.	Oversees the development and implementation of the Remuneration Policy for all colleagues.	Reports to the Board on financial reporting, internal controls and risk management systems, environment social and governance reporting, Internal Audit and External Audit.	Oversees Prudential Risk, Operational Risk and Conduct Risk, Risk Strategy, Appetite and Oversight.	Oversees Board governance, including composition, succession and appointment processes for the Board.

Executive Committee ('ExCo')	Executive Risk Committee ('ERC')
Chair - Susan Allen, Chief Executive	**Chair - Richard Wells, Chief Risk Officer**
Oversees and directs the management of all aspects of the Society with delegated authority from the Board. All Chief Officers are members.	Oversees day to day risk management activity with delegated authority from the Group Risk Committee.

The Terms of Reference for the Board, Remuneration, Audit, Group Risk and Board Governance and Nominations Committees are on our website.

In October 2022 the Board established an additional Committee, called the Chair of the Board Succession Committee, to lead the recruitment process for the succession of the Chair of the Board on behalf of it and the Board Governance and Nominations Committee. The Chair of the Board Succession Committee was formally dissolved from the governance structure in 2023 following the conclusion of the recruitment process and approval of the appointment of the Chair of the Board Designate.

Details of the membership and role of the Committee are set out in the Board Governance and Nominations Committee report.

Corporate Governance report (continued)

Board leadership and the Society's purpose (continued)

Climate and environmental governance

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

You can read more about our climate governance in the Strategic report.

Board's responsibilities

The Board is accountable to our members for acting in their best interests. Its role and responsibilities are set out in its Terms of Reference and include:

- Collective responsibility for the success, including long-term success, of the Society.
- Overall management of Society within a framework of risk management (including approval of risk appetite).
- Establishing the purpose, values and strategy of the Society.
- Establishing a sustainable business model.
- Developing the desired culture and setting the 'tone from the top'.
- Oversight of the Society's operations.
- Review of performance in light of the Strategy and Corporate Plan.

The Board retains certain key matters for its own approval which it does not delegate to any of its committees or any individual.

These are set out in a Schedule of Matters Reserved which can be found on our website at ybs.co.uk/board.

Setting our purpose and generating long-term success

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

Some of the key elements that support the Board in its role include:

Strong and robust corporate governance framework	The Board and Committee governance structure supports effective decision making ensuring it aligns with the Society's purpose and strategy.
Board composition	Ensuring the Board and its Committees remain fit for purpose, with the right skills and experience, enables it to continue to be effective and able to work for the long-term success of the Society for our members.
Strategy	Ensuring the Society has a clear direction which enables it to address current and future opportunities and challenges.
Risk management	Ensuring continuous identification and review of principal business risks and how the risks could affect the Society's purpose and long-term success, taking into account the agreed risk appetite.
Compliance	Good corporate governance ensures that we meet legal and regulatory requirements and avoid any consequences of not doing so.
Culture	Strong behaviours which support the delivery of our purpose and strategy.
Stakeholder engagement	Engagement with and participation from key stakeholders such as our members and colleagues supports decision making and the long-term success of the Society for our members.
Brand and reputation	A clear and effective framework of corporate governance provides confidence to our stakeholders, supporting a positive brand reputation.
Environment Social Governance (ESG) strategy	Our ESG commitments and goals support the delivery of our purpose.
Finance	Ensuring strong capital and liquidity management.
People	Ensuring policies and procedures are consistent with the Society's purpose and behaviours.

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

Board activities in 2023

Our Board's activities during the year are based around an annual cycle which is planned on a rolling 12-month basis to make sure it meets its responsibilities and oversees overall management of our operations.

The Board agenda also includes additional items as required during the year together with the following standing items presented to each meeting:

- Report of the Chair of the Board
- Member, Market and Competitor Update
- Chief Executive Officer Report
- Business Review
- Board and Committee updates and minutes

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

Principal Decision Examples	Key stakeholder implications
Approval of Annual Report and Accounts and Interim Financial Statements	C, M&C, G&R, I, P, CO
Approval of 2023 Internal Capital Adequacy Assessment Process (ICAAP)	C, M&C, G&R
Approval of Internal Liquidity Adequacy Assessment Process (ILAAP)	C, M&C, G&R
Approval of key policies, such as Whistleblowing Policy	C, M&C, G&R
Approval of Operational Resilience Self-Assessment	C, M&C, G&R, I
Approval of the Society's Modern Slavery Transparency Statement	C, M&C, G&R, I, P, CO
Approval of appointment of Non-Executive Directors	C, M&C, G&R

Key Topic Examples	Key stakeholder implications
Strategic Context Review	C, M&C, G&R, I
Consumer Duty Updates	C, M&C, G&R, P
Colleague Engagement Updates	C
Cyber Security Updates	C, M&C, G&R
Change Portfolio Updates	C, M&C, G&R
Environment Social Governance Updates	C, M&C, I, P, CO
Balance Sheet Management Strategy	C, M&C, G&R, I

Key

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

Strategy sessions in 2023

The Board also holds separate strategy sessions each year and in 2023 two sessions were held to review the strategic direction of the Society. The sessions considered the future strategy to ensure it continued to build short-term resilience whilst developing an approach to building long-term profitability and growth in line with our Member Value priority and our duty to our members to operate a responsible and resilient business.

Each strategy session was attended by all Board members with members of the senior leadership team invited to attend to present relevant items, supported by external advisors where appropriate.

During 2023 the Board has been focused on the evolution and delivery of the Society's Strategy, engaging with the Executive Committee and Senior Leadership Team.

Key topics considered during 2023 covered meeting customer needs and connecting with our members, supported by discussions on brand, mortgage and savings market participation, future of the retail network, future of retail financial services, inspiring and empowering our people, change and our Corporate Plan.

Corporate Governance report (continued)

Our Board's engagement with stakeholders

The Board recognises the importance of maintaining a strong relationship with its stakeholders including the contribution it makes to achieving the Society's purpose and delivering its strategy. This includes understanding the views, areas of interest and / or concerns of our key stakeholders when it comes to decision making.

Each report to the Board includes, where appropriate, details of any consultation undertaken with key stakeholders together with any impact, or potential impact, a decision may have on relevant stakeholders. The performance information provided to the Board also covers key areas relevant to the Society's stakeholders.

Details of how our Board engages with our members and our colleagues are set out in the sections below.

Our Board also engages with other stakeholders such as investors, regulators, partners (such as brokers, agency proprietors, trade unions), industry bodies and communities as required.

Examples include:

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

For more details on how the wider Society engages with its key stakeholders see the stakeholder section in the Strategic report.

Our members and customers

As a building society we do not have external shareholders and instead we are owned by, and are there for the benefit of, our members. We are committed to ensuring the Society is run effectively on their behalf and this includes using feedback on our activities to inform the Board's decisions.

Examples of how we get this feedback from our members and customers include:

Annual General Meeting	Our Annual General Meeting ('AGM') provides the Board with the opportunity to present to our members details of how we performed during the previous year, our plans for the future and, where circumstances allow, to give them an opportunity to ask questions and provide feedback. In 2023 for the first time our members joining us online were also able to vote and ask questions. It is important that our members are able to have their say at our AGM so even if they are unable to attend in person or join us online we strongly encourage all eligible members to exercise their rights to vote. Members were also able to call, email or write with their questions and responses were issued in a timely manner. Voting at the AGM is one of the important ways in which our members can get involved and vote on important matters, including the directors who represent them on the Board. The UK Corporate Governance Code expects that if there is a vote of 20 per cent or more against any resolution put forward by our Board at the AGM, we should give details of how we will consult our members to understand the reason why. The Society has a process in place if this happens. There were, however, no votes of 20 per cent or more against any of the resolutions our Board put forward at the 2023 AGM.
Member Champion / Consumer Duty Champion	The Board has a Non-Executive Director Member Champion role to ensure the continued prominence of our members voice in discussions and support all directors in their duty to act in the best interests of our members and customers. Our current Member Champion is Non-Executive Director Mark Parsons who is also the Board's Consumer Duty Champion.
My Voice (Online community)	Our My Voice panel is our online community where members can interact with the Society through a range of channels and comment on a broad range of services and customer journeys so we can continue to improve and make sure we are getting things right. Research through My Voice is done in a variety of ways, such as quick polls, surveys and discussions with other members. As well as a quarterly 'mood tracker', topics covered in 2023 have included the use of Chatbots, savings rate notifications, attitudes toward ISAs and financial planning for later life.
Your Time to Talk (In branch events)	We hold Your Time to Talk Events to enable members to hear first-hand how we are looking after their interests. Events are held across the country and provide local members with the opportunity to meet our senior team, ask questions and meet our colleagues. In June 2023 an event was held at the Royal Armouries Museum in Leeds where members were able to listen to a presentation on Making the Most of Your Savings. This was followed by a Question and Answer session with some of our senior team; Susan Allen, Chief Executive; David Morris, Chief Commercial Officer; and Jennelle Tilling, Non-Executive Director. The questions covered topics such as the future of branches, housing market and the challenges for the younger generation, artificial intelligence and the potential for a cashless society.
Your Time to Talk (Online events)	Our first online Your Time to Talk event was held on 23 November 2023 providing some of our members with the opportunity to join our panel of experts for insight into what is happening in the market and what this means for them. Members also had the opportunity to ask questions and give their thoughts through polls and word clouds, so we could see exactly what matters to them.
Operational visits	Our Board recognises the contribution operational visits to areas such as branches and customer facing teams make to the continued understanding of what is most important to our members and customers.
Other	Other areas of feedback include: ■ Net Promoter Score ('NPS') tracking. ■ Brand Tracker. ■ Member case studies. ■ Analysis of profile and behaviour of YBS customer segments. ■ Ad hoc research with members through online surveys or focus groups. ■ Ad hoc insight such as commissioned research.

Corporate Governance report (continued)

Our Board's engagement with stakeholders (continued)

Our colleagues

Our Board remains committed to ensuring there is effective engagement with our colleagues. An important part of our engagement framework is the quarterly Colleague Forum, that has colleague representation from across the Society and the Non-Executive Director for Workforce Engagement attends. Alison Hutchinson has held the role of Non-Executive Director for Workforce Engagement since 2019, with Angela Darlington taking over this position in January 2024.

One of the key roles of the Colleague Forum is to help inform better Board discussions and decisions, ensuring colleagues' views are heard and considered. The Colleague Forum is designed to explore feedback from colleagues on specific Board topics and to enable unstructured discussion to capture any other concerns too.

Following a move to virtual meetings during the Covid-19 pandemic, the Colleague Forum has continued to mature and evolve with two of the four sessions now taking place in person to allow colleagues to network more easily. The Forum continues to be well attended by colleagues who are thoroughly prepared, passionate and bring quality feedback to participate fully in discussions.

Colleague communications have focused on building wider awareness of the Forum's purpose, to build belief and to reinforce that diverse perspectives are actively welcomed at YBS. The addition of Colleague Network Chairs as attendees has also ensured we have a strong, diverse representation.

In terms of what is discussed at Colleague Forum, we took a different approach in 2023 to ensure the topics were timelier and more aligned to the Executive Committee and Board strategic runway. This led to us exploring the following areas: Business Transformation, Customer Centricity, Career Progression and Underlying Skills and our Environmental, Social and Governance priorities.

Following each quarterly forum, the Non-Executive Director for Workforce Engagement provides a summary of colleague views to Board. The Forum Chair, Tina Hughes who is Director of Marketing & Digital Channels, also shares outputs with the Executive Committee and any actions are fed back at the next Colleague Forum. The effectiveness of this feedback loop is an area that continues to strengthen, particularly as members of the Senior Leadership Team are rotating their attendance at each Forum to directly hear colleagues' views.

Alongside the Colleague Forum we also have several other channels for colleagues to provide feedback and share their views in confidence:

- We have a flow of regular engagement temperature check surveys to supplement a full engagement survey at the year end.
- All colleagues are also encouraged to complete our Diversity, Equity and Inclusion survey annually.
- Board listening sessions continue biannually for colleagues to raise any questions they have directly with our Non-Executive Directors.
- Colleagues can attend working lunches with our Executive Committee and 'Ask Me Anything' sessions with our Chief Executive on a regular basis.
- We have a direct link to our Chief Executive via our 'StraighttoSusan' mailbox with each message receiving a personal response.

All Board and Committee papers are structured to ensure that each one includes details of how colleague views have been taken into account to inform any recommendations together with any potential implications for colleagues. The Board also receives an annual assessment and update on the framework for colleague engagement.

There are many tangible examples that demonstrate the influence of colleague views, continuing to show that feedback is being heard. The progress, impact and outcomes of our engagement framework shows up through a combination of changes to policy or practice and those more intangible benefits that effective engagement can bring.

Examples of how colleague feedback has been key to supporting colleagues across YBS include:

Connecting colleagues to their role in transforming the business

During the March 2023 Forum, which covered the topic of Business Transformation, we recognised some colleagues were not clear on what this means for them and their part in helping to make this happen to improve the experience of our members and customers. Our Senior Manager of Business Transformation attended the feedback session which resulted in her writing an article "The path to real transformation starts with you." This clearly laid out what transformation really means, why it matters, and the role colleagues need to play in helping our transformation happen. This was well received by colleagues and generated positive feedback from across the business.

Providing better cost of living support

Following a discussion on the topic of cost of living in December 2022, a cost-of-living hub was created on our Intranet to enable colleagues to find information about help and support quickly and easily both for themselves, our customers and our communities.

Climate check-ins

These discussions take place at the end of each Colleague Forum and remain an essential part of the agenda to provide a safe space to raise items outside of the main discussion topic. One example of this was Consumer Duty where colleagues felt they needed more information. As a result, we provided additional communications to colleagues which included a dedicated Consumer Duty page on the Intranet, a Question and Answer video and regular blogs and features to keep colleagues updated with progress.

Improving our intranet

Our Intranet has been a hot topic of conversation across all forums in the past 12 months and their tenacity has proved invaluable. With the help of the Forum Chair, progress to move the Intranet to the Cloud was accelerated which now allows for new features, and there is a team in place looking at what our Intranet provision will look like going forwards. The improvements to our Intranet will assist our colleagues in supporting our members.

Corporate Governance report (continued)

Our Board's engagement with stakeholders (continued)

Our culture

The Board recognises that 'how' we work as an organisation is critical and our behaviours drive true differentiation setting out the culture we wish to foster.

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

The Board is key in overseeing and monitoring culture and how our behaviours are embedded as part of the Society's wider strategy taking into account:

- Colleague Engagement including Colleague Listening Groups and our Colleague Forum.
- Feedback from the Non-Executive Director for Workforce Engagement.
- Employee Survey Results.
- People Updates.
- Health and Safety Updates.
- Whistleblowing Updates.
- Operational Site Visits.

Whistleblowing

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

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

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

Our Board approves the Whistleblowing Policy on an annual basis and oversees its implementation. The Society also has a Whistleblowing Champion who is a key point of contact for individuals who wish to report concerns. As reported in our Annual Report and Accounts for 2022, Guy Bainbridge was appointed to the role with effect from 1 January 2023.

All colleagues and our Non-Executive Directors also complete an annual whistleblowing e-learning course.

Directors' duties

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

Our Section 172 Statement is set out in the Directors report.

Conflicts of interest

Our Board has a Conflicts of Interest Policy for Directors and Chief Officers which sets out how we will review and, where appropriate, approve any conflicts or potential conflicts of interest. The Policy is reviewed on an annual basis by the Board Governance and Nominations Committee and recommended to the Board for approval.

Any interests and associated conflicts are recorded in a Register of Interests which is reviewed and approved by our Board Governance and Nominations Committee at each quarterly meeting. If any director wants to take on a new external position it must first be approved by our Board, which will consider whether there could be any conflicts of interest and / or an impact on the time they commit to their role with the Society.

Division of responsibilities

Board roles and division of responsibilities

Non-Executive Directors

Chair of the Board

- Leadership of the Board.
- Ensures the Board acts effectively, promoting high standards of corporate governance.
- Leads annual review of the performance of the Board, its committees and directors.
- Identifies ongoing development needs of the Board.
- Leads the Board in the development of the Society's culture.

Vice Chair / Senior Independent Director

- Deputises for and provides support and guidance to the Chair of the Board.
- Acts as an intermediary for other directors.
- Leads the performance evaluation of the Chair of the Board.
- Acts as the main point of contact for the Society's members should the normal channels of communication fail.

Non-Executive Director

- Responsible for bringing independent judgement to Board decisions and debate.
- Uses their own experience and skills to constructively challenge the Executive Team.

Executive Directors

Chief Executive

- Overall responsibility for managing the Society.
- Implements the strategies and policies agreed by the Board, supported by the Executive Team, through a number of management and risk committees.

Executive Director

- Responsible for the day-to-day management of specific areas of the business including maintaining the Society's financial strength and sustainability.
- Brings associated skills and knowledge to the board.

Group Secretary

- Responsible for advising the Chair of the Board and the Board as a whole on all corporate governance matters.

Independence

All the Non-Executive Directors continue to be considered independent based on the guidance set out in the Code. The Chair of the Board and the Chair of the Board Designate were considered to be independent on appointment.

Corporate Governance report (continued)

Division of responsibilities (continued)

Attendance at Board and Committee meetings

The table below shows our directors and the scheduled Board and Committee meetings they attended during 2023 (where they were a member during the year) followed by the number of meetings the director was eligible to attend.

			Board Committees				
Director	Board	Board Strategy	Chair's	Audit	Board Governance and Nominations	Remuneration	Group Risk
Non-Executive Directors							
John Heaps	9/9	2/2	No meetings required in 2023[i]	–	4/4	–	–
Alison Hutchinson	9/9	2/2	No meetings required in 2023[i]	–	4/4	5/5	4/4
Guy Bainbridge	9/9	2/2	–	4/4	4/4	–	4/4
Angela Darlington	9/9	2/2	–	4/4	–	–	4/4
Debra Davies[ii]	4/4	1/1	–	–	–	2/2	–
Dina Matta	9/9	2/2	–	–	–	5/5	–
Mark Parsons	9/9	2/2	–	4/4	–	–	4/4
Jennelle Tilling	9/9	2/2	–	–	–	4/5	–
Executive Directors							
Susan Allen[iii]	7/7	2/2	No meetings required in 2023[1]	–	–	–	–
Alasdair Lenman	9/9	2/2	–	–	–	–	–
David Morris	9/9	2/2	–	–	–	–	–

i. Meetings only held when required to consider ad hoc matters specifically delegated to it by the Board.
ii. Debra Davies joined the Board and the Remuneration Committee on 26 July 2023 and the Group Risk Committee on 18 October 2023 (pending approval of the appointment to Group Risk Committee, Debra Davies was an attendee at the meeting on 16 October 2023 prior to becoming a formal member).
iii Susan Allen joined the Board on 2 March 2023.

Annemarie Durbin joined the Board on 18 December 2023 and as such did not attend any Board meetings in 2023.

In 2023 the following ad hoc meetings were held at short notice:

- One meeting of the Board to discuss the outcomes of the Governance, Risk and Controls Review.
- Two meetings of the Board Governance and Nominations Committee in relation to the recruitment of Non-Executive Directors and Board composition and succession planning.
- Three meetings of the Remuneration Committee in relation to the appointment of the Chief Operating Officer and the review of the Reward Policy.

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

The Chair of the Board and Chief Executive are invited to attend all Committee meetings and the Chief Risk Officer is invited to attend all Board meetings.

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

- Three times by the Board.
- One time by the Board Governance and Nominations Committee.
- One time by the Audit Committee.
- One time by the Remuneration Committee.

Directors' time commitment and other directorships

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

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

Prior to appointment the significant commitments, including the time involved, for Non-Executive Directors is disclosed and reviewed.

For 2023 this included:

- Debra Davies, Non-Executive Director – joined the Society in July 2023
- Annemarie Durbin, Chair of the Board Designate – joined the Society in December 2023.

There were no significant appointments which required approval for existing Non-Executive Directors, however, the Board Governance and Nominations Committee continued to monitor all commitments throughout the year through the Register of Interests.

None of the Executive Directors have held any non-executive directorships in a FTSE100 company during 2023.

Composition, succession and evaluation

Election and re-election of directors

All of our directors are subject to election on appointment and annual re-election by our members at the AGM based on the best practice set out in the Code (our Rules require the re-election of our directors to take place at least once every three years).

Details of each individual director's contribution are set out in the booklet accompanying the Notice of AGM sent to all qualifying members. The profiles in the *Our Board and Executive Team Section*, and available on our website, also set out the skills and experience of individual directors.

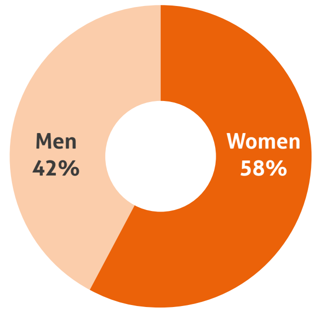
Board composition

Board gender balance

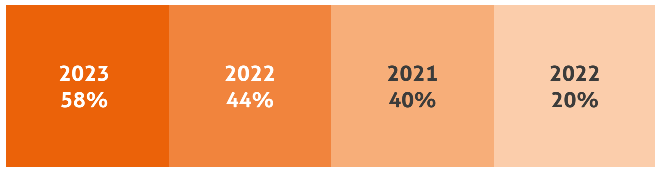
(as at 31 December 2023)

58%

female membership



Rolling four year female representation

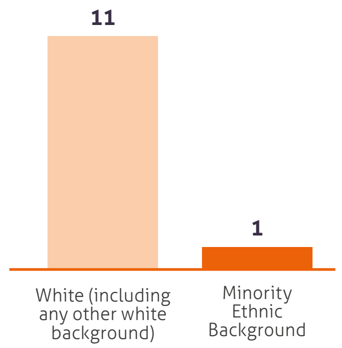


Board ethnicity

(as at 31 December 2023)

1 director

from an ethnic minority background

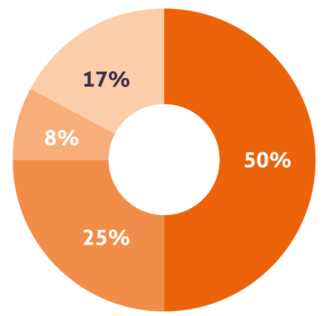


Board tenure

(as at 31 December 2023)

3.2 years

average tenure



0-2 Years 3-4 Years 5-7 Years 8-9 Years

Further information in relation to Inclusion and Diversity can be found in the Board Governance and Nominations Committee report.

Corporate Governance report (continued)

Composition, succession and evaluation (continued)

Tenure

A summary of the tenure of the current Board is set out in the Board Composition section.

The Chair of the Board, John Heaps, was appointed as a Non-Executive Director and Chair Designate in 2014 and became Chair of the Board in 2015. As such, he reached nine years of service in November 2023, however, following careful consideration on the recommendation of the Board Governance and Nominations Committee, the Board agreed to extend his term of office to the end of the Annual General Meeting in 2024. Full details in relation to the rationale for the extension in term are set out in the UK Corporate Governance Code Compliance 2023 section of this report.

For further details on Non-Executive Director tenure see the Terms of Office section of the Board Governance and Nominations Committee report.

Annual review of Board performance 2022

As reported in the Annual Report and Accounts for 2022, an internal performance review was completed for the Board and its Committees in 2022. The outcomes were discussed by the Board at its meeting in January 2023 and were used to inform the Board Effectiveness Action Plan for 2023.

Key themes for the 2023 Action Plan included:

Theme	Background	Update
Board composition and succession	Maintaining the succession planning programme and managing the transition to a new Chief Executive and Chair of the Board.	Succession plans are managed on an ongoing basis by the Board Governance and Nominations Committee. Clear induction plans and comprehensive handovers were put in place for the transition for both the Chief Executive and Chair of the Board role. **Further details can be found in the Board Governance and Nomination Committee report.**
Board meetings	Reviewing the approach to Board agendas to ensure they remain aligned to the Society's purpose and strategy.	A detailed review of the Matters Reserved to the Board was completed in 2023 to ensure that Board agendas remain fit for purpose and ensure the Board can focus on appropriate areas of oversight.
Oversight	Continue to oversee key topics arising from a regulatory or external perspective.	During 2023 the Board has maintained oversight of key areas, including Consumer Duty, Resolvability Assessment Framework, developments in relation to the Government consultation on Restoring Trust in Audit and Corporate Governance, cost of living issues and the development of crypto and digital currencies.

Annual evaluation of Board performance 2023

The last external evaluation of the Board was completed in 2020 with internal evaluations completed in 2021 and 2022. In accordance with the Code requirements for an external evaluation to be completed every three years, it was agreed that an external evaluation would be undertaken in 2023 facilitated by Lintstock in accordance with the process set out below.

2023 Board and Committee evaluation process

Appointment of external facilitator	Evaluation approach
After a comprehensive procurement process, Lintstock were appointed to undertake the external evaluation. The Society has no other connection with Lintstock at this time.	A review process was undertaken incorporating a survey, interviews and meeting observations. Particular areas of focus for the 2023 review included the transition of the Chair of the Board role and priorities for the new Chair; the Board's relationship with the new Chief Executive; external developments such as the competitive landscape; and succession planning and talent management.

Recommendations and Actions

Based on the outcomes of the evaluation process, Lintstock produced a report for the Board and Committees. The report was discussed at the Board meeting in January 2024.

There were no urgent or significant actions arising from the initial discussions, however, the Board has identified the following themes for focus in 2024:

- Overseeing a successful transition in key roles
- Reviewing the management of meetings
- Increasing cohesion following a period of change
- Continuing the journey to the possible designation as a category one firm by the PRA
- Supporting management in delivering on the strategy

The overall outcomes and recommendations will be used to inform any Board actions required in 2024 and an update on progress will be provided in the Annual Report and Accounts for 2024.

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

Corporate Governance report (continued)

Composition, succession and evaluation (continued)

Board training and development

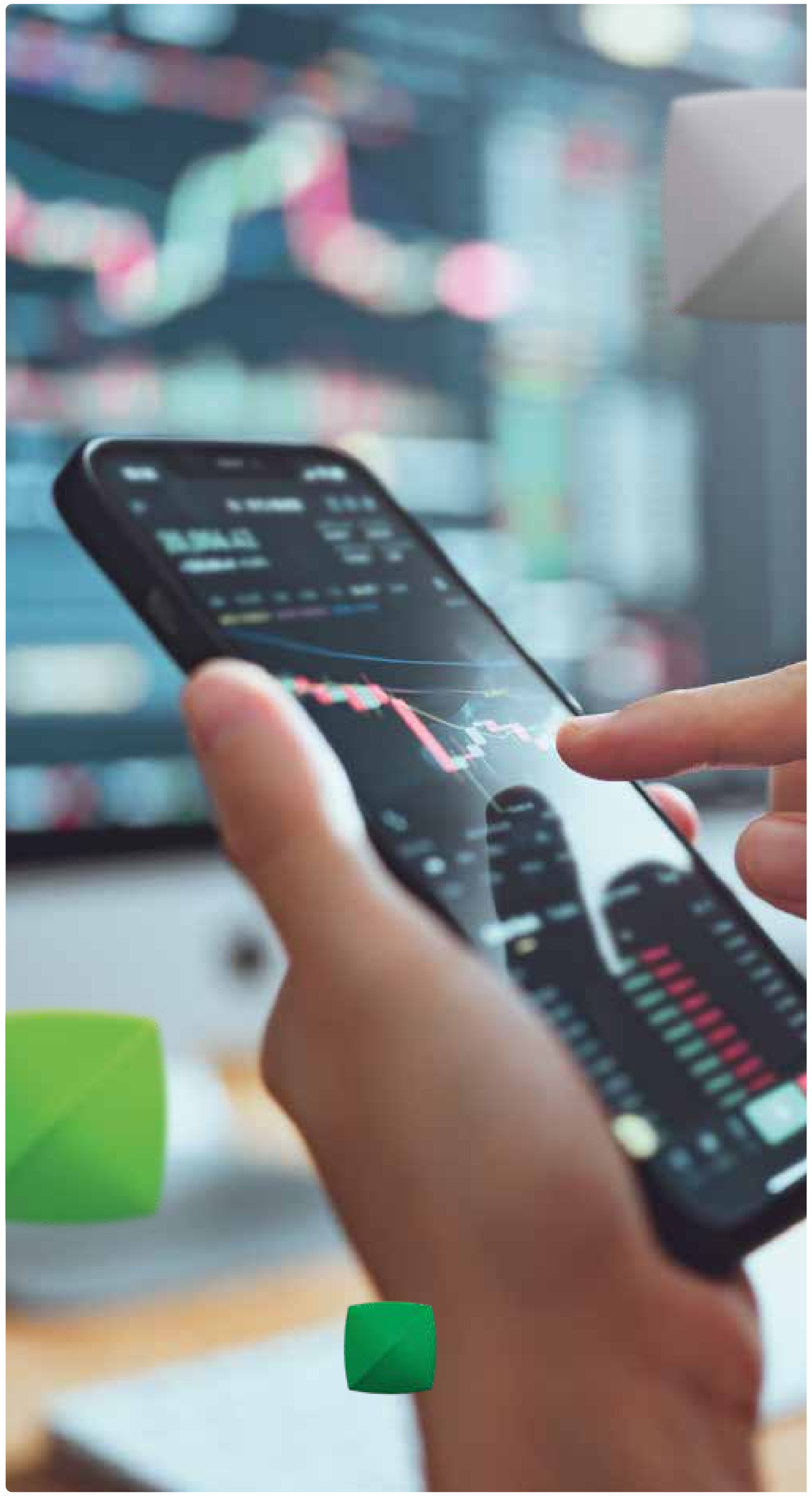
The Board has a formal Training Plan to ensure that there is an overarching plan in place for the Board as a whole, setting out the training and development requirements for the year. The Training Plan is agreed and overseen by the Board Governance and Nominations Committee on behalf of the Board and takes account of future strategy, key topics which would benefit from an external perspective, annual Board Effectiveness Review, Board Skills Matrix, succession plans and regulatory and governance expectations.

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

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

During 2023 key Board training and development topics included:

- Crypto and Digital Currency.
- External Markets.
- Hedge Risk Management and Accounting (Audit and Group Risk Committee training available to all Board members).
- Resolvability Assessment Framework.
- Online learning including Conduct Rules, overview of Senior Management Function and Consumer Duty.



Non-Executive Director induction

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

Debra Davies joined the Board as a Non-Executive Director in July 2023 and a tailored induction programme was put in place based on her existing experience, key areas of the Society and those relating to her areas of expertise. A comprehensive handover was also put in place in relation to the Remuneration Committee and her succession to the Chair role following regulatory approval.

> "Real help with real life is such a powerful mantra and this purpose was a major part of what attracted me to the Society. Since joining I haven't been disappointed. In the course of my induction I have met teams full of passionate, dedicated and energetic people helping customers every day. I'm looking forward to playing my part in delivering value for members alongside them."
>
> **Non-Executive Director induction – Debra Davies**

A comprehensive induction process has been developed for our Chair of Board Designate, Annemarie Durbin, who joined the Society on 18 December 2023. The induction will assist in facilitating the handover of the Chair of the Board role and will be monitored by the Board Governance and Nominations Committee.

The Board Governance and Nominations Committee monitors the completion of all Non-Executive Director inductions.

Chief Executive induction

All Executive Directors have a full, formal and tailored induction programme on joining the Society, based on their skills and experience and taking into account their role on the Board. Susan Allen joined the Society as Chief Executive in March 2023 and a tailored induction programme was put in place based on her experience and taking into account all key areas of the Society. The induction programme was monitored by the Board Governance and Nominations Committee in accordance with its Terms of Reference and was fully completed in 2023.

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

Succession planning for the Board	**See the Board Governance and Nominations Committee report.**
Skills and experience of our Board and Committees	**See Our Board and Executive Team profiles.**
Recruitment and appointment of Directors	**See our Board Governance and Nominations Committee report.**
Board diversity and inclusion	**See our Board Governance and Nominations Committee report.**

Audit, risk and internal control

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

Ensuring that both internal and external audit are effective	**More information can be found in the Audit Committee report.**
Setting our risk appetite	**More information can be found in the Risk Management report.**
Our systems of internal controls	**More information on the internal controls framework can be found in the Audit Committee report.**

The Board receives quarterly reports from the Chief Risk Officer to enable it to monitor the effectiveness of the risk management framework and internal controls systems. The Audit Committee reviews the effectiveness of internal controls at least annually with the outcomes reported to the Board by the Audit Committee Chair.

Remuneration

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

For further details please see the Directors' Remuneration report.

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

John Heaps
Chair of the Board
28 February 2024

BOARD GOVERNANCE AND NOMINATIONS COMMITTEE REPORT

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

I am pleased to introduce the annual report of the Board Governance and Nominations Committee which provides a summary of the work undertaken by the Committee during 2023.

Following the successful completion of the recruitment process for our Chief Executive in 2022, we were pleased to welcome Susan Allen to the Board in March 2023. During 2023 the Committee has provided oversight for the Chief Executive's induction process to ensure a smooth transition to the role.

The succession planning and recruitment process for key Non-Executive Director roles has been a priority for the Committee during 2023. This included the appointment process for a new Chair of the Board, supported by the Chair of the Board Succession Committee established for the purpose (and chaired by the Vice Chair), and our new Chair of Remuneration Committee.

The Committee has continued to monitor all governance developments including the position in relation to the outcomes of the Government's consultation in relation to Restoring Trust in Audit and Corporate Governance. The consultation on changes to the UK Corporate Governance Code (Code) was considered by the Committee in 2023 and, following the publication of the revised Code in January 2024, it will review the requirements as it applies to a building society.

As we move into 2024, the Committee will continue to keep the mix of skills and experience on our Board under review to ensure they remain appropriate for the delivery of our Strategy, with strong succession plans in place to support ongoing Board effectiveness.

John Heaps
Chair of the Board Governance and Nominations Committee

Board Governance and Nominations Committee members and meetings

The members of the Committee are:

John Heaps
Chair of the Board and Committee Chair

Alison Hutchinson
Senior Independent Non-Executive Director / Vice Chair

Guy Bainbridge
Independent Non-Executive Director

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

The Committee met four times in 2023 and held two additional meetings in relation to Non-Executive Director recruitment and future succession planning.

Details of the number of scheduled Committee meetings attended by each member is available in the Corporate Governance report.

Board Governance and Nominations Committee responsibilities

The responsibilities of the Board Governance and Nominations Committee include:

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

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

Corporate governance

The Committee is responsible for the oversight of Board governance and ensuring we work within a strong corporate governance framework. During 2023 this has included:

- Annual review of the Society's compliance with the UK Corporate Governance Code (as it applies to a building society).
- Review of the Corporate Governance report and the Board Governance and Nominations Committee's report and recommendation to the Audit Committee and the Board that they be included in the Annual Report and Accounts.
- Oversight of corporate governance developments with any changes required as a result recommended to the Board to ensure the governance framework is based on best practice.

Succession planning

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

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

Board Governance and Nominations Committee report (continued)

Succession planning (continued)

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

Board Skills Matrix and Skills Map	Based on an annual self-evaluation by our directors of their skills and experience. In 2023 the Committee undertook a detailed review of the approach to the Skills Matrix to ensure it remained fit for purpose and supported the Committee in its succession planning and future recruitment exercises. Taking into account the Board's current and future requirements to deliver the Society's strategy, together with external feedback, a revised Skills Matrix approach was agreed by the Committee and completed by all Non-Executive and Executive Directors in Quarter 4 2023.
Non-Executive Director Succession Timeline	Setting out appointment dates, terms of office and expected retirement dates including key roles such as the Board and Committee Chairs.
Board Committee Membership and Key Non-Executive Director Roles	Setting out current Board Committee membership, composition and any future requirements, together with other key roles held by Non-Executive Directors, such as the Non-Executive Director for Workforce Engagement.
Board Diversity Statement and Information	Setting out our Board's commitments to inclusion and diversity and understanding the composition of our Board.

The Committee continued to oversee succession planning for Non-Executive Directors in 2023, taking into account tenure, current and future skills requirements whilst balancing the need for continuity during a period of transition for key roles.

The Committee's role is key in supporting the ongoing stability and effectiveness of the Board now and in the future.

In addition to Non-Executive Director succession, the Board Governance and Nominations Committee also reviews the succession and talent pipeline for senior roles across the Society to understand the skills required to manage the business and assess any risks or potential gaps. During 2023 this has been key in supporting the onboarding of a new Chief Executive and ensuring robust succession plans are in place as a result of changes in the senior leadership team.

Recruiting Non-Executive and Executive Directors

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

Succession planning

The Committee maintains oversight of the Board's succession plans including planning for future recruitment exercises (taking into account expected terms of office for Non-Executive Directors).

Role requirements

A role specification, including the key skills and experience required, is agreed taking into account succession plans and the Board Skills Matrix as appropriate.

External search agency

An external search agency is appointed to support the process using our Preferred Recruitment Supplier List.

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

Short listing

A shortlist is developed and agreed based on objective criteria, with due regard to the benefits of diversity on the Board, and the skills and experience candidates could bring to the role.

Interviewing

A structured interview process is undertaken including Panel interviews with members of the Committee (or any other Committee established by the Board for the purpose of recruitment) and subsequent interview sessions with other key Board stakeholders.

Appointment

Following a robust process, a preferred candidate is identified and the Board Governance and Nominations Committee will make a recommendation to the Board to appoint (subject to regulatory approval in relation to roles under the Senior Managers and Certification Regime).

Recruitment and Succession in 2023

Non-Executive Directors

As part of ongoing succession planning, the Committee has been involved in the robust recruitment and appointment processes for the following key Non-Executive Director Roles:

Chair of Remuneration Committee succession and recruitment

Succession planning

As reported in the Annual Report and Accounts 2022, the Committee agreed to commence a recruitment process to identify a permanent successor for the Chair of Remuneration Committee role. This followed the retirement of Guy Parsons in April 2022 with the interim role undertaken by Alison Hutchinson to ensure consistency and continuity.

Role requirements

A candidate specification was approved by the Committee setting out the key requirements for the role taking into account succession plans and existing Board composition, including skills and experience.

External search agency

Russell Reynolds Associates were engaged as the external search agency to support the recruitment process. They have previously assisted the Society in the recruitment of Guy Bainbridge, Chair of Audit Committee in 2018.

Shortlisting and interview process

The shortlisting process and panel interviews were undertaken by all members of the Committee and in addition, the Chief Executive and Chair of Group Risk Committee. The preferred candidate also met with all other Non-Executive Directors, Executive Directors and the Chief People Officer.

Appointment

Debra Davies was identified as the preferred candidate for the role taking into account her experience and knowledge of the financial services sector and focus on remuneration and risk, together with a strong interest in social purpose and sustainability.

The Board approved Ms Davies appointment on the recommendation of the Committee and she officially joined the Board on 26 July 2023. Following regulatory approval of the Senior Management Function role, Ms Davies became Chair of Remuneration Committee in September 2023.

For more information about Ms Davies skills and experience see the Non-Executive Director profiles in the Our Board and Executive Team section.

Board Governance and Nominations Committee report (continued)

Succession planning (continued)

Chair of the Board succession and recruitment

Succession planning

As reported in the Annual Report and Accounts 2022 the Committee agreed to commence a recruitment process for succession to the Chair of the Board role.

Chair of the board succession committee

To ensure robust governance the Board agreed to establish a Chair of the Board Succession Committee as a Committee of the Board to manage the process on behalf of it and the Board Governance and Nominations Committee. The members of the Committee were Alison Hutchinson (Vice Chair and Senior Independent Director) who chaired the Committee, Guy Bainbridge (Independent Non-Executive Director) and Mark Parsons (Independent Non-Executive Director).

Role requirements

A candidate specification was approved by the Committee setting out the key requirements for the role taking into account succession plans and existing Board composition, including skills and experience.

External search agency

Russell Reynolds Associates were engaged as the external search agency to support the recruitment process. As set out above, they previously assisted in the recruitment of Guy Bainbridge, Chair of Audit Committee and Debra Davies, Chair of Remuneration Committee.

Shortlisting and interview process

The shortlisting process and panel interviews were completed by all members of the Chair of the Board Succession Committee and in addition, interviews were held with the Chief Executive, Chair of Group Risk Committee and Chief Finance Officer. The preferred candidate also met with the Chair of the Board, all other Board members and the Chief Risk Officer.

Appointment

Annemarie Durbin was identified as the preferred candidate for the role taking into account her extensive retail banking and broader retail financial services experience, together with her experience in other Non-Executive Director roles.

The Chair of the Board Succession Committee recommended the preferred candidate to the Board Governance and Nominations Committee for approval and the Board approved Ms Durbin's appointment on the recommendation of the Committee. She joined the Board as Chair of the Board Designate on 18 December 2023.

For more information about Ms Durbin's skills and experience see the Non-Executive Director profiles in the Our Board and Executive Team section.

Executive Directors

The Committee is responsible for supporting the recruitment of any new Executive Director. As reported in the Annual Report and Accounts 2022, a successful recruitment process was led by the Committee for the Chief Executive role and resulted in the appointed of Susan Allen. Susan joined the Society in March 2023 and details of her induction process are set out in the *Corporate Governance report.*

Board diversity

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

A summary of progress against the key aspects of the Statement is set out below:

Use of specialist recruitment agencies that have signed up to the Standard Voluntary Code of Conduct of Executive Search firms for the appointment of Directors, with a preference for those signed up to the Enhanced Code[i]	Russell Reynolds Associates were appointed to support the search for a permanent Chair of Remuneration Committee and a new Chair of the Board and are signed up to the Enhanced Voluntary Code of Conduct for Executive Search Firms.
At least 40% of Board Directors will be women	The percentage of women on the Board as at 31 December 2023 was 58% and exceeded the target. **For prior years see the Board Composition section of the Corporate Governance report.**
Further increase Board diversity in order to enhance effectiveness and embrace the talents of people from all backgrounds	Our Board places great emphasis on ensuring its membership reflects diversity in its broadest sense. Consideration is given to demographics, skills, experience, race, age, gender, disability, educational and professional background, and other relevant personal attributes. In ensuring an appropriate balance of all these factors the Board can provide the range of perspectives, insights and challenge needed to support good decision making. The Committee regularly reviews the composition of the Board to ensure that it has the balance of skills, experience, independence and knowledge through its diverse composition to remain effective.

i. The Voluntary Code of Conduct for Executive Search firms lays out steps for search firms to follow across the search process, from accepting a brief through to induction. The Enhanced Voluntary Code of Conduct was created by executive search firms themselves with the aim of raising the standards of professionalism and conduct in the recruitment of women to the boards of FTSE350 companies (the largest 350 companies listed on the London Stock Exchange).

Board Governance and Nominations Committee report (continued)

Succession planning (continued)

Diverse talent pipelines

As part of its role the Committee oversees senior leadership succession plans and the diversity of the talent pool for future vacancies.

We have signed the HM Treasury's Women in Finance Charter and are committed to improving gender balance, particularly at senior levels in our organisation. By way of further information, we had the following percentages of women colleagues at 31 December 2023 (and for comparison 2022):

	31 December 2023 %	31 December 2022 %
Executive Committee	**43**	33
The Leadership Team immediately below our Board (as set out in the UK Corporate Governance Code)		
Senior Managers	**49**	50
Our colleagues in roles Grade E or above (in accordance with our commitments under the Women in Finance Charter)		
All Colleagues	**61**	63

For more details on our colleagues and inclusion and diversity please see the Strategic report.

Evaluation of the Board and its committees

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

As an external review was last completed in 2020, it was agreed that an external review would be completed in 2023.

Further details on the appointment of an external facilitator and the approach to the review can be found in the Corporate Governance report.

Chair of the Board

Our Senior Independent Director, Alison Hutchinson, meets with our Chair twice a year on behalf of our Board to review the Chair's performance including the annual review which took place in January 2024, taking into account feedback from key stakeholders. The outcomes of the review were discussed at the Board meeting in January 2024 without the Chair present. As Chair he has continued to show strong commitment and loyalty and the quality of his leadership was noted together with the expertise and insight he had brought to YBS over the last nine years.

Non-Executive Directors

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

Executive Directors

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

The Chair of the Board meets with the Non-Executive Directors at least annually to consider the performance of management and the Executive Directors.

Evaluation of the Board Governance and Nominations Committee

The Board Committee evaluations were incorporated in the external evaluation process for 2023. The Board discussed the findings of the review in January 2024 and more details can be found in the Corporate Governance report. There were no urgent or significant actions arising for the Committee, however, it will consider the outcomes of the review which were specific to its role at its meeting in March 2024.

John Heaps
Chair of the Board Governance and Nominations Committee
28 February 2024

AUDIT COMMITTEE REPORT

A word from the Chair of the Audit Committee

I am pleased to present our 2023 Audit Committee report which sets out the Audit Committee's role and its key activities during the year, including its review of financial reporting matters, oversight of the Group's internal controls, and its internal and external auditors. I am most grateful to my fellow Committee members for the diligence with which they contribute to the Committee's work, and to management for the time and effort they put in to ensure the Committee remains effective.

During the year we have spent considerable time assessing any impacts upon the Group's control environment from the Covid and post-Covid return to office period, and the changes in senior management of the Group over the last two years. We have also considered the continuing developments in our internal audit function, including the five yearly external quality assessment of the function completed in the last quarter of 2023. We have remained focused on the impacts of the economic environment, notably increased interest rates and inflation, and regulatory and legislative developments upon our current and future business. The Board has recently delegated responsibility for the oversight of the Group's annual Environmental, Social and Governance (ESG) report to the Committee and we have been preparing for activity on the 2023 report in the first half of 2024, including the introduction of a fifth regular Committee meeting to meet the ESG report timetable, which will also give us the opportunity to rebalance meeting workloads and accelerate certain reports to the Committee.

In 2024, the Audit Committee will continue its work to protect the interests of all of the Group's stakeholders.

Guy Bainbridge
Chair of the Audit Committee

Audit Committee membership

The members of the Audit Committee are:

Guy Bainbridge
Committee Chair
Independent Non-Executive Director

Angela Darlington
Independent Non-Executive Director

Mark Parsons
Independent Non-Executive Director

Only members of the Audit Committee are entitled to attend its meetings, although others may be asked to attend all or part of a meeting. Our Chair of the Board, Chief Executive, Chief Finance Officer, Chief Internal Audit Officer and the external auditor were invited to attend all meetings in 2023, along with other members of our Leadership Team and Senior Managers where the Audit Committee felt it was beneficial.

We had four Audit Committee meetings in 2023. The meetings began with a private session between the invited members of the Leadership Team and the Audit Committee members and generally finished with a private session between the Audit Committee members and our internal and external auditors. These private sessions allow the Audit Committee to discuss confidential matters, which may not be appropriate to discuss in the main Audit Committee itself.

Details on the number of meetings attended by each of the Audit Committee members during 2023 are shown in the Corporate Governance report.

Audit Committee report (continued)

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

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

In 2023, all the members of the Audit Committee were independent Non-Executive Directors, and all have recent and relevant financial experience gained through the qualifications they hold and the roles they have held or currently hold with other organisations. There have been no changes to the Committee members during 2023.

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

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

The roles and responsibilities of the Audit Committee are explained in its Terms of Reference, which set out the areas on which it provides oversight or guidance to the Board. The Audit Committee reviews its Terms of Reference every year to ensure it continues to meet regulatory requirements and good practice and both the Audit Committee and Board approve the Terms of Reference each year.

You can find them on our website ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.

Key financial reporting matters

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

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

Matters Considered	Key Activities 2023
Expected credit losses	The calculation of impairment for a portfolio of mortgage loans is inherently uncertain. Expected credit losses ('ECL') are calculated using historical default and loss experience but require judgement to be applied in predicting future economic conditions (e.g. interest rates and house prices) and customer behaviour (e.g. default rates). Understanding the Group's exposure to credit risk and ensuring that the assumptions feeding into our ECL models are appropriate, are key priorities for the Audit Committee, all of whose members serve on the Group Risk Committee. The Audit Committee continued to challenge management on the selection of economic assumptions, and the relative weighting of the range of economic scenarios, given they have a material impact on ECL, to demonstrate that these decisions appropriately reflected economic conditions and the outlook for unemployment, bank rate and house prices. Inflationary risks remained an increased focus area with household spending becoming the greatest headwind in 2023 as higher prices continued to drag on real incomes as well as the persistent increase in interest rates reducing disposable income and raising the risk of borrowers failing to meet their contractual repayments. Management evaluated these uncertainties, with the economic assumptions applied to the ECL model adjusted to reflect any material changes in view of the macro-economic environment. Probability weightings were reviewed during 2023 and updated to reflect economic conditions. The core scenario weighting decreased and the downturn and severe downturn scenario weightings increased to reflect the risks associated with inflation remaining higher for longer, mortgage affordability pressure due to the increases in Bank Rate to date and the ongoing geopolitical and UK economic situation. SME judgment is applied in the final assessment of weights, informed both by an assessment of external data and statistical model results. Following detailed review and discussion, assumptions for base case, upside and downside scenarios, as well as for a severe economic downturn, were agreed. The Committee concurred with management that the scenarios used reflected an appropriate range of assumptions and the update to scenario weightings were appropriate to reflect the changing economic outlook. Post model adjustments ('PMA') are applied when a change in credit risk is identified that is not effectively captured in the core ECL models. PMAs are reviewed throughout the year to determine whether the identified risks are still applicable. The Society will continue to rely on PMAs given the environment of increased uncertainty to offer a solution to ECL calculations, whilst model enhancement options are continually being developed. Since they are inherently judgemental, PMAs require robust process and governance, supported by transparent and high-quality documentation. A PMA working group was established in H2 2023 with the purpose of monitoring, analysing and enhancing the documentation of PMAs. This group retains a central role in the ECL control framework with the responsibility of actively managing the portfolio of PMAs, keeping the scope, duration and conditions for unwinding management overlays under regular review. Further to this, they will continue to investigate the scope of plans to reduce reliance on PMAs in future where possible. The ultimate approval of our ECL provision, including PMAs will continue to follow internal scrutiny prior to being submitted to Audit Committee each half year and year end. The continued uncertainty in the economic outlook and the impacts of increased inflation and raised interest rates on affordability continued to be a focus area for the Committee, with the Group's cost-of-living and inflation PMAs challenged to ensure the approach remained fit for purpose, particularly when considering the model performance PMAs and the potential for these to overlap. The affordability PMA methodology was revised to reflect a lower stress being applied to accounts identified as most vulnerable to affordability stresses, however it was considered appropriate to maintain a more prudent assessment for accounts close to product term expiry. These changes resulted in a lower proportion of accounts being identified as higher risk and decreased the level of PMA in place. The BTL book was considered separately and continues to be relatively insensitive to the stresses mentioned above. The committee deemed it appropriate to continue to hold an additional provision to cover this underestimation, although the PMA has reduced in magnitude from 2022. ECL coverage has not exceeded 0.04% on the BTL book despite the challenging economic climate over recent years.

Audit Committee report (continued)

Key financial reporting matters (continued)

Matters Considered	Key Activities 2023
Expected credit losses (continued)	Fourth generation IFRS 9 models and impacts were presented to the Society's Model Risk Committee in 2023 and approved for use. These have been used as the basis for generating Core model ECLs for this reporting period. Both the Methodology Changes and Model Recalibration PMAs have been released as they are no longer required and the reduction in ECL associated with the stage 2 movement outweighed other aspects of the migration to the fourth-generation models that would have increased ECLs, leading to an overall release on initial implementation. However, two additional PMAs have been raised in relation to the fourth generation PD model, one reflects the limited sensitivity to the different economic scenarios over the available history. The narrow range in average PD estimates across scenarios of differing severity highlighted the model weakness. The other relates to PD underprediction which, was also a challenge within the third-generation models built on similar data periods, and the trend has continued to be observed through model monitoring since the fourth generation model was put into use in May. As these are material to the ECL balance, the Audit Committee reviewed and challenged the rationale, calculation methodology and governance for each of these PMAs. The Committee continue to consider both physical and transition risks in relation to the Group's mortgage portfolio and noted the challenges with underlying data and long-term nature of expected impacts of climate risk as part of the ARA review and approval process. Being key to the accurate provisioning, the ECL model performance is constantly monitored and the results of this monitoring are communicated to the Committee. The Committee was satisfied that the impairment provision and the disclosures provided in the financial statements were appropriate.

Matters Considered	Key Activities 2023
Hedge accounting	The Audit Committee continued to review the methodology and key assumptions applied to the hedge accounting models over the period, including consideration of new hedge strategies. The Committee reviewed the Society's approach to hedge accounting in the context of the market volatility seen in the year and requested additional disclosures around fair value volatility in the half year report given the magnitude of the volatility experienced due to rate volatility in the wider economic environment. The Committee requested analysis of the key drivers of the volatility between the prior year end, half year and current year end given the magnitude compared to recent years, all of which was shared with the Committee in both formal and informal meetings. The most significant source of fair value gains and losses in the income statement continues to relate to interest rate swaps not placed into a hedge accounting relationship. Pay fixed interest rate swaps are transactions to hedge the mortgage pipeline and cannot be placed into a hedge accounting relationship for a short amount of time after they have been transacted. These are partially offset by the swaps that hedge fixed rate savings which are never placed into a hedge accounting relationship. The Committee took part in a hedge risk management and hedge accounting information session in H2 with the Finance leadership team which included detail on hedging and hedge accounting activities and future changes or developments that are being explored. The Committee is satisfied that the amounts recognised in the financial statements are appropriately stated.

Matters Considered	Key Activities 2023
Retirement benefit obligations	The Group operates one employee benefit scheme (the Scheme) with both defined benefit and defined contribution sections. The defined benefit scheme is accounted for by the Group under IAS 19, with the key assumptions presented to, and approved by, the Audit Committee. During the period the Audit Committee reviewed the assumptions proposed by management and the scheme administrators (Willis Towers Watson), with challenge on how the pension surplus will be impacted given the continued volatility in the market this year and reviewed how they benchmark against the rest of the industry.
Effective interest rate ('EIR')	The Audit Committee considered the results of management's detailed reviews of the methods and assumptions used in the calculation of interest income under the Effective Interest Rate (EIR) methodology, as required under IFRS, and concluded that the amounts recognised were fairly stated.
Acquisition fair value adjustment run-off	The Audit Committee reviewed the run-off profile of the fair value adjustments made on the acquisition of the Chelsea, Norwich & Peterborough and Egg portfolios and approved changes where the actual run-off experience is either quicker or slower than that anticipated on initial recognition. The Audit Committee is comfortable that the carrying amounts reflect the remaining expected life of the acquired loans and savings balances.
Tax	Papers setting out the judgements applied in the recognition of deferred tax balances and the level of transfer pricing adjustments applied between Group entities were presented to the Audit Committee over the period. The Audit Committee is satisfied that the recognised amounts of deferred tax are reasonable given the substantive enactment of scheduled changes in UK corporation tax rates and the transfer pricing assumptions are reasonable.
Provisions for liabilities and charges	The Audit Committee reviewed and considered the provisions and disclosures for liabilities and charges, being those relating to restructuring, customer redress and property related costs, and agreed with the overall amount held. More information on these provisions can be found in note 23 to the financial statements.
Viability and going concern	The Audit Committee reviewed papers prepared by management and recommended to the Board that the financial statements should be prepared on a going concern basis i.e. 12 months from the end of the reporting period. The Audit Committee confirmed that three years was a suitable period of review for the viability statement, and that the viability statement could be provided. Whilst there is no guarantee, there is a reasonable expectation that the Society will be able to continue to be viable, i.e. operate and meet its liabilities as they become due, to 31 December 2026. **More information can be found in our Directors' report.**
Disclosures	The Audit Committee reviewed papers prepared by management and agreed that the disclosures included within this Annual Report and Accounts met all statutory requirements under the Building Societies Act 1986, the disclosure and transparency rules of the FCA and applicable international financial reporting standards. The Audit Committee confirmed that disclosures in the Half-Yearly Financial Report met the requirements of the disclosure and transparency rules of the FCA and international financial reporting standards. The Audit Committee also reviewed the Group's regulatory Pillar 3 quarterly disclosures included in full on the Society's website. The Committee approved the quarter one, two and three Pillar 3 disclosures for publication and recommended the quarter four disclosures to the Board for its approval.

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

Audit Committee report (continued)

Oversight of the external auditor and external audit process

The Audit Committee oversees the audit process and the relationship with our external auditor. The Audit Committee begins each annual audit cycle by reviewing and approving the proposed audit plan presented by our external auditor, PwC. This process includes a discussion between the Audit Committee and our external auditor around key risk areas to ensure that there is agreement on the focus of the external auditor's work and their assessment of materiality for the financial statements. The Committee's discussion of the external auditor's risk assessment was informed this year by the increases in interest rates affecting ECLs and hedging, and management changes in the hedging and hedge accounting teams.

For further information about materiality and how it is calculated, please refer to the Independent Auditors' report.

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

Throughout the year the Audit Committee assesses the effectiveness of the external audit process, an assessment which is based on guidance from the Financial Reporting Council (FRC). The Audit Committee's assessment includes a review undertaken by the financial reporting management team which focused on a targeted list of business areas who have significant interaction, outside of the main finance teams, with the audit process to obtain feedback. A set of questions was constructed as an anchor for discussions and to generate some consistency when collating feedback, and wider feedback was captured alongside this. In addition a survey was sent following completion of the audit to members of the Audit Committee and senior managers in the Society's Finance Division. A debrief with the audit field team took place to obtain their feedback and areas for improvements were identified. A meeting to discuss audit feedback was held with the Senior Audit team members to share the conclusions of the review and obtain their views on the effectiveness of the external audit process and how the Society can contribute further to this. The output from all these steps is shared with the Audit Committee and helps it review the quality of the external audit team and process. The Audit Committee concluded that the external auditor was performing its duties in an effective manner with areas for improvement shared with the lead audit partner for consideration.

External auditor independence

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

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

Fees for individual assignments that exceed a set threshold are reviewed by the Audit Committee. Fees for those assignments under the threshold are approved by the Chief Finance Officer under delegated authority. All non-audit services are approved in advance of the work commencing. Our external auditor's fee is reviewed regularly. The Audit Committee is satisfied that the Group has operated in line with the policy during 2023.

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

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

The Audit Committee takes into account the performance of the external auditor when considering their reappointment as well as their length of tenure and the date of rotation of the audit partner. PwC were appointed as external auditor following a competitive tender process in 2018 and their appointment was approved by members at the 2019 AGM. Heather Varley, the audit partner is required to rotate off the audit at the end of the 2023 audit, having completed the maximum term of five years. Her successor has been identified and has met the Audit Committee. PwC were reappointed as the Society's external auditor at the 2023 AGM and the Audit Committee has recommended to the Board that they be approved for reappointment as external auditor at the 2024 AGM.

Review of internal controls

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

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

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

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

The main types of information the Audit Committee considered during 2023 were:

- **Internal Audit reports:** The Audit Committee reviewed and approved the Internal Audit plan for the year, the proposed revisions to the plan, and the resources needed to support it. In doing this the Audit Committee considered the ongoing appropriateness of Internal Audit's coverage of the Group's risks, processes, systems and controls and the balance of assurance between the Group's transformation programme and other business activities. The Audit Committee also considered reports on the plan's progress, including Internal Audit's findings, their root causes and the Leadership Team's responses. Where Internal Audit reports are rated as 'Unsatisfactory' the accountable members of the Leadership Team are asked to attend the Audit Committee and explain why the identified control weaknesses have arisen and what actions are being taken to address them. In 2023, Internal Audit drew Audit Committee's attention to a range of areas that required improvement, including capital reporting, responsible lending, people risk, arrears management, the Society's change framework and information security.
- **Updates on risk management culture and ways of working:** During the year the Committee discussed the Society's risk culture and the impact, if any, of working from home on control effectiveness, and continued their ongoing monitoring of progress made by management in improving end to end process and controls documentation.
- **External auditor reports:** The Audit Committee reviewed reports from our external auditors, PwC, about recommendations in relation to internal controls for key financial reporting processes and systems. Findings that were raised were prioritised by management according to impact and areas for improvement are being addressed. The Audit Committee considered regular updates on the status of control issues identified by both Internal Audit and PwC, and the volume and age profile of those issues remained within tolerable limits. Because our total assets exceed £50bn, our external auditor provides the PRA with a Written Auditor Report on selected aspects of their audit and this, too, was considered by the Audit Committee during the year in relation to the 2022 audit, together with non-firm specific feedback from the PRA.
- **Report on the adequacy of internal controls in 2023:** Audit Committee received a report from all three lines of defence concerning the effectiveness of internal controls, including focus on areas not yet at target levels of maturity. The Audit Committee's attention was drawn, in particular, to improvements required to data and regulatory reporting controls, controls supporting customer outcomes, change project controls, and controls to protect the security of the firm's systems and applications.
- The Audit Committee considered whether any recommendation should be made to the Remuneration Committee to adjust the variable remuneration of the Leadership Team, in respect of internal control weaknesses.

Taken together, the information the Audit Committee reviewed provided assurance that, whilst control improvement work is ongoing, the Group maintained an adequate internal control framework in 2023 and there were no significant breaches of control or regulatory standards. This supports our aim of complying with the principles and provisions of the Code where they apply to building societies. The Leadership Team proactively took action to tackle identified control weaknesses, thereby improving the strength of the internal control environment, so that our Group remains financially and operationally resilient.

Audit Committee report (continued)

Oversight of the Internal Audit function

Our Internal Audit function is governed by a charter, which the Audit Committee reviews and approves annually. The Audit Committee reapproved the charter in September 2023 and you can find a copy of it on our website ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.

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

In addition to receiving reports on the outcomes of Internal Audit activities, as described above, the Audit Committee receives regular reports on the performance of Internal Audit against an agreed set of measures. Internal Audit also reports to the Audit Committee annually on the strategy for the function, the skills and resources it has, and what it needs to effectively discharge its role. The Audit Committee reviews and approves any proposed changes to the strategy and resources. During 2023, this has included consideration of the resources the Internal Audit function may need over the next several years, and the progress made in developing the function's data analytics capability. The Audit Committee is satisfied that Internal Audit has the appropriate resources, using external third-party support where necessary, to fulfil its responsibilities.

Internal Audit continues to operate its own quality assurance and improvement programme. In 2023, this programme included an external quality assessment of the function against relevant professional standards and codes and industry best practice. The assessment was performed by an independent third-party. The Audit Committee received a presentation from the third party of the results, and discussed the assessment and the recommendations put forward by the third-party to enhance the function's approach, effectiveness, quality, skills and experience with the third party and the Chief Internal Audit Officer.

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

Audit Committee effectiveness

The effectiveness of the Audit Committee is assessed annually. The Board Committee evaluations were incorporated in the Board external evaluation process for 2023. The Board discussed the findings of the review in January 2024 and following its consideration of the final report, each Committee will then review any outcomes and recommendations relevant to its role. There were no urgent or significant actions arising for the Committee, however, further information on any actions identified as a result of the review will be presented in the Annual Report and Accounts 2024 and will be monitored by the Board and Board Committees during 2024.

Further details on the evaluation process for 2023 can be found in both the Board Governance and Nominations Committee report and the Corporate Governance report.

The Audit Committee undertakes a detailed review annually of its Terms of Reference to ensure it meets all its responsibilities and confirmed that in 2023 it had met all of its responsibilities. The Committee's Term of Reference were updated in 2023 to reflect the Committee's oversight of the Group's annual ESG report.

Audit Committee members also take part in training and receive briefings on areas that concern not only their roles on the Committee, but also their roles on the Board. In 2023 the Audit Committee set aside additional time to be briefed on the developments of the Corporate Sustainability Reporting Directive ('CSRD') and hedging and hedge accounting, the latter along with members of the Group Risk Committee.

The Society and the Audit Committee will continue to monitor the governance developments arising from the Government's consultation on Restoring Trust in Audit and Corporate Governance, including the revised UK Corporate Governance Code, published in January 2024, to ensure that any requirements or relevant areas of good practice identified are implemented by the Society as appropriate for a building society.

The FRC's 'Audit Committees and the External Audit: Minimum Standard' ('the Standard'), published in May 2023, sets the minimum standards for audit committees in relation to their oversight responsibilities for the external audit and includes guidance on assessing the effectiveness of the audit process alongside covering the audit committee's responsibilities for the external audit, the external audit tender, oversight of the external auditor and audit and finally the reporting of activities undertaken to meet the Standard's requirements. The Standard applies to FTSE350 companies and is voluntary, subject to any future legislation being passed to establish the Audit Reporting and Governance Authority, however, the Standard may be seen as good governance and the Audit Committee will consider it in more detail in 2024.

Our Chair of the Board oversees the training and development of the full Board and you can find more information on this in the Composition, Succession and Evaluation section of the Corporate Governance report.

Guy Bainbridge
Chair of the Audit Committee
28 February 2024

RISK MANAGEMENT REPORT

A word from the Chair of the Group Risk Committee.

I am pleased to present our Risk Management report for 2023. This report explains the role of the Board risk committee, which here is called the Group Risk Committee ('the GRC'), describes the matters the committee considered during the year, and gives an overview of how the Group manages the risks it faces. Our attention in 2023 has been balanced between prudential risk, operational risk and compliance and conduct risk.

The year has once again demonstrated the need for effective risk management. As Chair of the GRC, I am satisfied the Group:

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

My GRC colleagues and I will continue to expect a risk management approach that is purposeful, prudent and customer-focused so that I can continue to report my satisfaction with the Group's risk positions.

Angela Darlington
Chair of the Group Risk Committee
28 February 2024

About the Group Risk Committee

The GRC comprises five non-executive directors:

Angela Darlington
GRC Chair and Independent Non-Executive Director

Alison Hutchinson
Vice Chair and Senior Independent Non-Executive Director

Guy Bainbridge
Independent Non-Executive Director

Debra Davies
Independent Non-Executive Director

Mark Parsons
Independent Non-Executive Director

Risk Management report (continued)

About the Group Risk Committee (continued)

The GRC is also attended by the Chair of the Board and members of the executive team including the Chief Executive, the Chief Finance Officer, the Chief Commercial Officer, the Chief Operating Officer, the Chief Risk Officer and the Chief Internal Audit Officer.

The GRC is responsible for bringing together and challenging for suitability all risk information on behalf of the Board. This covers the application of our enterprise risk management framework across all of our principal risks.

The GRC's terms of reference are available from our website at ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.

Matters considered during 2023

The GRC met four times in 2023 and considered all the matters in respect of its responsibilities summarised in its terms of reference, covering a wide range of topics.

On general risk management matters, the GRC:

- Approved the Group's enterprise risk management framework.
- Reviewed and recommended the Board approve the 'tier 1' risk appetite exposure limits for 2024 and oversaw compliance with those agreed previously for 2023.
- Received the Chief Risk Officer's quarterly report and view of the Group's principal risks.
- Approved and monitored the progress of the second line of defence's oversight plan including its key findings.

For its oversight of prudential risk, the GRC:

- Reviewed and recommended the Board approve the scenarios and results of the 2023 internal liquidity adequacy assessment ('ILAAP') and internal capital adequacy assessment processes ('ICAAP').
- Reviewed the scenarios used for the Group's reverse stress tests.
- Reviewed and approved the Group's recovery plan.
- Monitored the Group's compliance with the resolvability assessment framework.
- Reviewed reports from 'deep dives' of the Group's management of credit risk and capital risk.
- Reviewed and approved the Group's policy on regulatory risk, and reviewed and recommended the Board approve the Group's policies on funding and liquidity risk, capital risk, market risk, treasury risk and retail and commercial lending.
- Reviewed the report from a 'deep dive' of the Group's commercial lending business.

And for its oversight of operational risk and compliance and conduct risk, the GRC:

- Reviewed and recommended the Board approve the Group's annual operational resilience self-assessment, and monitored progress of the work to comply with the operational resilience rules.
- Reviewed the annual report from the Group's Money Laundering Reporting Officer.
- Monitored progress of the Group's work to strengthen its control framework over people risk, financial crime risk and climate risk.
- Reviewed the report from a 'deep dive' of the effectiveness of the Group's operational controls.
- Reviewed and approved the Group's policies on information and cyber security, information management and financial crime, and reviewed and recommended the Board approve the Group's policy on procurement, outsourcing and third-party risk.

Committee evaluation

The effectiveness of the GRC is assessed annually. The Board Committee evaluations were included in the Board external evaluation process for 2023. The Board discussed the findings of the review in January 2024 and following its consideration of the final report, the GRC will then review any outcomes and recommendations relevant to its role. There were no urgent actions arising for the GRC, however further information on any actions identified in the review will be presented in the Annual Report and Accounts 2024 and will be monitored by the Board and the GRC during 2024. Further details on the evaluation process for 2023 can be found in both the Board Governance and Nominations Committee report and the Corporate Governance report.

Outlook

The GRC will continue in 2024 to provide balanced oversight of prudential risk, operational risk and compliance and conduct risk. We will also focus on the Group's response to any change in regulatory approach as it grows its balance sheet. The Group always wishes to proactively ensure that risk management capability is equal to or ahead of that which is necessary so following an external review, the Group plans to strengthen its governance, risk and control capabilities further in anticipation of future growth and the possibility of being designated a category one firm by the PRA. These plans include ensuring the right level of subject matter expertise in key areas; leveraging the latest technology and data to deliver automation and efficiencies; and further encouraging challenge and learning.

Our Enterprise Risk Management Framework ('ERMF')

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

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

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

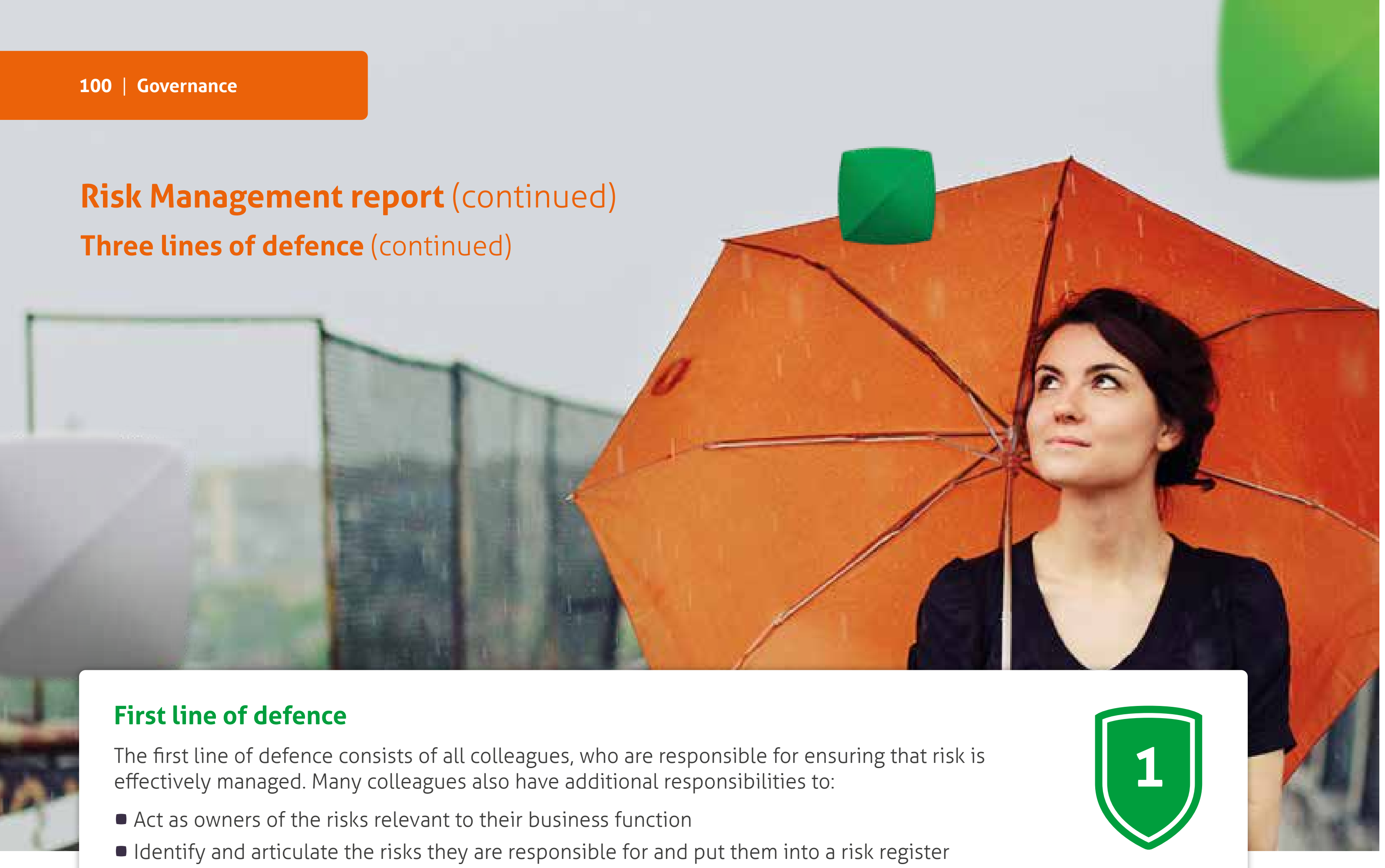
- **The Governance, Risk and Control Strategy** — the Society's priorities for risk management and how they align to the Society's strategy
- **Society culture** — the values and behaviours that shape our risk decisions
- **Risk appetite** — how much risk we can take to deliver our strategy while ensuring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

Three lines of defence

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

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

A summary of these responsibilities is set out on page 100.



Risk Management report (continued)

Three lines of defence (continued)

First line of defence

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

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

1

Second line of defence

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

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

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

2

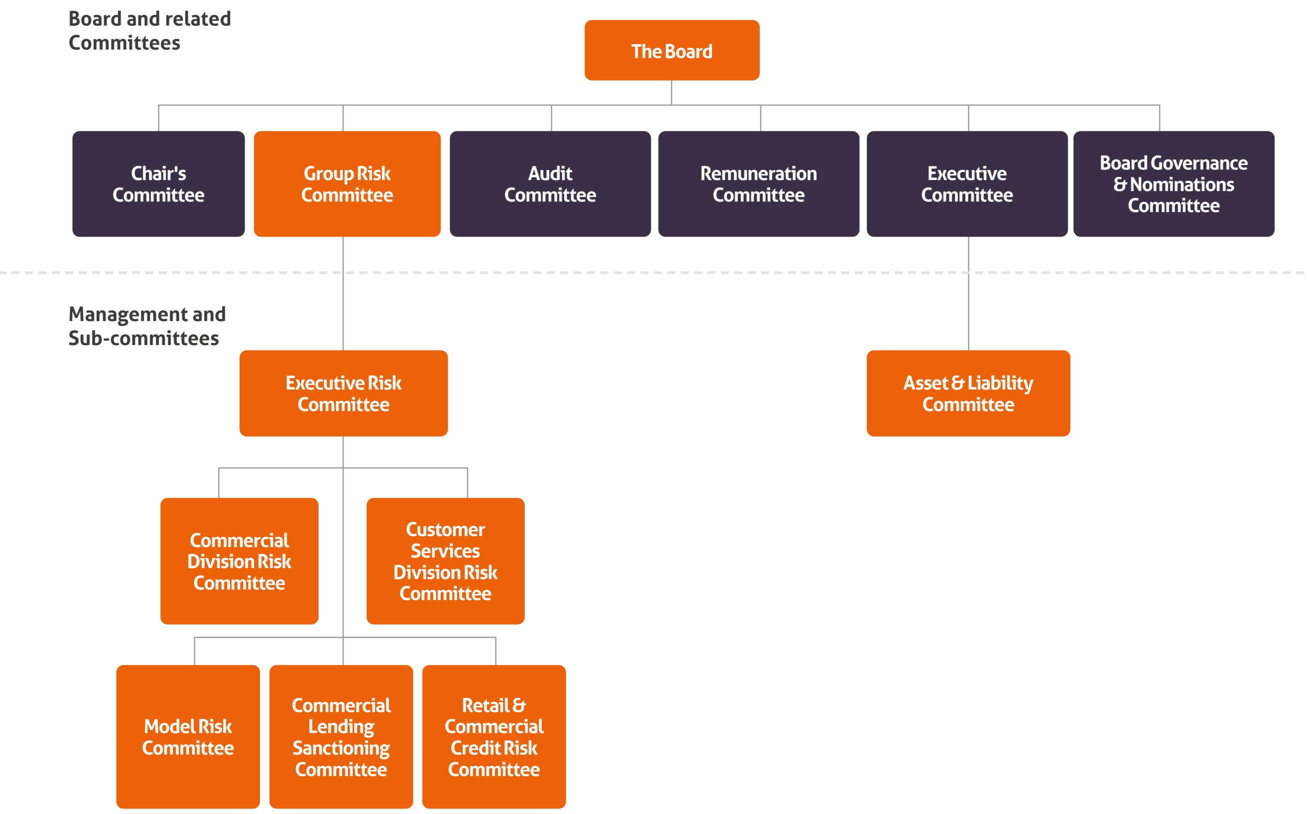
Third line of defence

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

3

Governance

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



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

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

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

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

Risk Management report (continued)

Principal risks and uncertainties and how we mitigate them

Our principal risks and uncertainties and our risk profile evolve as we move through the economic cycle. We have an ongoing process for identifying, evaluating and managing the principal risks we face, and this process is regularly reviewed by the GRC.

Strategic risk

The risk to the Group's earnings or sustainability arising from changes in the business environment or from the effectiveness of decisions and actions in our strategic response to those changes.

Sources	Approach	Commentary
■ The business environment we operate in could change unexpectedly. ■ The decisions we make and actions we take could prove ineffective.	■ We perform regular horizon scanning, corporate planning, scenario analysis, competitor analysis and business performance monitoring to mitigate risks arising from the economic environment and our strategic choices. ■ We have defined risk attitudes, risk appetites and risk metrics for all our other principal risks. ■ Our business model is relatively simple, but we operate in a highly competitive market. Our hedging strategy therefore mitigates the risks arising from our focused range of products in this market.	■ We have continuously monitored the external environment in which we operate. ■ The size of the residential mortgage market has reduced, illustrating the pressures that new borrowers are facing as they either exercise greater caution, find themselves unable to save, or have difficulty meeting lending criteria. ■ We have also seen a more acute impact in the buy-to-let mortgage market, as affordability considerations can directly limit the ability landlords have to borrow. ■ We have experienced more competition in the savings market, with customers seeing a premium in pricing for the ability to lock money away for a period of time. ■ Savings providers also came under greater scrutiny from both the media and regulators to demonstrate that the benefits of higher rates are being passed on at an appropriate level.

Capital risk

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

Sources	Approach	Commentary
■ Principal risks could crystallise, causing losses and depleting capital. ■ Regulatory requirements for capital could increase.	■ Capital risk is constrained by a Board-approved risk appetite and the Board-approved capital risk policy. ■ Current and projected capital positions are regularly monitored and considered in stress scenarios as part of the internal capital adequacy assessment process. ■ We conduct internal tests to ensure sufficient capital is available for the Group to maintain its minimum capital requirements, even in a stress scenario. ■ Further information on our capital management can be found in the Group's pillar 3 disclosures on our website.	■ We maintained strong capital levels throughout 2023, well above regulatory requirements and internal risk appetite, and forecast that this position will be maintained across our planning horizon. ■ Leverage requirements will become binding when we surpass £50bn of retail deposits and are classified as LREQ. We are well capitalised to meet these requirements. ■ We continue to progress towards IRB accreditation, and preparations are also underway to implement Basel 3.1 per the PRA's near-final policy statement (PS17/23) on 1 July 2025. ■ We are subject to end state MREL requirements (double pillar 1 and 2A) and comfortably met these requirements throughout 2023.

Funding and liquidity risk

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

Sources	Approach	Commentary
■ Members can withdraw their deposits at short- or no-notice. ■ Wholesale investors may lose confidence in the Group.	■ We are primarily funded through retail savings balances, supported by a strong franchise in key wholesale funding markets. ■ Funding and liquidity risk is constrained by a Board-approved risk appetite and the Board-approved funding and liquidity risk policy. ■ The Board annually approves the key assumptions and controls for managing liquidity risk as part of the internal liquidity adequacy assessment process. ■ We conduct internal tests to ensure sufficient liquidity is available to meet business-as-usual and stressed requirements. ■ We manage to the Liquidity Coverage Ratio ('LCR') and the Net Stable Funding Ratio ('NSFR') external regulatory measures.	■ Our liquidity levels remained strong and materially above regulatory requirements throughout 2023. ■ We report monthly to the PRA the quantity of high-quality liquid assets against net liquidity outflows over a 30-day period, for both the Society and on an unconsolidated basis. At December 2023, the lower of these two reports was 156.36%. ■ Liquidity levels are forecast to remain above regulatory and internally derived minimum requirements across 2024.

Risk Management report (continued)

Principal risks and uncertainties and how we mitigate them (continued)

Market risk

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

Sources	Approach	Commentary
■ Our earnings or the value of our assets and liabilities deteriorate because of adverse changes in market interest rates.	■ Market risk is constrained by a Board-approved risk appetite and the market risk policy. ■ We adopt a risk-averse approach to interest rate mismatches, although some position-taking is allowed, subject to the risk appetite. ■ We conduct internal tests to ensure market risk is within an acceptable range over a series of interest rate scenarios. ■ Our limits for basis risk include limits for sensitivities around isolated movements in underlying rates (SONIA), for overall mismatch ratios, and for ensuring the Group has sufficient levels of margin management capability.	■ The market risk in our balance sheet has reduced year-on-year, driven by continuous active management of our exposure to market risk drivers. In 2023, additional drivers of risk include the provisions specified in the Mortgage Charter and the significant increase in interest rate environment. ■ We continue to proactively manage our interest rate risk exposure within approved risk appetite limits. All market risk appetite metrics were reviewed to ensure they remained effective in the current interest rate environment and to keep pace with the projected balance sheet growth. ■ The reduction in market risk is evidenced by a reduction in our Present Value (PV) metric. PV100 (market value change on the Society balance sheet arising from a parallel 100bps increase in interest rates) now results in a gain, with a year-end value of £1.3m in 2023. This positions the Society favourably for a rise in rates, but unfavourably should rates fall. ■ Our 12-month earnings sensitivity has decreased (impact on 1 year net interest income of a 2.5% parallel increase/decrease in rates). The largest negative sensitivity as at December 2023 was a £10.9m cost against the parallel down shock. ■ A structural hedge is in place to mitigate the interest rate risk on administered rate savings balances.

Model risk

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

Sources	Approach	Commentary
■ Models may be incorrectly designed or contain coding errors. ■ Models may use logic and assumptions based on the past which are no longer relevant.	■ We maintain an inventory of models which are governed by our model risk policy and model governance framework. ■ We have a process to identify and monitor new models to bring these into governance. ■ Compliance with the policy is monitored by the Model Risk Committee ('MRC'), which is chaired by the Chief Risk Officer.	■ Work to assess our model risk management framework against the final regulatory Model Risk Management Principles will see plans set out to close gaps agreed by the end of Q1 2024. ■ Given the current political and economic climate, there is an elevated level of systemic model performance risk in models which are calibrated based on historical events and/or customer behaviours, which requires close monitoring. ■ Model risk appetite tracks key governance and performance metrics. Measures for the performance of critical models are presented to the MRC to ensure mitigants and remedial plans are put in place to manage and address any identified risks.

Treasury risk

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

Sources	Approach	Commentary
■ Transacting with other financial market participants when managing market risk who then fail to fulfil their obligations.	■ Treasury risk is constrained by a Board-approved risk appetite and the treasury risk policy. ■ Most of our liquid asset buffer portfolio is invested in the highest quality assets. ■ Most of our derivative contracts are subject to centralised clearing to minimise risk exposures with counterparties. Where this is not possible, derivative exposures are restricted to high quality counterparties which are subjected to regular review by the Asset and Liability Committee ('ALCO').	■ We review each wholesale counterparty limit at least on an annual basis, or sooner if a risk event occurs in the interim. ■ The size of the credit limit we allocate to each counterparty is driven by their credit status as determined by internal analysis, and is calibrated to the size of the Group's capital position to ensure that the financial viability of the Society is not overly exposed to any single counterparty. ■ Exposure to AA- or above counterparties remains high, maintaining the low risk profile in accordance with Board risk appetite. ■ The risk has not materially changed since last year; market volatility is still at relatively elevated levels generally but the credit controls we have in place remain appropriate.

Risk Management report (continued)

Principal risks and uncertainties and how we mitigate them (continued)

Retail and commercial credit risk

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

Sources	Approach	Commentary
■ Loans to retail and commercial customers may not be fully repaid.	■ Retail and commercial credit risk is constrained by a Board-approved risk appetite and the commercial lending policy. ■ Our robust credit risk framework ensures lending remains within limits and appropriate remedial action is taken if a breach occurs. Adherence is monitored through governance committees. ■ We regularly use stress testing to assess the resilience of our portfolio. ■ Our credit risk models are overseen by the model governance framework (see model risk section).	■ We continue to exhibit a low, albeit rising level of mortgages in arrears. At the year-end our >=3m arrears rate for retail mortgages was 0.50%, an increase from 0.44% at the end of 2022. This compares favourably to the latest UK finance market average of 0.87%. Our Commercial Lending >=3m arrears rate is 0.54%. ■ In the current environment, a key risk for residential customers maturing from low fixed rate products and either re-fixing at a much higher rate or moving to a variable rate. We have seen increased arrears emergence from this cohort compared to the rest of the stock, in line with our internal arrears forecast. ■ We have prepared for increased arrears volumes and will be monitoring this closely in 2024. We continue to proactively contact the most at-risk customers to support them through the economic environment. ■ The YBS residential possession rate was 0.01% at the year-end, compared to the latest UK finance market value of 0.02%. For Retail BTL mortgages, the YBS possession rate is 0.07%, compared to the UK finance market average of 0.05%, which is driven by our legacy retail buy-to-let portfolios. ■ Our retail mortgage book has remained resilient to HPI movements in 2023. 4.11% of the retail portfolio has an indexed LTV >85%, compared to 1.22% in December 2022. The increase is driven by declining house price movements in 2023 offset by a lower volume of >85% LTV completions throughout 2023 (22% in 2023 compared to 27% in 2022). ■ Overall, the asset quality of our portfolios remains strong. A large proportion of the expected credit losses held against our mortgages relates to pre-2009 lending and the portfolios acquired through the N&P and Chelsea mergers. See note 31 for more details.

Operational risk

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

Sources	Approach	Commentary
■ Our technology may fail. ■ Our suppliers may fail to meet their contractual obligations. ■ We may not be able to recruit and retain the right people. ■ Criminals may use the Society for illegal activity. ■ Other external events.	■ Operational risk is constrained by a Board-approved risk appetite and a number of risk-specific policies. ■ The ERMF defines how colleagues are expected to identify, assess, monitor, manage and report their operational risk exposures. ■ Directors must regularly attest to the effectiveness of the controls they are responsible for through the risk and control self-assessment process.	■ There has been an increase in the value of operational losses in 2023 to £2.6m (2022: £1.0m) because of a range of non-systemic incidents. ■ Oversight of our transformation and security improvement programmes has been in place throughout 2023, with continuous monitoring activity and periodic reporting to the Group Risk Committee. ■ We continue to develop the maturity of our operational risk control environment, with plans and supporting investment in place across our information technology, information management and information security risk categories along with targeted improvements and investment in our financial crime risk management capabilities. ■ We engaged an external review of our governance, risk and control capabilities and plan to strengthen them in anticipation of future growth and the possibility of being designated a category one firm by the PRA.

Compliance and conduct risk

The risk of direct or indirect loss from a failure to comply with regulation or to ensure good customer outcomes.

Sources	Approach	Commentary
■ Developing new products for our customers. ■ Marketing our products. ■ Serving our customers.	■ Compliance and conduct risk is constrained by a Board-approved risk appetite and a number of risk-specific policies. ■ We monitor conduct risk metrics for a number of areas including sales, service, complaints and collections. ■ The second line of defence provides compliance support on all regulatory matters to the first line, for both day-to-day operations and change programmes.	■ The FCA's new Consumer Duty regulation came into force in July 2023 for open products and services. We undertook comprehensive programme of work to meet those requirements, the outcomes of which were approved by YBS's Board. Work is underway to meet the July 2024 regulatory deadlines for closed products and services and the annual Board attestation. ■ Complaints per 1,000 at 2023 H2 were 0.89 for savings and shareplans, and 5.68 for mortgages. ■ A compliance monitoring plan, approved by the GRC, has been completed during 2023 allowing robust oversight of the key areas of conduct, financial crime, and data protection risk. All oversight findings are the subject of a formal action plan overseen to closure by the GRC.

Risk Management report (continued)

Climate risk

We recognise the physical and transition risks arising from climate change create risk exposures for the Group in several of the principal risk categories above. We therefore manage these risks through the ERMF to ensure they are properly considered alongside the other risks we face.

Further detail on how we manage climate change risk can be found in the 'Building a greener society' section.

Stress testing

Stress testing is a proactive risk management tool used throughout the Group to better understand the potential vulnerabilities in our business model and to derive effective management actions. Stress testing is presented to a range of forums and Committees including the ALCO, the GRC and the Board. 2023 demonstrated the importance of stress testing with continuous economic and market volatility.

The key uses of stress testing are:

- To test the robustness of our financial plan and exposure limits to adverse economic conditions
- Scenario analysis of our recovery plan and contingency funding options
- To support the production of the internal capital adequacy assessment ('ICAAP') and internal liquidity adequacy assessment ('ILAAP') processes, which inform our regulatory capital and liquidity requirements
- Keeping up to date with market movements through daily testing of funding and liquidity and market risks
- To provide performance management information to support mortgage trading decisions
- To assess new products and initiatives
- To understand, through the Group's annual reverse stress tests, how to prevent risks crystallising.

We have also modelled the impact of the Bank of England's Annual Concurrent Stress test ('ACS'). This allows us to evaluate how the Group performs under this scenario and relative to the organisations that are part of this process. The test showed that we are well positioned to withstand a stress event such as that defined in the ACS.

DIRECTORS' REMUNERATION REPORT

A word from the Chair of the Remuneration Committee.

I am pleased to share the Directors' Remuneration report, my first as Chair of the Remuneration Committee. I would like to offer my sincere thanks to Alison Hutchinson for her service to the Committee and the support she has provided during the handover period. Alison remains a valued member of the Committee, and I look forward to working with all our Committee members throughout 2024.

About the Remuneration Committee

The members of the Remuneration Committee consist of Non-Executive Directors and include members of the Society's Group Risk Committee:

Debra Davies

Independent Non-Executive Director and Committee Chair and member of the Group Risk Committee.

Alison Hutchinson

Senior Independent Non-Executive Director and Vice Chair as well as member of the Group Risk Committee and Non-Executive Director for Workforce Representative.

Dina Matta

Independent Non-Executive Director

Jennelle Tilling

Independent Non-Executive Director

The Remuneration Committee is supported by the Chair of the Board, the Chief People Officer and the Director of People and Culture. Where it is felt to be appropriate, the Chief Executive is invited to attend to provide further background and context to assist the Committee in discharging its duties.

Directors Remuneration report (continued)

A word from the Chair of the Remuneration Committee (continued)

Looking back at 2023

2023 continued to present great challenges in respect of the wider political and economic environment in which we operate, for the Society, our members, and our colleagues alike. Despite this, as outlined in the *Financial Review* section, the Society has delivered another very strong set of financial results in 2023. I'm proud of the way our colleagues have continued to deliver strong performance against our Corporate Plan, delivering real value and improving the service we offer to our members.

To support our colleagues with the continued pressure seen on personal finances we agreed to award a 6% core pay increase for all eligible colleagues as part of the 2023 annual pay review, supplemented by an additional 1% which leaders were able to allocate on a discretionary basis where further adjustments were felt necessary. The Committee also approved the introduction of a **new minimum salary of £22,000 for all colleagues**, regardless of the role they perform (pro-rated for part time colleagues). This further supported our commitment to pay in line with or above the Real Living Wage.

The Society has delivered strong financial performance in 2023 with Core Profit Before Tax of £445.9m against a target of £359.8m. In addition, the Society continued to provide excellent service to our members as demonstrated by a Net Promoter Score for the year of 61 against a target of 55. This combined performance, supported by an effective risk environment has resulted in all eligible colleagues being awarded with a 10% bonus payment, the maximum available under our scheme.

In March 2023 we welcomed our Chief Executive, Susan Allen. Susan has made a real impact since joining the organisation, demonstrating her tremendous passion for providing the best products and excellent service to our members. Susan brings a wealth of banking experience and significant operational and technical knowledge that will be paramount as the Society delivers its purpose of real help with real life, in a challenging external environment. The remuneration package for the new CEO is in line with our Remuneration Policy and was set taking into consideration market levels of remuneration as well as her extensive financial services experience. As normal in these circumstances, we have agreed to compensate Susan for the loss of deferred bonus forfeited on her resignation from Barclays; these replacement awards are no more generous than the original awards and will be paid in line with prior vesting schedule. The full remuneration details for Susan are outlined in this report.

Directors' remuneration outcomes for 2023

The Committee believes the Executive Directors have continued to deliver real benefits for the Society, including improvements to customer journeys across multiple channels and the streamlining of key processes which have helped to improve customer experience. This is further demonstrated by ensuring significant investment in member value through our savings propositions, the strong financial performance of the Society and progress against our community and diversity objectives. It is on this basis that we have granted variable pay awards to our Executive Directors in respect of the 2023 performance year.

The Society's Building Together bonus scheme paid out at the maximum level of 10% for all eligible colleagues, including Executive Directors. Executive Directors are eligible to receive an additional bonus award as part of the Senior Leadership element of the Building Together bonus scheme. The value of this additional award is determined by their level of performance as measured against their individual scorecard.

Executive Directors are also eligible to participate in the Leading for Value bonus scheme. The Leading for Value scheme includes in year performance targets set against our longer-term objectives, serving to protect the Society's financial strength whilst focusing on delivering long term member value. All of the scheme underpins for 2023, which included upgrades to our operational risk capability have been met, which has unlocked a bonus award on this scheme. Performance against the scorecard areas - Transformation, Member Value and ESG metrics has resulted in an overall outturn of 72% for eligible participants on this scheme.

This meant eligible Executive Directors received an average total bonus of 88% of their salary when combining the awards granted to them as part of the Building Together and Leading for Value bonus schemes. We have included full details of how remuneration is awarded to Executive Directors and the amounts later in this report.

In 2023 the Committee carried out a review of how the multi-year Leading for Value scheme had performed against its objectives since its introduction in 2021. 2023 is the final year of the Leading for Value scheme in its current construct. The Committee looked back at performance over the 3-year period and concluded that the scheme had met its intended aim of rewarding key strategic milestones and delivery of long-term value to members. Over the duration of the scheme, member value has been created through offering rewarding rates to those saving with us. This was achieved through the development of member loyalty propositions, which provided competitive rates, and through passing on increases to our variable-rate customers when the Bank Rate increased. In 2023 the rates we provided were on average 1.01 percentage points higher than the market average, which equates to c.£441.1m additional interest paid to our savers.

For more information, please see the member value section of the Strategic report.

As the Society evolves, we continue to review the wider market, adjusting where required to ensure the Society is able to attract the talent and capability required at all levels in the organisation. An example of this is within the Commercial Lending team, which saw the introduction of a new bonus scheme in 2023. This brings the Society more in line with the wider market remuneration offering for this type of business which has helped the Society to attract and retain the required calibre of colleague to deliver our ambitious plans.

2024 Remuneration Policy

The Remuneration Policy for our Executive Directors will be subject to an advisory member vote at the 2024 AGM, in line with our commitment to have a Remuneration Policy vote at least every three years.

As a mutual, our approach to remuneration reflects the needs of our members and is consistent with our purpose and strategy. During 2023 the Committee undertook a comprehensive review of the Remuneration Policy, applicable to Executive Directors and the wider colleague population, to ensure it remained aligned to the Society's purpose and strategy. The Committee refined the peer group against which it considers market pay levels, to ensure remuneration is positioned at a level that supports the attraction and retention of the required talent and capability.

Following the review, a new variable pay scheme has been developed and the all colleague scheme has been refined to support the Society's objectives. These included the creation of an ambitious culture, and the fostering of an environment where high performance is recognised and rewarded. For Senior Leaders, the remuneration approach has been simplified, with variable pay now delivered through a single incentive plan. Whilst Senior Leaders will no longer participate in Building Together, key measures of profit and customer satisfaction will continue to be assessed within the new plan alongside other measures focused on the delivery of the Society's purpose and strategy. This approach is intended to aid transparency for members and participants, whilst also recognising the regulatory expectations of a Proportionality Level One Firm. The maximum opportunity for Executive Directors will remain unchanged within the new scheme.

Full details of the proposed changes can be found in the Remuneration Policy section of this report.

Looking forward to the year ahead

The Committee have reviewed the Society's plans for continued transformation in 2024 and have proposed changes to the Remuneration Policy to ensure that the structure and performance measures of the remuneration components continue to provide long term member value and financial sustainability for the Society.

If the proposed changes to the Remuneration Policy are approved, the Committee will continue to monitor and review these throughout 2024 to ensure they are operating as intended (adjusting where required). We will also continue to review our remuneration policies to ensure they are aligned to the regulatory expectations of a Proportionality Level One firm.

On behalf of the Committee, I recommend that you endorse and vote in favour of the proposed Remuneration Policy changes and the 2023 Directors Remuneration report at the forthcoming AGM.

Debra Davies
Chair of the Remuneration Committee
28 February 2024

Directors Remuneration report (continued)

Basis of Preparation

For the 2023 financial year we have applied the principles and complied with the provisions of the Code published in July 2018 (available on the Financial Reporting Council's website www.frc.org.uk) as far as they apply to Building Societies (as set out in the Building Societies Association (BSA) Guidance available at www.bsa.org.uk) other than where stated in the Corporate Governance report.

Executive Directors remuneration for 2023

All remuneration in the 2023 performance year has been awarded in line with the Society's Remuneration Policy.

Details of the full policy relevant for 2023 can be found at www.ybs.co.uk.

The table below shows the single total figure table of remuneration for the Executive Directors of the Society for the years ended 31 December 2023 and 31 December 2022. This information has been audited by our independent auditors, PwC.

Single total figure of remuneration for each Executive Director (audited)

		Fixed Remuneration								Variable Remuneration						Total Remuneration Excluding Replacement Awards		Total Remuneration Including Replacement Awards	
		2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Executive Directors	Role	Base Salary £000		Taxable Benefits £000		Pension £000		Total Fixed £000		Bonus £000		Replacement Awards £000		Total Variable £000		£000		£000	
Susan Allen*	Chief Executive Officer	655	N/A	26	N/A	72	N/A	753	N/A	777	N/A	2,516	N/A	3,293	N/A	1,530	N/A	4,046	N/A
Alasdair Lenman**	Chief Finance Officer / Interim Chief Executive Officer	482	480	31	31	50	46	563	557	378	408	-	-	378	408	941	965	941	965
David Morris	Chief Commercial Officer	362	350	12	11	40	38	414	399	311	298	-	-	311	298	725	697	725	697

* Susan Allen joined the Society as Chief Executive on 2 March 2023 and was awarded an annual base salary of £785,000. Replacement awards include £1,684,356 awarded to compensate for deferred awards forfeited on leaving her previous employer and an award of £832,000 to compensate for lost incentive opportunity in respect of the 2022 Performance Period. In line with remuneration regulatory expectations these replacement awards will vest in line with prior vesting schedule. The bonus awarded to Susan for the 2023 performance period under the Building Together and Leading for Value bonus schemes has been calculated based on her annual salary as at 31 December 2023.

** Alasdair Lenman took on the role of Interim Chief Executive from 17 June 2022, upon which he was awarded an additional responsibility allowance. Following the appointment of Susan Allen, Alasdair stepped down as Interim Chief Executive on 2 March 2023, after which payment of his additional responsibility allowance ceased. The value of these payments, £59,163.46 in 2022 and £27,468.75 in 2023 has been included in the Base Salary column.

Base salary

In 2023 Alasdair Lenman and David Morris were both awarded a pay increase of 5%, which took effect from 01 May 2023. These uplifts are commensurate with those provided to all colleagues and in line with our analysis of the broader market. Upon hire, Susan Allen was awarded an annual salary of £785,000 and there was no further base salary increase during 2023.

Variable pay

This section explains the underpins and mechanics of the variable pay schemes in operation by the Society in 2023. The underpins used for the Building Together schemes are the same for all colleagues (including Executive Directors).

Financial performance

The first performance measure is Profit Before Tax, which is adjusted for bonus purposes to exclude items, both positive and negative, where they do not reflect underlying commercial performance – i.e. timing differences and or accounting treatment, this is referred to as the Society's Core Profit Before Tax (Core PBT). For Building Together this is used to both unlock and determine the variable pay pool. For Leading for Value Core PBT is only used to unlock the variable pay opportunity.

The Committee has scope to adjust the calculation of profit within the variable pay plan, for example to reflect the need to increase our capital (in the event of Society growth) or to reflect significant deviation from cost management plans.

The following principles are applied when identifying potential adjustments:

- Where an unexpected or unplanned item arises that is not part of the core, business as usual, running of the Society. For example, one-off investments or projects that were not included in the plan profit number against which actual performance is judged.
- Removal of both positive and negative impacts from non-core actions that do not reflect management of the Society. For example, any unplanned profits (or losses) on the sale of property would not be included in the Core PBT figure used to calculate variable pay award levels.

In line with the principles above, the overall Core PBT figure achieved in 2023 was £445.9m against a reported statutory figure of £450.3m. This represents a performance level above both the target £359.8m and stretch £414.6m metrics for the Society's bonus schemes and sets the financial element of the variable pay earning potential. The Committee were satisfied, based on analysis presented, that the business outperformed even when the impact of the Bank Base Rate changes during the year were excluded.

Customer experience

The second performance measure is the customer 'Net Promoter Score' ('NPS') which measures how likely our members and customers are to recommend us.

NPS unlocks the Building Together variable pay pool which is then moderated up or down from target based on the NPS outcomes.

Our 2023 Society NPS construct and targets were:

	Weighting on Society NPS	2023 target
Savings Customer	40%	46
Mortgage Customer	25%	51
Digital NPS	10%	41
Broker Residential	20%	82
Broker buy-to-let	5%	75
Society NPS	**Total**	**55**

The overall NPS figure achieved in 2023 was 61, which represents a performance level above both the target of 55 and stretch metric of 60 for the Society's 2023 bonus schemes.

Financial sustainability review

In addition to the above, before any variable pay awards are granted, a number of reviews are completed to ensure the level of capital held by the Society remains sustainable and compliant with regulation as well as an assessment which determines that the Society's cost management practices are robust.

Building Together

The Society's performance against the Core PBT and NPS targets determines the core variable pay award, which is underpinned by a financial sustainability review. All need to be achieved before any variable pay award will be granted. For Executive Directors, as well as the Senior Leadership Team ('SLT'), an additional percentage of variable pay may be awarded based on individual performance. The assessment of individual performance is measured against the achievement of their individual scorecard, which contains both financial and non-financial measures.

Leading for Value

2023 is the final year of the multi-year Leading for Value scheme. The scheme operated in addition to the Building Together scheme, with performance assessed against the delivery of measurable and targeted financial value for members, achievement of key strategic milestones and ESG performance against colleague engagement, inclusion and diversity and social impact targets. Targets for 2023 were set by reference to the long-term strategy, in order to support long-term value creation and to align with remuneration regulatory expectations.

The Executive Committee and the Chair of the Board carry out a pre-grant assessment before determining individual eligibility for this scheme and consider both personal (e.g. individual performance and compensation levels compared to the market) and the Society's performance (e.g. Capital, Liquidity and risk plus financial measures). The outcome of this pre-grant assessment determines the maximum opportunity that will be available to the individual, subject to the overall maximum level set within the scheme. The Remuneration Committee oversee this process before agreeing to any proposals.

Directors Remuneration report (continued)

Leading for Value (continued)

Payment is also underpinned by gateway metrics including the achievement of Core Operating Profit and NPS being at a level in line with threshold for Building Together, and upgrades to our operational risk capability. Following the year-end, the Remuneration Committee assesses performance against each metric to determine the variable pay outturn. For the 2023 performance year, the Remuneration Committee agreed a 72% outturn for the plan, based on the overall achievement of target or above against the Transformation, Member Value and ESG metrics. All variable pay awards are subject to the operation of a Business Controls Overlay (BCO) Process as outlined in the *Remuneration Policy*.

How Leading for Value was calculated for Executive Directors

	Measures	Levels of achievement	
Transformation 40%	■ Aligning account opening times and availability of digital services with customer needs ■ Improved payments service for savings customers ■ Improving access to mortgage lending ■ Improved mortgage decisions ■ Simplification of services for Savings accounts	**24%**	**72%**
Member value 30%	■ Improving savings returns for members	**30%**	
ESG 30%	■ Financial education and increase awareness in local communities ■ Creating a more diverse and inclusive organisation ■ Maintain high levels of colleague engagement	**18%**	

How variable pay is awarded for Executive Directors

In line with relevant remuneration regulations, variable pay awards for Executive Directors are subject to deferral over a multi-year period.

This table below shows the years in which the 2023 performance year payments to Executive Directors vest, with 50% delivered in cash and 50% via Share Equivalent Instrument ('SEI'). Payments made via SEI are subject to a holding period. For further details on deferral please refer to the Deferral and Share Equivalent Instrument ('SEI') section.

		Total Award			Deferral schedule															
					2024		2025		2026		2027		2028		2029		2030		2031	
Executive Director	**Role**	**% of salary**	**Cash** £000	**SEI**	**Cash** £000	**SEI**	**Cash** £000	**SEI**	**Cash** £000	**SEI**	**Cash** £000	**SEI**	**Cash** £000	**SEI**	**Cash** £000	**SEI**	**Cash** £000	**SEI**	**Cash** £000	**SEI**
Susan Allen*	CEO	**99.00**	**388.5**	**388.5**	155.4	*155.4*	-	-	-	-	46.6	*46.6*	46.6	*46.6*	46.6	*46.6*	46.6	*46.6*	46.6	*46.6*
Alasdair Lenman	Interim CEO / CFO	**78.42**	**189.0**	**189.0**	75.5	*75.5*	-	-	-	-	22.7	*22.7*	22.7	*22.7*	22.7	*22.7*	22.7	*22.7*	22.7	*22.7*
David Morris	CCO	**86.00**	**155.6**	**155.6**	62.2	*62.2*	-	-	-	-	18.7	*18.7*	18.7	*18.7*	18.7	*18.7*	18.7	*18.7*	18.7	*18.7*

* The bonus awarded to Susan Allen for the 2023 performance period under the Building Together and Leading for Value bonus schemes has been calculated based on her annual salary as at 31 December 2023.

Payments for loss of office

There were no payments to Directors for loss of office in 2023.

Payments to past Directors

There were no payments made to past Directors in 2023 that have not already been disclosed in previous reports.

Colleague considerations in relation to remuneration

Our aim is to build a working environment where colleagues feel engaged and committed to the Society's journey, ensuring they feel valued and respected to give their best. Our reward offering is integral to that, with an approach founded in our mutuality and values. Our Remuneration Policy is in place to support our colleagues in working together for the benefit of the Society and our members and customers. This has been reviewed for 2024, with changes made to support the Society's new strategy, including the creation of an ambitious culture, and to foster an environment where high performance is recognised and rewarded.

Colleague listening

The Society actively seeks views of colleagues through a variety of sources, including through our recognised trade union, Aegis. Our Colleague Forum and Performance and Reward Committee are other examples of where we gain direct colleague input into the design and ongoing development of the Society's remuneration framework. Alison Hutchinson, a member of the Remuneration Committee, and the Committee Chair until September 2023 has held the role of Non-Executive Director for Workforce Engagement since 2019, with Angela Darlington taking over this position in January 2024. The views of colleagues have been taken into consideration as part of the Society's Remuneration Policy, however consultation on specific policy amendments has not been undertaken.

Supporting colleagues in 2023

It is important to us that our colleagues feel recognised, valued and fairly rewarded for the contributions they make to providing essential services to our customers and the effective running of our operations.

In 2023 we made a significant investment in base pay, providing eligible colleagues with a 6% salary increase which was accompanied by an additional 1% discretionary allocation for leaders to allocate where further adjustments were needed to address areas such as colleagues who had significantly developed in their role or to support market alignment. We also recognised the cost of living and inflationary pressures felt by some of our lowest paid colleagues and introduced a Society-wide minimum full-time equivalent salary of £22,000. We also maintained our commitment to pay all colleagues and contingent workers at or above the Real Living Wage.

CEO pay ratio reporting

We continue to publish the ratio of the Chief Executive's pay to the wider colleague population. This ratio compares the total remuneration of the CEO against the total remuneration of the median colleague and those who sit at the 25th and 75th percentiles (lower and upper quartiles).

This ratio reflects the nature of the Society, in particular the range of different roles and skillsets required to operate within financial services; from a number of customer-facing colleagues in the branch network and call centres, through to, for example, heavily technical specialist roles in our Treasury department.

This year's calculation is based on a combination of earnings from Alasdair Lenman and Susan Allen, who have both held the position of Chief Executive (or Interim Chief Executive) in 2023. For Alasdair Lenman, this includes his fixed earnings up to and including the 01 March 2023, as well as a proportion of his variable earnings for 2023 (pro-rated to the period in which he was performing the role of Interim CEO). For Susan Allen this includes her fixed and variable earnings from 02 March 2023 paid in respect of the 2023 performance period, as well as the value of the replacement awards granted upon hire.

Directors Remuneration report (continued)

CEO pay ratio reporting (continued)

We have used the reporting method of 'Option B', which involves utilising our existing gender pay gap reporting data as the basis for identifying the colleagues at each of the required quartiles. The total Remuneration calculation for the colleagues identified at each quartile was taken as at 31 December 2023.

Year	Defined Method	25th percentile	50th percentile	75th percentile
2023*	**Option B**	**148:1**	**110:1**	**68:1**
2022	Option B	28:1	21:1	14:1
2021	Option B	29:1	21:1	14:1
2020	Option B	39:1	28:1	20:1
2019	Option B	40:1	35:1	22:1

* The CEO pay ratio for 2023 includes the replacement awards which have been granted to Susan Allen upon joining the Society. If these replacement awards were not included in the calculations, the median CEO pay ratio would reduce from 110:1 to 44:1.

Recent resignations from the CEO and Interim CEO position over the last few years have contributed to a relative reduction between the level of pay awarded to the CEO and that of the wider colleague population. The appointment of a new permanent CEO now provides a more representative view of CEO pay compared to the wider colleague population.

The total remuneration values and base salary values for the 25th, 50th and 75th percentile employees for 2023 are:

Year	25th percentile	50th percentile	75th percentile
Total	£28,461.93	£38,489.83	£61,687,04
Salary	£23,444.30	£32,860.53	£50,571.34

* The following elements have been utilised to calculate the total remuneration of each colleague; base salary, pension (including pension cash allowance), car allowance, private medical insurance and variable pay.

Non-Executive Directors

Chair of the Board and Non-Executive Directors

The Chair of the Board and Non-Executive Director ('NED') fees are reviewed annually. Following analysis of the market data available, and in line with the award provided to all colleagues, the NED fees were increased in 2023 as outlined below.

Non-Executive Director fees (annual equivalents)	Annual fees as at 1 July 2023 £000	Annual fees as at 1 July 2022 £000
Chair of the Board basic fee	216.2	202.0
Vice Chair of the Board basic fee	81.5	76.1
Non-Executive Director basic fee	57.5	53.7
Additional fee for:		
Audit Committee - Chair	23.4	21.8
Audit Committee - Member	9.7	9.0
Remuneration Committee – Chair	19.1	17.8
Remuneration Committee – Member	7.0	6.5
Group Risk Committee - Chair	23.4	21.8
Group Risk Committee - Member	9.7	9.0
Board Governance & Nominations Committee Member (N.B. Additional fee does not apply to the Chair or Vice Chair)	7.0	6.5

Single total figure of remuneration for each Non-Executive Director

The Non-Executive Directors basic and committee fees earned in 2023 are outlined below. Non-Executive Directors do not receive any benefits, but are reimbursed for any expenses incurred, such as travel and subsistence. This information has been audited by our independent auditors, PwC.

Non-Executive Director	2023 Basic Fees £000	2023 Committee Fees £000	2023 Total £000	2022 Basic Fees £000	2022 Committee Fees £000	2022 Total £000
John Heaps (Chair)	**209.1**	**-**	**209.1**	201.5	-	201.5
Alison Hutchinson*	**78.8**	**24.0**	**102.8**	75.6	23.3	98.9
Guy Bainbridge	**55.6**	**38.8**	**94.4**	53.3	35.2	88.5
Mark Parsons	**55.6**	**18.8**	**74.4**	53.3	18.1	71.4
Dina Matta	**55.6**	**6.8**	**62.4**	53.3	6.5	59.8
Jennelle Tilling	**55.6**	**6.8**	**62.4**	53.3	6.5	59.8
Angela Darlington	**55.6**	**32.0**	**87.6**	35.7	18.8	54.5
Debra Davies**	**24.8**	**10.3**	**35.1**	-	-	-
Annemarie Durbin***	**8.3**	**-**	**8.3**	-	-	-

* Alison Hutchinson stepped down as Chair of the Remuneration Committee on 18 September 2023

** Debra Davies joined the Society on 26 July 2023 and became Chair of the Remuneration Committee on 19 September 2023

*** Annemarie Durbin joined the Society on 18 December 2023 as Chair of the Board Designate. The fee payable to Annemarie is in line with the existing fee structure for the Chair of the Board.

Directors Remuneration report (continued)

2024 Remuneration Policy

The following pages set out the proposed Remuneration Policy for our Executive Directors and Non-Executive Directors. The proposed key changes applicable to Executive Directors are highlighted within the following tables, with no changes being proposed to the Remuneration Policy for Non-Executive Directors. We will seek member approval for the policy at the Annual General Meeting ('AGM') on 23 April 2024 and, if approved, the policy is intended to apply for three years to the AGM in 2027. It is intended that no payments to Directors will be made outside of this policy, unless required as a result of regulatory change.

Review of Remuneration Policy

During 2023 the Committee undertook a comprehensive review of the Remuneration Policy, considering input from a number of colleagues in the Society, while appropriately managing any conflicts of interest arising. This included the Board, the Executive Committee, People Leaders, the Performance and Reward Committee as well as assessing feedback from the Colleague Forum and colleague engagement surveys. In addition, to support the review, the Committee engaged Deloitte LLP to provide market insight and best practice.

Being a mutual, how we deliver for our members is of the upmost importance; this was a key focus throughout the review. Simplicity was also a key theme to ensure that the new remuneration framework is transparent and well understood by participants, while also supporting the delivery of the Society's strategy and creation of long-term value for members.

The starting point of the review was to consider our Reward Principles, to ensure they remained aligned to and supported the Society's strategy; the Committee believe the existing Reward Principles remain fit for purpose and therefore did not propose any changes.

Our Reward Principles

We follow five key principles to support us in achieving our long-term aspirations which apply to all colleagues within the Society. These help us know when we are doing the right things and set out what we believe good reward practice for all of our colleagues looks like.

Our five reward principles developed with our colleagues are:

1. **Attract and retain talent**
   Aligned to our mutual values and forward thinking to ensure relevance in a changing world.
2. **Focused on total reward**
   Recognising that reward is more than just pay, it is part of a broader Employee Value Proposition.
3. **Reward decisions are clear and transparent for colleagues**
   Delivered through effective and open communication.
4. **Flexible within a framework**
   To ensure a consistent approach whilst responding to different challenges, supported by education to help managers balance doing the right thing for both the Society and their people.
5. **Recognising contribution**
   Our reward arrangements are reflective of society, team and individual achievements, with the ability to recognise the contribution all colleagues have made to our success.

Our reward principles are applied consistently regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience.

As outlined in the Our strategy section of the Strategic report the Society starts a new strategic cycle in 2024, and has outlined ambitious plans to scale up and change at pace, while remaining anchored to its purpose, to guide towards a Society that is future-ready and fit to serve generations to come. Following the review of the Reward Principles and the Society's strategy, the Committee focussed their review on the variable pay schemes in operation for colleagues across the Society, including Executive Directors.

A new variable pay scheme has been developed and the all-colleague scheme has been refined to support the Society's strategy in creating an ambitious culture, and to foster an environment where high performance is recognised and rewarded, not just through 'what' is delivered, but also 'how' it is delivered. While there are separate variable pay schemes for Senior Leaders, including Executive Directors, and the broader colleague population, the Committee deemed it important to retain a degree of alignment between the two schemes through the use of common performance metrics and gateways. This alignment supports a collective culture, where everyone works together to put our members needs first, as well as being able to recognise high performance.

The review also included a market benchmarking exercise, and the Committee reviewed and defined a new competitor peer group for this purpose. The refined peer group includes Building Societies and Category One UK Banks to ensure remuneration is positioned at a level that supports the attraction and retention of the required talent and capability.

Overview of changes to Variable Pay Schemes for 2024

All Colleague Scheme

The existing all colleague scheme has been in operation since 2019. It was designed to support collaborative working, with all colleagues receiving the same percentage of salary award when the Society achieved its performance goals.

The all colleague scheme will continue to be underpinned by performance against Core Profit Before Tax and Net Promoter Score metrics, retaining the commitment to long term financial sustainability and exceptional customer service. The all colleague scheme is also subject to the Society's Business Controls Overlay process, which includes a financial sustainability review. Subject to performance levels being met, all colleagues (excluding Senior Leaders) will be eligible for the same percentage of salary award.

In recognition of the changes in the Society's strategy, some changes have been made to the operation of the scheme for 2024 to better recognise the contribution of colleagues who have role modelled exceptional behaviours. The scheme will now allow for additional individual discretionary awards once the core measures have been met.

New Senior Leader Bonus Scheme

To support the aim of simplicity, it is proposed that for 2024 onwards Senior Leaders, including Executive Directors, will no longer participate in Building Together nor Leading for Value, and instead these schemes will be replaced by a new single variable pay scheme.

The scheme has been designed to ensure that the remuneration of our Senior Leaders, including Executive Directors, has a direct link to the success of the Society, supporting delivery of long-term strategic objectives whilst protecting and enhancing member and colleague interests in line with our purpose. However, participation in this new scheme recognises the role and impact the Senior Leaders in the Society have on the delivery of the long-term strategy. There will continue to be a strong link between the all colleague scheme and the senior leader scheme with the same financial and customer underpins in place across both schemes. Prior to any award on either scheme, existing financial sustainability checks will remain to ensure the level of capital held by the Society remains sustainable and compliant with regulation as well as an assessment which determines that the Society's cost management practices are robust. The schemes will also continue to be subject to the Society's Business Controls Overlay process.

Maximum opportunity levels for Executive Directors are unchanged under the new scheme when compared to previous opportunity levels across both Building Together and Leading for Value.

Performance will be assessed on an annual basis based on a Society scorecard consisting of both financial and non-financial metrics, as well as performance against individual personal objectives. The Business Controls Overlay and risk adjustment processes will continue to apply as in prior years. The scorecard will be reviewed and approved by the Committee on an annual basis, and clearly linked to the long-term Strategy of the Society. An example of the proposed, simplified scorecard is outlined below.

Category	Performance measures	
	Core profit before tax	
	Cost	
Financial and strategic/ non-financial measures	Extend reach and deepen our impact	1. Member value 2. Mortgage propositions
	Create joyful experiences	1. Customer experience 2. NPS
	Build a future ready society	1. Building a greener society 2. Growing sustainably
	Cultivate an ambitious culture	Organisational health
Individual objectives		

Directors Remuneration report (continued)

Executive Director remuneration policy

Fixed remuneration – base salary		Change for 2024
Purpose and link to strategy	To enable the attraction and retention of high performing experienced Executive Directors by ensuring that they are appropriately rewarded for their role. The level of base salary awarded serves to reflect the contribution of Executive Directors in their role as defined by the combination of: ▪ Skills, knowledge and experience ▪ On-going performance ▪ Demonstration of the Society's behaviours and values.	No change
In practice	Base salary is typically reviewed annually and determined with reference to: ▪ Role and responsibilities ▪ Skills, experience and individual performance & behaviours ▪ Comparison to the external market, supported by reference to the Society's grading structure, and the Career Framework ▪ Internal relativities and wider workforce base salary levels ▪ Affordability – the economic environment and overall financial position of the Society.	No change
Opportunity	There is no 'maximum' base salary opportunity. We seek to target an appropriate external market position in relation to 'total remuneration'. To ensure that this is achieved base salary ranges are developed with reference to the total package including variable pay.	No change

Fixed remuneration – benefits		Change for 2024
Purpose and link to strategy	To provide a total remuneration package that enables the attraction and retention of Executive Directors of the required calibre.	No change
In practice	Executive Directors are eligible to receive a number of benefits, which may include: ▪ Private medical insurance ▪ Annual Health Assessment ▪ Life assurance (6x salary) ▪ Insured sick pay ▪ Provision of a company car, or cash equivalent ▪ Travel allowances.	No change
Opportunity	There is no maximum value to the benefits provided. The level of benefit is regularly reviewed to ensure they remain appropriate for the role undertaken.	No change

Fixed remuneration – retirement benefits		Change for 2024
Purpose and link to strategy	The Society's pension arrangements support the attraction and retention of Executive Directors through the provision of competitive retirement benefits.	No change
In practice	The Society operates a single defined contribution pension scheme, and all colleagues have the opportunity to participate. Where participation in the scheme is tax inefficient, Executive Directors, in line with the approach for all colleagues, may be permitted to take a cash allowance instead of contributions to the plan.	No change
Opportunity	All Executive Directors receive a maximum pension contribution (or cash allowance) of 11% of base salary, the same as the contribution levels for all colleagues.	No change

Variable pay – Senior Leaders Bonus Scheme		Change for 2024
Purpose and link to strategy	To ensure that an Executive Director's remuneration has a direct link to the success of the Society and supports delivery of long-term strategic objectives in line with the Society's purpose and values.	No change
In practice	All Executive Directors are eligible to participate in this scheme which aims to reward the achievement of stretching annual Society and individual targets which are aligned to the longer-term strategy. Awards will be based on a Society scorecard of financial and non-financial metrics aligned to the Strategy together with individual performance. Payments under the plan are determined in the following way: ▪ For all metrics within the scorecard there would normally be specific targets set to reflect minimum threshold, target and maximum performance levels ▪ Scorecard metrics are weighted such that financial metrics and non-financial/strategic metrics (which may include metrics relating to member value, customers, ESG and risk) are weighted at 80% of the scorecard and individual performance is weighted at 20% ▪ Following the end of the financial year, the Remuneration Committee will assess performance across all performance metrics, including individual performance of each Executive Director, to determine the scorecard outcome ▪ Organisational financial performance, customer experience and risk gateways apply. Failure to meet these would normally result in zero variable pay awarded ▪ An individual compliance gateway, which would include an assessment of individual conduct, would also underpin the payment of any award. Failure to meet this would reduce any award (including potentially to zero). All awards are subject to deferral, payment in 'share equivalent instruments' and malus and clawback provisions in line with regulatory expectations.	Replacement of existing Building Together and Leading for Value schemes with one, simplified scheme for all Senior Leaders, including Executive Directors.
Opportunity	An 'on target' achievement against all performance criteria would result in a variable pay award of 75% of eligible pay for the Chief Executive and 50% of eligible pay for other Executive Directors. Maximum achievement against all performance criteria would result in a variable pay award of 125% of eligible pay for the Chief Executive and 100% of eligible pay for other Executive Directors.	No change to maximum opportunity levels. The on-target opportunity for Executive Directors, excluding the CEO, has been reduced from 60% to 50% of eligible pay.

Deferral and Share Equivalent Instruments

In line with relevant remuneration regulations, including the Remuneration section of the PRA Rulebook and the FCA's Dual-Regulated Firms Remuneration Code, all variable pay awards for Executive Directors are subject to deferral. Deferral ensures that the Society delivers variable pay over a multi-year period, in a manner that mitigates unnecessary risk taking, whilst achieving a level of sustainable performance.

Also required by regulation, is that 50% of each variable pay award will be delivered via a Share Equivalent Instrument ('SEI') which is subject to a further holding period following vesting.

For the 2024 performance year, an Executive Director whose remuneration exceeds the de-minimis limit will receive 20% of their total variable pay in 2025, with a further 20% delivered via SEI in 2026. The remaining 60% is deferred over seven years, with a 12 month holding period applying to the payments made via SEI.

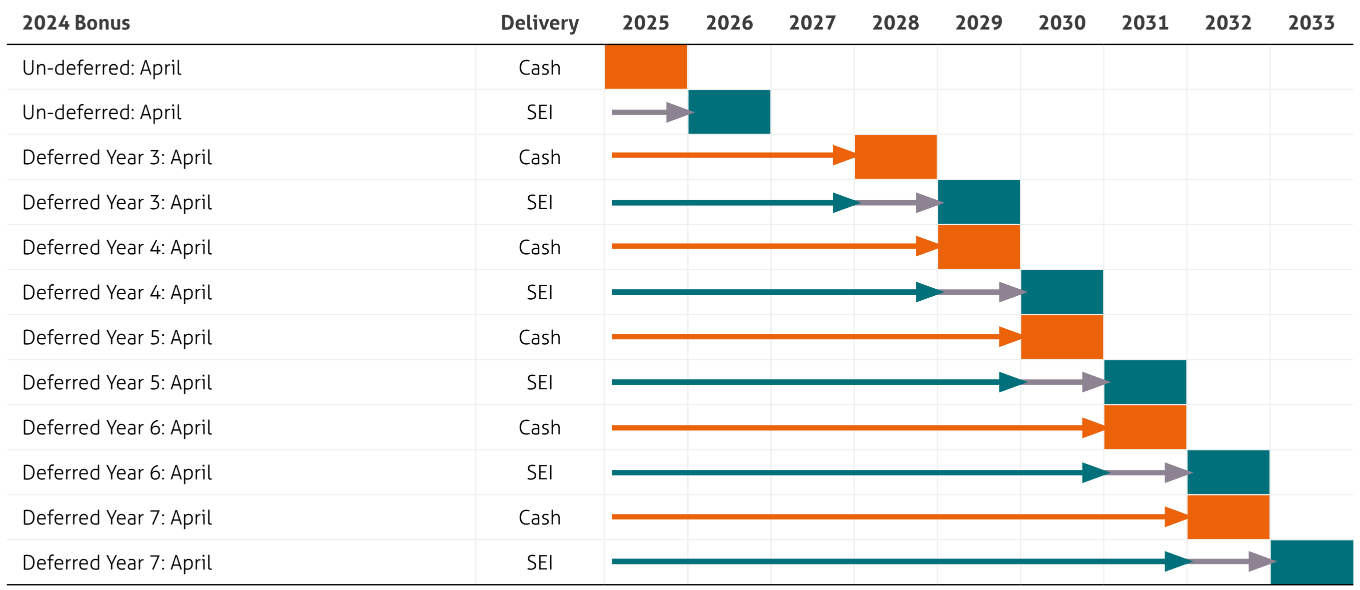
For example:

- **Year 1** – 40% of any variable pay earned is paid out in the year following the relevant performance year. Half of this amount is paid in cash (in 2025) and the other half is delivered in a SEI and subject to an additional holding period prior to revaluation and payment (in 2026).
- **Deferral Years** – the remaining 60% is deferred for 7 years and paid equally each year from 3 years after the award. Each year, the award is split in two, with half the amount paid in cash and the second half held in a SEI and subject to an additional holding period prior to revaluation and payment. SEI valuations continue every 12 months until the variable pay schedule is complete.

Directors Remuneration report (continued)

Deferral and Share Equivalent Instruments (continued)

Length of time variable pay at risk



Key

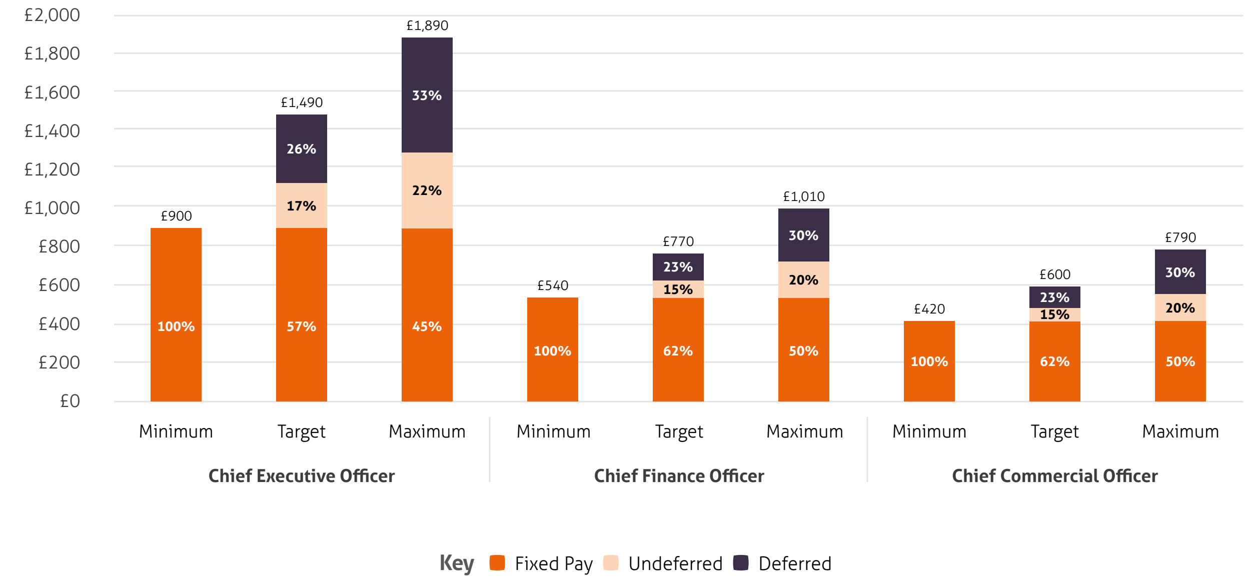
→ Cash bonus deferral → SEI deferral → SEI holding period

Variable pay – control framework		Change for 2024
Business controls overlay process	Variable pay awards are subject to the operation of a Business Controls Overlay ('BCO') assessment that considers current and future risks through a range of key metrics provided by the Society's control functions to evidence the robust management of the Societies controls e.g., audit actions and other metrics. Before any variable pay awards are granted, a number of financial sustainability reviews are completed to ensure the level of capital held by the Society remains sustainable and compliant with regulation as well as an assessment which determines that the Society's cost management practices are robust. This formal risk overlay process ensures key risk indicators are considered to provide assurance that no inappropriate risk-taking behaviours have taken place. In instances where issues are identified as part of the BCO assessment, the Remuneration Committee reserve the right to reduce the scorecard outturn, apply a malus adjustment (reduce variable pay award or lapse deferred elements) and / or apply clawback (recover variable pay awards already made) as applicable. Awards are subject to clawback for up to a maximum of ten years.	No change
Remuneration Committee discretion	The Remuneration Committee retains the discretion to adjust variable pay awards to ensure that it reflects a true view of the underlying performance of the Society and holds sufficient capital levels to support the payment of any variable pay award.	No change

Remuneration scenarios in relation to the Remuneration Policy in 2024

The chart below shows an illustration of the potential split of remuneration between fixed remuneration (base salary, benefits and pension) and total variable pay for the CEO and other Executive Directors aligned to the new policy. For the purposes of this illustration, we have used the data pertaining to the Chief Executive, the Chief Financial Officer and the Chief Commercial Officer under the following scenarios:

- **Minimum** – under certain performance conditions, variable pay can be zero.
- **Target** - represents a variable pay award (75% of eligible pay for the Chief Executive and 50% for the remaining Executive Directors) that would be paid if Society and personal performance measures are achieved in 2024.
- **Maximum** – the maximum variable pay award (125% of eligible pay for the Chief Executive and 100% for the remaining Executive Directors) that could be paid assuming stretch objectives and outcomes are fully realised in 2024.



Figures in this table are represented in £000's.

Directors Remuneration report (continued)

Remuneration scenarios in relation to the Remuneration Policy in 2024 (continued)

New hires		Change for 2024
Remuneration package	When agreeing the components of a remuneration package for the appointment of Executive Directors, the Remuneration Committee will apply the following principles: ■ The packages will be sufficient to recruit high performing individuals, in a highly competitive market, to lead the business and effectively execute the strategy for members; ■ The Remuneration Committee will look to align the remuneration package offered with the Society's Remuneration Policy; and, ■ The Remuneration Committee will ensure that the level of pay is necessary but not excessive. In determining remuneration arrangements, the Remuneration Committee will consider similar positions in the market, the structure of the remuneration package and the experience of the candidate. This ensures that arrangements are in the best interests of both the Society and its members without paying in excess of what is necessary to recruit an Executive Director of the required calibre.	There are no proposed changes to the maximum opportunities which remain 125% for CEO and 100% for Executive Directors. The on-target opportunity for Executive Directors, excluding the CEO, has been reduced from 60% to 50% of eligible pay.
Replacement awards	The Remuneration Committee may make awards on hiring an external candidate to compensate them for any previously awarded variable remuneration and any other remuneration arrangements forfeited upon leaving the previous employer. In determining whether to approve any such replacement awards, the Remuneration Committee will consider the structure and form of the previous arrangements and will seek to ensure awards are made on materially similar terms to the arrangements being forfeited in terms of value, time horizons and the extent to which performance conditions applied to the original awards. Any replacement awards will be subject to the Society's malus and clawback provisions. The awards will be forfeited in the event of early departure from the Society.	No change

Leaver arrangements and loss of office		Change for 2024
The Remuneration Committee shall apply the policy in relation to leavers, considering performance, conduct and commercial justifications, as summarised below:		
Notice period	The standard notice period is 12 months from the Society and 12 months from the Executive Director. In normal circumstances, Executive Directors will be required to work their notice period. In the event Executive Directors are not required to fulfil their notice period, they may receive a payment in lieu of notice, or they may be placed on garden leave.	No change
Termination payment	Typically, termination payments will consist of contractual payments for the notice period, the emphasis being to not reward failure.	No change
Annual variable pay – leaver provisions	On termination of office, the leaver provisions as set out below will apply. These are also outlined in the Society's variable pay plan rules. ■ In the event of retirement, redundancy, ill-health or disability, any variable pay award will be pro-rated to reflect the time served during the performance period, with any payment remaining subject to relevant performance conditions and the Society's BCO assessment. Payment of any variable pay award would be at the normal time and deferral will continue to apply, in line with regulatory requirements. There would typically be no acceleration of payment or the vesting of deferred awards. For any unvested deferred awards which remain outstanding, these would typically be retained and would vest in line with the original vesting schedule. Malus and clawback provisions would continue to apply. ■ In the case of death, any variable pay award will normally be pro-rated to reflect the time served during the performance period. The Remuneration Committee has the discretion to accelerate the payment of deferred variable pay ahead of its defined vesting schedule in exceptional circumstances. ■ In the event of the resignation of an Executive Director who has unvested deferred bonus payments outstanding, they will not typically remain eligible to receive unvested awards. The Remuneration Committee has the discretion in certain circumstances to allow the colleague to remain eligible to receive the deferred bonus payments earned in previous years, subject to the rules of the scheme, including but not limited to the Society's BCO assessment and malus and clawback provisions.	No Change

Remuneration Policy for Non-Executive Directors

Non-Executive Director Fees		Change for 2024
Purpose and link to strategy	Remuneration set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge and experience to provide a meaningful contribution to the Society.	No change
In practice	Fees are based on the level of fees paid to Non-Executive Directors and Chairs serving on boards of comparable organisations, the time commitment required, and contribution expected from the role. ■ Both the Chair of the Board and Non-Executive Directors fees are reviewed periodically, normally at least annually. ■ The Chair of the Board is paid an all-inclusive fee. For Non-Executive Directors, a basic fee is paid, with additional fees payable for additional responsibilities, for example, the chairing or membership of a Board Committee. ■ The Chair of the Board's fees are determined by the Remuneration Committee. ■ Non-Executive Director fees shall be a matter for the Chair of the Board. ■ The Chair of the Board and Non-Executive Directors fees are not subject to any specific performance measures; however, their overall performance is reviewed on a regular basis. ■ Non-Executive Directors do not receive any benefits but are re-imbursed for any expenses incurred. ■ Non-Executive Directors will not be involved in any decisions as to their own remuneration.	No change
Opportunity	There is no 'maximum' fee opportunity. Fees are set with reference to the level of fees paid to Non-Executive Directors and Chairs serving on boards of comparable organisations, the time commitment, and contribution expected from the role. Non-Executive Directors are not eligible to receive variable pay awards.	No change

Our committees

To ensure our reward policies and procedures are robust and assured we have two main committees in place to support this: the Remuneration Committee and the Performance and Reward Committee. These committees play different roles in making sure our approach to reward meets our required levels of compliance, as explained below.

Remuneration Committee

The Remuneration Committee has specific responsibility for making sure we have the right policies and processes in place for Chief Officers (including those that are Executive Directors) of the Society, and individuals identified as Material Risk Takers (MRTs – senior decision makers), as well as the overarching Remuneration Policy and pay practices that impact all colleagues within the Society. The purpose of the Remuneration Committee is to oversee the Remuneration Policy in place for the Society, making sure this aligns to our business strategy and any regulatory requirements. Details in relation to the composition and the Terms of Reference of the Remuneration Committee can be accessed on the Society's website.

The Remuneration Committee oversees a broad range of activities within the Society such as:

- Setting of the Remuneration Policy for all colleagues within the Society.
- Reviewing and approving the individual remuneration arrangements for all Chief Officers (including those that are Executive Directors) and Chair of the Board.
- Ratifying the annual objectives of the Chief Officers (including those that are Executive Directors).
- Determining individual variable pay awards for other MRTs.
- Overseeing and approving the variable pay outturn for all bonus schemes
- The application of malus and / or clawback for MRTs if any evidence of risk taking or behaviour not conducive with our principles is identified.
- Overseeing remuneration processes and procedures in relation to MRTs, including ensuring MRTs do not undertake hedging strategies in relation to their variable pay opportunities.
- Responsibility for the Business Controls Overlay process.
- How remuneration is considered for all colleagues in the organisation, and the relativity of their remuneration to the Executives.

The Remuneration Committee is supported by the Chair of the Board, the Chief People Officer and the Director of People and Culture. Where it is felt to be appropriate, the Chief Executive is invited to attend to provide further background and context to assist the Committee in discharging its duties.

Directors Remuneration report (continued)

Our committees

The Committee met eight times during the year and covered the following activities:

- Reviewing the Society's Remuneration Policy for Executive Directors and all colleagues, ensuring it is fit for purpose in relation to Tier 1 firm
- Ensuring remuneration policies and practices remain appropriate and are operating as intended
- Ongoing work in relation to the Prudential Regulatory Authority's (PRA) Remuneration Code and how it applies to the Society
- Reviewing the Society's variable pay scheme structure and targets
- Overseeing performance and remuneration of the Society's Material Risk Takers
- Reviewing and monitoring the risk measures in place relating to Director performance
- Reviewing the Society's gender pay gap reporting
- Reviewing and approving the remuneration arrangements for MRTs
- Additional meetings were held in 2023 to support the review of the Directors Remuneration Policy.

Details of the number of scheduled meetings attended by each Committee member during 2023 can be found in the Attendance at Board and Committee meetings section of the Corporate Governance report.

The Remuneration Committee draws on the advice of an independent external consultant to support it in performing its duties. During the year, the Committee sought advice on Executive Director salaries, variable pay structures and regulatory matters from EY. The Committee is satisfied that the advice received is objective and independent. EY's fees for advice provided to the Remuneration Committee in 2023 were £53,340 (including irrecoverable VAT).

Further to the advice received from EY, additional advice was obtained from Willis Towers Watson and Deloitte LLP, who provided support and guidance on the review of the Executive Directors Remuneration Policy. This included market benchmarking, as well as support and guidance relating to variable pay structures.

Performance & Reward Committee

The Performance & Reward Committee is in place to ensure effective governance and oversight of our Remuneration Policy with a focus on conduct and alignment to our business strategy. This committee also ensures that any variable pay arrangements that we offer colleagues drive the right behaviours towards risk taking and safeguard good customer and member outcomes. The Performance & Reward Committee comprises several senior leadership team members within the organisation with representation from the Customer Services, Commercial, People, Finance and Risk functions.

Our approach to risk management and governance of reward

Our reward provisions meet all the requirements of both our internal governance processes and external regulators. Our provision of reward and the associated policies, processes, procedures and practices relating to these are created in a way which ensures the appropriate level of governance is in place to mitigate any potential current and future risks to the Society, colleagues, members and customers. The variable pay scheme is subject to a Business Controls Overlay Process, under which the Remuneration Committee may adjust variable pay outcomes in the event risk issues are identified.

Our regulators

As a financial services provider we are regulated by both the Financial Conduct Authority (FCA) and the Prudential Regulation Authority ('PRA'). The relationship with our regulators is important to us, and builds trust both inside and outside of the Society. This means that from a performance, reward and benefits perspective we ensure that our base salary, variable pay and benefits not only meet any necessary obligations of our regulators but are designed and provided in a way which develops a trusted relationship with them.

Appendices

Appendix 1 – Statement of member voting

The Society remains committed to ongoing member dialogue and takes an active interest in voting outcomes. The policy has received strong support from members to date.

Non-Executive Director	2017	2018	2019	2020	2021	2022	2023
To approve the Directors' Remuneration Report	89.67%	90.29%	91.86%	91.32%	92.45%	91.77%	93.15%
To approve the Directors' Remuneration Policy	n/a	n/a	90.95%	n/a	91.58%	n/a	n/a

Appendix 2 - Aggregate remuneration data (Pillar 3)

For full details on the Society's full Pillar 3 disclosure, please visit *www.ybs.co.uk/your-society/financial-results.*

DIRECTORS' REPORT

This report contains the statutory disclosures required under the Building Societies Act 1986 ('the Act') and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority ('the DTR'). It also includes details of voluntarily applied disclosure requirements, including those in respect of the UK Corporate Governance Code ('the Code'), the Companies Act 2006 and the streamlined energy and carbon reporting ('SECR') rules.

Our directors

The names of the directors of Yorkshire Building Society ('the Society') who served during the year and up to the date of this report, their roles, previous experience and membership of board committees are described in the Our Board and Executive Team area of the Governance section. None of the directors had an interest in, or share of, any associated body of the Society at any time during the financial year. At our 2024 Annual General Meeting ('AGM') our directors will all retire and stand for election/re-election, with the exception of John Heaps who will retire from his role as Chair of the Board in April 2024.

Our strategy, future developments and Key Performance Indicators ('KPIs')

Information on the strategy of Yorkshire Building Society and its controlled entities ('the Group') can be found in the Our purpose and strategy section of the Strategic report. Details of future developments are included in the Looking ahead section of the Chief Executive's Summary and KPIs are set out in the Performance at a glance section.

Details of our corporate governance practices are included in our Corporate Governance report.

How we manage risks

Our business activity exposes the Group to a variety of risks, including retail and commercial credit, treasury, funding and liquidity, market, operational, model, capital, and compliance and conduct risk. We seek to manage all the risks that arise from our business activities and we have a number of committees and policies in place to do so.

Details of these risks are included in the Risk overview section of the Strategic report and the Risk Management report.

Our mortgage arrears

Details of the mortgage accounts that were 12 months or more in arrears at 31 December are as follows:

	2023	2022	2023	2022
			% of mortgage account/balances	
Number of accounts	194	217	0.07%	0.08%
Balances outstanding on accounts	£25.4m	£30.2m	0.05%	0.07%
Amount of arrears included in balances	£3.5m	£3.7m	0.01%	0.01%

Further details of the arrears position are set out in the Our Financial Review section of the Strategic report. Note 31 to the financial statements also details the various forms of support offered to borrowers experiencing difficulties in meeting their repayments.

Directors' report (continued)

Our charitable and political donations

Charitable donations made by the Group during the year were £0.9 million (2022: £0.9 million), more details and further information on fundraising by our colleagues, members and customers, including the value of volunteering time of YBS colleagues can be found in the Our communities section of Engaging with our stakeholders in the Strategic report. No political donations were made in the year (2022: nil).

Our colleagues

We continue to listen and respond to our colleagues' needs. It is important that all our colleagues feel connected to the Society and can contribute to our success. To achieve this, we communicate business information to our colleagues across our organisation in an appropriate and timely way. We recognise that employing people from different backgrounds and with a range of experience enhances the way in which we work. We are building a diverse workforce and we make workplace adjustments wherever we possibly can to provide an inclusive working environment for all colleagues.

See the Engaging with our stakeholders section of the Strategic report for more details.

Our responsibilities in respect of Accounting Records and Internal Control

We are responsible for ensuring that the Society:

- keeps accounting records in accordance with the Building Societies Act 1986 ('the Act'); and
- takes reasonable care to establish, maintain, document and review such systems and control as are appropriate to its business in accordance with the rules made by the Prudential Regulation Authority under the Financial Services Act 2012.

We have a general responsibility for the safeguarding of the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' responsibilities in respect of the preparation of the Annual Report and Accounts

The following statement, which should be read in conjunction with the Auditors' responsibilities for the audit of the financial statements in the Independent auditors' report to the members of Yorkshire Building Society, is made by the directors to explain their responsibilities in relation to the preparation of the financial statements.

We are required by the Act to prepare financial statements, for both the Society and the Group, that give a true and fair view of the income and expenditure for the financial year, and the state of affairs at the end of the financial year. We are also required to provide details of directors' remuneration in accordance with part VIII of the Act and regulations made under it.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable;
- state whether the financial statements have been prepared in accordance with International Accounting Standards; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The disclosure and transparency rules of the Financial Conduct Authority ('the DTR') require an annual financial report to include:

- audited financial statements for both the Society and Group;
- a management report that includes a fair review of the business and a description of the principal risks and uncertainties (see the Strategic report and the Risk Management report); and
- responsibility statements (see Responsibility Statements below).

We are responsible for the maintenance and integrity of statutory and audited information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Laws in the United Kingdom governing the preparation and communication of financial statements may be different from laws in other jurisdictions.

Annual Business Statement

The Act also requires the directors to prepare, for each financial year, an annual business statement containing prescribed information relating to the business of the Group.

See pages 235 to 236 for the 2023 Annual Business Statement.

Non-financial and sustainability statement

The Society aims to voluntarily apply the requirements of s414CB of the Companies Act 2006 by including non-financial information intended to help stakeholders understand our position on key non-financial matters. Information regarding these matters can be found in the following sections of this document:

Area	Strategic report reference
Environment matters	See Building a greener society section
Employees	See the Investing in our people subsection of Our ESG priorities section
Social matters	See the Our Communities subsection of the Engaging with our stakeholders section
Respect for human rights	See the Our Communities subsection of the Engaging with our stakeholders section
Anti-corruption and anti-bribery	See the Anti-bribery and anti corruption subsection of Operating responsibly section
Our business model	See Our business model subsection of Our purpose and strategy section of the Strategic report
Principal risks	See the Risk overview section of the Strategic report
Key performance indicators	See Performance at a Glance section in the Introduction and the Engaging with our stakeholders section for a description of employee engagement scores

Directors' duties

Section 172 of the Companies Act 2006 (s172) describes the duties of company directors in respect of promoting the business and considering other stakeholders. This does not apply to the Society's Directors as we are a building society not a company, but the Code expects boards to report on how they have considered the matters set out in s172 in decision making. The table below summarises the s172 requirements and cross references to where this consideration is covered in other sections of this document.

Summary of s172 Requirements	Yorkshire Building Society Board	Relevant disclosure
A director must act in a way they consider, in good faith, would most likely promote the success of the business for the benefit of its members as a whole (i.e. the company's shareholders) and in doing so have regard (amongst other matters) to the:	As a mutual the Society does not have external shareholders, we are owned by our members. The Board is committed to promoting the long-term success of the Society for the benefit of our current and future members. Building on our purpose to provide Real Help with Real Life our Strategic Blueprint strategy underpins our commitment to the success of the business for our members both now and in the future.	**Our Business Model section** **Our Purpose and Our Strategy sections**
▪ **likely consequences of any decision in the long-term**	Our Board recognises the importance of ensuring the likely consequences of decisions in the long term are considered which is reflected in our Strategic Blueprint built around our purpose of providing Real Help with Real Life.	**Our Business Model section** **Our Purpose and Our Strategy sections**
▪ **interests of employees**	The Board understands that our people are the foundation of our business and recognises the importance of ensuring that their voice is heard in the board room. Each paper considered by the Board sets out the implications for our employees and, where relevant, how they have been consulted on the proposals. The Board has also put in place a framework to ensure colleague views inform its decision.	**Our Communities subsection of the Engaging with our Stakeholders section** **Corporate Governance report colleague section**

Directors' report (continued)

Summary of s172 requirements	Yorkshire Building Society Board	Relevant disclosure
need to foster business relationships with suppliers, customers and others	The Society's Board is committed to fostering and monitoring the effectiveness of our wider business relationships with all our key stakeholders. This was reflected in the shaping of our Strategic Blueprint which was supported through detailed stakeholder engagement exercises.	**Our Purpose and Our Strategy sections** **Our Communities subsection of the Engaging with our Stakeholders section**
impact of the business's operations on the community and the environment	The environment, social and governance impact of the Society underpins the Strategic Blueprint and each paper considered by the Board sets out any social or environmental implications of a decision ensuring that the Board has regard to the impact of these as part of its overall approach to promoting the success of the Society.	**Our Communities subsection of the Engaging with our Stakeholders section** **Building a Greener Society section**
desirability of maintaining a reputation for high standards of business conduct	The Board's commitment to maintaining high standards of business conduct helps to ensure the long-term success of the Society for our current and future members, customers, colleagues and all other stakeholders. The Society's behaviours help drive the culture and supports the delivery of the Strategic Blueprint.	**Our Business Model section** **Our Purpose and Our Strategy sections**
need to act fairly as between members (i.e. the company's shareholders)	The Society does not have external shareholders, instead our members are our owners and at the heart of what we do. The Board understands the importance of engaging with our members and is committed to ensuring their views inform future decision making to ensure it is fair and in the interests of our membership as a whole.	**Our Communities subsection of the Engaging with our Stakeholders section** **Corporate Governance report member's section**

Streamlined Energy and Carbon Reporting ('SECR')

Under the Streamlined Energy and Carbon Reporting ('SECR') framework mandated by the UK government, the Society maintains ongoing disclosure.

The Society has implemented the following energy efficiency actions in this reporting year:

- Roll out of LED lighting upgrades to 31 Branches
- LED lighting replacements at Yorkshire Drive – 310 light fittings replaced
- Roll out of Air Conditioning Replacements to 8 Branches
- Acquired one 100% electric maintenance vehicle to replace a diesel maintenance vehicle

Comprehensive insights into the Society's environmental accomplishments, commitments, and approach to managing climate related risks are available within the Building a greener society section of the Strategic report.

Limited level assurance

Ricardo Energy & Environment, our external carbon footprint verifiers, have carried out a limited level assurance review of these figures. This review assessed data collection and calculation methodologies against the applicable requirements. Based on the process and procedures conducted, they have concluded that there is no evidence that the 2023 GHG assertion: is not materially correct and is not a fair representation of GHG data and information, has not been prepared in accordance with the ISO 14064-1 *specification with guidance for the validation and verification of greenhouse gas assertions* and the GHG Protocol Corporate Standard. This statement is valid for the carbon footprint verification review for the periods from 1 January 2023, to 31 December 2023.

Energy use and emissions report

As per the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard ('GHG Protocol')[31], energy usage and emissions from our business activities are classified as follows:

Internal Energy Usage (kWh)	2023	2022
Heating and emergency fuel usage	3,982,219	5,165,030
Company owned vehicle transport	7,706	3,509
Scope 1	**3,989,925**	5,168,539
National Grid Electricity Consumption	8,400,778	8,183,123
Onsite Solar Electricity Generation Consumption	150,157	144,500
Company owned EV vehicle usage	200	–[32]
Scope 2	**8,551,135**	8,327,623
Leased/hired business transport	520,637	382,648
Scope 3	**520,637**	382,648
Total	**13,061,697**	**13,878,810**
	tCO_2e	tCO_2e
Total emissions from internal energy usage	**2,591**	**2,619**

[31] Greenhouse gas (GHG) emissions data is calculated in accordance with the Greenhouse Gas Protocol, a widely recognised accounting framework for measuring and managing emissions. Our methodology has been prepared using guidance from ISO-14064-1 standard specifications.

[32] During 2022 reporting period, YBS did not own any EVs and therefore there is no reporting on this category during that period.

Directors' report (continued)

Streamlined Energy and Carbon Reporting ('SECR') (continued)

Carbon footprint

		2023		2022	
		Location tCO_2e	Market tCO_2e	Location tCO_2e	Market tCO_2e
Scope 1	Generation of heat (gas consumption)	728	-	941	-
	Back-up generator fuel	0.11	0.11	0.04	0.04
	Vehicles used on Society business	2	2	1	1
	Refrigerant gases	3	3	7	7
	Total	**733**	**5**	**949**	**8**
Scope 2	Electricity consumption	1,740	-	1,582	-
	Electricity for owned vehicle	0.04	0.04	-	-
	Total	**1,740**	**0**	**1,582**	**0**
Scope 3	Well-to-tank – Electricity	419	33	413	35
	Well-to-tank – Land, Air Travel and Fuels	177	57	197	36
	Transmission and distribution losses - Electricity consumption	150	150	145	145
	Business travel – Transport	268	268	161	161
	Business travel – Hotel	24	24	15	15
	Homeworking and commuting [33]	3,648	3,648	-	-
	Water supply and treatment	12	12	8	8
	Waste disposal	9	9	8	8
	Total	**4,707**	**4,201**	**947**	**408**
Total Carbon Footprint		**7,180**	**4,206**	**3,478**	**416**

Intensity ratios

	2023			2022		
	Income	GHG Emissions	Intensity ratio	Income	GHG Emissions	Intensity ratio
Income intensity ratio	£m	tCO_2e	tCO_2e/£m	£m	tCO_2e	tCO_2e/£m
Location	787	7,180	9.1	811	3,479	4.3
Market		4,206	5.3		416	0.5
Colleague intensity ratio	Colleagues	tCO_2e	tCO_2e/person	Colleagues	tCO_2e	tCO_2e/person
Location	4,773[34]	7,180	1.5	4,530	3,479	0.8
Market		4,206	0.9		416	0.1

Methodology

Our approach to calculating greenhouse gas emissions and environmental impact within the Group aligns with the GHG Protocol. Emissions are reported in metric tonnes of carbon dioxide equivalent ('tCO2e'), whilst energy usage is quantified in kilowatt hours ('kWh'). The Society uses the most up to date UK Government GHG Conversion Factors for Company Reporting except for 'market-based' renewable electricity and gas tariffs. All emissions and energy usage are UK-based apart from a small percentage of GHG Scope 3 business travel. The intensity metric that the Society uses to normalise emissions for annual comparison is tCO2e per £m income, and per colleague. For calendar year ending December 2023, the principles provided by the GHG Protocol Scope 2 Guidance have been applied to calculate the Society's Scope 1 'market-based' emissions from the consumption of gas sourced from the grid.

[33] This figure includes well-to-tank and transmission and distribution losses which relate to homeworking and commuting.

[34] This includes all full- and part- time colleagues as well as all contractors, consultants, managed services and agency staff for the period 1 January 2023 – 31 December 2023.

Scope 1

Scope 1 emissions 'Location-based' emissions encapsulate those stemming from the generation of emissions through burning gas or fuels for heating our Group occupied buildings, hydrotreated vegetable oil ('HVO') use within our energy generators, Society owned vehicles (facility management vans) and refrigerant/air conditioning gases lost to the atmosphere through pipework leakages. During 2023, YBS procured 100% of the gas sourced to heat our buildings from the grid backed by Renewable Gas Guarantees of Origin ('RGGO'). RGGO's are a type of Energy Attribute Certificate that meet the GHG Protocol Scope 2 quality criteria and are reflected in our 'market-based' calculations.[35]

Scope 2

The emissions calculated within Scope 2[36] account for all direct electricity usage within YBS Group owned buildings and Society owned electric vehicles. 'Location-based' calculations are associated with the generation of purchased electricity from the grid and enable us to track and manage our consumption. The Society has chosen to source electricity from a supplier supported by 100% renewable sources as evidenced by Renewable Energy Guarantees of Origin ('REGO') certificates. Emissions associated with this chosen tariff of electricity register as zero under 'market-based' calculations.

Scope 3

Scope 3 encompasses indirect business activities. We calculate these emissions based on available data and we will continue to develop our calculations of these emissions. This year we have continued to include our business travel[37], well-to-tank ('WTT') fuel and electricity, our operational waste and water[38]. For 2023 we added homeworking and employee commuting emissions. The methodology for calculating our employee commuting and homeworking emissions is below.

Employee commuting

YBS conducted an employee survey which contained information on what commuting methods are used, the distance of the commute, how frequently a person commutes, and details about the engine size and fuels used in a car if a car is used to commute. The total mileage per commuting type per year was then calculated[39]. Data arrived with stipulations of the respondent's pay grade and working location. After the aforementioned process was completed, we extrapolated the resulting energy consumption by the gap from how many respondents are at a location and pay grade, versus the overall total.

Homeworking and appliance energy

The Society conducted an employee survey which requested information on employee building and heating types, alongside the room size worked within, and emissions were calculated using these responses[40]. Benchmarks, sourced from The Chartered Institution of Building Services Engineers ('CIBSE'), allowed for the calculation of average energy used for heating and electrical load within the specified housing type and within the square metre sized room. The energy consumed within the room was then multiplied up based on how many days a week they work from home to calculate the energy consumed in a year.

Survey responses also contained information on what appliances are used whilst working from home and the quantities of those used. Assumptions were made on the kW rating of those technologies and how many hours a day the appliances would be in use.

Going concern

The directors confirm that they consider that the Group and the Society has adequate resources to continue in existence for at least 12 months from the date of this report. This confirmation is made after having reviewed assumptions about future trading performance, liquidity requirements, capital requirements and organisational sustainability, as well as planned improvements to data and regulatory reporting controls. The directors also considered potential risks and uncertainties in the business, credit, market and liquidity risks, including the availability and repayment profile of funding facilities.

Details of how the Board monitor longer term risks are included in the Risk Management report in the Governance section.

Based on the above, together with available market information and the directors' knowledge and experience of the business and our markets, the directors continue to adopt the going concern basis in preparing the Annual Report and Accounts for the year ended 31 December 2023.

[35] Estimates have been made for 2023 Q4 natural gas consumption for heating due to unavailable actual activity data. These estimates were based on 2022 usage data or more recent available usage data.

[36] Estimates have been made for 2023 Q4 electricity consumption where actual activity data was unavailable. These estimates were based on 2022 data or more recent available usage data.

[37] Most business data was provided in mileage, however where unavailable, cost data was provided. The cost is converted to mileage using the most up to date business travel conversion factor available at Expenses and benefits: business travel mileage for employees' own vehicles: Rules for tax - GOV.UK (www.gov.uk)

[38] Estimates have been made for 2023 Q4 water and waste consumption where activity data was unavailable due to the invoicing period. These estimates were used based on 2022 data and more recent usage data averages. Water treatment is based on estimation that 95% of water supply would become treated water.

[39] Emissions and conversions were calculated using the appropriate factors from the 2023 UK Government GHG Conversion Factors for Company Reporting produced by DESNZ and DEFRA.

[40] Emissions and conversions were calculated using the appropriate factors from the 2023 UK Government GHG Conversion Factors for Company Reporting produced by DESNZ and DEFRA.

Directors' report (continued)

Viability

The UK Corporate Governance Code ('the Code'), which the Society adopts to the extent that it applies to a Building Society, requires the directors to assess the prospects and ongoing viability of the Group over a longer period than the 12 months required for the going concern assessment.

For the purposes of assessing longer term viability, the directors have determined three years to be the most appropriate period as this covers the typical term of most of our fixed rate products and is the longest period over which the directors consider that they can form a reasonably firm view over the macroeconomic environment and associated key drivers of business performance. The directors have therefore assessed the viability of the Group and the Society over the three years to December 2026, taking account of the current position and the potential impact of the risks documented in the Strategic report and the Risk Management report.

Our financial planning process consists of an operating plan for the next financial year and a corporate plan for the following additional four financial years. The one-year operating plan has a greater level of certainty and is used to set near-term targets. The five-year corporate plan is less certain than the operating plan but provides a longer term outlook against which strategic decisions can be made.

The financial planning process forecasts the Group's profitability, capital position, liquidity and other key financial metrics over the period, including regulatory measures such as MREL (Minimum Requirement for Eligible Liabilities). These metrics are subject to sensitivity analysis through the annual Group ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment) processes. The Group stresses its capital and liquidity plans, under 'severe but plausible' stress test scenarios, in line with PRA requirements.

The ICAAP stress test ensures that the plan projections for capital requirements and capital generation are resilient to stresses should the environment deteriorate beyond the levels currently envisaged. The Group maintains capital buffers that are sufficient to absorb the level of capital erosion in the stress scenario over and above its minimum capital requirement, ensuring that the Group can continue to meet its minimum capital requirements throughout a 'severe but plausible' stress. The ILAAP stress test ensures that the Group holds adequate liquid assets in terms of both quality and quantity sufficient to meet both its business-as-usual liquidity needs and increased requirements that could occur as a result of the Group entering into a period of stress. Planned liquidity levels meet the Group's key risk appetite measures over a period of three years.

The Board has undertaken a robust assessment of the principal risks and uncertainties that could threaten the business model, future performance, solvency or liquidity of the Group and the Society. Based on this assessment, the directors have a reasonable expectation that the Group and the Society will be able to continue in operation and meet its liabilities as they fall due over the period to December 2026.

Responsibility statements

As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the directors confirm that, to the best of their knowledge:

- The financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Society and the Group; and
- The Strategic report includes a fair review of the development and performance of the business and the position of the Society and the Group, and the Strategic report and the Risk Management report contain a description of the principal risks and uncertainties.

Fair, balanced and understandable

As required by the UK Corporate Governance Code, which the Group adopts to the extent that it applies to a Building Society, the directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess our performance, business model and strategy.

External auditor

The reappointment of PricewaterhouseCoopers LLP as the Group's external auditor is to be proposed at the 2024 AGM. The directors in office at the date of this report confirm that, so far as they are aware, there is no relevant audit information of which the external auditor is unaware. Each director has taken all the steps necessary in order to make themselves aware of any relevant audit information and to establish that the external auditors are also aware of that information.

John Heaps
Chair of the Board
28 February 2024

Independent auditors' report to the members of Yorkshire Building Society

Report on the audit of the financial statements

Opinion

In our opinion, Yorkshire Building Society's Group financial statements and Society financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and Society's affairs as at 31 December 2023 and of the Group's and Society's income and expenditure and the Group's and Society's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Society Balance Sheets as at 31 December 2023; the Group and Society Income Statements, Statements of Comprehensive Income, Statements of Cash Flows and Statements of Changes in Members' Interest and Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in the Note 6 to the financial statements, we have provided no non-audit services to the Group in the period from 1 January 2023 to 31 December 2023.

Our audit approach

Overview

Materiality

Group financial statements

- £22.8 m (2022: £21.3m)
- 5% of the current year profit before tax adjusted to exclude net gains and losses arising from financial instruments held at fair value

Society financial statements

- £15.7 m (2022: £17.6m)
- 5% of the average profit before tax of the last three years adjusted to exclude net gains and losses arising from financial instruments held at fair value

Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors.
- We performed audit procedures over components considered financially significant in the context of the Group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances). We also performed analytical review procedures to mitigate the risk of material misstatement in the residual components.

Independent auditors' report to the members of Yorkshire Building Society (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Overview (continued)

Key audit matters

- The application of key judgements and assumptions in determining expected credit loss ('ECL') provisions on loans and advances to customers (Group and Society);
- Fair value hedge accounting in respect of foreign currency debt issuances (Group and Society); and
- The appropriateness of estimates used within the valuation of the funded defined benefit pension obligation (Group and Society).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and its industry, we identified that the principal risks of non-compliance with laws and regulations related to the Financial Conduct Authority's ('FCA') and Prudential Regulation Authority's ('PRA') regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Building Societies Act 1986. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance and the application of management bias in the assumptions underpinning significant accounting estimates. Audit procedures performed included:

- Enquiries of management, those charged with governance and the Group's in-house legal counsel throughout the year, including consideration of known or suspected instances of non-compliance with laws and regulations;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Review of internal audit reports throughout the year, in so far as these related to the financial statements;
- Review of correspondence with, and reports to, the PRA and FCA;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging estimates and judgements made by management in forming significant accounting estimates in particular those relevant to the key audit matters below; and
- Identifying and testing any higher risk manual journal entries.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit. The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
The application of key judgements and assumptions in determining expected credit loss ('ECL') provisions on loans and advances to customers (Group and Society) As at 31 December 2023: ▪ The Group has gross loans and advances to customers of £46,876m, with ECL provisions of £60.0m held against them. ▪ The Society has gross loans and advances to customers of £10,951m, with ECL provisions of £30.7m held against them. The determination of ECL provisions is inherently judgemental and involves setting assumptions using forward looking information reflecting the Group's view of potential future economic events. This can give rise to increased estimation uncertainty and the need for post model adjustments ("PMAs"), which is compounded by the inflationary and interest rate environment in the UK. The Group holds an Affordability PMA of £7.1m, which is determined by applying a lifetime loss calculation to those customers identified as being at the greatest risk of going into default due to the rising cost-of-living. The Group holds two Model Performance PMAs totaling £10.0m, primarily reflecting the model's current underprediction of probability of default. We consider the following elements of the determination of ECL for residential mortgages to be significant: ▪ The determination of forward-looking economic scenarios used in the core models and the weightings assigned to those scenarios, particularly in respect of assumptions relating to future house prices and unemployment levels since these have the largest impact on the provision, and ▪ The appropriateness of post-model adjustments that are recorded to take into account latent economic risks and model performance. The relevant disclosures are given in Note 31. Management's associated accounting policies are detailed in Note 1. Management's judgements in the application of accounting policy and critical estimates are disclosed in Note 1 and the considerations of the effect of the future economic environment are given in Note 31. The Audit Committee's consideration of the matter is described in the Audit Committee Report.	With the support of our credit risk modelling specialists and economics experts, we performed the following procedures. We understood and critically assessed the appropriateness of the ECL accounting policy and model methodologies used by management. **Forward looking economic assumptions and weightings assigned to them** We assessed the reasonableness of the forward looking economic scenarios and weightings assigned to them, and benchmarked them against market consensus data. The severity of the scenarios were evaluated with reference to external forecasts, including data from historical economic downturns, to assess their reasonableness. We critically assessed the assigned weightings, using our independently developed model to analyse management's selected weights with reference to observed historical losses and the current macroeconomic environment, including an increased focus on the economic variables most relevant to the determination of ECL. **Post model adjustments** Based on our knowledge and understanding of the limitations in management's models and emerging industry risks, we evaluated the appropriateness of the relevant post model adjustments proposed by management. Our testing included reperforming the modelling of key assumptions and their application in the determination of modelled ECL. We then independently reperformed a sample of management's model monitoring tests, which compare actual outcomes to those predicted by the models. Our testing of the related Model Performance PMAs included the following: ▪ understanding and evaluating management's methodology, and implementation thereof, including the use of assumptions; ▪ independently recalculating the under-prediction factors using the model monitoring testing, and testing their implementation in the PMA calculation through code review; and ▪ testing the accuracy of other key data inputs used in the calculation. Our testing of the Affordability PMA included critically assessing the key drivers and assumptions and obtaining supporting evidence to evaluate conceptual soundness and appropriateness. We substantively tested the implementation of these assumptions in the calculation used to estimate the PMA. From the evidence we obtained and our assessment of the economic scenarios, associated weightings, and the model performance and economic risk PMAs, we are satisfied with the reasonableness of the ECL provision.

Independent auditors' report to the members of Yorkshire Building Society (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Fair value hedge accounting in respect of foreign currency debt issuances (Group and Society)	
The business enters into derivative contracts in order to manage and economically hedge interest and foreign exchange rate risk on foreign currency debt issuances. These arrangements create accounting mismatches which are addressed through designating the debt instruments into fair value hedge accounting relationships. These hedge accounting relationships are maintained in spreadsheets with associated reliance on manual processing, which elevates the risk of operational errors and hence the risk that financial reporting is not compliant with IFRS requirements. The relevant disclosures are given in Note 17. Management's associated accounting policies are detailed in Note 1. The Audit Committee's consideration of the matter is described in the Audit Committee Report.	We understood the nature of the hedge accounting relationships designated by management in the context of the risk management strategies that they are associated with. For a sample of hedging relationships, we obtained and evaluated the hedge accounting documentation to assess whether each hedge was compliant with the requirements of accounting standards. For a sample of hedging relationships which are maintained in manual spreadsheets, we: ■ revalued hedging derivatives and underlying hedged items; ■ re-performed hedge effectiveness calculations, agreeing key terms to underlying support; and ■ tested that the hedge accounting was appropriately recorded. Based on the evidence obtained, we determined the application of hedge accounting to be appropriate.
The appropriateness of estimates used within the valuation of the funded defined benefit pension obligation (Group and Society)	
The Group and Society operates funded and unfunded defined benefit pension schemes for certain current and former members of staff. The present value of the funded defined benefit obligation at 31 December 2023 is £572.5m. The critical assumptions in the measurement of the defined benefit obligation are discount rate, inflation and mortality rates. Changes in these assumptions can have significant impacts on the valuation. During the current year, the value of the scheme obligations has reduced by £20.9m. The decrease is a result of fall in assumed long-term price inflation, reduction in life expectancies and change in membership data following completion of the 2022 funding valuation. This is offset by reduction in the discount rate and inflation experience in 2023 being higher than assumed. The value of the obligation is based on a roll-forward of projected benefit cash flows from the 31 December 2022 triennial valuation. The relevant disclosures are given in Note 17. Management's accounting policies are detailed in Note 1. Management's judgements in application of accounting policy and critical estimates are disclosed in Note 1. The Audit Committee's consideration of the matter is described in the Audit Committee Report.	We considered the independence, objectivity and competence of the third-party actuaries engaged by management to perform their valuation. We confirmed our understanding of the actuary's roll-forward methodology used in determining the valuation of the defined benefit obligation. We tested a sample of member data produced as part of the triennial valuation back to source documents. We have engaged our actuarial experts to evaluate the judgements and estimates made by management in determining the discount rate, inflation and mortality assumptions used in calculating the defined benefit obligation. We reviewed the third-party actuaries' report and enquired of those actuaries to obtain an understanding of how key assumptions are set and the methodologies adopted in calculating the defined benefit obligation. We assessed the reasonableness of the assumptions and methodologies adopted using our knowledge of current market practice, PwC-developed benchmarks and external market data. Based on the work performed and evidence obtained, we found the methodology to be compliant with accounting standards and key assumptions to be within our independent derived ranges.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Society, the accounting processes and controls, and the industry in which they operate.

The Group comprises the Society, its wholly owned subsidiaries and special purpose vehicles over which, under accounting standards, the Society has control. Each entity is located in the UK and is considered to be a financial reporting component.

In establishing the overall approach to our audit of the financial statements, we determined the type of work that was required to be performed over each component. The Society and Accord Mortgages Limited were considered individually financially significant in the context of the Group's consolidated financial statements and were hence full scope audit components.

We considered the individual financial significance of other components in relation to primary statement account balances. We considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). Any component which was not already included as a full scope audit component but was identified as being individually financially significant in respect of one or more account balances was subject to specific audit procedures over those account balances.

All remaining components were subject to procedures which mitigated the risk of material misstatement, including Group level analytical review procedures.

All audit work was performed in the UK and by the same engagement team.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process management adopted to assess the extent of the potential impact of climate risk on the Group and Society's financial statements and support the disclosures made in relation to climate change in the Annual Report. In addition to enquiries with management, we also:

- Read the Group's Environmental and Climate Change policies and framework to consider the impact on our audit risk assessment;
- Understood the exposure of the Group and Society's mortgage portfolios to physical and transition risks by examining the output of assessments performed by management during the year. Management considers the impact of climate risk does not give rise to a material financial statement impact; and
- We also considered the consistency of the disclosures in relation to climate change (including the disclosures in the Task Force on Climate-related Financial Disclosures (TCFD) section) within the Annual Report with the financial statements and our knowledge obtained from our audit.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 31 December 2023.

Independent auditors' report to the members of Yorkshire Building Society (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Society financial statements
Overall materiality	**£22.8m** (2022: £21.3m).	**£15.7m** (2022: £17.6m).
How we determined it	5% of the current year profit before tax adjusted to exclude net gains and losses arising from financial instruments held at fair value.	5% of the average profit before tax of the last three years (2021 – 2023), each adjusted to exclude net gains and losses arising from financial instruments held at fair value.
Rationale for benchmark applied	Profit before tax is a primary measure used by stakeholders in assessing the performance of the Group and Society and is a generally accepted benchmark for determining audit materiality. Management assesses the performance of the business using the "Core Operating Profit" measure, which itself excludes net gains and losses on financial instruments held at fair value through the income statement, as these are not considered to reflect the underlying performance of the business. The fair value movement relates predominantly to derivatives which are not yet in accounting hedging relationships, rather than underlying business performance.	For the Society, we have used a three-year average of the adjusted profit measure (2021-2023) to normalise for volatility in underlying business performance over that period.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £15.2m to £21.7m.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £17.1m for the Group financial statements and £11.8m for the Society financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.1m (2022: £1.0m) in respect of the Group and £0.8m (2022: £0.8m) in respect of Society as well as misstatements below these amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Society's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance;
- Evaluation of management's going concern assessment, including consideration of the impact of current economic environment;
- Evaluation of management's forecasts, including liquidity and regulatory capital over the going concern period;
- Review of regulatory correspondence and reports provided to governance forums; and
- Evaluation of the appropriateness of the relevant disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Society's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and Society's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

Based on our work undertaken in the course of the audit, the Building Societies Act 1986 requires us also to report certain opinions and matters as described below.

Annual Business Statement and Directors' Report

In our opinion, based on our work undertaken in the course of the audit:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 December 2023 is consistent with the accounting records and the financial statements; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

In light of the knowledge and understanding of the Group and Society and their environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Independent auditors’ report to the members of Yorkshire Building Society (continued)

Report on the audit of the financial statements (continued)

Corporate governance statement

ISAs (UK) require us to review the directors’ statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Society’s compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors’ confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors’ statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group’s and Society’s ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors’ explanation as to their assessment of the Group’s and Society’s prospects, the period this assessment covers and why the period is appropriate; and
- The directors’ statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors’ statement regarding the longer-term viability of the Group and Society was substantially less in scope than an audit and only consisted of making inquiries and considering the directors’ process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Society and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors’ statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group’s and Society’s position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors’ statement relating to the Society’s compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors’ responsibilities in respect of the preparation of the Annual Report and Accounts, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group’s and Society’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and Society or to cease operations, or have no realistic alternative but to do so.

Auditors’ responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors’ report.

Use of this report

This report, including the opinions, has been prepared for and only for the Society’s members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Yorkshire Building Society (continued)

Other required reporting

Building Societies Act 1986 exception reporting

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the Society financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 30 April 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2019 to 31 December 2023.

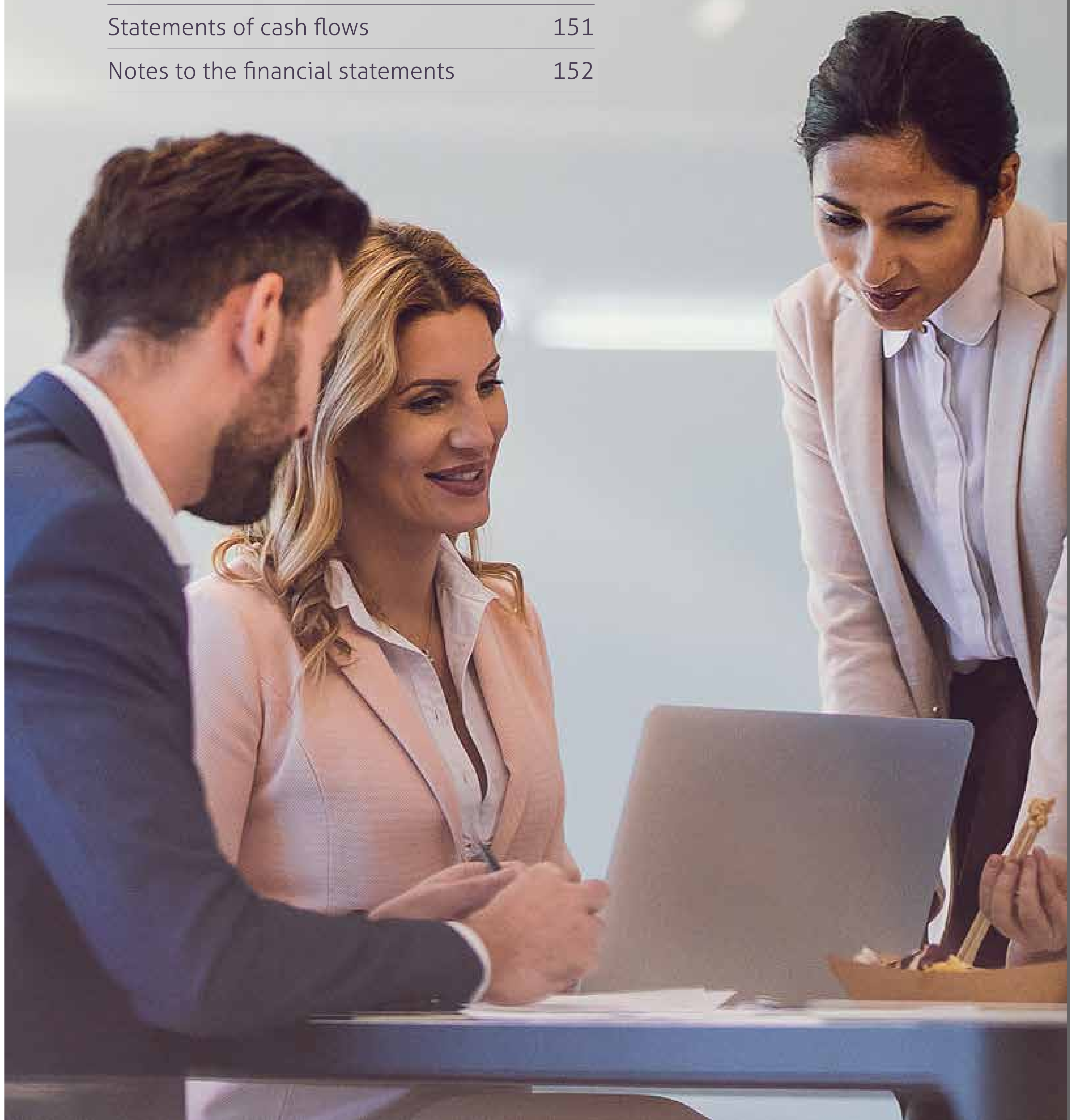
Other Matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

28 February 2024

FINANCIAL STATEMENTS



Income Statements

For the year ended 31 December 2023

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Interest revenue calculated using the effective interest rate method	3	**1,954.6**	1,202.6	**2,905.0**	1,214.7*
Other interest revenue	3	**1,011.7**	234.4	**1,011.5**	234.2*
Interest revenue	3	**2,966.3**	1,437.0	**3,916.5**	1,448.9
Interest expense	4	**(2,180.3)**	(712.9)	**(3,308.6)**	(992.2)
Net interest income		**786.0**	724.1	**607.9**	456.7
Fee and commission revenue		**20.0**	21.6	**7.6**	8.7
Fee and commission expense		**(16.6)**	(16.3)	**(7.4)**	(6.6)
Net fee and commission income		**3.4**	5.3	**0.2**	2.1
Net (losses)/gains from financial instruments held at fair value	5	**(5.5)**	75.6	**(9.7)**	67.8
Income from investments	8	**–**	0.1	**50.0**	100.1
Net realised gains on disposal of financial instruments		**1.6**	2.9	**1.6**	2.9
Other operating income		**0.9**	3.4	**99.1**	93.8
Total income		**786.4**	811.4	**749.1**	723.4
Administrative expenses	6	**(312.3)**	(276.9)	**(312.1)**	(276.7)
Depreciation and amortisation		**(20.4)**	(21.8)	**(20.4)**	(21.8)
Impairment (charge)/release of financial assets	7	**(4.0)**	(6.0)	**–**	0.6
Provisions for liabilities and charges	23	**0.6**	(4.2)	**0.8**	(4.2)
Profit before tax		**450.3**	502.5	**417.4**	421.3
Tax expense	9	**(118.6)**	(123.2)	**(101.0)**	(91.1)
Profit for the year		**331.7**	379.3	**316.4**	330.2

All profit for the year arises from continuing operations and is attributable to members.

* Please refer to *Reclassification within Interest Revenue (Society only)* in Note 1 for details of the reclassification made between these lines.

The notes on pages 152 to 233 form part of these financial statements.

Statements of Comprehensive Income

For the year ended 31 December 2023

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Profit for the financial year		**331.7**	379.3	**316.4**	330.2
Items that may be subsequently reclassified through profit or loss					
Cash flow hedges:					
Fair value movements taken to equity		**–**	26.1	**–**	26.1
Amounts transferred to the income statement		**(13.2)**	(28.1)	**(13.2)**	(28.1)
Tax on amounts recognised in equity	9	**3.7**	0.5	**3.7**	0.5
Effect of change in corporation tax rate	9	**–**	0.8	**–**	0.8
Financial assets measured through other comprehensive income:					
Fair value movements taken to equity		**(18.0)**	(27.0)	**(18.0)**	(27.0)
Amounts transferred to the income statement		**1.2**	(1.9)	**1.2**	(1.9)
Tax on amounts recognised in equity	9	**4.7**	7.8	**4.7**	7.8
Effect of change in corporation tax rate	9	**–**	1.9	**–**	1.9
Items that will not be reclassified through profit or loss					
Remeasurement of retirement benefit obligations		**(11.2)**	(80.0)	**(11.2)**	(80.0)
Tax on remeasurement of retirement benefit obligations	9	**3.1**	21.6	**3.1**	21.6
Effect of change in corporation tax rate	9	**–**	6.9	**–**	6.9
Total other comprehensive expense		**(29.7)**	(71.4)	**(29.7)**	(71.4)
Total comprehensive income for the year		**302.0**	307.9	**286.7**	258.8

The notes on pages 152 to 233 form part of these financial statements.

Balance Sheets

As at 31 December 2023

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Assets					
Cash and balances with the Bank of England	10	**4,839.1**	5,982.8	**4,839.1**	5,982.8
Loans and advances to credit institutions		**397.4**	814.7	**208.6**	568.8
Debt securities	11	**7,561.9**	5,684.8	**19,354.3**	19,233.0
Loans and advances to customers	12	**46,815.9**	45,203.7	**10,920.6**	11,238.9
Fair value adjustment for hedged risk on loans and advances to customers		**(615.5)**	(1,508.3)	**(615.5)**	(1,508.3)
Derivative financial instruments	26	**1,755.0**	2,356.5	**1,751.9**	2,323.7
Investments	8	**3.3**	2.8	**37,462.6**	35,739.8
Intangible assets	13	**18.3**	20.2	**18.3**	20.2
Investment property	14	**15.7**	16.0	**15.7**	16.0
Property held for sale		**0.6**	0.9	**0.6**	0.9
Property, plant and equipment	15	**99.5**	101.1	**99.5**	101.1
Retirement benefit surplus	17	**38.6**	48.8	**38.6**	48.8
Other assets	18	**38.9**	30.1	**130.6**	95.2
Total assets		**60,968.7**	58,754.1	**74,224.9**	73,860.9
Liabilities					
Shares	19	**47,056.7**	42,008.2	**47,056.7**	42,008.2
Amounts owed to credit institutions		**1,886.3**	5,160.9	**1,886.3**	5,160.9
Other deposits	20	**983.6**	1,138.1	**14,080.2**	15,836.3
Debt securities in issue	21	**4,919.4**	5,259.3	**5,517.6**	6,153.4
Derivative financial instruments	26	**697.4**	666.3	**584.3**	507.0
Current tax liabilities		**–**	0.7	**–**	0.6
Deferred tax liabilities	16	**22.5**	11.9	**21.1**	10.2
Other liabilities	22	**70.5**	64.0	**119.2**	97.0
Retirement benefit obligations	17	**8.1**	7.4	**8.1**	7.4
Provisions for liabilities and charges	23	**4.0**	5.7	**3.9**	5.7
Subordinated liabilities	24	**1,621.7**	1,035.1	**1,621.7**	1,035.1
Total liabilities		**57,270.2**	55,357.6	**70,899.1**	70,821.8
Members' interests and equity		**3,698.5**	3,396.5	**3,325.8**	3,039.1
Total members' interest, equity and liabilities		**60,968.7**	58,754.1	**74,224.9**	73,860.9

Approved by the Board of Directors on 28 February 2024 and signed on its behalf by:

Susan Allen OBE
Chief Executive Officer

Alasdair Lenman
Chief Finance Officer

John Heaps
Chair of the Board

The notes on pages 152 to 233 form part of these financial statements.

Statements of Changes in Members' Interest and Equity

For the year ended 31 December 2023

Group	General reserve £m	Cash flow hedge reserve £m	Fair value through other comprehensive income £m	Total £m
At 1 January 2023	**3,384.7**	**9.9**	**1.9**	**3,396.5**
Profit for the year	**331.7**	**–**	**–**	**331.7**
Net remeasurement of retirement benefit obligations	**(8.1)**	**–**	**–**	**(8.1)**
Net movement in cash flow hedges	**–**	**(9.5)**	**–**	**(9.5)**
Net movement in fair value through other comprehensive income	**–**	**–**	**(12.1)**	**(12.1)**
Total comprehensive income	**323.6**	**(9.5)**	**(12.1)**	**302.0**
At 31 December 2023	**3,708.3**	**0.4**	**(10.2)**	**3,698.5**
At 1 January 2022	3,056.9	10.6	21.1	3,088.6
Profit for the year	379.3	–	–	379.3
Net remeasurement of retirement benefit obligations	(51.5)	–	–	(51.5)
Net movement in cash flow hedges	–	(0.7)	–	(0.7)
Net movement in fair value through other comprehensive income	–	–	(19.2)	(19.2)
Total comprehensive income	327.8	(0.7)	(19.2)	307.9
At 31 December 2022	3,384.7	9.9	1.9	3,396.5

The notes on pages 152 to 233 form part of these financial statements.

Statements of Changes in Members' Interest and Equity (continued)

For the year ended 31 December 2023

Society	General reserve £m	Cash flow hedge reserve £m	Fair value through other comprehensive income £m	Total £m
At 1 January 2023	**3,027.3**	**9.9**	**1.9**	**3,039.1**
Profit for the year	**316.4**	**–**	**–**	**316.4**
Net remeasurement of retirement benefit obligations	**(8.1)**	**–**	**–**	**(8.1)**
Net movement in cash flow hedges	**–**	**(9.5)**	**–**	**(9.5)**
Net movement in fair value through other comprehensive income	**–**	**–**	**(12.1)**	**(12.1)**
Total comprehensive income	**308.3**	**(9.5)**	**(12.1)**	**286.7**
At 31 December 2023	**3,335.6**	**0.4**	**(10.2)**	**3,325.8**
At 1 January 2022	2,746.1	10.6	21.1	2,777.8
Profit for the year	330.2	–	–	330.2
Net remeasurement of retirement benefit obligations	(51.5)	–	–	(51.5)
Net movement in cash flow hedges	–	(0.7)	–	(0.7)
Net movement in fair value through other comprehensive income	–	–	(19.2)	(19.2)
Total comprehensive income	278.7	(0.7)	(19.2)	258.8
Capital contribution	2.5	–	–	2.5
At 31 December 2022	3,027.3	9.9	1.9	3,039.1

The notes on pages 152 to 233 form part of these financial statements.

Statements of Cash Flows

For the year ended 31 December 2023

	Notes	Group 2023 £m	Group Restated 2022 £m	Society 2023 £m	Society Restated 2022 £m
Cash flows from operating activities					
Profit before tax		**450.3**	502.5	**417.4**	421.3
Non-cash items included in profit before tax	35	**147.0**	(62.2)*	**143.0**	(68.8)*
Net change in operating assets	35	**(1,937.2)**	(3,647.2)*	**(1,781.3)**	(2,823.0)*
Net change in operating liabilities	35	**1,744.7**	6,094.7*	**143.4**	6,197.1*
Tax paid		**(101.0)**	(125.5)	**(83.0)**	(93.2)
Net cash flow from operating activities		**303.8**	2,762.3	**(1,160.5)**	3,633.4
Cash flows from investing activities					
Purchase of property, plant and equipment, and intangible assets		**(15.0)**	(12.8)	**(15.0)**	(12.8)
Proceeds from sale of property, plant and equipment		**(0.2)**	0.8	**(0.2)**	0.8
Purchase of debt securities		**(3,412.9)**	(2,952.2)	**(3,412.9)**	(8,787.6)
Redemption and other movements of debt securities		**1,520.6**	1,316.9	**3,276.4**	4,469.1
Net cash flow from investing activities		**(1,907.5)**	(1,647.3)	**(151.7)**	(4,330.5)
Cash flows from financing activities					
Redemption of debt securities in issue	35	**(1,423.7)**	(1,225.2)	**(1,165.4)**	(773.4)
Debt securities in issue	35	**999.2**	711.5	**506.5**	1,911.5
Issue of subordinated liabilities	35	**650.0**	300.0	**650.0**	300.0
Redemption of subordinated liabilities	35	**(136.4)**	–	**(136.4)**	–
Interest paid on subordinated liabilities		**(51.5)**	(33.7)	**(51.5)**	(33.7)
Interest paid on lease liabilities		**(0.6)**	(0.7)	**(0.6)**	(0.7)
Capital repayments on lease liabilities		**(3.6)**	(2.3)	**(3.6)**	(2.3)
Net cash flow from financing activities		**33.4**	(250.4)	**(201.0)**	1,401.4
Net change in cash and cash equivalents		**(1,570.3)**	864.6	**(1,513.2)**	704.3
Opening balance		**6,630.3**	5,765.7	**6,384.4**	5,680.1
Closing cash and cash equivalents		**5,060.0**	6,630.3	**4,871.2**	6,384.4
Cash and cash equivalents					
Cash and cash equivalents	10	**4,839.1**	5,982.8	**4,839.1**	5,982.8
Less Bank of England cash ratio deposit	10	**(176.5)**	(167.2)	**(176.5)**	(167.2)
Loans and advances to credit institutions		**397.4**	814.7	**208.6**	568.8
Closing cash and cash equivalents		**5,060.0**	6,630.3	**4,871.2**	6,384.4

* Please see Note 1 *Basis of preparation* for details.
The notes on pages 152 to 233 form part of these financial statements.

Notes to the Financial Statements

1. Statement of accounting policies

Basis of preparation

These financial statements present the results of Yorkshire Building Society ('YBS' or 'the Society') and its controlled entities (collectively 'the Group' or 'the YBS Group') for the year ended 31 December 2023.

The Group is required under the Building Societies Act 1986 to apply 'UK-adopted international accounting standards' as endorsed by the UK Endorsement Board ('UKEB'). As a result, these financial statements have been prepared in accordance with international accounting standards – being International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the International Accounting Standards Board (IASB) endorsed by the UKEB and effective from 1 January 2021 – and with those parts of the Building Societies Act 1986 and the Building Societies (Accounts and Related Provisions) Regulations 1998 applicable to societies reporting under international accounting standards.

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial instruments measured at fair value. Pounds sterling is both the functional currency of the YBS Group and the presentation currency applied to these financial statements. Except where otherwise stated, all figures in the financial statements are rounded to the nearest hundreds of thousands of pounds sterling (£0.0 million).

Accounting policies have been consistently applied, except where a new accounting standard has been introduced.

The preparation of financial statements under international accounting standards requires the use of certain critical accounting estimates and judgements. The areas involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the financial statements are set out in note 2.

Going concern

The YBS Board of Directors (the Board) undertake regular assessments of whether the Group is a going concern, taking into account changing economic and market conditions, and using all available information about future risks and uncertainties.

Given its strong capital position and high liquidity levels, the Group is well placed to cope with economic volatility. As a result, the directors confirm that, based on the latest formal review undertaken in February 2024, and stress tests performed throughout the period, they consider the Group has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Society and the entities it controls as listed in note 8. Control is deemed to exist when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Upon consolidation, intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated. Investments in controlled entities are stated in the Society accounts at cost less any provisions for impairment.

Securitisation transactions

The Group securitises mortgage loans by transferring them into special purpose vehicles (SPVs) and issuing debt securities to investors, using the underlying loan assets as collateral. As the Society is deemed to control these SPVs, they are fully consolidated into these financial statements.

Generally, the transfer of the mortgage loans to the structured entities does not meet the derecognition criteria under IFRS 9 Financial Instruments as the Society/Accord substantially retains all the risks and rewards of ownership through the receipt of the residual profits or losses of the SPVs. In this instance, the Society/Accord continues to recognise the mortgage loans on their own balance sheets after the transfer, with the proceeds received from the transfer accounted for as a deemed loan from the SPVs. For covered bonds, the Society issues the covered bonds, not the structured entity. The proceeds are then lent to the structured entity on back-to-back terms. These proceeds are used as consideration for the loans transferred from the Society. Neither the loan to the structured entity nor the consideration for the transfer of mortgage loans is recognised separately as an additional asset and liability in the accounts of the Society.

To manage interest rate risk, the Society enters into derivative transactions with its structured entities, receiving a rate of interest based on the securitised mortgages and paying a rate inherent in the debt issuances. These internal derivatives are treated as part of the deemed loan and not separately measured at fair value because the relevant mortgage loans are not derecognised.

Change in presentation

A balance sheet line item has been created in these financial statements to present *Fair value adjustment for hedged risk on loans and advances to customers* as a separate item on the balance sheet as permitted under IAS 39. The balance of *Fair value adjustment for hedged risk on loans and advances to customers* was previously reported within the loans and advances to customers balance. Notes to the financial statements have been updated to reflect this change in presentation (note 12, note 27, note 31, note 32 and note 35).

Reclassification within Interest Revenue (Society only)

The *Income Statement* and, accordingly, *Note 3 Interest revenue* for the Society for the year ended 31 December 2022, have been updated in these financial statements to correct the classification of interest earned by the Society on an intercompany arrangement. £79 million of interest previously reported within *Other interest revenue (Note 3: Derivatives not included in hedge relationships)* has been reclassified to *Interest revenue calculated using the effective interest rate method (Note 3: Loans secured on connected undertakings)*. This reclassification has no impact on the previously reported total interest revenue. This matter has no impact on the Group financial statements.

Reclassification of cashflow balances (Group and Society)

Note 35 *Notes to the cashflow statements* and, accordingly, the *Statement of Cashflows* for the year ended 31 December 2022, have been updated in these financial statements to correct the classifications of the line items within the *Net cash from operating activities* sub total. Please refer to Note 35 for details.

Accounting developments

Changes to Accounting Standards Effective in the Period

IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts* is the comprehensive standard establishing recognition and measurement requirements for insurance contracts. This standard is effective for periods beginning on or after 1 January 2023. Only a small equity release portfolio in run-off falls under the scope of IFRS 17 so the impact of applying this revised standard is not deemed material.

Standards issued but not yet effective

The following standards or amendments were in issue but were either optional, or not yet effective, and have not been adopted in these financial statements.

IFRS 9 and hedge accounting

IFRS 9 *Financial Instruments* was issued in 2014 as a replacement of IAS 39 *Financial Instruments: Recognition and Measurement* and was mandatorily effective for periods beginning on or after 1 January 2018. However, IFRS 9 did not replace the requirements for portfolio fair value hedge accounting for interest rate risk since this phase of the project was separated out due to its longer-term nature.

As a result, IFRS 9 included a transitional relief allowing the continued use of the hedge accounting requirements of IAS 39, and the Group continue to adopt this approach.

The development of requirements will be closely monitored and the Group will continue to assess the impacts of full adoption of IFRS 9 for hedge accounting.

Material accounting policies

Change in Accounting Policy

IAS 1 Presentation of financial statements

The IASB issued amendments to IAS 1 *Presentation of Financial Statements*. IAS 1 now mandates disclosure of material accounting policies rather than significant accounting policies. The accounting policies of the Group have been reviewed in respect of IAS 1 amendments with no significant changes deemed necessary.

There are no other new accounting standards applicable for this set of financial statements expected in the near future, and only a small number of narrow amendments or some annual improvements to existing standards, none of which have an impact on these financial statements.

Interest revenue and expense calculated using the effective interest rate method

The effective interest rate method is used to calculate the revenue and expense for financial instruments held at amortised cost. The effective interest rate is the rate that exactly discounts estimated future cash flows (excluding credit losses) over the expected life of the instrument back to the fair value on initial recognition.

For mortgage loans and advances to customers this includes an estimate of any early repayment income. Directly attributable acquisition costs, such as application and arrangement fees, are also incorporated in the calculation.

This has the effect of spreading these fees and costs over the expected life of the mortgage. Expected lives are estimated using historical data and management judgement. The calculation is adjusted when actual experience differs from estimates, with changes in deferred amounts being recognised immediately in the income statement.

Fees and commissions

Fees and commissions on referral of customers to third party service providers of financial products is accounted for on an effective interest rate basis, similar to interest revenue and expense calculated using the effective interest rate method. Other fees and commissions are recognised on an accruals basis as the relevant service is provided or at a point in time if the service or product provided relates to a one-off action.

Other operating income

Other operating income comprises profits on disposal of fixed assets, rental income from investment property and software licensing income. The Society also includes the recharge of administrative expenses to its subsidiaries.

Income from investments

This consists of dividend income and is recognised when the rights to receive the payment have been established.

Financial instruments

Classification and measurement of financial assets and financial liabilities

The Group initially recognises financial assets and liabilities at their fair value (adjusted for any directly attributable transaction costs for those subsequently classified at amortised cost) on the date that the Group becomes a party to the contractual provisions of the instrument. Subsequent measurement of financial assets and financial liabilities depends on the contractual cash flow characteristics of the instrument.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

Material accounting policies (continued)

Financial instruments (continued)

Amortised cost: this measurement approach is applied to instruments that are held to collect interest and principal payments over the life of the contract. Subsequent measurement is via the effective interest rate method (see *Interest revenue and expense calculated using the effective interest rate method)*, subject to impairment (see *Impairment)*, plus any adjustment if designated as part of an effective hedge arrangement (see *Hedging)*.

Fair value through other comprehensive income: this measurement approach is applied to financial assets whose business objective is the collection of interest and principal payments but that are also bought and sold. Subsequent measurement is at fair value with changes in fair value recognised in other comprehensive income. When the instrument is derecognised, the cumulative gain or loss previously recognised in reserves is reclassified to the income statement.

Fair value through profit and loss: this method is applied to those instruments that are not classed as amortised cost or fair value through other comprehensive income. Subsequent measurement is at fair value with any movements recognised in the income statement in the period in which they arise.

The table below summarises the Group's financial instruments and the treatment adopted in these financial statements:

Financial instrument	Description	Subsequent measurement
Cash and cash equivalents	Cash balances and statutory deposits	Amortised cost
Loans and advances to credit institutions	Fixed and variable interest rates	Amortised cost
Debt securities	Fixed, variable and indexed linked interest rates	Fair value through other comprehensive income, amortised cost and fair value through profit and loss
Loans and advances to customers	Primarily mortgage products offering a variety of fixed and variable interest rates	Amortised cost
Derivative financial instruments*	Swaps and options to manage interest rate and foreign exchange risk exposures	Fair value through profit and loss (unless designated as a cash flow hedge, see 'Hedging' section of note 1, then fair value through other comprehensive income)
Investments in subsidiaries	Equity investments in controlled entities	Cost less accumulated impairment losses
Investment in equities	Equity investments in non-controlled entities	Fair value through profit and loss
Shares	Deposits made by members with a variety of fixed and variable interest rates	Amortised cost
Amounts owed to credit institutions	Time Deposits at fixed and variable interest rates	Amortised cost
Debt securities in issue, subordinated liabilities and other deposits	Fixed and variable interest rates	Amortised cost

Derecognition of financial instruments

Financial assets are only derecognised when the contractual rights to receive cash flows from the financial assets have expired, or when the Group has transferred substantially all the risks and rewards of ownership. As described in *Securitisation transactions*, the Group has not derecognised the loans transferred to the SPVs to secure the issue of covered bonds and mortgage backed securities because substantially all the risks and rewards are retained.

Financial liabilities are only derecognised when the obligation is discharged, cancelled, or has expired.

* The Society holds intra group derivatives to manage interest rate risk within the special purpose securitisation vehicles and these are measured at amortised cost. These internal derivatives are treated as part of the deemed loan with the SPV.

Impairment of financial assets

At each reporting date the Group assesses financial assets held at amortised cost for impairment.

For *loans and advances to customers* the Group uses the expected credit loss (ECL) staging model to assess any impairment in the carrying value of the mortgage assets. This model uses forward looking assessments of overall expected credit losses and recognises impairment based on a three-staged approach as follows.

Stage 1: financial assets are categorised into 'stage 1' on initial recognition. Impairment is based on expected credit losses resulting from default events projected within the next 12 months (12 month ECL).

Stage 2: financial assets move into 'stage 2' when they are deemed to have experienced a significant increase in credit risk (SICR), based on quantitative and/or qualitative risk grade thresholds. Impairment is then based on expected losses over the full lifetime of the contract (lifetime ECL).

The Group assesses a SICR to have occurred when the accounts are more than 30 days past due or there has been a significant relative increase in the lifetime probability of default (PD) compared to that at initial recognition.

For retail accounts, PD is based on the customer's credit quality, including analysis of their behaviour scores and other account characteristics. For non-retail portfolios, the Group assess a significant increase in credit risk using a combination of individual and collective information, including monitoring through the watch list process. For further information on the watch list process see note 31.

Stage 3: financial assets are moved into 'stage 3' when there is objective evidence that the loan is credit impaired, with expected credit losses still calculated on a lifetime basis.

A loan is considered credit impaired when it is 90 days past due, has been renegotiated for credit risk reasons, or otherwise considered to be in default (including possession, insolvency and assets beyond term expiry).

The Group's use of forbearance tools, including arrears arrangements, payment deferrals, term extension, transfers to interest only and interest capitalisation, are factored into the criteria for identifying stage 3 accounts. The impairment provision is determined using the same calculation as stage 2 accounts, but with the PD set to 100%.

Loans that are either purchased or originated credit impaired (POCI) are classified as stage 3 at initial recognition and cannot be transferred to stage 1 or 2 even if the credit quality of these assets improves. The Group has a portfolio of loans acquired as part of the Chelsea Building Society and Norwich & Peterborough acquisitions that meet this definition.

ECL calculations: these are assessed at individual loan level using three main components.

- PD, being the probability, at the point of assessment, that the customer will default in the future. The definition of default includes accounts that are 90 days past due, interest only accounts past term end, those under certain forbearance measures and others exhibiting other unlikeliness to pay indicators.
- Exposure at default (EAD), being the outstanding value of the loan, taking into account the repayment of principal and interest between the date of assessment and expected default date.
- Loss given default (LGD), is the net impact of the EAD after taking into account the mitigating effect of collateral and the time value of money.

PD is a calculation based on current conditions and adjusted to take into account estimates of future conditions that will impact PD. EAD is modelled based on expected payments over the term and is not floored at the current balance.

LGD takes into account the expected impact of future economic conditions, such as changes in value of collateral, and does not include any floors. Only costs directly associated with obtaining/selling collateral are included. Discounting of the expected cash flows is performed using the effective interest rate of the loan.

The ECL is calculated using models that build up separate estimates for PD, EAD and LGD for every month that a loan is due to be outstanding.

PD and LGD estimates are then flexed under different scenarios to capture the effects of changes to the forward looking macroeconomic variables (including interest rates, unemployment, house prices and inflation). The final ECL figure takes a probability weighted average of these different scenarios.

Loans are written off against this ECL balance when there is no realistic prospect of recovery. This is generally after receipt of any proceeds from the realisation of the collateral backing the loan.

Other financial assets are considered low credit risk at the reporting date as they are investment grade instruments. As a result, impairment is based on 12 month ECL as per stage 1 above. If changes in an instruments' rating breaches the risk appetite then an ECL assessment will take place on the individual asset basis.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

Material accounting policies (continued)

Financial instruments (continued)

Financial instruments acquired in business combinations

Financial assets and liabilities acquired in a business combination are recognised at fair value upon acquisition. To the extent that this differs from the underlying amortised cost carrying value assumed on the transaction date, a fair value adjustment is recognised on the balance sheet.

This balance is then amortised through the income statement over the expected life of the acquired portfolio in a manner that reflects the consumption of the economic benefits arising from the underlying assets and liabilities. To the extent that the fair value adjustment relates to estimated credit losses on a portfolio of mortgage assets, the *fair value credit adjustment* is included in the overall ECL balance.

The Group continues to run off balances in relation to the Chelsea Building Society and Norwich & Peterborough acquisitions. In addition to the *fair value credit adjustments*, it also includes *interest rate fair value adjustments* in the *loans and advances to customers* and *shares* balances.

Hedging

As discussed, IFRS 9 *Financial Instruments* included a transitional relief allowing the continued use of the hedge accounting requirements of IAS 39 *Financial Instruments: Recognition and Measurement*, and the Group continue to adopt this approach.

The Group applies hedge accounting when the specific rules and conditions in IAS 39 are fulfilled. The Group has designated the majority of its derivatives as either fair value or cash flow hedges in order to reduce volatility in the income statement.

Fair value hedges

Where a derivative financial instrument meets the requirements of a fair value hedge, changes in the fair value of the hedged item are taken to the income statement offsetting the effect of the related movements in the fair value of the derivative.

Where the hedge no longer meets the criteria, the adjustment to the hedged item is released to the income statement over the remaining life of the original hedged relationship.

Cash flow hedges

Where a derivative financial instrument is designated as a cash flow hedge, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income and recycled to the income statement. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately. If a cash flow hedge is terminated, the cumulative unrealised gain or loss recognised in equity is then amortised to profit and loss over the remaining life of hedging instrument provided the cash flows on hedged items are still expected to occur.

Segmental reporting

The Executive Committee (EXCO) is responsible for allocating resources and assessing the performance of the Group and is therefore identified as the chief operating decision maker.

The Group has one reportable segment that EXCO reviews performance and makes decisions on for the Group as a whole. As a result, no segmental disclosure is provided.

Intangible assets

Intangible assets held by the Group consist primarily of externally acquired and internally developed computer software. This is measured at cost less accumulated amortisation and impairment.

Costs incurred in the development of computer software for internal use are capitalised as intangible assets where the expenditure leads to the creation of an identifiable non-monetary asset and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group.

Purchased software is classified as an intangible asset where it is not an integral part of the related hardware. Computer software costs are amortised using the straight line method over their estimated useful lives, which are generally three to five years.

Intangible assets are reviewed for impairment at each reporting date or at any point in time where there is an indication of impairment. Impairment is assessed by estimating the recoverable amount of the asset, being the higher of: fair value less costs of disposal; and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment in the value of these assets is recognised immediately in the income statement.

Investment property

Investment property comprise freehold properties, and parts of freehold properties, that are not used in the business and held for rental income or capital appreciation. These properties are generally flats and offices ancillary to branch premises. Investment properties are held at cost less accumulated depreciation and impairment.

Property, plant and equipment

Freehold properties used in the business, major alterations to office premises, fixtures and fittings, equipment and other tangible fixed assets are stated at cost less accumulated depreciation and impairment. Costs incurred after the initial purchase of fixed assets are expensed unless it directly results in increased future economic benefits that can be reliably measured. Repairs and maintenance are treated as an expense.

Depreciation is a measure that recognises the cost, less estimated residual value, over the estimated useful economic lives as follows:

- Freehold/long leasehold buildings (including investment properties) – 50 years
- Short leasehold property and right-of-use property assets – Life of lease
- Equipment, fixtures, fittings and vehicles – 3 to 20 years
- Freehold land is stated at cost less accumulated impairment losses and is not depreciated.

Property, plant and equipment and investment properties are reviewed for impairment annually and where there is an indication that events or circumstances may mean that the carrying amount is not recoverable. Where the recoverable amount of the asset is estimated to be less than the carrying amount, the carrying amount is written down immediately to the recoverable amount. Any impairment in the value of assets is recognised in the income statement as it arises.

Leases

Contracts are accounted for as leases when the terms of the contract transfer substantially all the risks and rewards of ownership to the lessee. For such arrangements a 'right-of-use' asset, included in property, plant and equipment, and a corresponding lease liability, included in other liabilities, are recorded on the balance sheet upon initial recognition.

The right-of-use asset is measured at the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment. The lease liability is measured at the present value of the minimum lease payments.

Depreciation is recorded by the Group to write off the cost over the estimated useful economic life of the asset. Rent payable on finance leases is apportioned between the finance element, charged to the income statement, and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Leases with a short life, or relating to low value assets, are expensed to the income statement on a straight line basis over the period of the lease agreement.

Retirement benefit obligations

The asset or liability is recognised in respect of the Group's defined benefit pension scheme measured at the present value of the defined benefit obligation at the reporting date, less the fair value of the plan assets, together with adjustments for unrecognised past service costs.

An asset is only recognised to the extent that it is recoverable by the Group via available refunds and reductions in future contributions to the scheme.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Gains or losses arising from changes in assumptions are recognised in other comprehensive income in the period in which they occur.

Defined benefit obligations are discounted to present value using the rate of return available on high quality corporate bonds of an equivalent term to the obligations.

Past service costs are recognised immediately in the income statement to the extent that benefits are already vested and otherwise are amortised on a straight line basis over the average period until the benefits become vested.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

Material accounting policies (continued)

Taxation including deferred tax

Tax comprises current tax and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the tax is recognised in the statement of comprehensive income.

Current tax is the expected tax payable on the taxable profits for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for temporary differences arising between the carrying amount of certain assets and liabilities for accounting purposes and for taxation purposes. Deferred tax is provided using tax rates enacted or substantively enacted at the reporting date effective on the date at which they are expected to reverse.

The following temporary differences are not provided for:

- The initial recognition of assets or liabilities that affect neither accounting nor taxable profit.
- Differences relating to investments in subsidiaries, to the extent that the parent is able to control the reversal of temporary differences, and it is probable they will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available, against which a temporary difference can be utilised. The carrying amount of the deferred tax asset is reviewed at the reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Provisions

Provisions are recognised when: the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group will be required to settle that obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the net present value of the consideration required to settle the obligation, taking into account the risks and uncertainties surrounding the obligation.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and raised a valid expectation that it will carry out the restructuring through announcing the main features of the plan to those affected by it.

Capital management

As at the 31 December 2023, and throughout the year, the Group complied with the capital requirements that were in force.

Information on the Group's capital management can be found in the Capital risk section of the Risk Management Report.

Foreign currency

Assets and liabilities denominated in foreign currencies are translated into Sterling at the appropriate rates of exchange prevailing at the reporting date and exchange differences are recognised in the income statement. All income and expense is translated into Sterling at the rate of exchange on the day of receipt or payment.

Statements of cash flows

For the purposes of the statements of cash flows, cash and cash equivalents comprise cash and liquid financial instruments maturing within 3 months. The statement of cash flows has been prepared using the indirect method.

2. Critical accounting judgements and key sources of estimation uncertainty

In applying its accounting policies, the Group makes judgements that have a significant impact on the amounts recognised in the financial statements.

In addition, estimates and assumptions are used that could affect the reported amounts of assets and liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis. As explained in the *Audit Committee Report* in the *Governance* section, the Audit Committee has considered the accounting judgements and estimates applied in the financial statements. The Audit Committee have confirmed to the Board that they consider these to be appropriate.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below.

Retirement benefit obligations

The Group's accounting policy states that a net defined benefit pension scheme asset should only be recognised to the extent that the Group has the ability to access the pension scheme surplus in the form of a refund or reduction in future contributions.

The scheme trustees could act unilaterally in order to restrict the ability of the Group to seek a refund or reduce future contributions, hence a judgement on the likelihood of this event is required. The Group has received a legal opinion supporting the judgement that any surplus of the scheme can be recovered in full and that pension scheme trustees are unable to act to amend the scheme rules, and ultimately prevent the Society accessing the surplus, without the Society's support.

In addition, significant estimation uncertainty in respect of areas such as future interest rates and mortality rates have to be applied in estimating the value of the assets and liabilities of the defined benefit scheme. These are outlined in note 17.

The impact of a 0.5% increase in the rate used to discount future liabilities from 4.5% to 5.0% would result in a decrease of liability of 7% (2022: decrease of 7%). The impact of a 0.5% increase in inflation would increase liabilities by 4% (2022: increase of 4%). The impact of a one-year increase in life expectancy at age 60 would be to increase liabilities by around 3% (2022: increase of 3%). Note that these sensitivities have been modelled independently as single variable adjustments and have not anticipated any correlation between movements in the inputs. A summary of the impact of these sensitivities on the scheme liabilities is included in note 17.

Impairment of loans and advances to customers

The impairment calculation of expected credit losses (ECL) for a portfolio of mortgage loans is inherently uncertain. ECL are calculated using historical default and loss experience but require judgement to be applied in predicting future economic conditions (e.g. interest rates and house prices) and customer behaviour (e.g. default rates). The most critical judgements that lead to estimation uncertainty are as follows:

Economic scenarios and weightings

A forum, supported by Finance, Credit Risk, Balance Sheet Management and economic experts considers the forward-looking macroeconomic assumptions with the objective of developing internally coherent economic scenarios to propose to the Group Asset and Liability Committee (ALCO) for challenge and approval. ALCO ensures that the ECL meets the requirement for unbiased and weighted amounts derived by evaluating a range of possible outcomes and assumptions, or economic scenarios.

Judgements are made in arriving at the level of each economic variable, such as house price index (HPI) and unemployment, applied in each economic scenario to support the estimate of ECL. ALCO applies judgements to arrive at these assumptions.

The UK Economy technically entered recession at the end of 2023, attributed to the ongoing cost of living crisis and higher interest rate environment. Growth will likely remain weak by historical standards in the medium term and there remains more downside risk than upside. Headline inflation continues to fall, although there are re-emerging risks around the price of energy following the recent geopolitical tensions. Core inflation, services inflation and wage inflation continue to provide headwind to the inflation target being met consistently throughout 2024.

Management evaluated these uncertainties, with the economic assumptions applied to the ECL model adjusted to reflect any material changes in view of the macro-economic environment. A post model adjustment was raised in 2022 and has been updated to reflect the risks relating to affordability and the impact of cost-of-living increases on our mortgage customers (see note 31 for more details).

The provision is calculated by applying a range of economic scenarios that are weighted.

The Group continue to apply four economic scenarios, with a higher weighting attributed to the downturn and severe downturn scenarios than in 2022, reflecting the ongoing uncertainty around the health of the UK economy. SME judgement is applied in determining the relative weighting of each economic scenario in the ECL estimate, informed both by an assessment of external data and statistical model results.

The Group considered alternative sets of weightings. The most severe shifted a further 5% from core and downside to severe downturn resulting in a £4.1 million increase in ECL. The least severe shifted 10% from downside and severe downturn to core resulting in a £7.9 million decrease in ECL. These changes in weightings have been fully modelled and been allowed to impact staging but impact on post model adjustments (PMA) has been excluded.

Notes to the Financial Statements (continued)

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of loans and advances to customers (continued)

Economic scenarios and weightings (continued)

In terms of sensitivity to changes in key economic variables within the model, the ECL model was run with a 100% weighting applied to the Core scenario, in both Core and Non-Core models. When the HPI forecast was replaced with the respective forecasts from the Downturn and Severe Downturn scenarios ECL, excluding PMAs, increased by £5.3 million and £28.4 million (2022: £11.1 million and £15.9 million). Below is the percentage change in HPI forecast for both downturn scenarios for the next 5 years in relation to the Core scenario. The downturn scenario in 2023 replaced the stagflation downturn scenario applied in 2022.

	2023 Scenario (% change)				
HPI	**2024**	**2025**	**2026**	**2027**	**2028**
Downturn	**(3.5)**	**(6.0)**	**(0.5)**	**(3.0)**	**(2.8)**
Severe Downturn	**(8.0)**	**(14.5)**	**(9.0)**	**(4.5)**	**(3.5)**

	2022 Scenario (% change)				
HPI	**2023**	**2024**	**2025**	**2026**	**2027**
Stagflation Downturn	(6.7)	(3.0)	(1.3)	(0.5)	(0.3)
Severe Downturn	(7.5)	(9.8)	(8.1)	(2.0)	(1.5)

The key in-year impact of changes to economic variables came from applying quarterly Office of National Statistics (ONS) HPI updates, which accounted for £0.7 million of impairment charge over 2023 (2022: £12.5 million release).

Post model adjustments

The determination, application and calculation of PMAs also requires judgement to be applied. Further detail on economic assumptions, weightings and PMAs can be found in note 31.

Core model assumptions

Significant increase in credit risk

A judgement is applied to determine the threshold at which a significant relative increase in credit risk is deemed to have occurred. If 10% of the accounts in stage 1, on a proportional basis, were to be transferred to stage 2 and subject to a calculation of full lifetime expected credit losses, this would result in a £2.2 million (2022: £1.9 million) increase in ECL. This change in staging has not been allowed to impact PMAs.

Acquired interest-only mortgages

A judgement has been applied in determining which probability of default assumptions to apply to different cohorts of customers for acquired interest-only mortgages.

The existence of an appropriate repayment vehicle has only been substantiated for 26% (2022: 27%) of these customers and so there is a risk that the full amount due at maturity (average maturity being 2028) will not be collected. A model is applied to estimate the probability that accounts will reach the end of the term without being recovered, with the average probability across these accounts being 8.1% (2022: 9.2%). This results in an ECL of £7.9 million (2022: £8.2 million).

Two alternative probability of default (PD) estimates are applied, one for those customers that we are unable to contact, and another for those that have confirmed there is no appropriate repayment vehicle in place. If the 'no vehicle' PD is applied to the 'unable to contact' customers, expected credit losses increase by £3.8 million (2022: £5.1 million).

3. Interest revenue

	Group		Society	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Calculated using the effective interest rate method:				
Loans secured on residential property	**1,366.2**	1,027.3	**346.7**	272.0
Loans secured on connected undertakings	**–**	–	**1,349.0**	554.8*
Other loans	**44.7**	26.7	**44.7**	26.7
Other interest income/(expense)**	**(61.5)**	(15.5)	**(61.5)**	(15.5)
Liquid assets	**364.0**	93.0	**352.6**	91.0
Debt securities	**241.2**	71.1	**873.5**	285.7
Interest revenue calculated using the effective interest rate method	**1,954.6**	1,202.6	**2,905.0**	1,214.7
Other:				
Derivatives in hedge relationships	**926.4**	212.2	**926.4**	212.2
Derivatives not included in hedge relationships	**82.7**	20.4	**82.5**	20.2*
Investments held at fair value	**2.6**	1.8	**2.6**	1.8
Other interest revenue	**1,011.7**	234.4	**1,011.5**	234.2
Total interest revenue	**2,966.3**	1,437.0	**3,916.5**	1,448.9

4. Interest expense

	Group		Society	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Shares held by individuals	**1,509.6**	442.7	**1,509.6**	442.7
Deposits from banks	**126.8**	76.1	**126.8**	76.1
Deposits from connected undertakings	**–**	–	**1,182.1**	231.4
Other deposits	**24.2**	9.3	**24.2**	9.3
Debt securities in issue	**164.6**	75.5	**186.8**	81.3
Subordinated liabilities	**51.5**	33.7	**51.5**	33.7
Other interest payable	**0.2**	0.1	**0.2**	0.1
Derivatives in hedge relationships	**174.4**	38.7	**105.7**	3.3
Derivatives not included in hedge relationships	**128.4**	36.1	**121.1**	113.6
Interest expense for leasing arrangements	**0.6**	0.7	**0.6**	0.7
Total interest expense	**2,180.3**	712.9	**3,308.6**	992.2

* Please refer to Reclassification within Interest Revenue (Society only) in Note 1 for details of the reclassification made between these lines.
** Includes net interest income on clearing collateral agreements.

Notes to the Financial Statements (continued)

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

	Group 2023 £m	2022 £m	Society 2023 £m	2022 £m
Equity investments held at fair value	**0.5**	1.4	**0.5**	1.4
Hedge accounting ineffectiveness	**(29.1)**	(32.4)	**(29.0)**	(44.3)
Derivatives and debt securities not included in hedge relationships	**23.1**	106.6	**18.8**	110.7
Net (losses)/gains from financial instruments held at fair value	**(5.5)**	75.6	**(9.7)**	67.8

Derivatives and hedging

The Society enters into interest rate swaps to hedge their exposure to interest rate risk. All interest rate swaps are transacted for economic hedging purposes, however not all are designated into accounting hedges. Those interest rate swaps not designated into accounting hedges are recorded at fair value through profit and loss within derivatives and debt securities not included in hedge relationships. This portfolio consists of interest rate swaps that receive fixed cash flows (receive fix) and that pay fixed cash flows (pay fix).

2022 saw a significant increase in swap rates which in turn had a significant impact on the fair value of the interest rate swaps not designated in the accounting hedge. In 2023, whilst swaps rates remained volatile, the movement across the year has been much less significant with rates decreasing overall. The volume of receive fix swaps has grown considerably driven by an increase in retail deposits, along with the volatile rate environment, this has generated an overall fair value gain in the year.

Hedge accounting ineffectiveness includes the ineffective portion of the accounting hedges and amortisation adjustments relating to the inception and de-designation of these hedges.

Investments held at fair value include the fair value gains and losses on equity shares investment.

6. Administrative expenses

	Group 2023 £m	2022 £m	Society 2023 £m	2022 £m
Staff costs:				
Salaries and wages	**138.2**	125.4	**138.2**	125.4
Social security costs	**14.2**	13.4	**14.2**	13.4
Pension costs – defined benefit plans	**1.1**	0.3	**1.1**	0.3
Pension costs – defined contribution plans	**11.4**	10.4	**11.4**	10.4
Contractor staff costs	**30.4**	26.9	**30.4**	26.9
Other staff costs	**1.6**	1.5	**1.6**	1.5
Professional consultancy costs	**6.1**	12.3	**6.1**	12.3
Regulatory fees	**6.2**	6.0	**6.2**	6.0
Premises costs	**15.6**	14.3	**15.6**	14.3
IT costs	**47.8**	33.4	**47.8**	33.4
Marketing	**15.5**	14.8	**15.5**	14.8
Other expenses	**24.2**	18.2	**24.0**	18.0
Total administrative expenses	**312.3**	276.9	**312.1**	276.7

The Society operates a salary sacrifice scheme whereby employees can opt to make pension contributions from their pre-tax salaries. The amount shown in the table above under salaries and wages includes the headline salary (i.e. before the salary sacrifice deduction) and pension costs exclude the additional contributions made by the Society on employees' behalf as a result of the salary sacrifice scheme.

Full details of directors' remuneration, including the number of directors, the total remuneration of directors, including that of the highest paid director, bonuses and pensions are given in the *Directors' Remuneration Report* within the *Governance* section.

Staff numbers

The average number of persons employed by the Group and Society during the year (including executive directors) was as follows:

	2023 Full time	2023 Part time	2022 Full time	2022 Part time
Central administration	**2,145**	**428**	1,969	425
Branches	**383**	**344**	357	366
Total staff numbers	**2,528**	**772**	2,326	791

Remuneration of the auditors

	Group 2023 £000	2022 £000	Society 2023 £000	2022 £000
Audit fees for the Group and Society statutory audit	**783.5**	734.5	**783.5**	734.5
Audit fee for the statutory audit of controlled entities*	**449.5**	375.5	**–**	–
Audit related assurance services required by law or regulation	**129.5**	131.0	**129.5**	131.0
Total audit and audit related assurance services	**1,362.5**	1,241.0	**913.0**	865.5
Other permitted non-audit services	**232.5**	257.6	**232.5**	215.1
Total remuneration of the auditors	**1,595.0**	1,498.6	**1,145.5**	1,080.6

The above figures, relating to auditor's remuneration, exclude value added tax. Details of the Society's policy on non-audit work is given in the *Audit Committee Report*.

The classifications of audit related assurance services required by law or regulation and other permitted non-audit services reflect the terminology included in updated guidance issued by the UK Financial Reporting Council.

Other permitted non-audit services primarily consist of the half-year review and profit verification as well as assurance work in respect of our debt issuances.

7. Impairment charge/(release) of financial assets

	Group 2023 £m	2022 £m	Society 2023 £m	2022 £m
Impairment charge on loans and advances to customers	**4.5**	7.0	**0.2**	0.1
Recoveries relating to loans and advances previously written off	**(0.8)**	(0.9)	**(0.5)**	(0.6)
Impairment charge/(release) of other financial assets	**0.3**	(0.1)	**0.3**	(0.1)
Impairment charge/(release) on financial assets	**4.0**	6.0	**–**	(0.6)

* Includes £12k, related to the prior year audit of Norwich and Peterborough Insurance Brokers Limited.

Notes to the Financial Statements (continued)

8. Investments

Income from investments

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Dividend income from subsidiaries	–	–	50.0	100.0
Dividend income from equity investments	–	0.1	–	0.1
Income from investments	–	0.1	50.0	100.1

During 2023, the Society received dividends from Accord Mortgages Limited of £50.0 million (2022: £100.0 million).

Investments

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Equities	3.3	2.8	3.3	2.8
Equity in controlled entities	–	–	104.9	104.9
Loans with controlled entities	–	–	37,354.4	35,632.1
Total investments	3.3	2.8	37,462.6	35,739.8

All loans with controlled entities are charged interest with amounts recognised in interest revenue.

Investment in equities

The Group holds equity investments in a banking and credit card service provider due to our historic participation in their card servicing operations. A tranche of these equity shares was sold for £4.1 million in December 2022, there has been no sale of equity shares in 2023. The investments are held at fair value through profit or loss and the valuation technique is detailed in note 32.

Subsidiaries

The Society holds 100% of the ordinary equity share capital for each of the following subsidiary entities, all of which are audited and consolidated.

Subsidiary	Principal activity
Accord Mortgages Limited	Mortgage lending
Norwich and Peterborough Insurance Brokers Limited	Non-trading
Norwich and Peterborough (LBS) Limited	Mortgage finance

The Group has taken advantage of the audit exemptions available for small and dormant subsidiaries under sections 479 and 480 of the *Companies Act 2006* for the following subsidiary entities, all of which are consolidated:

- BCS Loans & Mortgages Limited
- Chelsea Mortgage Services Limited
- YBS Limited
- Yorkshire Direct Limited
- YBS Group Limited
- YBS Pension Trustees Limited
- Yorkshire Group Limited
- Yorkshire Insurance Services Limited
- Yorkshire Life Assurance Services Limited
- Yorkshire Mortgage Services Limited
- Yorkshire Personal Financial Services Limited
- Yorkshire Property Services Limited
- Yorkshire Services Limited
- Yorkshire Key Services Limited

All subsidiaries have a 31 December accounting period end, are registered in England and have their registered office as Yorkshire Drive, Bradford, BD5 8LJ.

Other controlled entities

The following entities are deemed to be controlled as, whilst the Group does not have a controlling equity shareholding, it has the right to variable returns from its involvement in the entity. The Society's interests in these entities are, in substance, no different than if they were wholly-owned subsidiary undertakings and, as a result, they are consolidated into the Group. The carrying value of the equity holdings in these entities in the Society is £nil (2022: £nil).

- Brass No.6 PLC*
- Brass No.6 Mortgage Holdings Limited*
- Brass No.7 PLC*
- Brass No.7 Mortgage Holdings Limited*
- Brass No.8 PLC
- Brass No.8 Mortgage Holdings Limited
- Brass No.9 PLC
- Brass No.9 Mortgage Holdings Limited
- Brass No.10 PLC
- Brass No.10 Mortgage Holdings Limited
- Brass No.11 PLC
- Brass No.11 Mortgage Holdings Limited
- Tombac No.2 PLC*
- Tombac No.2 Mortgage Holdings Limited*
- Tombac No.3 PLC
- Tombac No.3 Mortgage Holdings Limited
- Yorkshire Building Society Covered Bonds LLP
- YBS Covered Bonds Finance (Holdings) Limited
- YBS Covered Bonds Finance Limited

All these entities are subject to audit and have a 31 December year end, apart from those entities currently in liquidation. Their registered office is Third Floor, 1 King's Arms Yard, London, EC2R 7AF, with the exceptions of *Yorkshire Building Society Covered Bonds LLP* whose registered address is Yorkshire Drive, Bradford, BD5 8LJ.

Joint ventures

The Society has a 22.2% joint venture investment in Arkose Funding Limited. The carrying value of the investment at 31 December 2023 is £nil (2022: £nil).

* in liquidation

Notes to the Financial Statements (continued)

9. Tax expense

	Group 2023 £m	2022 £m	Society 2023 £m	2022 £m
Corporation tax – current year charge	**95.9**	120.9	**78.0**	88.4
Corporation tax – adjustment in respect of prior periods	**0.6**	1.3	**0.6**	1.4
Total current tax	**96.5**	122.2	**78.6**	89.8
Deferred tax – current year	**22.5**	0.9	**22.8**	1.2
Deferred tax – adjustment in respect of prior periods	**(0.6)**	(1.1)	**(0.6)**	(1.1)
Deferred tax – impact of rate change	**0.2**	1.2	**0.2**	1.2
Total tax expense in the income statement	**118.6**	123.2	**101.0**	91.1

On 1 April 2023 the UK corporation tax rate increased from 19% to 25%, giving an average corporation tax rate for the year of 23.5% (2022: 19.0%). The Group has an effective tax rate of 26.3% (2022: 24.5%), which is higher than the average UK statutory corporation tax rate of 23.5% for the year. This is mainly due to the effects of the banking surcharge on the taxable profits of the Society. A full breakdown of the difference is provided below:

	Group 2023 £m	2022 £m	Society 2023 £m	2022 £m
Profit before tax	**450.3**	502.5	**417.4**	421.3
Tax calculated at a tax rate of 23.5% (2022: 19%)	**105.8**	95.5	**98.1**	80.1
Effects of:				
Income not subject to tax	**(0.3)**	(0.3)	**(12.1)**	(19.3)
Fair value movements on securitisation	**(1.0)**	0.8	**–**	–
Expenses not deductible for tax purposes	**0.9**	0.8	**1.9**	3.8
Banking surcharge	**13.1**	25.1	**13.1**	25.1
Adjustment to tax charge in respect of prior periods	**–**	0.2	**–**	0.3
Recognition and utilisation of capital losses	**–**	(0.1)	**–**	(0.1)
Change in tax rate	**0.1**	1.2	**–**	1.2
Total tax expense in income statement	**118.6**	123.2	**101.0**	91.1
Tax (credit)/expense recognised directly in equity:				
Tax on financial instruments held at fair value through other comprehensive income	**(4.7)**	(7.8)	**(4.7)**	(7.8)
Change in tax rate on financial instruments held at fair value through other comprehensive income	**–**	(1.9)	**–**	(1.9)
Tax on remeasurement of net retirement benefit obligations	**(3.1)**	(21.6)	**(3.1)**	(21.6)
Change in tax rate on net retirement benefit obligations	**–**	(6.9)	**–**	(6.9)
Deferred tax on cash flow hedges	**(3.7)**	(0.5)	**(3.7)**	(0.5)
Change in tax rate on cash flow hedges	**–**	(0.8)	**–**	(0.8)
Total tax recognised directly in equity	**(11.5)**	(39.5)	**(11.5)**	(39.5)

On 1 April 2023 the UK corporation tax rate increased from 19% to 25%. This measure was substantively enacted on 24 May 2021 and deferred tax assets and liabilities at 31 December 2023 and at 31 December 2022 have been calculated based on the 25% rate.

On 1 April 2023 the banking surcharge decreased from 8% (on taxable profits in excess of £25 million) to 3% (on taxable profits in excess of £100 million). This change was substantively enacted on 2 February 2022. Deferred tax assets and liabilities at 31 December 2023 and at 31 December 2022 have been calculated based on the 3% rate.

On 11 July 2023, the government enacted legislation to implement the G20-OECD Inclusive Framework Pillar Two rules in the UK. The intention of the legislation is to ensure that UK-headquartered multinational enterprises pay a minimum tax rate of 15% on UK and overseas profits arising after 31 December 2023. The rules include a Qualified Domestic Minimum Top-Up Tax, which aims to ensure that large UK groups pay a minimum tax rate of 15% on their UK profits.

The Group's operations are entirely based in the UK and are subject to UK corporation tax. The Group has carried out an assessment of Pillar Two impact during the year, and based on this assessment, the Group is not currently expecting to be materially impacted by Pillar Two rules. Work to further assess the Group's exposure to the Pillar Two legislation will continue during 2024, and full Pillar Two calculations will be carried out in 2024, which is when the legislation becomes effective.

Pillar Two legislation applies to profits arising after 31 December 2023. The tax expense arising from Pillar Two is £nil for the years ended 31 December 2023 and 31 December 2022.

The IAS 12 exceptions from recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes have been applied.

10. Cash and balances with the Bank of England

	Group 2023 £m	2022 £m	Society 2023 £m	2022 £m
Cash in hand	**9.9**	10.6	**9.9**	10.6
Unencumbered deposits with the Bank of England	**4,652.7**	5,805.0	**4,652.7**	5,805.0
Cash in hand and unencumbered deposits	**4,662.6**	5,815.6	**4,662.6**	5,815.6
Cash ratio deposit with the Bank of England	**176.5**	167.2	**176.5**	167.2
Cash and balances with the Bank of England	**4,839.1**	5,982.8	**4,839.1**	5,982.8

Cash ratio deposits are mandatory requirements of the Bank of England. They are considered to be encumbered assets and are non-interest-bearing.

11. Debt securities

	Group 2023 £m	2022 £m	Society 2023 £m	2022 £m
Debt securities issued by:				
UK public bodies	**852.4**	582.4	**852.4**	582.4
Other public bodies	**958.9**	965.6	**958.9**	965.6
Other	**5,750.6**	4,136.8	**5,750.6**	4,136.8
Group companies	**–**	–	**11,792.4**	13,548.2
Total debt securities	**7,561.9**	5,684.8	**19,354.3**	19,233.0

Debt securities issued by Group companies comprise retained investments in the Group's securitisation vehicles.

Notes to the Financial Statements (continued)

11. Debt securities (continued)

Group	Held at fair value through profit and loss £m	Fair value through Other Comprehensive Income £m	Amortised cost £m	Total £m
Movements in debt securities during the year were:				
At 1 January 2023	**25.5**	**4,292.7**	**1,366.6**	**5,684.8**
Additions	**–**	**1,545.0**	**1,867.9**	**3,412.9**
Disposals and repayments	**–**	**(725.0)**	**(918.2)**	**(1,643.2)**
Exchange translation	**–**	**(25.9)**	**(21.2)**	**(47.1)**
Other changes in value	**1.8**	**108.9**	**43.8**	**154.5**
At 31 December 2023	**27.3**	**5,195.7**	**2,338.9**	**7,561.9**
Movements in debt securities during the year were:				
At 1 January 2022	28.6	3,255.4	791.5	4,075.5
Additions	–	2,097.6	854.6	2,952.2
Disposals and repayments	–	(734.1)	(261.4)	(995.5)
Exchange translation	–	11.6	10.2	21.8
Other changes in value	(3.1)	(337.8)	(28.3)	(369.2)
At 31 December 2022	25.5	4,292.7	1,366.6	5,684.8

Society	Held at fair value through profit and loss £m	Fair value through Other Comprehensive Income £m	Amortised cost £m	Total £m
Movements in debt securities during the year were:				
At 1 January 2023	**25.5**	**4,292.7**	**14,914.8**	**19,233.0**
Additions	**–**	**1,545.0**	**1,867.9**	**3,412.9**
Disposals and repayments	**–**	**(725.0)**	**(2,693.6)**	**(3,418.6)**
Exchange translation	**–**	**(25.9)**	**(21.5)**	**(47.4)**
Other changes in value	**1.8**	**108.9**	**63.7**	**174.4**
At 31 December 2023	**27.3**	**5,195.7**	**14,131.3**	**19,354.3**
Movements in debt securities during the year were:				
At 1 January 2022	28.6	3,255.4	11,656.5	14,940.5
Additions	–	2,097.6	6,690.0	8,787.6
Disposals and repayments	–	(734.1)	(3,461.0)	(4,195.1)
Exchange translation	–	11.6	11.7	23.3
Other changes in value	(3.1)	(337.8)	17.6	(323.3)
At 31 December 2022	25.5	4,292.7	14,914.8	19,233.0

12. Loans and advances to customers

	Group		Society	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Loans secured on residential property:				
Loans fully secured on residential property	**45,126.4**	43,793.6	**9,208.5**	9,810.7
Other loans secured on residential property	**6.1**	7.2	**–**	–
Loans secured on commercial property	**1,743.4**	1,461.3	**1,742.8**	1,461.3
Gross loans and advances to customers	**46,875.9**	45,262.1	**10,951.3**	11,272.0
Impairment	**(37.7)**	(33.1)	**(8.4)**	(7.8)
Fair value credit adjustment	**(22.3)**	(25.3)	**(22.3)**	(25.3)
Expected credit losses (ECL)	**(60.0)**	(58.4)	**(30.7)**	(33.1)
Total loans and advances to customers	**46,815.9**	45,203.7	**10,920.6**	11,238.9

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

	Group		Society	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Opening impairment	**33.1**	26.1	**7.8**	7.3
Amounts written off in the period	**(1.3)**	(1.0)	**(0.6)**	(0.3)
Discounting recognised in net interest income	**1.4**	1.0	**1.0**	0.7
Charge for the year recognised in the income statement	**4.5**	7.0	**0.2**	0.1
Impairment	**37.7**	33.1	**8.4**	7.8

	Group		Society	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Opening fair value credit adjustment	**25.3**	28.4	**25.3**	28.4
Release recognised in the income statement through net interest	**(2.3)**	(2.4)	**(2.3)**	(2.4)
Write-offs	**(0.7)**	(0.7)	**(0.7)**	(0.7)
Fair value credit adjustment	**22.3**	25.3	**22.3**	25.3

Notes to the Financial Statements (continued)

13. Intangible assets

Group and Society	Development costs £m	Software £m	Internally generated assets £m	Other £m	Total £m
Cost:					
At 1 January 2023	**4.1**	**59.8**	**13.6**	**7.1**	**84.6**
Additions	**(4.1)**	**10.5**	**–**	**–**	**6.4**
Disposals	**–**	**(2.7)**	**(1.0)**	**–**	**(3.7)**
Transfers	**–**	**–**	**–**	**–**	**–**
At 31 December 2023	**–**	**67.6**	**12.6**	**7.1**	**87.3**
Amortisation:					
At 1 January 2023	**–**	**44.0**	**13.3**	**7.1**	**64.4**
Charged in year	**–**	**8.2**	**0.2**	**–**	**8.4**
Disposals	**–**	**(2.8)**	**(1.0)**	**–**	**(3.8)**
At 31 December 2023	**–**	**49.4**	**12.5**	**7.1**	**69.0**
Net book value at 31 December 2023	**–**	**18.2**	**0.1**	**–**	**18.3**
Cost:					
At 1 January 2022	0.4	61.9	15.1	7.1	84.5
Additions	3.7	1.8	–	–	5.5
Disposals	–	(3.9)	(1.5)	–	(5.4)
Transfers	–	–	–	–	–
At 31 December 2022	4.1	59.8	13.6	7.1	84.6
Amortisation:					
At 1 January 2022	–	39.5	14.4	7.1	61.0
Charged in year	–	8.3	0.3	–	8.6
Disposals	–	(3.8)	(1.4)	–	(5.2)
At 31 December 2022	–	44.0	13.3	7.1	64.4
Net book value at 31 December 2022	4.1	15.8	0.3	–	20.2

Other intangible assets primarily comprise the fair value of items acquired on mergers (retail savings and brands) and an amount paid for the transfer of a number of employee sharesave schemes to the Society. Transfers relate to the reclassification of assets from development costs to software and internally generated assets.

14. Investment property

Group and Society	2023 £m	2022 £m
Cost:		
At 1 January	**22.0**	19.7
Additions	**0.3**	0.5
Disposals	**(0.6)**	(0.6)
Transfers from Property, Plant and Equipment	**–**	2.4
At 31 December	**21.7**	22.0
Depreciation:		
At 1 January	**6.0**	5.2
Charged in year	**0.4**	0.2
Disposals	**(0.4)**	(0.1)
Transfers from Property, Plant and Equipment	**–**	0.7
At 31 December	**6.0**	6.0
Net book value at 31 December	**15.7**	16.0
Fair value	**12.2**	13.6

Investment properties are generally flats and offices ancillary to branch premises and not used by the Group. Rental income of £1.1 million on investment properties has been included within other operating income (2022: £1.1 million).

Transfers relate to the reclassification of assets between investment properties and property, plant and equipment, usually due to changes in occupancy.

The fair value of the Group's investment properties at 31 December 2023 is based predominantly on external valuations.

Notes to the Financial Statements (continued)

15. Property, plant and equipment

Group and Society	Land and buildings £m	Equipment, fixtures and fittings £m	Right-of-use property £m	Right-of-use motor vehicles £m	Total £m
Cost:					
At 1 January 2023	**101.0**	**67.3**	**24.5**	**1.3**	**194.1**
Additions	**4.5**	**3.8**	**1.4**	**0.1**	**9.8**
Disposals	**(3.6)**	**(11.9)**	**(3.3)**	**(0.1)**	**(18.9)**
At 31 December 2023	**101.9**	**59.2**	**22.6**	**1.3**	**185.0**
Depreciation:					
At 1 January 2023	**34.5**	**49.1**	**8.4**	**1.0**	**93.0**
Charged in year	**3.4**	**5.0**	**2.7**	**0.2**	**11.3**
Disposals	**(4.0)**	**(11.9)**	**(3.1)**	**(0.1)**	**(19.1)**
Impairment	**0.3**	**–**	**–**	**–**	**0.3**
At 31 December 2023	**34.2**	**42.2**	**8.0**	**1.1**	**85.5**
Net book value at 31 December 2023	**67.7**	**17.0**	**14.6**	**0.2**	**99.5**
Cost:					
At 1 January 2022	102.5	68.4	42.2	1.2	214.3
Additions	3.2	3.6	1.9	0.1	8.8
Disposals	(0.9)	(4.7)	(1.2)	–	(6.8)
Lease modification	–	–	(18.4)	–	(18.4)
Assets transferred to held for sale	(1.4)	–	–	–	(1.4)
Transfers to investment property	(2.4)	–	–	–	(2.4)
At 31 December 2022	101.0	67.3	24.5	1.3	194.1
Depreciation:					
At 1 January 2022	32.9	48.1	10.6	0.7	92.3
Charged in year	3.7	5.5	3.5	0.3	13.0
Disposals	(0.9)	(4.5)	(0.8)	–	(6.2)
Lease Modification	–	–	(4.9)	–	(4.9)
Assets transferred to held for sale	(0.5)	–	–	–	(0.5)
Transfers to investment property	(0.7)	–	–	–	(0.7)
At 31 December 2022	34.5	49.1	8.4	1.0	93.0
Net book value at 31 December 2022	66.5	18.2	16.1	0.3	101.1

16. Deferred tax

	Group		Society	
	2023 £m	2022 £m	**2023 £m**	2022 £m
At 1 January	**11.9**	50.4	**10.2**	48.4
Income statement expense/(credit) – note 9	**22.1**	1.0	**22.4**	1.3
Tax (credit)/expense recognised directly in equity	**(11.5)**	(39.5)	**(11.5)**	(39.5)
At 31 December	**22.5**	11.9	**21.1**	10.2
Deferred tax assets and liabilities are attributable to the following items:				
Deferred tax assets				
Fair value movements on external swap on intercompany loan	**–**	(3.7)	**–**	(3.7)
Deferred remuneration	**(3.6)**	(2.3)	**(3.6)**	(2.3)
Transitional adjustment arising following implementation of IFRS 9	**(0.7)**	(0.9)	**(0.7)**	(0.9)
Transitional adjustment arising following change in accounting treatment	**(0.4)**	(0.5)	**(0.4)**	(0.5)
Pensions and other post-retirement benefits	**(2.3)**	(2.1)	**(2.3)**	(2.1)
Financial instruments held at fair value through other comprehensive income	**(4.0)**	–	**(4.0)**	–
Capital losses	**(0.2)**	(0.2)	**(0.2)**	(0.2)
Other temporary differences	**(0.1)**	(0.2)	**(0.1)**	(0.2)
Total deferred tax assets	**(11.3)**	(9.9)	**(11.3)**	(9.9)
Deferred tax liabilities				
Pensions and other post-retirement benefits	**10.8**	13.6	**10.8**	13.6
Capital allowances in excess of depreciation	**1.2**	0.9	**1.2**	0.9
Fair value movements on external swap on intercompany loan	**19.2**	–	**19.2**	–
Financial instruments held at fair value through profit and loss	**0.4**	0.4	**0.4**	0.4
Financial instruments held at fair value through other comprehensive income	**–**	0.7	**–**	0.7
Cash flow hedging	**0.1**	3.9	**0.1**	3.9
Transitional adjustment arising following implementation of IFRS 9	**1.1**	1.3	**–**	–
Transitional adjustment arising following change in accounting treatment	**0.3**	0.3	**–**	–
Other temporary differences	**0.7**	0.7	**0.7**	0.6
Total deferred tax liabilities	**33.8**	21.8	**32.4**	20.1
Net deferred tax liabilities	**22.5**	11.9	**21.1**	10.2

Notes to the Financial Statements (continued)

16. Deferred tax (continued)

The deferred tax expense/(credit) in the income statement comprise the following temporary differences:

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
Pensions and other post-retirement benefits	**0.1**	0.2	**0.1**	0.2
Capital allowances in excess of depreciation	**0.3**	–	**0.3**	–
Fair value movements on external swap on intercompany loan	**22.9**	0.8	**22.9**	0.8
Deferred remuneration	**(1.4)**	(0.6)	**(1.4)**	(0.6)
Financial instruments held at fair value through profit and loss	**0.1**	(0.5)	**0.1**	(0.5)
Transitional adjustment arising following implementation of IFRS 9	**(0.1)**	0.1	**0.2**	0.3
Transitional adjustment arising following change in accounting treatment	**–**	0.1	**0.1**	0.2
Capital losses	**–**	1.2	**–**	1.2
Other temporary differences	**0.2**	(0.3)	**0.1**	(0.3)
Total deferred tax expense/(credit) in the income statement	**22.1**	1.0	**22.4**	1.3

17. Retirement benefit obligations

The Group operates one main employee benefit scheme (the Scheme), the costs of which are borne by the Society, with both defined benefit and defined contribution sections.

In addition, the Group operates unfunded defined benefit (DB) pension schemes for certain current and former members of staff. The present value at 31 December 2023 of the defined benefit obligation in relation to these schemes was £8.1 million (2022: £7.4 million) and the relevant disclosures have been separated from those of the main employee benefits scheme where appropriate.

Net defined benefit asset

As at 31 December 2023 the defined benefit asset is £38.6 million, a decrease of £10.2 million from 31 December 2022.

Pensioner buy-in

In mid-November 2018, the Scheme entered into a pensioner buy-in with Pension Insurance Corporation (PIC). The premium of c.£248 million was paid for out of the Scheme's assets, with no additional funding required from the Society. The asset loss from the buy-in was approximately £25 million on an accounting basis. The transaction covered around £250 million of the Scheme's pensioner liabilities, based on the Technical Provisions basis. As such, some pensioners remain uninsured and not covered by the buy-in. At 31 December 2023, we have valued the YBS Scheme insurance contract with PIC to be equal to the corresponding IAS 19 defined benefit obligation in respect of the insured members. The assessed value of £155.8 million was calculated using a methodology consistent with the approach used to calculate the total pension benefit. Benefits paid over 2023 in respect of the buy-in members totalled £9.4 million.

Defined contribution post-employment benefits

In addition to the defined benefit section (see below), the Group operates a defined contribution (DC) section of the main scheme. This Scheme is used by the Society to fulfil its auto enrolment duties. In 2023, the total Society contribution into the pension scheme in respect of DC benefits was c.£11.9 million (2022: c.£9.8 million). In addition to this YBS also paid £1.0 million (2022: £0.9 million) into the pension scheme to cover the approximate cost of DC expenses, including the cost of life assurance which is provided through the Scheme for all YBS colleagues.

Defined benefit post-employment benefits

The Group operates a funded defined benefit scheme for certain employees, providing benefits based on final salary. However, benefits earned by members of the defined benefit section of the main scheme, with the exception of N&P Section members, from 1 April 2010 are based on career average revalued earnings. N&P Section members' benefits are based on their Final Pensionable Salary (following the removal of the 31 March 2010 freeze). The defined benefit section was closed to new employees in 2000 and to future accrual on 31 December 2015. The assets of the scheme are held in a separate trustee-administered fund. Contributions are assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

The defined benefit section of the Scheme has a weighted average maturity of around 14 years (2022: 15 years). This weighted average duration of a pension scheme is the average discounted term until benefit payments are due, weighted by the size of the payment. A breakdown of the scheme liabilities by members is included below.

	Funded DB scheme		Unfunded DB scheme	
	2023 £m	2022 £m	2023 £m	2022 £m
Deferred in service liability	**36.5**	64.2	**–**	–
Deferred liability	**166.3**	175.1	**–**	3.8
Pensioner liability	**369.7**	354.1	**8.1**	3.6
Total liabilities	**572.5**	593.4	**8.1**	7.4

GMP equalisation

On 26 October 2018, the High Court ruled that the Lloyds Bank schemes had to equalise pension scheme benefits between males and females for the effects of Guaranteed Minimum Pension (GMP) and identified acceptable methods as to how this can be achieved. The benefits provided under the Scheme are uncertain to the extent that the impact of GMP equalisation has not yet been fully reflected in Scheme benefits. An allowance has been included in the liabilities to reflect the expected value of these additional benefits in line with what was calculated at last year end, i.e. uplifting the DBO by 0.2%.

On 20 November 2020, the High Court ruled that individual transfer payments made since 17 May 1990 would need to be equalised for the effects of GMP. No further allowance has been made for this judgment as the impact is not material.

Scheme specific risks

The ultimate cost of the Scheme to the Society will depend upon actual future events rather than the assumptions made. Many of the assumptions made are unlikely to be borne out in practice and, as such, the cost of the schemes may be higher or lower than disclosed. In general, the risk to the Society is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to the Society is higher than expected. This could result in higher contributions being required from the Society and a higher deficit being disclosed. This may also impact the Society's ability to grant discretionary benefits or other enhancements to members.

The assumptions not being borne out in practice could include:

I. The investment return on the Scheme's assets being lower than assumed, resulting in an unaffordable increase in the contributions required from the Society. The level of bond returns will be a key determinant of overall investment return; the investment portfolio is also subject to a range of other risks typical of the asset classes held, in particular equity returns, credit risk on bonds and exposure to the property market.

II. Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities. This risk has been mitigated to some degree by the implementation of an asset liability matching investment strategy which is designed to match a proportion of the Scheme's interest rate exposure.

III. Future levels of inflation being higher than assumed, resulting in higher than anticipated annual increases to benefits in payment, revaluations of benefits prior to retirement and salary increases. This risk has been mitigated to some degree by the implementation of an asset liability matching investment strategy which is designed to match a proportion of the Scheme's inflation exposure.

IV. Unanticipated improvements in the longevity of members leading to an increase in the Scheme's liabilities.

Notes to the Financial Statements (continued)

17. Retirement benefit obligations (continued)

Assets

The Scheme's investment strategy, with a significant proportion of the assets invested in liability driven investments (consisting of index-linked government and corporate bonds and swaps), is expected to reduce the volatility of the difference between the market value of the assets and the IAS 19 liabilities.

Disaggregation of assets

	Funded DB scheme 2023 %	2022 %
Equities	**1**	1
Index-linked bonds	**53**	58
Corporate and other bonds	**7**	1
Cash and other	**13**	13
Swaps	**1**	–
Pensioner buy-in insurance contract	**25**	27
	100	100

Approximately 61% of the Scheme's investments are in quoted assets, with the exception of the liability matching assets classified as 'Swaps' and reinsurance assets included in 'Cash and other', where a proportion of these will be invested in unquoted assets and 'Buy in'.

Scheme investment strategy

The Trustees set the investment strategy for the Defined Benefit scheme taking into account considerations such as the strength of the Society's covenant, the long-term liabilities of the DB scheme and the funding agreed with the Society.

The Scheme's investment strategy is set in conjunction with the Scheme's investment adviser, recognising and managing a number of risks involved in the investment of the Scheme's assets in order to achieve the Scheme's investment objective.

The Trustees agreed that the investment objectives for the DB scheme should be:

- To achieve a return on the Scheme's assets that is consistent with the long-term assumptions in determining the funding of the Scheme, whilst at the same time balancing risk.
- To aim for the assets to exceed the liabilities as determined in the event of the Scheme winding up on the basis of cash equivalent transfer values.
- To minimise the requirement for the Society to make further deficit recovery plan contributions.

The investment strategy is set out in its Statement of Investment Principles (SIP). The strategy is to hold:

- A range of instruments that provide a better match both to changes in liability values and expected liability cash flows, including (but not limited to) gilts, corporate bonds, derivatives, secure income assets and insurance policies.
- A diversified range of return-seeking assets, including (but not limited to) equities (implemented physically and/or through equity futures), corporate bonds and secure income assets.
- Passive and actively managed portfolios as appropriate, following consideration of efficiency, liquidity and level of transaction costs likely to prevail within each market as well as the impact of the investment managers' fees on future expected returns.

Between the end of September and mid-October 2022, the assets the Scheme invests in experienced large market fluctuations following the UK government's announcement of the mini-budget, where bond yields increased in such a manner that the Bank of England stepped in to stabilise the market.

The increase in bond yields reduced both the value of the Scheme's Credit and Liability Matching portfolios and the Scheme's liabilities. Given the hedging properties of these mandates, the Scheme's funding level only marginally reduced, however the leveraged nature of the Liability Matching portfolio has forced the Scheme to fully disinvest from its Diversified Return Seeking assets in order to increase collateral and maintain the hedging properties of this mandate. This action was crucial to maintain the hedging properties of these mandates, but decreased the expected return on the Scheme's assets and increased the proportion of illiquid assets the Scheme holds in its portfolio.

As a result, during 2023, the Trustees have worked with its investment adviser to assess the investment strategy against the journey plan and review the return and risk characteristics of the DB scheme. This assessment resulted in the Trustees decision to re-risk the investment strategy from the previously agreed gilts+0.7% pa return objective to gilts+1.0% pa. The Trustees also decided to reduce the amount of illiquid assets within the Scheme back to the pre-gilt crisis level of 5% by partially disinvesting from the secure income assets, recognising that such decision will take time to implement.

In order to re-risk the investment strategy and maintain the hedging properties of the Scheme's Credit and Liability Matching portfolios, the Trustees decided to invest in equities using derivatives, specifically equity futures.

31 December 2022 Actuarial valuation

The most recent actuarial valuation of the Scheme was carried out with an effective date of 31 December 2022 and was completed in November 2023. The next actuarial valuation is expected at 31 December 2025. The value of the benefits promised to members that fall within the DB section of the Scheme are referred to as the Technical Provisions and are valued on a prudent basis as determined by the Trustee, having received advice from the Scheme Actuary.

The funding level (the ratio of assets to Technical Provisions) at 31 December 2022 was 102.0%. As the Scheme was in surplus at 31 December 2022, no recovery plan was required, and therefore, currently the Society does not have to pay any deficit reduction contributions.

War in Ukraine

The Trustees are monitoring the unfortunate events happening in Ukraine and our thoughts are very much with all those impacted during these extremely difficult times. In line with the western sanctions, the Trustees reviewed the exposure of the Scheme to Russian and Belarussian assets, to which the Scheme had minimal direct exposures for both the DB and DC sections of the Scheme. These exposures were subsequently written down to zero price as they were removed from market indices. The Trustees expects its Investment Managers to gradually divest from these exposures and will continue to monitor their progress in this area.

The Trustees continue to actively monitor the Scheme's investments as part of the Investment Sub Committee, which includes analysis on future expected returns for the investments. Further, the Trustees have an integrated risk management framework in place to monitor and challenge the Covenant, Investment and Funding risk linked to the Scheme.

Notes to the Financial Statements (continued)

17. Retirement benefit obligations (continued)

Summary of assumptions

	2023 % pa	2022 % pa
Retail prices index (RPI) inflation	**3.2**	3.5
Consumer price index (CPI) inflation	**2.5**	2.8
Discount rate	**4.5**	4.8
Salary increases	**3.8**	4.0
Rate of increase of pensions in payment*:		
In line with RPI, subject to a min of 3% and a max of 5% pa	**3.7**	3.8
In line with RPI, subject to a min of 0% and a max of 5% pa	**3.1**	3.3
In line with RPI, subject to a min of 0% and a max of 2.5% pa	**2.1**	2.2
In line with CPI, subject to a min of 0% and a max of 3% pa	**2.2**	2.4

The most significant non-financial assumption is the assumed rate of longevity. The assumptions made are equivalent to the following life expectancies for scheme member at age 60.

	2023 Years	2022 Years
For a current 60 year old male	**27.8**	28.4
For a current 60 year old female	**29.7**	30.1
For a current 45 year old male	**28.9**	29.4
For a current 45 year old female	**30.7**	31.2

Defined benefit actual contributions paid wholly relate to contributions made by the Society.

Changes in market conditions generate an actuarial gain (decrease in liabilities) and a return on plan less than discount rate (decrease in assets).

Reconciliation of funded status

Group and Society	2023 £m	2022 £m
Present value of defined benefit obligation	**(572.5)**	(593.4)
Assets at fair value	**611.1**	642.2
Funded status/defined benefit asset	**38.6**	48.8

Reconciliation of unfunded status

Group and Society	2023 £m	2022 £m
Present value of unfunded defined benefit scheme	**(8.1)**	(7.4)
Present value of unfunded defined benefit scheme	**(8.1)**	(7.4)

* Term dependent inflationary increases have been adopted to reflect expected inflation in each future year. Illustrative inflationary assumptions have been provided which have been calculated to reflect the broad profile of the Society's pension obligations.

Statement of comprehensive income (SCI)

Group and Society	Funded DB scheme 2023 £m	Funded DB scheme 2022 £m	Unfunded DB scheme 2023 £m	Unfunded DB scheme 2022 £m
Cumulative actuarial (loss)/gains recognised at 1 January	**(30.8)**	53.7	**16.4**	11.9
(Loss)/gain due on change in financial assumptions	**(4.0)**	342.7	**(0.1)**	4.5
Gain due to demographic assumptions	**12.2**	0.6	**0.1**	–
Gain/(loss) due to experience	**13.2**	(39.3)	**(0.8)**	–
Loss due to investment return different from return implied by the discount rate	**(31.8)**	(388.5)	**–**	–
Total actuarial (loss)/gain recognised in SCI	**(10.4)**	(84.5)	**(0.8)**	4.5
Cumulative actuarial (losses)/gains recognised at 31 December	**(41.2)**	(30.8)	**15.6**	16.4

Components of pension expense as shown in the income statement

Group and Society	Funded DB scheme 2023 £m	Funded DB scheme 2022 £m	Unfunded DB scheme 2023 £m	Unfunded DB scheme 2022 £m
Administrative expenses	**2.1**	1.7	**–**	–
Interest on net defined benefit asset/liability	**(2.3)**	(2.5)	**0.3**	0.2
Total pension expense	**(0.2)**	(0.8)	**0.3**	0.2

Reconciliation of present value of defined benefit obligation

Group and Society	Funded DB scheme 2023 £m	Funded DB scheme 2022 £m	Unfunded DB scheme 2023 £m	Unfunded DB scheme 2022 £m
Present value of defined benefit obligation at 1 January	**593.4**	916.3	**7.4**	11.9
Administrative expenses	**2.1**	1.7	**–**	–
Interest cost	**27.8**	16.6	**0.3**	0.2
Actuarial (gain)/loss	**(21.4)**	(303.8)	**0.8**	(4.5)
Defined benefit actual benefits and costs paid	**(29.4)**	(37.4)	**–**	–
Disbursements directly paid by the employer	**–**	–	**(0.4)**	(0.2)
Present value of defined benefit obligation at 31 December	**572.5**	593.4	**8.1**	7.4

Notes to the Financial Statements (continued)

17. Retirement benefit obligations (continued)

Movement in defined benefit fair value of assets

Group and Society	Funded DB scheme 2023 £m	2022 £m
Fair value of assets at 1 January	**642.2**	1,049.0
Interest income on scheme asset	**30.1**	19.1
Return on plan assets less than discount rates	**(31.8)**	(388.5)
Defined benefit actual benefits and costs paid	**(29.4)**	(37.4)
Fair value of plan assets at 31 December	**611.1**	642.2

The defined benefit obligation has reduced over the period, this is primarily driven by membership movements and experience following the 31 December 2022 valuation, a decrease in the salary escalation and price inflation assumptions, and changes to demographic assumptions. These were slightly offset by the reduction of the discount rate to 4.50% from 4.80%, and inflation experience over 2023 being higher than assumed.

Sensitivities

The IAS 19 liability measurement and the service cost are sensitive to the assumptions made about future inflation and salary growth levels, as well as the assumptions made about life expectation. They are also sensitive to the discount rate, which depends on market yields on Sterling-denominated high quality corporate bonds. A decrease in corporate bond yields will increase the liabilities although this will be partially offset by an increase in matching assets.

The table below shows the sensitivity of the defined benefit obligation combined and Scheme assets to changes in these assumptions. The final assumptions are chosen by the Society.

Principal Sensitivity Illustrations

	Defined benefit obligation £m	Assets £m	Net effect £m
Total as at 31 December 2023	**580.6**	**611.1**	**30.5**
Change in defined benefit obligation/assets given the following change in assumption:			
Discount rate*: 1.00% decrease	**86.6**	**85.9**	**(0.7)**
Salary Escalation: 0.75% increase	**1.2**	**–**	**(1.2)**
Inflation**: 0.50% increase	**21.0**	**24.4**	**3.4**
Life expectancy: 1 year average increase	**20.8**	**6.2**	**(14.6)**

The asset liability matching strategy implemented for the Scheme means that a change in discount rate or inflation assumption has a broadly similar impact on the liabilities and the assets, reducing the volatility of the net impact. It should be noted that this strategy is based on liabilities on the self-sufficiency basis, i.e. higher liabilities than on an accounting basis. As such, on an accounting basis, for the sensitivities above, the liabilities increase by more than the assets, resulting in a decline in the accounting balance sheet position.

* The change in the discount rate is assumed to be equivalent to a 1% decrease in gilt, swap and credit based interest rates.
** The sensitivity illustrations above are calculated changing each assumption in isolation, keeping all other assumptions constant. In practice this is unrealistic as it ignores the impact from correlation between assumptions.

18. Other assets

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Prepayments and accrued interest	**23.0**	19.0	**23.0**	17.9
Due from subsidiary undertakings	**–**	–	**93.6**	68.0
Current tax assets	**3.8**	–	**3.8**	–
Other assets	**12.1**	11.1	**10.2**	9.3
Total other assets	**38.9**	30.1	**130.6**	95.2

Included in the Group and Society's other assets are finance lease receivables of £1.3 million (2022: £1.8 million). The Group has entered into agency sublease arrangements as an intermediate lessor on former branch properties that are considered to be finance leases. As substantially all risks and reward are passed over as the subleases match the payment terms and duration of the headline leases they are classified as finance leases.

Finance income on net investment in the lease in 2023 has been £19k (2022: £17k).

19. Shares

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Shares comprising balances held by individuals	**47,056.7**	42,008.3	**47,056.7**	42,008.3
Acquisition fair value adjustments	**–**	(0.1)	**–**	(0.1)
Total shares	**47,056.7**	42,008.2	**47,056.7**	42,008.2

20. Other deposits

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Amounts owed to:				
Subsidiary undertakings	**–**	–	**13,679.0**	15,141.2
Other customers	**983.6**	1,138.1	**401.2**	695.1
Total other deposits	**983.6**	1,138.1	**14,080.2**	15,836.3

Notes to the Financial Statements (continued)

21. Debt securities in issue

	Group 2023 £m	2022 £m	Society 2023 £m	2022 £m
Covered bonds	**2,968.4**	3,365.4	**4,254.9**	4,715.8
Medium-term notes	**1,262.7**	1,358.3	**1,262.7**	1,358.3
Residential mortgage backed securities	**688.3**	456.3	**–**	–
Certificate of deposits	**–**	79.3	**–**	79.3
Total debt securities in issue	**4,919.4**	5,259.3	**5,517.6**	6,153.4

Debt securities in issue include amounts secured on certain loans and advances to customers in Group £3.7 billion (2022: £3.8 billion) and Society £4.3 billion (2022: £4.7 billion).

22. Other liabilities

	Group 2023 £m	2022 £m	Society 2023 £m	2022 £m
Accruals and deferred income	**43.3**	38.1	**43.3**	38.1
Finance lease liabilities	**17.3**	19.0	**17.3**	19.0
Other	**9.9**	6.8	**58.6**	39.8
Total other liabilities	**70.5**	63.9	**119.2**	96.9

The lease liabilities are secured by the related underlying assets. The underlying maturity analysis of lease liabilities at 31 December 2023 for the Group is as follows:

	Buildings lease payments £m	Finance charges £m	NPV £m
Within 1 year	**3.6**	**(0.4)**	**3.2**
1-2 years	**2.9**	**(0.4)**	**2.5**
2-3 years	**2.5**	**(0.3)**	**2.2**
3-4 years	**2.3**	**(0.2)**	**2.1**
4-5 years	**2.0**	**(0.2)**	**1.8**
5-10 years	**4.5**	**(0.3)**	**4.2**
10-15 years	**0.5**	**(0.1)**	**0.4**
Over 15 years	**1.0**	**(0.1)**	**0.9**
Total at 31 December 2023	**19.3**	**(2.0)**	**17.3**

The Group has elected not to recognise a lease liability for short-term leases and leases of low value assets which consist entirely of printing equipment. Payments made under such leases are expensed on a straight-line basis. At 31 December 2023 the Group had no short-term lease commitments (2022: nil).

23. Provisions for liabilities and charges

Group	Customer redress £m	Restructuring £m	Property related provision £m	Other £m	Total £m
At 1 January 2023	**1.0**	**0.5**	**4.1**	**0.1**	**5.7**
Amounts utilised during the year	**(0.2)**	**(0.1)**	**(0.8)**	**–**	**(1.1)**
Provision charge/(release)	**0.2**	**(0.2)**	**(0.6)**	**–**	**(0.6)**
At 31 December 2023	**1.0**	**0.2**	**2.7**	**0.1**	**4.0**
At 1 January 2022	1.4	2.2	2.4	0.1	6.1
Amounts utilised during the year	(0.4)	(2.6)	(1.6)	–	(4.6)
Provision charge	–	0.9	3.3	–	4.2
At 31 December 2022	1.0	0.5	4.1	0.1	5.7

Society	Customer redress £m	Restructuring £m	Property related provision £m	Other £m	Total £m
At 1 January 2023	**1.0**	**0.5**	**4.1**	**0.1**	**5.7**
Amounts utilised during the year	**(0.1)**	**(0.1)**	**(0.8)**	**–**	**(1.0)**
Provision release	**–**	**(0.2)**	**(0.6)**	**–**	**(0.8)**
At 31 December 2023	**0.9**	**0.2**	**2.7**	**0.1**	**3.9**
At 1 January 2022	1.4	2.2	2.4	0.1	6.1
Amounts utilised during the year	(0.4)	(2.6)	(1.6)	–	(4.6)
Provision charge	–	0.9	3.3	–	4.2
At 31 December 2022	1.0	0.5	4.1	0.1	5.7

During the course of its business, the Society receives complaints in relation to past sales or ongoing administration, as well as being subject to enquiries from and discussions with its regulators, governmental and other public bodies, on a range of matters. No provision is made where it is concluded that it is not probable that a quantifiable payment will be made; this will include circumstances where the facts are unclear or further time is required to reasonably quantify the expected payment.

At 31 December 2023 the Group holds customer redress provisions of £1.0 million (2022: £1.0 million) and the Society of £0.9 million (2022: £1.0 million) in respect of various potential customer claims and represent management's best estimate of the likely costs.

Restructuring provisions of £0.2 million (2022: £0.5 million) are held in relation to business and organisational changes announced during 2023 and earlier periods.

Property related provisions of £2.7 million (2022: £4.1 million) are held in respect of lease costs for branch premises that are no longer in use. This will be utilised over the remaining term of the unoccupied leasehold branches.

Notes to the Financial Statements (continued)

24. Subordinated liabilities

Group and Society	Maturity date	2023 £m	2022 £m
Senior non-preferred:			
3% Senior non-preferred bonds 2025	18 April 2025	**141.4**	280.6
1½% Senior non-preferred bonds 2029	15 September 2029	**249.2**	248.8
3.511% Senior non-preferred bonds 2030	11 October 2030	**301.5**	301.3
6⅜% Senior non-preferred bonds 2028	15 November 2028	**351.8**	–
7⅜% Senior non-preferred bonds 2027	12 September 2027	**305.2**	–
Subordinated notes:			
6⅜% Subordinated Bonds 2024	26 April 2024	**4.1**	4.1
3⅜% Subordinated Bonds 2028	13 September 2028	**301.9**	301.5
13½% Convertible Tier 2 Capital Notes 2025	1 April 2025	**26.5**	26.5
Fair value hedging adjustments		**(59.9)**	(127.7)
Total subordinated liabilities		**1,621.7**	1,035.1

All senior non-preferred bonds and subordinated bonds are denominated in Sterling. The following notes are repayable at the dates stated or earlier at the option of the Society and with the prior consent of the PRA under the following conditions.

Senior non-preferred:

- Redemption of the 3% Notes at par on the optional call date of 18 April 2024 after fifteen to thirty days' notice. In the event the Society does not redeem the notes on this date the fixed rate of interest will become the sum of the yield on the relevant 1-year UK gilt-edged reference bond plus 2.15%.
- Redemption of the 1½% Notes at par on the optional call date of 15 September 2028 after fifteen to thirty days' notice. In the event the Society does not redeem the notes on 15 September 2028 the fixed rate of interest will become the sum of the yield on the relevant 1-year UK gilt-edged reference bond plus 1.15%.
- Redemption of the 3.511% Notes at par on the optional call date of 11 October 2029 after fifteen to thirty days' notice to the holders. In the event the Society does not redeem the notes on 11 October 2029 the fixed rate of interest will become the sum of the yield on the relevant 1-year UK gilt-edged reference bond plus 2.05%.
- Redemption of the 6⅜% Notes at par on the optional call date of 15 November 2027 after giving fifteen to thirty days' notice to the holders. In the event the Society does not redeem the notes on 15 November 2027 the fixed rate of interest will become the sum of the yield on the relevant 1-year UK gilt-edged reference bond plus 2.65%.
- Redemption of the 7⅜% Notes at par on the optional call date of 12 September 2026 after giving fifteen to thirty days' notice to the holders. In the event the Society does not redeem the notes on 12 September 2026 the fixed rate of interest will become the sum of the yield on the relevant 1-year UK gilt-edged reference bond plus 2.65%.

Subordinated notes:

- Redemption of the 3⅜% Notes at par on the optional call date of 13 September 2027 after giving thirty to sixty days' notice. In the event the Society does not redeem the notes on this date, please see Final Terms.
- Redemption of the 13½% Convertible Tier 2 Capital Notes will occur on the optional call date of 1 April 2025 unless the notes are converted to Profit Participating Deferred Shares (PPDS). The 'Conversion Trigger' shall occur if on any Calculation Date the Society's Common Equity Tier 1 Capital Ratio, as confirmed in a report of the auditor to the Society and addressed to the Board of Directors of the Society, is less than 5%. Should the 'Conversion Trigger' occur and these notes convert into PPDS, the PPDS will be perpetual in nature.

The rights of repayment of the holders of Subordinated notes are subordinated to the claims of all depositors and members holding shares in the Society, as regards the principal of their shares and interest due on them.

25. Financial commitments

Group and Society	2023 £m	2022 £m
Committed undrawn standby facilities	**136.1**	139.2*
Other financial commitments	**2.8**	–
Total financial commitments	**138.9**	139.2*

The above amounts represent undrawn elements on credit facilities with customers. The amount has reduced over the year due to further drawdowns against these facilities and the maturity of a number of agreements.

In addition, the Society has a contractual commitment of £2.8 million for ongoing consultancy services.

26. Derivative financial instruments

Derivative financial instruments (derivatives) used for the management of market risk are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

Derivatives are used by the Group in accordance with the *Building Societies Act 1986*. This means that such instruments are not used in trading activity or for speculative purposes and are only used to reduce the risk of loss on core assets or liabilities arising from changes in interest rates, currency rates or other factors of a prescribed description.

The principal derivatives used in balance sheet risk management are interest rate swaps, interest rate options, cross currency interest rate swaps and foreign exchange contracts. These are used to hedge Group exposures arising from fixed rate mortgage lending and savings products, funding and investment activities.

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the type of derivatives which are typically used in managing such risks after considering any offsetting risk from other activities.

Activity	Risk	Type of derivative
Management of the investment of reserves and non-interest bearing liabilities	Sensitivity to changes in interest rates	Interest rate swaps
Fixed rate savings products and debt issuance	Sensitivity to changes in interest rates	Interest rate swaps
Fixed rate mortgage lending	Sensitivity to changes in interest rates	Interest rate swaps
Management of foreign currency risk arising from investment and funding	Sensitivity to changes in foreign exchange rates	Cross currency interest rate swaps and foreign exchange contracts
Floating rate liabilities	Sensitivity to changes in interest rates	Capped interest rate options

The Group's objective is to manage risk within its risk tolerance, irrespective of the accounting treatment.

Whilst all derivatives have been entered into for hedging purposes, only certain arrangements meet the conditions necessary to be designated as such for accounting purposes. In some cases a natural offset can be achieved and applying hedge accounting is not required. The Group only designates accounting hedges where a high degree of effectiveness can be achieved.

* The 2022 prior year balance has been updated to reflect the correct position on committed undrawn standby facilities.

Notes to the Financial Statements (continued)

26. Derivative financial instruments (continued)

Hedging

The following table shows the balance sheet categories covered by hedge accounting relationships:

Hedge relationship	Balance sheet line item
Fair value hedge for interest rate risk	
Fixed rate mortgages	Loans and advances to customers
Fixed rate debt securities held	Debt securities
Fixed rate debt securities issued	Debt securities in issue
Fair value hedge for interest rate and FX risk	
Fixed rate debt securities issued	Debt securities in issue
Fixed rate debt securities held	Debt securities
Cash flow hedge for interest rate risk	
Floating rate deposits	Amounts owed to credit institutions
Floating rate debt securities issued	Debt securities in issue

Interest rate risk on fixed rate mortgages and purchased debt securities (fair value)

The Group holds portfolios of long-term fixed rate mortgages and debt securities. These instruments generate fixed rate income whereas the Group liabilities are mostly floating rate. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps. These swaps are then designated into a fair value hedge relationship along with the issued mortgage.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term fixed rate mortgages arising solely from changes in SONIA (the benchmark rate of interest). Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the hedged item (the mortgage loan) attributable to changes in the benchmark rate of interest with changes in the fair value of the hedging instrument (interest rate swap).

Possible sources of ineffectiveness are as follows:

- differences between the expected and actual volume of prepayments for mortgage portfolios, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- difference in timing of cash flows between the mortgage loans and the interest rate swaps;
- difference in the designated coupon rate % of the hedged asset and the interest rate swaps; and
- interest rate swaps with a non-zero fair value at the date of initial designation.

The exposure from the mortgage portfolio frequently changes due to new loans being originated, contractual repayments and early prepayments made by customers in each period. As a result, the Group adopts a portfolio hedging strategy to hedge the exposure by closing and entering into new swap agreements. The Group uses the portfolio fair value hedge of interest rate risk to recognise fair value changes related to changes in interest rate risk in the mortgage portfolio, and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone. This hedge relationship is updated on a monthly basis for changes in the portfolio.

Foreign exchange and interest rate risk on fixed rate debt issuance (fair value)

The Group accesses international markets in order to obtain effective sources of liquidity and funding. As part of this process the Group issues fixed rate debt in both GBP and EUR and also purchases debt securities in other foreign currencies, such as JPY and USD. The foreign currency and interest rate risk associated with these instruments is mitigated by the use of cross currency swaps, which exchange fixed interest payments in the foreign currency for floating interest payments in GBP. The interest rate risk associated with the GBP debt is mitigated by the use of interest rate swaps which exchange fixed interest payments with variable payments. These instruments are entered into to match the maturity profile of the Group's debt instruments.

The foreign currency risk component is determined as the change in fair value of the foreign currency debt arising solely from changes in the relevant foreign currency exchange rate. The interest rate risk component is determined as the change in fair value of the debt arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the debt attributable to changes in the hedged risk(s) with changes in the fair value of the swaps.

Possible sources of ineffectiveness are as follows:

- differences in discounting approach between the hedged item and hedging instrument, including the cross currency basis spread applied in the valuation of cross currency swaps;
- swaps with a non-zero fair value at the date of initial designation;
- difference in the designated coupon rate % of the hedged liability and the swap; and
- counterparty credit risk which impacts the value of uncollateralised cross currency swaps but not the hedged items.

Interest rate risk on floating rate liabilities (cash flow hedge)

The Group purchased some capped interest rate options (caps) to protect from the risk of increases in market interest rates impacting the variable rate savings products. The caps were entered into a cash flow hedge relationship on the basis that the pay outs on the caps will offset the increase in interest payable on these variable savings products. These caps have matured in 2023 and the Group now has no cash flow hedge relationships.

Ineffectiveness

All ineffectiveness is recorded in the income statement in *Net (losses)/gains from financial instruments held at fair value*.

The following table shows the ineffectiveness in relation to the hedging relationships designated by the Group.

	Group		Society	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Fair value hedges				
Fixed rate mortgages	**(27.3)**	(55.4)	**(27.3)**	(55.4)
Fixed rate debt securities held	**2.7**	1.9	**2.7**	1.9
Fixed rate debt securities issued	**(4.4)**	21.2	**(4.3)**	9.3
Cash flow hedges				
Floating rate debt securities issued	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Total	**(29.1)**	(32.4)	**(29.0)**	(44.3)

Elevated ineffectiveness of fixed rate mortgage hedges is driven by the significant increase in fair values of hedging derivatives and hedged items in 2023 caused by the volatility in market interest rates. Changes in fair values can result in corresponding deterioration in the offset as well as higher amortisation of mortgage fair value balance sheet adjustments.

Notes to the Financial Statements (continued)

26. Derivative financial instruments (continued)

Ineffectiveness (continued)

The following tables summarise the notional and fair value of all derivative financial instruments and the hedging designations in place at that date.

	Contract/ Notional amount	Fair values Assets	Fair values Liabilities	Change in fair value used for calculating ineffectiveness
	£m	£m	£m	£m
Group				
At 31 December 2023				
Interest rate risk				
Interest rate swaps designated as fair value hedges	**27,894.4**	**1,548.1**	**269.9**	**(824.6)**
Interest rate caps designated as cash flow hedges	**–**	**–**	**–**	**–**
Interest rate and FX risk				
Cross currency interest rate swaps designated as fair value hedges	**3,091.3**	**68.4**	**235.9**	**(22.0)**
Derivatives not designated as hedges:				
Interest rate swaps	**21,432.1**	**129.9**	**191.2**	**n/a**
Foreign exchange	**171.1**	**8.6**	**0.4**	**n/a**
Total derivative financial instruments	**52,588.9**	**1,755.0**	**697.4**	**(846.6)**
Society				
At 31 December 2023				
Interest rate risk				
Interest rate swaps designated as fair value hedges	**27,894.4**	**1,548.1**	**269.9**	**(824.6)**
Interest rate caps designated as cash flow hedges	**–**	**–**	**–**	**–**
Interest rate and FX risk				
Cross currency interest rate swaps designated as fair value hedges	**1,787.7**	**68.4**	**122.8**	**(91.9)**
Derivatives not designated as hedges:				
Interest rate swaps	**31,215.6**	**129.9**	**191.2**	**n/a**
Foreign exchange	**104.5**	**5.5**	**0.4**	**n/a**
Total derivative financial instruments	**61,002.2**	**1,751.9**	**584.3**	**(916.5)**

The expected future cash flows have been discounted using the Overnight Indexed Swap (OIS) curve (SONIA) for all derivatives. Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA) are incorporated into the fair value of derivative valuations to reflect the impact of counterparty credit risk and the Group's own credit quality respectively for uncollateralised derivatives.

Credit risk on derivative exposures is significantly mitigated within the Group by the existence of a Credit Support Annex (CSA) with the vast majority of our derivative counterparties. Under a CSA, cash is passed between parties to mitigate the counterparty risk inherent in the outstanding positions. Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within amounts owed to credit institutions. Where cash collateral is given, it is included as an asset in loans and advances to credit institutions. Credit risk is also mitigated by the use of central counterparties (CCPs) for eligible derivatives.

	Contract/ Notional amount	Fair values Assets	Fair values Liabilities	Change in fair value used for calculating ineffectiveness
	£m	£m	£m	£m
Group				
At 31 December 2022				
Interest rate risk				
Interest rate swaps designated as fair value hedges	29,812.7	2,216.2	191.2	1,137.9
Interest rate caps designated as cash flow hedges	1,515.0	24.8	–	–
Interest rate and FX risk				
Cross currency interest rate swaps designated as fair value hedges	3,621.4	57.6	306.3	(22.0)
Derivatives not designated as hedges:				
Interest rate swaps	12,016.0	38.1	167.9	n/a
Foreign exchange	281.2	19.8	0.9	n/a
Total derivative financial instruments	47,246.3	2,356.5	666.3	1,115.9
Society				
At 31 December 2022				
Interest rate risk				
Interest rate swaps designated as fair value hedges	29,812.7	2,216.2	191.2	1,137.9
Interest rate caps designated as cash flow hedges	1,515.0	24.8	–	–
Interest rate and FX risk				
Cross currency interest rate swaps designated as fair value hedges	1,848.4	37.2	147.1	127.3
Derivatives not designated as hedges:				
Interest rate swaps	24,535.6*	38.1	167.9	n/a
Foreign exchange	108.5	7.4	0.8	n/a
Total derivative financial instruments	57,820.2	2,323.7	507.0	1,265.2

* As a result of the reclassification highlighted in *Note 1 – Reclassification within Interest Revenue (Society only)*, there is an equivalent reduction in the contract/notional amount of interest rate swaps not designated in a hedge for 2022 only.

Notes to the Financial Statements (continued)

26. Derivative financial instruments (continued)

Ineffectiveness (continued)

The following tables show the maturity profile, by notional amount, of the hedging instruments designated in hedge relationships used in the Group's hedging strategies:

Group and Society	Repayable up to three years £m	In more than three years but less than five years £m	Over five years £m	Total £m
At 31 December 2023				
Interest rate caps	–	–	–	–
Total cash flow hedges	–	–	–	–
At 31 December 2022				
Interest rate caps	1,515.0	–	–	1,515.0
Total cash flow hedges	1,515.0	–	–	1,515.0

Group	Repayable up to three years £m	In more than three years but less than five years £m	Over five years £m	Total £m
At 31 December 2023				
Interest rate swaps (pay fixed)	**16,253.8**	**8,561.4**	**1,035.0**	**25,850.2**
Interest rate swaps (receive fixed)	**844.2**	**900.0**	**300.0**	**2,044.2**
Cross currency interest rate swaps	**1,429.7**	**1,582.8**	**78.8**	**3,091.3**
Total fair value hedges	**18,527.7**	**11,044.2**	**1,413.8**	**30,985.7**
At 31 December 2022				
Interest rate swaps (pay fixed)	17,994.9	9,320.4	966.8	28,282.1
Interest rate swaps (receive fixed)	280.6	700.0	550.0	1,530.6
Cross currency interest rate swaps	1,766.7	741.2	1,113.5	3,621.4
Total fair value hedges	20,042.2	10,761.6	2,630.3	33,434.1

Society	Repayable up to three years £m	In more than three years but less than five years £m	Over five years £m	Total £m
At 31 December 2023				
Interest rate swaps (pay fixed)	**16,253.8**	**8,561.4**	**1,035.0**	**25,850.2**
Interest rate swaps (receive fixed)	**844.2**	**900.0**	**300.0**	**2,044.2**
Cross currency interest rate swaps	**995.2**	**713.7**	**78.8**	**1,787.7**
Total fair value hedges	**18,093.2**	**10,175.1**	**1,413.8**	**29,682.1**
At 31 December 2022				
Interest rate swaps (pay fixed)	17,994.9	9,320.4	966.8	28,282.1
Interest rate swaps (receive fixed)	280.6	700.0	550.0	1,530.6
Cross currency interest rate swaps	880.2	298.0	670.2	1,848.4
Total fair value hedges	19,155.7	10,318.4	2,187.0	31,661.1

The following table shows the average price/rate of the hedging instruments by maturity used in the Group's hedging strategies:

Group and Society	**2023**			2022		
	Repayable up to three years	**In more than three years but less than five years**	**Over five years**	Repayable up to three years	In more than three years but less than five years	Over five years
Average fixed interest rate – Fair value hedges						
Interest rate swaps (pay fixed)	**1.65**	**2.56**	**1.50**	0.85	1.09	0.83
Interest rate swaps (receive fixed)	**3.69**	**3.19**	**3.51**	0.93	2.37	2.60
Cross currency interest rate swaps	**0.70**	**0.44**	**0.86**	0.53	0.56	0.32
Average EUR:GBP FX rate – Fair value hedges						
Cross currency interest rate swaps	**1.13**	**1.15**	**1.14**	1.14	1.12	1.17
Average JPY:GBP FX rate – Fair value hedges						
Cross currency interest rate swaps	**156.41**	**–**	**–**	157.31	154.80	–
Average USD:GBP FX rate – Fair value hedges						
Cross currency interest rate swaps	**–**	**1.19**	**–**	–	1.23	–

Notes to the Financial Statements (continued)

26. Derivative financial instruments (continued)

The following tables show the fair value hedge exposures covered by the Group's hedging strategies. The change in fair value of the hedged item for calculating ineffectiveness is based on all hedge relationships designated during the year.

	Carrying amount of hedged item		Accumulated fair value adjustments on the hedged item		Change in fair value of the hedged item for calculating ineffectiveness
	Assets	Liabilities	Assets	Liabilities	
	£m	£m	£m	£m	£m
Group					
At 31 December 2023					
Fixed rate mortgages (interest rate risk)	**23,721.6**	**–**	**(615.5)**	**–**	**892.8**
Fixed rate debt securities held (interest rate and FX risk)	**2,693.2**	**–**	**(254.6)**	**–**	**104.6**
Fixed rate debt securities issued (interest rate and FX risk)	**–**	**4,338.9**	**–**	**255.0**	**(210.2)**
Society*					
At 31 December 2023					
Fixed rate mortgages (interest rate risk)	**23,721.6**	**–**	**(615.5)**	**–**	**892.8**
Fixed rate debt securities held (interest rate and FX risk)	**2,693.2**	**–**	**(254.6)**	**–**	**104.6**
Fixed rate debt securities issued (interest rate and FX risk)	**–**	**3,035.0**	**–**	**161.9**	**(140.2)**
Group					
At 31 December 2022					
Fixed rate mortgages (interest rate risk)	26,363.6	–	(1,508.3)	–	(1,270.0)
Fixed rate debt securities held (interest rate risk and FX risk)	2,308.3	–	(384.7)	–	(327.6)
Fixed rate debt securities issued (interest rate and FX risk)	–	4,453.6	–	460.4	450.8
Society*					
At 31 December 2022					
Fixed rate mortgages (interest rate risk)	26,363.6	–	(1,508.3)	–	(1,270.0)
Fixed rate debt securities held (interest rate risk and FX risk)	2,308.3	–	(384.7)	–	(327.6)
Fixed rate debt securities issued (interest rate and FX risk)	–	2,679.0	–	297.2	289.6

* For Society the exposure to mortgages includes those within Accord Mortgages Limited as this exposure is transferred via an intercompany loan that mirrors the underlying loans in this entity.

The accumulated amount of fair value hedge adjustments remaining on the balance sheet for hedged items that have ceased to be adjusted for hedging gains and losses is a loss of £3.3 million (2022: £7.9 million loss).

The following tables show the cash flow hedge exposures (gross of tax) covered by the Group's hedging strategies:

Group and Society	Assets	Liabilities	Change in fair value of hedged item used for calculating ineffectiveness	Cash flow hedge reserve Continuing hedges	Cash flow hedge reserve Discontinued hedges
	£m	£m	£m	£m	£m
At 31 December 2023					
Floating rate debt securities issued	**–**	**–**	**(5.7)**	**–**	**(0.5)**
Floating rate liabilities	**–**	**–**	**3.2**	**–**	**–**
At 31 December 2022					
Floating rate debt securities issued	–	425.0	5.1	(1.0)	(0.4)
Floating rate liabilities	–	1,090.0	(3.2)	(12.3)	–

The following table shows the movements in the cash flow hedge reserve during the year:

Group and Society	2023 £m	2022 £m
At 1 January	**9.9**	10.4
Effective portion of changes in fair value of interest rate swaps:		
Floating rate debt securities issued	**–**	8.5
Floating rate liabilities	**–**	17.7
Amounts reclassified from reserves to income statement:		
Floating rate debt securities issued	**(0.9)**	(13.5)
Floating rate liabilities	**(12.3)**	(14.5)
Taxation	**3.7**	1.3
At 31 December	**0.4**	9.9

Notes to the Financial Statements (continued)

27. Liquidity risk

Liquidity risk is an intrinsic part of the Society's business as long-term mortgages are funded by short-term retail customer balances. Most mortgages have a contractual maturity date of around 25 years but in practice are frequently repaid early; currently the estimated average life of a mortgage is approximately five years. Conversely, experience shows that retail deposits, nominally repayable on demand or with short notice periods, actually remain with the Society for relatively long periods. It is this inherent mismatch in the maturity profiles of retail assets and liabilities that creates liquidity risk.

The Society's liquidity management policy is designed to ensure the maintenance of adequate investments in liquid assets to cover statutory, regulatory and operational requirements. The primary function of liquidity is the provision of sufficient assets in realisable form to ensure that the Society is able to meet its liabilities as they arise and to absorb potential cash flow requirements created by the maturity mismatches referred to above or by a liquidity stress scenario.

The Society's liquidity management comprises the following key areas:

- At the highest level, the Society manages its liquidity levels to ensure compliance with the Overall Liquidity Adequacy Rule, as set out by the PRA in Chapter 2 of the Internal Liquidity Adequacy Assessment part of the PRA Rulebook (ILAA rules).
- Limits are established by the Board that govern the quantity, quality and marketability of and returns from the Society's portfolio of liquidity investments. The portfolio is managed by the Treasury function, monitored by the first and second line risk functions and overseen by the Asset and Liability Committee (ALCO) under a series of delegated authorities.
- The Society conducts a series of daily stress tests that are designed to ensure that its liquidity is sufficient to meet its cash flow needs under any one of a number of adverse scenarios should they arise. The scenarios include ones caused by both Society-specific and general market events, and incorporate both severe retail savings outflows and the unavailability of wholesale funding. They are constructed on various timescales as far out as three months. These scenarios are updated and approved by the Board annually through the Internal Liquidity Adequacy Assessment Process (ILAAP).
- The Society also manages liquidity in line with prevailing regulatory requirements, namely the Liquidity Coverage Ratio (LCR), as prescribed under the PRA Rulebook, Liquidity Coverage Ratio (CRR) part. The LCR measures the quantity of High Quality Liquid Assets (HQLA) against net liquidity outflows over a 30 day period. YBS currently reports to the PRA on a monthly basis on a Society and unconsolidated basis, with the lower of the two being reported as 156.36% for December 2023 month end. For comparison, the lowest as at 31 December 2022 was 164.02%.
- The Society monitors and reports its Net Stable Funding Ratio (NSFR), which is a longer term measure of the stability of the Society's funding sources relative to the assets being funded. The Society's NSFR as at 31 December 2023 was 148.80% (2022: 144.49%) and was therefore in excess of the regulatory minimum of 100%.
- The Society has also implemented internal backstop limits for liquidity, to mitigate the potential risk of liquidity levels under a risk-based approach being able to be reduced to below what is considered a minimum appropriate level for the Society. These backstop limits are linked to balance sheet size.
- The liquidity position of the Society is forecast across the next two years and measured against forecasts of the liquidity requirements on both a regulatory and internal basis. This is to ensure that the short-term plans of the Society do not lead to liquidity limits being breached and the financial sustainability of the organisation being threatened.

The above metrics are the key elements of the suite of measures by which the Society actively seeks to manage its liquidity position, along with other complimentary metrics which are included within the Society's risk appetite framework.

Liquidity risk in subsidiary companies, with the exception of other deposits, is mitigated by the use of appropriate intercompany loans and deposits.

Pledged assets

The Society's asset backed funding programmes, reported within debt securities in issue (see note 21) are secured against certain loans and advances to customers.

In addition, as part of its liquidity management, the Society enters into sale and repurchase agreements whereby the Society sells but agrees to repurchase assets at a future date. Typically this is for up to three months and for UK government securities and listed transferable debt securities. Proceeds of these sale and repurchase agreements are included within amounts owed to credit institutions.

Assets pledged are as follows:

Group	Carrying amount of encumbered assets £m	Carrying amount of unencumbered assets £m	Total £m
2023			
Liquid assets	**1,688.3**	**11,110.1**	**12,798.4**
Loans and advances to customers	**7,307.1**	**39,508.8**	**46,815.9**
Fair value adjustment for hedged risk on loans and advances to customers	**–**	**(615.5)**	**(615.5)**
Other assets	**–**	**1,969.9**	**1,969.9**
Total assets	**8,995.4**	**51,973.3**	**60,968.7**
2022			
Liquid assets	2,138.8	10,343.5	12,482.3
Loans and advances to customers	10,635.8	34,567.9	45,203.7
Fair value adjustment for hedged risk on loans and advances to customers	–	(1,508.3)	(1,508.3)
Other assets	–	2,576.4	2,576.4
Total assets	12,774.6	45,979.5	58,754.1

All of the assets pledged as security are shown in the balance sheet, as the Society has retained substantially all the risk and rewards of ownership.

The Society established Yorkshire Building Society Covered Bonds LLP in November 2006. The LLP provides security for issues of covered bonds made by the Society to external counterparties. As at 31 December 2023, the Society had in issue £2,950 million of Sterling denominated covered bonds, of which £1,200 million was retained, and €1,500 million of Euro denominated covered bonds.

The Group established its first securitisation programme in 2011. This year, no new securitisation structures were established, however the Group did issue £500 million Brass 11 notes publicly in Q1 2023. Brass 11 was established in 2022 and was initially wholly retained. As at 31 December 2023, the Group had in issue £9,716 million of securitisation notes, of which £9,028 million were retained.

Whole mortgage loan pools are pre-positioned at the Bank of England under the Term Funding Scheme (TFSME). The whole loan pool is pledged and drawings are made directly against the eligible collateral. However, values shown are the whole mortgage loan pool balances.

Notes to the Financial Statements (continued)

27. Liquidity risk (continued)

The tables below provide an analysis of gross contractual cashflows. The sum of the balances depicted in the analysis do not reconcile with the carrying value of the liabilities, as disclosed in the consolidated balance sheet. This is because they include estimated future interest payments calculated using balances outstanding at the balance sheet date. Amounts are allocated to the relevant maturity band based on the timing of individual contractual cashflows.

Group	Repayable on demand and up to three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	Over five years £m	Total £m
As at 31 December 2023					
Shares	**30,281.9**	**10,704.9**	**6,066.1**	**3.4**	**47,056.3**
Amounts owed to credit institutions	**743.7**	**49.5**	**1,041.6**	**–**	**1,834.8**
Other deposits:					
Society	**389.0**	**12.9**	**–**	**–**	**401.9**
Subsidiaries	**582.4**	**–**	**–**	**–**	**582.4**
Debt securities in issue	**34.3**	**1,364.1**	**4,124.1**	**–**	**5,522.5**
Subordinated liabilities	**–**	**92.8**	**1,409.9**	**574.8**	**2,077.5**
Derivative financial liabilities	**109.1**	**186.8**	**599.8**	**51.4**	**947.1**
Total	**32,140.4**	**12,411.0**	**13,241.5**	**629.6**	**58,422.5**
As at 31 December 2022					
Shares	26,664.2	9,485.5	5,858.5	–	42,008.2
Amounts owed to credit institutions	2,004.6	92.9	3,350.0	–	5,447.5
Other deposits:					
Society	555.9	143.2	–	–	699.1
Subsidiaries	442.9	–	–	–	442.9
Debt securities in issue	236.4	1,002.6	3,557.7	977.8	5,774.5
Subordinated liabilities	–	36.4	424.1	899.2	1,359.7
Derivative financial liabilities	85.9	174.4	424.7	10.8	695.8
Total	29,989.9	10,935.0	13,615.0	1,887.8	56,427.7

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings, based on the remaining period between the balance sheet date and the contractual maturity date.

Group	Repayable on demand £m	Less than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	Over five years £m	Total £m
As at 31 December 2023						
Financial assets						
Cash in hand and balances with the Bank of England	**4,839.1**	**–**	**–**	**–**	**–**	**4,839.1**
Loans and advances to credit institutions	**397.4**	**–**	**–**	**–**	**–**	**397.4**
Debt securities	**–**	**955.2**	**971.7**	**4,205.4**	**1,429.6**	**7,561.9**
Loans and advances to customers	**–**	**15.4**	**128.6**	**1,240.8**	**45,431.1**	**46,815.9**
Fair value adjustment for hedged risk on loans and advances to customers	**–**	**(109.2)**	**(244.0)**	**(262.5)**	**0.2**	**(615.5)**
Derivatives financial instruments	**–**	**64.9**	**182.8**	**1,298.6**	**208.7**	**1,755.0**
Total financial assets	**5,236.5**	**926.3**	**1,039.1**	**6,482.3**	**47,069.6**	**60,753.8**
Financial liabilities						
Shares	**26,276.7**	**4,005.6**	**10,704.9**	**6,066.1**	**3.4**	**47,056.7**
Amounts owed to credit institutions	**55.4**	**807.6**	**10.3**	**1,013.0**	**–**	**1,886.3**
Other deposits	**604.2**	**366.8**	**12.6**	**–**	**–**	**983.6**
Debt securities in issue	**–**	**–**	**1,189.7**	**3,041.4**	**688.3**	**4,919.4**
Derivative financial instruments	**–**	**28.1**	**54.8**	**543.8**	**70.7**	**697.4**
Subordinated liabilities	**–**	**–**	**4.1**	**1,126.8**	**490.8**	**1,621.7**
Total financial liabilities	**26,936.3**	**5,208.1**	**11,976.4**	**11,791.1**	**1,253.2**	**57,165.1**

Notes to the Financial Statements (continued)

27. Liquidity risk (continued)

Group	Repayable on demand £m	Less than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	Over five years £m	Total £m
As at 31 December 2022						
Financial assets						
Cash in hand and balances with the Bank of England	5,982.8	–	–	–	–	5,982.8
Loans and advances to credit institutions	814.7	–	–	–	–	814.7
Debt securities	–	596.0	280.5	3,529.2	1,279.1	5,684.8
Loans and advances to customers*	–	38.9	84.2	1,145.4	43,935.2	45,203.7
Fair value adjustment for hedged risk on loans and advances to customers	–	(181.8)	(481.0)	(845.5)	–	(1,508.3)
Derivatives financial instruments	–	17.0	261.6	1,793.2	284.7	2,356.5
Total financial assets	6,797.5	470.1	145.3	5,622.3	45,499.0	58,534.2
Financial liabilities						
Shares	24,393.4	2,270.8	9,485.5	5,858.5	–	42,008.2
Amounts owed to credit institutions	38.0	1,945.8	5.1	3,172.0	–	5,160.9
Other deposits	462.7	533.4	142.0	–	–	1,138.1
Debt securities in issue	–	222.0	948.0	2,744.2	1,345.1	5,259.3
Derivative financial liabilities	–	7.9	45.0	360.1	253.3	666.3
Subordinated liabilities	–	–	–	612.7	422.4	1,035.1
Total financial liabilities	24,894.1	4,979.9	10,625.6	12,747.5	2,020.8	55,267.9

* The *Loans and advances to customers* line has been updated to correct the classification of loans reported in the *less than three months* and the *in more than one year but not more than five years* groupings.

28. Market risk

Market risk is the risk to earnings and capital arising from changes in interest rates, foreign currency exchange rates, structural mismatches within the balance sheets and the price of financial instruments.

Value at Risk (VaR)

VaR is a risk management tool which evaluates the potential losses that may be incurred as a result of movements in market conditions over a specified holding period and to a given level of confidence. The model used is based on a 10 day holding period and a 99% confidence level.

The VaR model calculates potential movements in market prices by reference to market data from the last 63 days and incorporates underlying risk factors based on historic interest rate volatilities and correlations.

VaR for the Treasury portfolios is calculated and reported on a daily basis. A back test of the VaR model is performed to test the validity of the assumptions and parameters within the model.

A number of limitations should be considered in relation to the VaR model:

1. Historic data is not necessarily a good guide to future events.
2. The model, by definition, does not capture potential losses outside the 99% confidence level, i.e. those events that are extreme in nature.
3. VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intra-day exposures.

The VaR measures shown below are based upon Treasury positions.

Structural risk analysis (basis risk)

An analysis of interest bearing items by rate type is performed to illustrate key areas of structural mismatch. It identifies mismatches between administered rates, fixed rates and other rates, including those linked to Bank Base Rate and SONIA. The effect of SONIA mismatches within the Balance Sheet is measured as the impact on net interest income (for a 12 month rolling period) of an isolated increase in SONIA of one basis point (0.01%). A one basis point sensitivity measure is an industry standard approach to quantify the quantum and direction of the interest rate exposure within the Society.

Basis Point value (BP) sensitivity

These measures calculate the change in value of the assets and liabilities resulting from both a one basis point (PV01) and 100 basis points (PV100) parallel upward shift in interest rates. Within the Treasury portfolio, this is calculated separately for each currency and reported on a daily basis and at the full balance sheet level on a monthly basis.

Repricing gap analysis

Repricing dates are analysed primarily to avoid repricing risk concentrations, i.e. the situation where too great a proportion of the Group's assets and liabilities see the interest rates earned or charged on them resetting within a given time period. The aim is to prevent excessive volatility in the net interest margin that could arise if rates shifted adversely within a given time period and, since the Society cannot dictate interest rate movements itself, the best approach is to limit the amount of assets or liabilities that are exposed in this way. The analysis identifies the net asset/liability repricing position across a series of time intervals. Positions are calculated using nominal amounts and exclude interest flows. General reserves, fixed assets and other liabilities are classified as having 'non-specific' repricing characteristics with a zero rate of interest. The measure is calculated as a reverse cumulative gap.

Notes to the Financial Statements (continued)

28. Market risk (continued)

All market risk is managed in the Society on behalf of the Group, hence the tables below apply to the Group.

	Year end £m	Average £m	Maximum £m	Minimum £m
2023				
SONIA basis	**1.3**	**1.4**	**1.5**	**1.2**
PV01 sensitivity	**–**	**0.1**	**0.2**	**–**
PV100 sensitivity	**1.3**	**10.6**	**28.3**	**(0.3)**
Treasury VaR	**1.5**	**3.2**	**5.7**	**1.3**
2022				
SONIA basis	1.6	1.9	2.0	1.6
PV01 sensitivity	0.2	0.2	0.3	0.1
PV100 sensitivity	21.9	27.6	36.3	13.0
Treasury VaR	7.0	5.3	9.3	1.6

	Greater than one year £m	Greater than five years £m	Greater than ten years £m
2023			
Repricing gap (Treasury)	**289**	**(30)**	**–**
2022			
Repricing gap (Treasury)	362	69	–

29. Currency risk

Currency exchange risk is monitored daily and the Society seeks to minimise its net exposure to assets and liabilities denominated in currencies other than Sterling. In particular the Society's existing non-Sterling Liquidity portfolio and Wholesale Funding exposures are swapped back into Sterling. Maximum positions throughout the year represented less than 0.02% of total assets.

Actual exposures were:

Group and Society	**2023 £m**	2022 £m
Year end	**5.2**	6.1
Maximum	**5.2**	6.1

30. Wholesale credit risk

The Group's wholesale credit risk arises principally from assets held for liquidity purposes. The risk is that counterparties with whom the Group invests liquid assets fail to repay those investments when they fall due. The Group, through the Treasury function, undertakes its own internal rating of all its counterparties and sets individual limits accordingly. These limits are regularly reviewed internally and against the external rating agencies, with revocation or suspension taking place where considered appropriate.

Limits are in place governing the types of instrument in which the Group will invest, as well as geographic limits designed to prevent over-exposure to a given country.

The Group uses an internal credit ratings process to identify potential risks and wholesale related credit risks are reported and discussed monthly at the Asset and Liability Committee.

Whilst recognising that exposures will be maintained across a spectrum of counterparties the Board has maintained a low risk appetite for wholesale credit risk. A diversified range of counterparties is in place to meet business and regulatory requirements in order to meet the Board approved strategies with no credit risk exposures being undertaken by Treasury to counterparties that have not been through an internal approvals process including a formal second Line of Defence function.

The following tables break down Wholesale Group exposures by type using the composite external ratings*.

	Aaa-Aa3 £m	A1-A3 £m	Baa1-Baa3 £m	Ba1-B3 £m	Caa1-C3 £m	Unrated £m	Total £m
2023							
Central Bank and Sovereigns	**5,732.9**	**241.0**	**–**	**–**	**–**	**–**	**5,973.9**
Financial Institutions	**6,222.6**	**1,800.7**	**68.4**	**–**	**–**	**–**	**8,091.7**
Supranationals	**487.8**	**–**	**–**	**–**	**–**	**–**	**487.8**
Total	**12,443.3**	**2,041.7**	**68.4**	**–**	**–**	**–**	**14,553.4**
2022							
Central Bank and Sovereigns	6,605.4	271.9	–	–	–	–	6,877.3
Financial Institutions	6,177.9	857.4	425.2	–	–	–	7,460.5
Supranationals	501.0	–	–	–	–	–	501.0
Total	13,284.3	1,129.3	425.2	–	–	–	14,838.8

* The composite rating is derived from an average external rating

Notes to the Financial Statements (continued)

30. Wholesale credit risk (continued)

The Group has a low risk appetite to exposures outside the UK. This is reflected in the country exposures by type shown in the tables below.

	Central Banks and Sovereigns £m	Financial institutions £m	Supranationals £m	Total £m
2023				
United Kingdom	**5,691.5**	**5,357.0**	**–**	**11,048.5**
Australia	**–**	**442.5**	**–**	**442.5**
Canada	**–**	**1,409.7**	**–**	**1,409.7**
France	**41.4**	**34.6**	**–**	**76.0**
Germany	**–**	**240.6**	**–**	**240.6**
Japan	**241.0**	**9.3**	**–**	**250.3**
Netherlands	**–**	**85.7**	**–**	**85.7**
Norway	**–**	**104.0**	**–**	**104.0**
Spain	**–**	**63.0**	**–**	**63.0**
Sweden	**–**	**61.5**	**–**	**61.5**
Switzerland	**–**	**179.9**	**–**	**179.9**
United States	**–**	**103.9**	**–**	**103.9**
International	**–**	**–**	**487.8**	**487.8**
Total	**5,973.9**	**8,091.7**	**487.8**	**14,553.4**
2022				
United Kingdom	6,565.3	4,989.7	–	11,555.0
Australia	–	296.7	–	296.7
Canada	–	1,275.7	–	1,275.7
France	40.1	40.9	–	81.0
Germany	–	273.4	–	273.4
Japan	271.9	319.4	–	591.3
Netherlands	–	82.6	–	82.6
Norway	–	75.4	–	75.4
Spain	–	76.1	–	76.1
Sweden	–	29.1	–	29.1
United States	–	1.5	–	1.5
International	–	–	501.0	501.0
Total	6,877.3	7,460.5	501.0	14,838.8

The Group's main Sovereign exposure is to the UK which had an average external rating of 'AA-'. At the year end, UK Sovereign exposure was £4,839.1 million (2022: £5,982.8 million) to the Bank of England and £852.4 million (2022: £582.5 million) in UK Government bonds.

None of the wholesale exposures is either past due or impaired and there are no assets that would otherwise be past due or impaired whose terms have been renegotiated.

The key trigger events used to evaluate impairments are set out in note 1.

Wholesale credit risk is recorded in the following balance sheet items as below:

Group	2023 £m	2022 £m
Cash in hand and balances with the Bank of England	**4,839.1**	5,982.8
Loans and advances to credit institutions	**397.4**	814.7
Debt securities	**7,561.9**	5,684.8
Derivative financial instruments	**1,755.0**	2,356.5
Total wholesale credit risk	**14,553.4**	14,838.8

31. Credit risk on loans and advances to customers

Gross contractual exposure

The table below splits the loans and advances to customers balance per the balance sheet into its constituent parts and reconciles to the gross exposures used in the expected credit loss (ECL) model. Effective Interest Rate (EIR) and hedging adjustments have been excluded from the ECL model as these do not form part of the contractual cash flows from the assets.

EIR is the measurement method used for financial assets held at amortised cost, including loans and advances to customers, which spreads income and fees over the life of the asset. See note 1 for more details. Hedging is described in more detail in note 26. The fair value rate adjustment reflects the market value adjustment on acquired portfolios of mortgage assets in respect of interest rates on the underlying products. This is amortised over the expected life of the acquired portfolio. The fair value credit adjustment is the fair value discount applied on purchased or originated credit impaired (POCI) mortgage assets acquired as part of the Norwich & Peterborough Building Society (N&P) and Chelsea Building Society (CBS) acquisitions. Impairment represents the difference between the total ECL and the fair value credit adjustment.

ECL is calculated using models that take historical default and loss experience and apply predictions of future economic conditions (e.g. unemployment and house prices) and customer behaviour (e.g. default rates). In certain circumstances, the core models may not accurately reflect factors that have resulted in an increase in credit risk. When this happens, post model adjustments (PMAs) are overlaid to reflect the impact on ECL. The economic scenarios and the PMAs applied at 31 December 2023 are described below.

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
Gross contractual exposures	**46,868.6**	45,252.1	**11,001.1**	11,327.8
EIR and other adjustments	**39.4**	49.7	**(17.6)**	(16.1)
Fair value rate adjustment	**(32.2)**	(39.7)	**(32.2)**	(39.7)
Gross loans and advances to customers	**46,875.8**	45,262.1	**10,951.3**	11,272.0
Impairment	**(37.7)**	(33.1)	**(8.5)**	(7.8)
Fair value credit adjustment	**(22.3)**	(25.3)	**(22.3)**	(25.3)
ECL	**(60.0)**	(58.4)	**(30.8)**	(33.1)
Loans and advances to customers	**46,815.8**	45,203.7	**10,920.5**	11,238.9

Notes to the Financial Statements (continued)

31. Credit risk on loans and advances to customers (continued)

Expected Credit Losses (ECL)

Economic scenarios

Accounting standards require ECL to be calculated by applying multiple economic scenarios. Each economic scenario is provided a weighting, and these are combined to arrive at the total ECL.

These scenarios are generated internally using external data, statistical methodologies, and senior management judgement, to span a range of plausible economic conditions. The Group continues to apply four scenarios: an upside scenario that assumes more benign economic conditions; our core or central best estimate scenario; a more negative downturn scenario; and a severe downturn scenario. The downturn scenario replaced the stagflation downturn scenario applied in 2022. A higher weighting has been attributed to the downturn and severe downturn scenarios than in 2022, reflecting the ongoing uncertainty around the health of the UK economy.

Scenarios are projected over a 5 year window, reverting to long-term averages past that point. The Group allows all macroeconomic scenarios to impact staging.

Current macroeconomic conditions

The UK Economy technically entered recession at the end of 2023, attributed to the ongoing cost-of-living crisis and higher interest rate environment. Growth will likely remain weak by historical standards in the medium term and there remains more downside risk than upside. Headline inflation continues to fall, although there are re-emerging risks around the price of energy following the recent geopolitical tensions. Core inflation, services inflation and wage inflation continue to provide headwind to the inflation target being met consistently throughout 2024. Since 31 December 2022, the economic outlook has improved slightly as energy prices fell and the labour market remained resilient. Rates are expected to remain higher for longer, and downward pressure on house prices is increased in the short term.

Upside

UK avoids a recession and grows modestly. Inflation returns to the 2% target by the end of 2025. Unemployment remains lows and house prices grow at a moderate rate.

Core

The core scenario is the Group's best estimate of how the UK economy will evolve and is aligned with the central scenario used in the Group's financial planning processes.

It assumes the economy will avoid a technical recession, but growth will be suppressed until 2025. The ongoing wage and inflation pressures result in the Bank of England keeping interest rates higher for longer. Unemployment rises slowly throughout 2024. House prices are impacted modestly by the higher interest rate environment but recover from 2025.

Downturn

The downturn scenario can be characterised as high inflation and low growth. The economy enters a technical recession in the first half of 2024 and growth remains low thereafter. Inflation is embedded in the economy and remains above the 2% target throughout the scenario. Interest rates continue to rise despite the recessionary conditions. Unemployment rises to 6.5% as a result, and house prices fall in both 2024 and 2025.

Severe downturn

Geopolitical tensions escalate, materially impacting energy prices and supply chains. Another wave of inflation ensues, forcing the Bank of England to raise interest rates. Consequently, the economy falls into a deep recession, resulting in significant unemployment and house price reductions.

Macroeconomic assumptions

The following table shows the year end values of the key economic variables used by each economic scenario for the period until December 2028. 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.

	2023 Scenario					2022 Scenario				
	2024	**2025**	**2026**	**2027**	**2028**	2023	2024	2025	2026	2027
HPI										
Upside	**2.0**	**3.0**	**3.5**	**4.0**	**4.5**	–	1.5	2.2	3.2	3.2
Core	**(4.0)**	**2.0**	**3.0**	**3.5**	**4.0**	(6.0)	(2.0)	1.3	2.0	2.0
Downturn	**(7.5)**	**(4.0)**	**2.5**	**0.5**	**1.2**	(12.7)	(5.0)	–	1.5	1.7
Severe downturn	**(12.0)**	**(12.5)**	**(6.0)**	**(1.0)**	**0.5**	(13.5)	(11.8)	(6.8)	–	0.5
GDP										
Upside	**1.5**	**1.8**	**2.0**	**1.9**	**1.9**	1.5	2.0	2.1	2.0	2.0
Core	**0.3**	**0.8**	**1.0**	**1.2**	**1.3**	(1.5)	0.8	1.6	1.8	1.8
Downturn	**(0.1)**	**0.1**	**0.1**	**0.2**	**0.3**	(6.3)	(5.3)	0.4	0.6	1.0
Severe downturn	**(4.5)**	**(1.5)**	**–**	**0.5**	**1.0**	(7.4)	(5.3)	(1.2)	–	0.2
Unemployment										
Upside	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**	3.5	3.6	3.6	3.8	3.8
Core	**5.0**	**4.8**	**4.6**	**4.4**	**4.0**	4.9	5.5	5.2	4.8	4.5
Downturn	**6.5**	**6.0**	**5.8**	**5.5**	**5.0**	6.5	7.0	6.7	6.5	6.0
Severe downturn	**7.0**	**9.0**	**8.0**	**7.0**	**6.5**	7.1	8.8	8.4	8.0	7.5
Bank base rate										
Upside	**4.8**	**4.0**	**3.5**	**3.5**	**3.3**	2.0	2.0	1.5	1.5	1.5
Core	**5.0**	**4.5**	**4.3**	**4.3**	**4.0**	4.8	4.3	4.0	3.8	3.5
Downturn	**6.0**	**5.5**	**5.5**	**4.0**	**3.5**	6.3	5.5	5.0	4.8	4.5
Severe downturn	**7.0**	**6.0**	**5.5**	**5.0**	**5.0**	2.0	–	–	–	–

Notes to the Financial Statements (continued)

31. Credit risk on loans and advances to customers (continued)

Expected Credit Losses (ECL) (continued)

The values in the table below are calculated as either a simple average of the rate across the 5 year forecasting period or as peak to trough.

	Upside		Core		Downturn		Severe downturn	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
5 year average								
GDP	**1.8**	2.1	**1.0**	1.2	**0.2**	(1.6)	**(0.8)**	(2.4)
HPI	**3.4**	2.0	**1.7**	(0.6)	**(1.5)**	(3.1)	**(6.4)**	(6.5)
Unemployment	**4.0**	3.6	**4.6**	4.9	**5.8**	6.4	**7.6**	7.8
Bank base rate	**4.0**	1.8	**4.5**	4.1	**5.1**	5.3	**5.8**	0.7
Peak to trough								
GDP	**–**	–	**(4.7)**	(6.7)	**(0.9)**	(6.6)	**(1.8)**	(7.5)
HPI	**–**	–	**(14.1)**	(6.5)	**(9.7)**	(14.3)	**(26.1)**	(26.4)
Unemployment	**4.2**	3.8	**5.0**	5.5	**6.5**	7.0	**9.0**	8.8

Weightings

The following table shows the expected credit loss under each of our four economic scenarios along with the weightings that have been applied to arrive at the weighted average ECL. PMAs are calculated using the weighted scenario results and so their sensitivity in each of the individual scenarios cannot be accurately determined. For completeness they have been included as a uniform adjustment across each scenario.

Group	2023		2022	
Scenario	**Weighting %**	**ECL £m**	Weighting %	ECL £m
Upside	**5**	**35.3**	5	37.6
Core	**40**	**38.7**	50	40.7
Downturn	**35**	**63.9**	30	73.5
Severe downturn	**20**	**102.1**	15	94.2
Weighted scenario	**100**	**60.0**	100	58.4

A modelling approach using quantitative analysis is applied to assess the weightings which uses industry-level write-off data to infer the Society's loss rates over the period, as internal loss data isn't available to establish a historical loss rate distribution which reflects the nature of our losses (i.e. relatively low losses in 'normal' times but the potential to make more substantial losses in recessionary conditions). An econometric model was developed which could be used to infer future loss rates based on a range of different economic scenarios.

The loss rates were mapped under each of the IFRS 9 economic scenarios to the historical loss rate distribution and using the distribution-defined probabilities of each loss rate being realised to derive relative likelihoods of each scenario occurring.

SME judgment is applied in the final assessment of weights, informed by assessment of the quantitative analysis/model. The core scenario weighting has decreased and the downturn and severe downturn scenario weightings have increased to reflect the revisions made to Bank of England forecasts as well as the ongoing economic consequences of the conflict in Ukraine and the Middle East.

Post model adjustments

Post model adjustments ('PMA') are applied when an increase in credit risk is identified that is not effectively captured in the core expected credit loss models. A rigorous review of the PMAs has been performed to determine whether the identified risks are still applicable, and if any additional risks have been identified. Adjustments were made to which PMAs were required and to the magnitude of those that were maintained.

A PMA working group has been established in 2023 encompassing colleagues from Finance, Balance Sheet Management and Credit Risk. This working group has been used to review the on-going suitability of existing PMAs and discuss whether additional PMAs are required in relation to emerging risks or issues.

The PMAs applied at 31 December 2023 are as follows:

	2023 £m	2022 £m
Affordability	**7.1**	10.8
Model Performance	**10.0**	6.6
Other	**(1.5)**	7.1
Total PMA	**15.6**	24.5

Affordability

Inflation is not a direct input into the underlying ECL models and, as such, does not have a direct influence on the output. Although the lending undertaken by the Society is risk-averse, with a significant amount of affordability assessment undertaken as part of the decision to advance mortgage loans, there are several segments of the mortgage book that are likely to be at greater risk of affordability stresses due to the cost-of-living pressures.

A post model adjustment was established to reflect the risks of rising inflation, and its impact on customers' ability to meet repayments on their mortgage, not captured in the underlying ECL models.

The PMA has been established by considering affordability levels of the mortgage book by applying a stress to the monthly expenditure amounts to reflect external pressures such as increase in outgoings, interest rate changes, cost-of-living challenges and income decreases. Both elements are used to identify accounts that would be most vulnerable to stresses and find their mortgage unaffordable.

The PMA has been refined over 2023 as actual increases in credit risk in relation to affordability materialise and are being captured within the ECL models.

PD estimates of the accounts identified as vulnerable to affordability stresses are uplifted to the equivalent of what they would need to be for the model to assign them to stage 2 as a result of meeting the SICR criteria.

The level of uplifted PD applied varies depending on whether the customer has a fixed term end date in the next 12 months, the current risk grade associated with the account and how close the account is to SICR thresholds with accounts that are relatively close to meeting the SICR criteria will be higher risk.

New criteria for identifying accounts to be treated within this PMA has been established.

Further consideration has been given to segments of the book that have been under-represented in this assessment and the Group has considered whether the coverage in these areas is sufficient to cover the increased risk to the book given the current macro-economic climate. Relative insensitivity to the stresses provided above was found and so an additional provision has been raised to cover this underestimation.

These specific segments are:

- Commercial – The Debt Service Coverage Ratio (DSCR) test is used for assessing affordability of accounts and compares the rental income to the mortgage payment where rent needs to cover 100% or more of the payment on a capital and interest basis. Stress has been applied to this test to assess the impact on affordability levels.
- Buy-to-let (BTL) – This segment of the book has similar behaviours to a cohort of mortgages included in the main affordability assessment and so an appropriate uplift factor has been applied to replicate a stressed environment.

Notes to the Financial Statements (continued)

31. Credit risk on loans and advances to customers (continued)

Expected Credit Losses (ECL) (continued)

Post model adjustments (continued)

Affordability (continued)

The decrease in this PMA is due to a combination of the increased credit risk as a result of the impact of the cost-of-living crisis on mortgage repayments starting to emerge as either increased modelled ECLs or write offs leading to a more targeted methodology resulting in a lower PMA required, as well as easing inflation and mortgage rates across the industry beginning to reduce; this means the payment shock experienced by customers might reduce going forward. This PMA will be monitored as we progress through the year and will be held until a sufficient reduction in inflation and cost-of-living pressures is observed.

Model Performance

PD Underprediction

The Society's fourth generation models were used as the basis of underpinning the Society's ECLs in 2023 for the first time. A level of underprediction, that was observed within the third generation models, is also present in the new fourth generation models. A PMA has been established to account for this which adjusts the PD estimates used to establish ECLs. Accounts are then re-staged if their revised PD estimate exceeds the SICR threshold for the risk grade.

Predictive accuracy monitoring on a perfect foresight basis has been developed by the Society to support an evaluation of the risk. This monitoring has been produced at a product level over a range of outcome periods. The results for each portfolio were evaluated and the need for an adjustment was acknowledged. The under-prediction factors for Prime and BTL have been incorporated into PD estimates by directly uplifting each month's PD estimate by the associated under-prediction factor and recalculating staging and ECLs using the adjusted PD value.

Sensitivity of Models to Economic Stresses

The fourth generation IFRS 9 PD model has displayed limited sensitivity to the different economic scenarios as a result of the benign economic conditions in the data period used to develop the model. A narrow range in average PD estimates across the four economic scenarios of differing severity highlighted the model weakness. A PMA has been established to mitigate against the lack of sensitivity in IFRS 9 PDs to economic factors.

An internally developed Credit Cycle Index (CCI) model was used with its ability to perform well under a range of different economic conditions making it a useful tool in informing this PMA. The results of the CCI model across the different IFRS 9 scenarios were established and outcomes from the Core scenario compared to the Upside, Downside and Stress scenarios. Adjustments were then applied to these non-Core scenarios to produce adjusted PD estimates for each individual scenario. As this PMA is driven by a weakness that will be inherent within both initial and current PDs, it was not considered appropriate to adjust stage allocation based on the adjusted results.

Methodology Changes and Model Recalibration

Fourth generation IFRS 9 models and impacts were presented to the Society's Model Risk Committee in 2023 and approved for use. These have been used as the basis for generating Core model ECLs for this reporting period. Both the Methodology Changes and Model Recalibration PMAs related to the third generation IFRS 9 models have been released as they are no longer required. The reduction in ECL associated with the stage 2 movement noted has outweighed other aspects of the migration to the fourth generation models that would have increased ECLs, leading to an overall release in 2023 on initial implementation.

Other

Whilst we incorporate a range of economic assumptions in the scenarios and probability weightings used to calculate ECL, this approach still has certain limitations where several assumptions cannot be considered within the model or is restricted by when external data is available. The PMAs detailed below aim to cover for these risks.

House Price Volatility

This PMA originally focused on house price volatility developed in response to extraordinary growth in house prices since the easing of the first COVID-19 lockdown with two elements of uncertainty being assessed.

The first element relates to changes in HPI at a regional level not being evenly distributed and the ECL impact of changes in collateral values is non-linear. Management have since evaluated the support for the £1.0 million PMA recognised and concluded that it is not significantly different to warrant a specific PMA, hence the release of this element of the PMA for 2023 year end.

The remaining element of this PMA relates to the risk that the ONS (Office for National Statistics) indexation data that is incorporated into the ECL model on a quarterly basis is not a true representative of the market conditions as at 31 December 2023. The latest indexation from ONS was for data collected in Q3 of 2023. This PMA aims to correct for the update in market conditions by using an average of Nationwide and Halifax more recent indexations for Q4 of 2023.

The HPI assumptions applied in the underlying economic scenarios estimate the impacts of future HPI trends at a macro level based on the current baseline.

Climate risk

We have assessed the risks associated with climate change, both physical and transitional, in the context of ECL and concluded that the majority of these risks do not meet the requirements for recognition as:

There have been no observed climate related defaults and therefore no identifiable significant increase in credit risks ('SICR'); and the material transition risks identified are expected to occur over a timescale in excess of the current behavioural life of our portfolio (i.e. the average term before a customer either moves onto an alternative deal or transfers to another provider) and, as such, any potential impact would be against loans yet to be underwritten.

This PMA aims to identify properties which are or will in the near future be at most risk from a climate perspective and assess the additional ECLs that we could expect to incur if material costs/reductions to the value of security arise from those risks. The four main risks considered are Energy Performance Certificate (EPC) impacts, flood risk, subsidence risk and coastal erosion risk.

A similar approach has been taken within each of these areas where the properties with the very highest risks associated are identified, appropriate adjustments are applied to the valuation of the properties and the impacts of these changes then quantified and held as a PMA. The total PMA held is £0.7 million (2022: £1.0 million).

Standard Variable Rate (SVR)

The December 2022 Base Rate increase was not being incorporated into YBS variable rates until February 2023, and so a PMA of £0.4 million (2022: nil) was raised to account for the impact on ECL should it take effect immediately. This PMA has been released as the updated SVR rate has now been applied at account level.

Notes to the Financial Statements (continued)

31. Credit risk on loans and advances to customers (continued)

Expected Credit Losses (ECL) (continued)

Staging and POCI

The tables below show the staging of loans and advances plus those classed as purchased or originated credit impaired (POCI) recognised as part of the acquisitions of Norwich & Peterborough Building Society (N&P) and Chelsea Building Society (CBS). The fair value discount applied on acquisition is recognised as the *fair value credit adjustment*.

The Group has £339.7 million of POCI loans (2022: £385.4 million). Of these, 85% (2022: 88%) are now considered performing loans but are not permitted to be reclassified to stage 1 or 2.

Details of the movements in staging are explained in the *movement analysis* section of this note.

	Gross exposure £m	%	PMA £m	Total ECL £m	Coverage %	Average LTV %
2023						
Stage 1	**41,597.7**	**88.8**	**3.0**	**8.5**	**–**	**50.2**
Stage 2	**4,521.8**	**9.6**	**13.1**	**26.5**	**0.6**	**36.5**
Stage 3	**409.4**	**0.9**	**(0.5)**	**13.8**	**3.4**	**42.5**
POCI	**339.7**	**0.7**	**–**	**11.2**	**3.3**	**40.1**
Total	**46,868.6**	**100.0**	**15.6**	**60.0**	**0.1**	**49.0**
2022						
Stage 1	40,251.1	88.9	3.0	7.5	–	49.0
Stage 2	4,277.3	9.5	18.1	26.3	0.6	33.7
Stage 3	338.3	0.7	3.4	11.3	3.3	39.4
POCI	385.4	0.9	–	13.3	3.5	40.5
Total	45,252.1	100.0	24.5	58.4	0.1	46.8

The *cost of risk* measure has been calculated using the impairment charge for the year divided by the average balance over the period of which is 0.01% for 2023. *Problem loans* represent the total of the Group's stage 3 balances and the non-performing portion of our POCI loans.

	2023 £m	**2023 %**	2022 £m	2022 %
Gross exposures				
Stage 1	**41,597.7**	**88.8**	40,251.1	88.9
Stage 2	**4,521.8**	**9.6**	4,277.3	9.5
Stage 3	**409.4**	**0.9**	338.3	0.7
POCI	**339.7**	**0.7**	385.4	0.9
Total gross exposures	**46,868.6**	**100.0**	45,252.1	100.0
Problem loans	**458.9**	**1.0**	384.7	0.9
Cost of risk	**–**	**–**	–	–
ECL and Coverage ratios				
Stage 1	**8.5**	**–**	7.5	–
Stage 2	**26.5**	**0.6**	26.3	0.6
Stage 3	**13.8**	**3.4**	11.3	3.3
POCI	**11.2**	**3.3**	13.3	3.5
Total ECL	**60.0**	**0.1**	58.4	0.1
Of which impairment	**37.7**	**62.8**	33.1	56.7
Of which fair value credit adjustment	**22.3**	**37.2**	25.3	43.3

The following table shows expected credit losses, split by impairment and fair value credit adjustments, and a best estimate of the collateral against these mortgages. The collateral is calculated as the lower of the value of the property and the outstanding loan amount so does not represent the overall value of properties backing the loans.

Group	Gross exposure 2023 £m	Gross exposure 2022 £m	Collateral 2023 £m	Collateral 2022 £m	Impairment 2023 £m	Impairment 2022 £m	Fair value credit adjustment 2023 £m	Fair value credit adjustment 2022 £m
Stage 1	**41,597.7**	40,251.1	**41,596.3**	40,249.7	**8.5**	7.5	**–**	–
Stage 2	**4,521.8**	4,277.3	**4,521.4**	4,277.0	**25.3**	23.4	**1.2**	2.9
Less than 30 days past due	**4,331.4**	4,156.1	**4,331.1**	4,155.8	**22.6**	22.0	**0.9**	2.7
More than 30 days past due	**190.4**	121.2	**190.3**	121.2	**2.7**	1.4	**0.3**	0.2
Stage 3	**409.4**	338.3	**409.1**	338.0	**10.0**	9.2	**3.8**	2.1
Less than 30 days past due	**161.1**	155.6	**161.1**	155.6	**2.2**	3.3	**0.5**	0.4
30-90 days past due	**83.8**	64.9	**83.8**	64.9	**1.1**	1.1	**0.5**	0.3
More than 90 days past due	**164.5**	117.8	**164.2**	117.5	**6.7**	4.8	**2.8**	1.4
POCI	**339.7**	385.4	**339.1**	385.0	**(6.1)**	(7.0)	**17.3**	20.3
Less than 30 days past due	**294.5**	346.7	**293.9**	346.3	**(6.1)**	(6.4)	**14.6**	17.3
30-90 days past due	**29.4**	20.8	**29.4**	20.8	**0.3**	(0.1)	**1.2**	0.9
More than 90 days past due	**15.8**	17.9	**15.8**	17.9	**(0.3)**	(0.5)	**1.5**	2.1
Total	**46,868.6**	45,252.1	**46,865.9**	45,249.7	**37.7**	33.1	**22.3**	25.3

Society	Gross exposure 2023 £m	Gross exposure 2022 £m	Collateral 2023 £m	Collateral 2022 £m	Impairment 2023 £m	Impairment 2022 £m	Fair value credit adjustment 2023 £m	Fair value credit adjustment 2022 £m
Stage 1	**9,233.4**	8,942.6	**9,232.0**	8,941.3	**2.8**	4.0	**–**	–
Stage 2	**1,294.3**	1,889.1	**1,294.0**	1,889.0	**10.1**	9.3	**1.3**	3.0
Less than 30 days past due	**1,236.5**	1,845.8	**1,236.2**	1,845.7	**9.1**	8.9	**1.0**	2.8
More than 30 days past due	**57.8**	43.3	**57.8**	43.3	**1.0**	0.4	**0.3**	0.2
Stage 3	**133.8**	111.0	**133.8**	110.9	**1.7**	1.5	**3.7**	2.1
Less than 30 days past due	**55.8**	52.9	**55.8**	53.0	**0.4**	0.7	**0.5**	0.4
30-90 days past due	**24.2**	22.9	**24.2**	22.8	**0.2**	0.3	**0.5**	0.3
More than 90 days past due	**53.8**	35.2	**53.8**	35.1	**1.1**	0.5	**2.7**	1.4
POCI	**339.6**	385.1	**339.0**	384.7	**(6.1)**	(7.0)	**17.3**	20.2
Less than 30 days past due	**294.4**	346.4	**293.8**	346.0	**(6.1)**	(6.4)	**14.6**	17.2
30-90 days past due	**29.4**	20.8	**29.4**	20.8	**0.3**	(0.1)	**1.2**	0.9
More than 90 days past due	**15.8**	17.9	**15.8**	17.9	**(0.3)**	(0.5)	**1.5**	2.1
Total	**11,001.1**	11,327.8	**10,998.8**	11,325.9	**8.5**	7.8	**22.3**	25.3

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

Notes to the Financial Statements (continued)

31. Credit risk on loans and advances to customers (continued)

Lending by type

Group Percentage split of gross contractual exposure	2023 %	2022 %
Residential Prime	**79.8**	81.4
Residential Sub-Prime/Self-Cert	**0.4**	0.5
Retail Buy-To-Let	**15.4**	14.3
Social Housing	**0.4**	0.5
Commercial lending (exc. Social Housing)	**4.0**	3.3
	100.0	100.0

Credit risk management

The *Retail and commercial credit risk* section of the *Risk management report* describes how the Group manages credit risk via a robust risk appetite, credit risk framework, governance framework and through stress testing.

The Group's exposure to mortgage related credit risk is monitored and reporting on risk exposures is provided regularly to the Group's risk committees, including analysis of mortgages in arrears and monitoring of the characteristics of the loan portfolios (e.g. geographic location and loan-to-value).

Group	2023		2022	
Arrears	Retail %	Commercial %	Retail %	Commercial %
No arrears	**97.6**	**98.7**	98.3	96.8
Less than three months	**2.1**	**0.8**	1.3	3.2
Equal to or more than three months, less than six months	**0.2**	**0.3**	0.2	–
Equal to or more than six months, less than twelve months	**0.1**	**0.1**	0.1	–
Twelve months or more	**–**	**0.1**	0.1	–
Property in possession	**–**	**–**	–	–
Total gross exposure (contractual amounts)	**100.0**	**100.0**	100.0	100.0
Number of properties in possession at the year end	**67**	**–**	49	–

The percentage of retail mortgages with arrears of three months or more (as a % of outstanding balances, including possessions) has increased during 2023 from 0.31% to 0.39%.

The UK Finance industry average ratio for mortgage arrears is measured using the number of accounts (including possessions). On this basis, the Group's retail mortgage arrears ratio of 0.50% (2022: 0.44%) is below the comparable UK Finance ratio 0.94% (2022: 0.74%). Arrears on more recent lending are minimal, reflecting the Group's credit risk appetite.

Arrears for the buy-to-let portfolio is also lower than average with an arrears ratio of 0.23% (2022: 0.13%) with an average LTV of 45.8 (2022: 43.1) for this cohort.

Society Arrears	2023 %	2022 %
No arrears	**97.0**	97.9
Less than three months	**2.3**	1.5
Equal to or more than three months, less than six months	**0.3**	0.3
Equal to or more than six months, less than twelve months	**0.2**	0.1
Twelve months or more	**0.1**	0.1
Property in possession	**0.1**	0.1
Total	**100.0**	100.0
Number of properties in possession at the year end	**48**	39

Retail mortgage lending

The Group's retail mortgage exposure can be broken down by customer type and geographical region as follows:

Group	Book		New lending	
Retail Mortgage Customer Type	2023 %	2022 %	2023 %	2022 %
First-time buyer	**23.6**	24.4	**23.5**	21.8
Other buyers e.g. movers	**35.5**	37.1	**29.6**	32.1
Re-mortgage	**24.8**	23.5	**32.5**	21.3
Buy-to-let	**16.1**	15.0	**14.4**	24.8
Other	**–**	–	**–**	–
	100.0	100.0	**100.0**	100.0

Retail Mortgage Geographical Distribution	2023 %	2022 %
Scotland	**6.6**	6.4
North East	**3.2**	3.2
Yorkshire & Humberside	**8.4**	8.5
North West	**10.4**	10.3
Midlands	**13.2**	13.0
East	**10.8**	10.7
South West	**7.5**	7.4
Greater London	**18.1**	18.7
South East	**17.6**	17.8
Wales & Northern Ireland	**4.2**	4.0
Non-UK	**–**	–
	100.0	100.0

The Group's retail mortgages are secured on property. The value of these properties is updated on a quarterly basis using the Office for National Statistics (ONS) regional property price indices which comprise relative house price movements across the UK. These indexed valuations provide senior management with a view of the value and risk of the properties on which retail mortgages are secured.

Notes to the Financial Statements (continued)

31. Credit risk on loans and advances to customers (continued)

Retail mortgage lending (continued)

Group Loan-to-value distribution of retail mortgages	Book 2023 %	2022 %	New lending 2023 %	2022 %
100% or greater	**–**	–	**–**	–
95 to 100%	**0.3**	–	**–**	–
90 to 95%	**1.6**	0.2	**4.6**	5.3
85 to 90%	**4.2**	1.6	**17.2**	18.7
80 to 85%	**5.9**	4.3	**15.7**	16.1
75 to 80%	**7.4**	6.8	**9.4**	10.8
70 to 75%	**9.5**	10.0	**13.0**	19.1
60 to 70%	**21.0**	23.4	**12.3**	12.2
Less than 60%	**50.1**	53.7	**27.8**	17.8
	100.0	100.0	**100.0**	100.0
Average LTV (all retail)	**49.0**	46.8	**67.2**	71.7
Average LTV (buy-to-let)	**54.8**	53.4	**58.9**	68.6

Group Loan-to-value distribution of retail mortgages	2023 Not impaired %	Impaired %	2022 Not impaired %	Impaired %
100% or greater	**–**	**–**	–	–
95 to 100%	**0.3**	**–**	–	–
90 to 95%	**1.6**	**–**	0.3	–
85 to 90%	**4.2**	**–**	1.7	–
80 to 85%	**5.9**	**–**	4.3	–
75 to 80%	**7.4**	**–**	6.7	–
70 to 75%	**9.4**	**0.1**	9.9	–
60 to 70%	**20.8**	**0.2**	23.1	0.3
Less than 60%	**48.9**	**1.2**	52.4	1.3
	98.5	**1.5**	98.4	1.6

The definition of default/impaired includes accounts that are 90 days past due, interest only accounts past term end, those under certain forbearance measures and others exhibiting other unlikeliness to pay indicators. Accounting standards require accounts considered to be credit impaired at the time of business combinations (POCI) to be classed as impaired until derecognition.

Commercial lending

The Group offers commercial lending though the YBS brand, providing loans to commercial owner occupiers and corporate entity landlords of commercial and residential property. The majority of loans are advanced against commercial properties using a vacant possession valuation to mitigate against future losses. Loans against specialist properties are strictly limited and no lending is given against land only.

The valuations of commercial properties are updated on a quarterly basis using MSCI's commercial property price indices based on region and property type. Residential valuations are indexed using the regional ONS house price indices. The indexed valuations are used to assess the risk of loss on individual loans and to monitor whether loan-to-value covenants are met. Where borrowers are more than two months in arrears, consideration is given to obtaining a professional valuation of the property.

Group and Society	2023	2022
Average loan-to-value (%)	**55.8**	48.4
Average loan size (£m)	**0.7**	0.6
Value of security held (£m)	**3,213.0**	3,018.6
Balance of loans >100% LTV (£m)	**21.9**	6.2
Largest exposure to a single counterparty (£m)	**20.0**	18.0

At the year end 0.54% (2022: 0.03%) of commercial balances (including repossessions) were more than three months in arrears.

'Watch list' loans include those where there are circumstances which could impact on the quality and recoverability of the loan. Examples include borrowers requesting forbearance or reporting trading losses. Loans on the watch list total increased to £46.9 million in 2023 (2022: £31.4 million).

Corporate buy-to-let loans increased to £1,207.3 million (2022: £884.1 million) and these loans are mainly interest only. They are continuously monitored to ensure that full repayment is made on the expiry of the loan term.

Notes to the Financial Statements (continued)

31. Credit risk on loans and advances to customers (continued)

Commercial lending

Group and Society Commercial mortgage balances by geographical region	2023 %	2022 %
Scotland	–	–
North East	0.5	0.4
Yorkshire & Humberside	2.5	2.8
North West	4.2	4.8
Midlands	5.8	6.6
East	3.1	3.5
South West	7.1	6.6
Greater London	49.8	49.0
South East	25.8	25.3
Wales & Northern Ireland	1.2	1.0
	100.0	100.0

Group and Society Commercial mortgage balances by lending type	2023 %	2022 %
Commercial owner occupied	2.6	3.9
Commercial investment property*	29.7	32.4
Corporate buy-to- let*	59.0	51.6
Social Housing	8.7	12.1
	100.0	100.0

The Group has an active business lending to housing associations in England and Wales, via the Yorkshire Building Society brand. This sector has particularly robust credit characteristics and the lending is low risk albeit at low margins. At 31 December 2023 this loan book was £177.9 million (2022: £202.0 million). The Group has written further undrawn Term Loan/Revolving Credit facilities in the region of £136.1 million (2022: £164.2 million) and these are expected to draw down over the next 5 years.

* Please note prior year figures for Commercial mortgage balances split by lending type have been restated due to transitioning to an alternative data source.

Risk assessment

The following tables are included to give an overview of the Group's credit risk. This includes analysis of exposures by 12 month probability of default (PD) bands and origination year.

The risk models cover the majority of loans underwritten by the Group, with exceptions for portfolios subject to bespoke modelling requirements including Accord buy-to-let, commercial lending and POCI accounts. The Accord BTL population currently has very strict underwriting criteria and limited behavioural history, with only a single possession to date. Commercial lending has significantly different behavioural characteristics to the retail mortgages.

Lending by risk grade

Group	2023						2022	
	Stage 1	Stage 2	Stage 3	POCI	Total exposure	ECL	Total exposure	ECL
PD Band	£m	£m	£m	£m	£m	£m	£m	£m
0.00%–<0.15%	26,735.6	1,936.1	–	–	28,671.7	1.0	32,792.6	1.7
0.15%–<0.25%	3,581.6	338.1	–	–	3,919.7	0.5	1,888.6	0.7
0.25%–<0.50%	1,114.8	172.1	–	–	1,286.9	0.4	484.6	0.3
0.50%–<0.75%	692.3	199.2	–	–	891.5	0.3	583.6	0.7
0.75%–<1.00%	559.9	308.4	–	–	868.3	0.6	334.1	0.8
1.00%–<2.50%	327.5	910.0	–	–	1,237.5	3.2	698.2	3.4
2.50%–<10.0%	25.4	288.3	–	–	313.7	2.8	205.1	2.5
10.0%–<100%	14.5	161.0	–	–	175.5	2.5	116.4	2.3
Default	–	–	390.7	39.3	430.0	14.8	366.6	11.1
Accord buy-to-let	6,606.8	101.1	7.5	–	6,715.4	3.6	5,905.6	6.3
Commercial	1,771.5	74.4	11.2	10.2	1,867.3	9.3	1,510.6	4.5
Other	167.8	33.1	–	290.2	491.1	9.0	366.1	10.3
PMAs	–	–	–	–	–	12.0	–	13.8
Total	41,597.7	4,521.8	409.4	339.7	46,868.6	60.0	45,252.1	58.4

Society	2023						2022	
	Stage 1	Stage 2	Stage 3	POCI	Total exposure	ECL	Total exposure	ECL
PD Band	£m	£m	£m	£m	£m	£m	£m	£m
0.00%–<0.15%	5,987.8	563.2	–	–	6,551.0	0.2	7,455.4	0.2
0.15%–<0.25%	674.3	98.3	–	–	772.6	0.2	710.1	0.2
0.25%–<0.50%	200.0	54.8	–	–	254.8	0.2	172.4	0.1
0.50%–<0.75%	144.3	58.7	–	–	203.0	0.1	264.1	0.4
0.75%–<1.00%	127.7	84.4	–	–	212.1	0.2	193.0	0.6
1.00%–<2.50%	131.9	203.8	–	–	335.7	0.9	362.1	2.5
2.50%–<10.0%	20.8	66.8	–	–	87.6	0.8	98.6	1.5
10.0%–<100%	9.0	55.7	–	–	64.7	0.9	52.9	1.2
Default	–	–	122.6	39.2	161.8	6.8	143.6	7.2
Commercial	1,771.0	74.4	11.2	10.2	1,866.8	9.3	1,509.7	4.5
Other	166.6	34.2	–	290.2	491.0	8.9	365.9	9.1
PMAs	–	–	–	–	–	2.3	–	5.6
Total	9,233.4	1,294.3	133.8	339.6	11,001.1	30.8	11,327.8	33.1

Notes to the Financial Statements (continued)

31. Credit risk on loans and advances to customers (continued)

Risk assessment (continued)

Lending by origination year

The table below shows exposures and expected credit losses by origination year for retail loans. The table shows that the credit quality of newly written business is of significantly higher quality than that written before 2009 or acquired as part of business combinations.

Group	2023						2022	
	Stage 1	Stage 2	Stage 3	POCI	Total exposure	ECL	Total exposure	ECL
Origination Year	£m	£m	£m	£m	£m	£m	£m	£m
2023	8,625.6	555.4	18.2	–	9,199.2	6.5	–	–
2022	8,873.1	673.9	23.7	–	9,570.7	8.2	10,184.5	7.6
2021	6,337.0	632.2	41.4	–	7,010.6	6.3	9,260.3	6.3
2020	3,930.3	409.6	29.0	–	4,368.9	3.0	4,914.3	3.6
2013 – 2019	11,620.1	1,245.8	113.7	–	12,979.6	11.2	16,452.8	11.9
2009 – 2012	781.7	94.3	8.1	–	884.1	0.4	1,056.3	0.6
Pre-2009	650.9	580.0	104.7	–	1,335.6	5.8	1,560.7	6.4
Acquired loans	779.0	330.6	70.6	339.7	1,519.9	18.6	1,823.2	22.0
Total	**41,597.7**	**4,521.8**	**409.4**	**339.7**	**46,868.6**	**60.0**	45,252.1	58.4

For 2009 and post lending, the average indexed LTV is 53.0% and the 90 days plus arrears rate is 0.2%. For lending prior to 2009 the average indexed LTV is 25.6% and the 90 days arrears rate is 3.1%.

Movement analysis

The tables on pages 219 to 222 detail the movement in the gross exposures and ECL from the beginning to the end of the reporting period split by stage. The Society has updated the definition of default and the probability of default rating scale on the back of a comprehensive review as part of the transition to the fourth generation internal ratings based (Gen 4 IRB) method of calculating regulatory capital. These model updates were approved for use in the core underlying models in the first half of this year and all ECL outputs have been updated to reflect these changes.

There was a known misalignment between the initial recognition PDs and the current PDs compared within staging transfer criteria for accounts that originated prior to the implementation of the third generation model recalibration which took place in 2018. Enhancements have been made within the fourth generation developments to alleviate the impact of this, resulting in a large reduction of stage 2 volumes and associated ECLs. This can be seen on the Transfers from stage 2 to 1 line of the gross exposures movement table.

The level of PD underprediction, that was observed within the third generation models, is still present to an extent in the new fourth generation models. A PMA has been established to account for this which adjusts the PD estimates used to establish ECLs. Accounts are then re-staged if their revised PD estimate exceeds the SICR threshold for the risk grade. This can be seen on the Transfers from stage 1 to 2 line of the gross exposures movement table.

Separate to the fourth generation model update, we have reassessed the affordability PMA throughout the year. At half year all balances in relation to the affordability PMA were recognised in stage 1 due to the accounts identified through the PMA not moving into arrears or meeting any of the quantitative (i.e. SICR thresholds) or qualitative criteria for being assigned to stage 2. The ECL related to the PMA had previously been recognised in stage 2, the movement from stage 2 to stage 1 to align with balances can be seen on the PMA line of the ECL movement table below.

Following ongoing monitoring of actuals and the Gen 4 model the affordability PMA was re-evaluated with a focus on the most vulnerable accounts. Those accounts identified by the criteria disclosed on page 207 had their PD estimates uplifted to the equivalent of what they would need to be for the model to assign them to stage 2 as a result of meeting the SICR criteria allowing re-staging from stage 1 to stage 2 to occur. This can be seen on the transfers from stage 1 to 2 line of the gross exposures movement table.

The following tables detail the movement in the gross exposures and ECL from the beginning to the end of the reporting period split by class of financial instrument.

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Gross exposure at 31 December 2022	40,251.1	4,277.3	338.3	385.4	45,252.1
Transfers from stage 1 to 2	(3,200.5)	3,200.5	–	–	–
Transfers from stage 1 to 3	(77.4)	–	77.4	–	–
Transfers from stage 2 to 1	2,428.8	(2,428.8)	–	–	–
Transfers from stage 2 to 3	–	(111.8)	111.8	–	–
Transfers from stage 3 to 1	26.9	–	(26.9)	–	–
Transfers from stage 3 to 2	–	57.7	(57.7)	–	–
Changes to carrying value	(1,397.6)	(45.7)	10.9	(9.1)	(1,441.5)
New financial assets originated or purchased	9,020.6	–	–	–	9,020.6
Financial assets derecognised during the year	(5,454.2)	(427.4)	(40.4)	(35.5)	(5,957.5)
Write-offs	–	–	(4.0)	(1.1)	(5.1)
Gross exposure at 31 December 2023	41,597.7	4,521.8	409.4	339.7	46,868.6
ECL at 31 December 2022	7.5	26.3	11.3	13.3	58.4
Transfers from stage 1 to 2	(0.2)	6.0	–	–	5.8
Transfers from stage 1 to 3	–	–	2.6	–	2.6
Transfers from stage 2 to 1	0.9	(4.7)	–	–	(3.8)
Transfers from stage 2 to 3	–	(1.1)	3.4	–	2.3
Transfers from stage 3 to 1	–	–	(0.6)	–	(0.6)
Transfers from stage 3 to 2	–	0.3	(0.8)	–	(0.5)
Changes in PDs/LGDs/EADs	(1.8)	8.0	3.7	0.1	10.0
New financial assets originated or purchased	3.6	–	–	–	3.6
Changes to model assumptions and methodologies	(1.3)	(1.9)	(0.1)	(0.6)	(3.9)
Unwind of discount	–	–	0.4	0.3	0.7
Financial assets derecognised during the year	(0.2)	(1.5)	(1.2)	(1.4)	(4.3)
Write-offs	–	–	(1.0)	(0.5)	(1.5)
PMA	–	(4.9)	(3.9)	–	(8.8)
ECL at 31 December 2023	8.5	26.5	13.8	11.2	60.0

Notes to the Financial Statements (continued)

31. Credit risk on loans and advances to customers (continued)

Movement analysis (continued)

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Gross exposure at 31 December 2021	37,614.0	3,791.2	366.2	440.1	42,211.5
Transfers from stage 1 to 2	(1,562.2)	1,562.2	–	–	–
Transfers from stage 1 to 3	(59.0)	–	59.0	–	–
Transfers from stage 2 to 1	830.1	(830.1)	–	–	–
Transfers from stage 2 to 3	–	(69.4)	69.4	–	–
Transfers from stage 3 to 1	25.2	–	(25.2)	–	–
Transfers from stage 3 to 2	–	71.1	(71.1)	–	–
Changes to carrying value	(1,850.4)	227.4	6.9	(8.7)	(1,624.8)
New financial assets originated or purchased	10,588.7	–	–	–	10,588.7
Financial assets derecognised during the year	(5,335.3)	(475.1)	(62.0)	(45.5)	(5,917.9)
Write-offs	–	–	(4.9)	(0.5)	(5.4)
Gross exposure at 31 December 2022	40,251.1	4,277.3	338.3	385.4	45,252.1
ECL at 31 December 2021	5.6	17.5	15.4	16.0	54.5
Transfers from stage 1 to 2	(0.1)	3.1	–	–	3.0
Transfers from stage 1 to 3	–	–	1.4	–	1.4
Transfers from stage 2 to 1	0.3	(2.2)	–	–	(1.9)
Transfers from stage 2 to 3	–	(0.9)	1.7	–	0.8
Transfers from stage 3 to 1	–	–	(0.6)	–	(0.6)
Transfers from stage 3 to 2	–	0.8	(1.5)	–	(0.7)
Changes in PDs/LGDs/EADs	(1.0)	3.7	1.9	(0.9)	3.7
New financial assets originated or purchased	3.4	–	–	–	3.4
Changes to model assumptions and methodologies	(1.5)	(3.3)	(3.1)	(0.6)	(8.5)
Unwind of discount	–	–	0.5	0.6	1.1
Financial assets derecognised during the year	(0.2)	(2.2)	(2.2)	(1.7)	(6.3)
Write-offs	–	–	(1.0)	(0.1)	(1.1)
PMA	1.0	9.8	(1.2)	–	9.6
ECL at 31 December 2022	7.5	26.3	11.3	13.3	58.4

Society	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Gross exposure at 31 December 2022	**8,942.6**	**1,889.1**	**111.0**	**385.1**	**11,327.8**
Transfers from stage 1 to 2	**(835.5)**	**835.5**	**–**	**–**	**–**
Transfers from stage 1 to 3	**(18.0)**	**–**	**18.0**	**–**	**–**
Transfers from stage 2 to 1	**1,102.8**	**(1,102.8)**	**–**	**–**	**–**
Transfers from stage 2 to 3	**–**	**(46.5)**	**46.5**	**–**	**–**
Transfers from stage 3 to 1	**9.4**	**–**	**(9.4)**	**–**	**–**
Transfers from stage 3 to 2	**–**	**13.6**	**(13.6)**	**–**	**–**
Changes to carrying value	**(495.5)**	**(87.5)**	**(1.2)**	**(9.2)**	**(593.4)**
New financial assets originated or purchased	**1,377.4**	**–**	**–**	**–**	**1,377.4**
Financial assets derecognised during the year	**(849.8)**	**(207.1)**	**(15.8)**	**(35.2)**	**(1,107.9)**
Write-offs	**–**	**–**	**(1.7)**	**(1.1)**	**(2.8)**
Gross exposure at 31 December 2023	**9,233.4**	**1,294.3**	**133.8**	**339.6**	**11,001.1**
ECL at 31 December 2022	**4.0**	**12.3**	**3.6**	**13.2**	**33.1**
Transfers from stage 1 to 2	**(0.1)**	**2.5**	**–**	**–**	**2.4**
Transfers from stage 1 to 3	**–**	**–**	**0.7**	**–**	**0.7**
Transfers from stage 2 to 1	**0.3**	**(2.7)**	**–**	**–**	**(2.4)**
Transfers from stage 2 to 3	**–**	**(0.6)**	**1.7**	**–**	**1.1**
Transfers from stage 3 to 1	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Transfers from stage 3 to 2	**–**	**0.1**	**(0.2)**	**–**	**(0.1)**
Changes in PDs/LGDs/EADs	**(0.6)**	**5.2**	**2.8**	**(0.2)**	**7.2**
New financial assets originated or purchased	**1.2**	**–**	**–**	**–**	**1.2**
Changes to model assumptions and methodologies	**(0.4)**	**(0.8)**	**–**	**(0.6)**	**(1.8)**
Unwind of discount	**–**	**–**	**0.3**	**0.7**	**1.0**
Financial assets derecognised during the year	**(0.1)**	**(1.1)**	**(0.5)**	**(1.4)**	**(3.1)**
Write-offs	**–**	**–**	**(0.3)**	**(0.5)**	**(0.8)**
PMA	**(1.5)**	**(3.5)**	**(2.5)**	**–**	**(7.5)**
ECL at 31 December 2023	**2.8**	**11.4**	**5.4**	**11.2**	**30.8**

Notes to the Financial Statements (continued)

31. Credit risk on loans and advances to customers (continued)

Movement analysis (continued)

Society	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Gross exposure at 31 December 2021	9,395.6	1,816.8	140.9	439.5	11,792.8
Transfers from stage 1 to 2	(566.9)	566.9	–	–	–
Transfers from stage 1 to 3	(13.4)	–	13.4	–	–
Transfers from stage 2 to 1	209.0	(209.0)	–	–	–
Transfers from stage 2 to 3	–	(26.6)	26.6	–	–
Transfers from stage 3 to 1	9.3	–	(9.3)	–	–
Transfers from stage 3 to 2	–	28.0	(28.0)	–	–
Changes to carrying value	(480.6)	(45.6)	(1.9)	(8.6)	(536.7)
New financial assets originated or purchased	1,529.3	–	–	–	1,529.3
Financial assets derecognised during the year	(1,139.7)	(241.4)	(28.5)	(45.3)	(1,454.9)
Write-offs	–	–	(2.2)	(0.5)	(2.7)
Gross exposure at 31 December 2022	8,942.6	1,889.1	111.0	385.1	11,327.8
ECL at 31 December 2021	2.6	11.4	5.7	16.0	35.7
Transfers from stage 1 to 2	–	1.6	–	–	1.6
Transfers from stage 1 to 3	–	–	0.2	–	0.2
Transfers from stage 2 to 1	0.2	(1.0)	–	–	(0.8)
Transfers from stage 2 to 3	–	(0.5)	0.8	–	0.3
Transfers from stage 3 to 1	–	–	(0.2)	–	(0.2)
Transfers from stage 3 to 2	–	0.4	(0.7)	–	(0.3)
Changes in PDs/LGDs/EADs	1.0	–	(0.2)	(1.0)	(0.2)
New financial assets originated or purchased	0.9	–	–	–	0.9
Changes to model assumptions and methodologies	(0.8)	(1.5)	(1.0)	(0.6)	(3.9)
Unwind of discount	–	–	0.2	0.6	0.8
Financial assets derecognised during the year	(0.1)	(1.8)	(1.2)	(1.7)	(4.8)
Write-offs	–	–	(0.6)	(0.1)	(0.7)
PMA	0.2	3.7	0.6	–	4.5
ECL at 31 December 2022	4.0	12.3	3.6	13.2	33.1

Forbearance

Forbearance tools are used, in line with industry guidance, where they are deemed appropriate for an individual customer's circumstances. These include capitalisation, interest only concessions, arrears arrangements and term extensions. Forbearance measures are incorporated into the calculation of ECLs.

The table below shows the retail accounts that are forborne. These accounts have been further classified as follows:

- non-performing – where an account meets the definition of default at the point it is granted a forbearance measure; and
- probationary – for accounts that have exited forbearance measures and been re-classed from non-performing in the last 2 years.

The definition of non-performing and stage 3 are aligned such that no accounts in stage 2 are classed as non-performing. Any accounts that were previously in default have a cure period of 12 months, after which they are able to move back into stage 2 or 1.

Group	Arrangements		Other concessions		Term extension		Interest only	
	Exposure £m	ECL £m	Exposure £m	ECL £m	Exposure £m	ECL £m	Exposure £m	ECL £m
2023								
Probation	**47.2**	**0.3**	**5.9**	**–**	**39.3**	**–**	**9.7**	**–**
Stage 1	**8.8**	**–**	**2.9**	**–**	**25.3**	**–**	**4.0**	**–**
Stage 2	**38.4**	**0.3**	**3.0**	**–**	**14.0**	**–**	**5.7**	**–**
Non-performing	**193.1**	**6.6**	**13.3**	**1.0**	**52.5**	**0.7**	**11.4**	**0.7**
Stage 3	**167.9**	**5.3**	**10.8**	**0.7**	**42.5**	**0.7**	**9.0**	**0.1**
POCI	**25.2**	**1.3**	**2.5**	**0.3**	**10.0**	**–**	**2.4**	**0.6**
Total	**240.3**	**6.9**	**19.2**	**1.0**	**91.8**	**0.7**	**21.1**	**0.7**
2022								
Probation	46.0	0.4	2.5	–	1.8	–	2.5	–
Stage 1	12.5	–	–	–	0.5	–	0.3	–
Stage 2	33.5	0.4	2.5	–	1.3	–	2.2	–
Non-performing	157.1	5.1	8.3	0.7	7.5	0.1	4.5	–
Stage 3	130.8	3.7	5.3	0.3	5.1	0.1	4.2	–
POCI	26.3	1.4	3.0	0.4	2.4	–	0.3	–
Total	203.1	5.5	10.8	0.7	9.3	0.1	7.0	–

All requests for forbearance on commercial loans are subject to full credit risk appraisal and are predominantly for a period of interest only, which allows the borrower to improve income from trading or rent receipts, pending the sale of the property. The appraisal process considers the likelihood of a loss being substantiated from any borrower granted a concession and ensures that the concession is in the interests of both the borrower and the Group. In 2023 there were 3 accounts (2022: 13) in the commercial loans portfolio subject to forbearance with a total balance of £1.6 million (2022: £4.1 million). There has been no underlying increase in the risk of the portfolio.

Notes to the Financial Statements (continued)

31. Credit risk on loans and advances to customers (continued)

Loans Purchased or Originated Credit Impaired (POCI)

The table below shows the status of the Group's POCI loans and how they are distributed across loan-to-value (LTV) bands. A substantial proportion of POCI balances, were they not required to be classified as stage 3 by accounting standards, would transfer to other stages. The table below shows that 69.4% (2022: 71.9%) of balances have been fully up to date for the last 24 months and only 14.6% (2022: 12.0%) of balances would be classified as in default.

Group and Society	Up to date for the last 24 months £m	Some arrears in the last 24 months £m	Meets definition of default £m	Total £m
2023				
Gross exposure	**235.9**	**54.3**	**49.5**	**339.7**
ECL	**6.1**	**2.7**	**2.4**	**11.2**
2022				
Gross exposure	277.1	61.9	46.4	385.4
ECL	7.6	3.3	2.4	13.3
2023 LTV Split				
Less than 60%	**211.6**	**46.0**	**37.3**	**294.9**
From 60 to 70%	**16.6**	**5.0**	**9.3**	**30.9**
From 70 to 80%	**3.8**	**2.2**	**2.0**	**8.0**
From 80 to 90%	**1.0**	**0.8**	**0.2**	**2.0**
90% or greater	**2.9**	**0.3**	**0.7**	**3.9**
Total	**235.9**	**54.3**	**49.5**	**339.7**
2022 LTV Split				
Less than 60%	238.4	50.6	33.6	322.6
From 60 to 70%	25.8	6.9	10.6	43.3
From 70 to 80%	6.9	2.6	1.4	10.9
From 80 to 90%	2.1	0.7	0.2	3.0
90% or greater	3.9	1.1	0.6	5.6
Total	277.1	61.9	46.4	385.4

32. Fair values

Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where external market prices are available they have been used to determine fair value. Otherwise, internal pricing models using external market data have been used. The Group measures fair value using the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below summarises the carrying value and fair value of financial assets and liabilities measured at amortised cost as at the balance sheet date.

2023	Notes	Carrying value £m	Fair values Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Group						
Assets						
Loans and advances to credit institutions	1	**397.4**	**–**	**397.4**	**–**	**397.4**
Loans and advances to customers	2	**46,815.9**	**–**	**–**	**45,298.5**	**45,298.5**
Debt securities – amortised cost		**2,339.0**	**2,332.2**	**–**	**–**	**2,332.2**
Liabilities						
Shares	3	**47,056.7**	**–**	**46,976.7**	**–**	**46,976.7**
Amounts due to credit institutions		**1,886.3**	**–**	**1,886.3**	**–**	**1,886.3**
Other deposits		**983.6**	**–**	**983.6**	**–**	**983.6**
Debt securities in issue		**4,919.4**	**4,222.9**	**693.4**	**–**	**4,916.3**
Subordinated liabilities	4	**1,621.7**	**1,566.8**	**32.4**	**–**	**1,599.2**
Society						
Assets						
Loans and advances to credit institutions	1	**208.6**	**–**	**208.6**	**–**	**208.6**
Loans and advances to customers	2	**10,920.6**	**–**	**–**	**10,502.6**	**10,502.6**
Debt securities – amortised cost		**14,131.4**	**14,116.2**	**–**	**–**	**14,116.2**
Liabilities						
Shares	3	**47,056.7**	**–**	**46,976.7**	**–**	**46,976.7**
Amounts due to credit institutions		**1,886.3**	**–**	**1,886.3**	**–**	**1,886.3**
Other deposits		**14,080.2**	**–**	**14,080.2**	**–**	**14,080.2**
Debt securities in issue		**5,517.6**	**5,435.0**	**–**	**–**	**5,435.0**
Subordinated liabilities	4	**1,621.7**	**1,566.8**	**32.4**	**–**	**1,599.2**

Notes to the Financial Statements (continued)

32. Fair values (continued)

2022	Notes	Carrying value £m	Fair values Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Group						
Assets						
Loans and advances to credit institutions	1	814.7	–	814.7	–	814.7
Loans and advances to customers	2	45,203.7	–	–	43,002.8	43,002.8
Debt securities – amortised cost		1,366.6	1,352.3	–	–	1,352.3
Liabilities						
Shares	3	42,008.2	–	41,835.3	–	41,835.3
Amounts due to credit institutions		5,160.9	–	5,160.9	–	5,160.9
Other deposits		1,138.1	–	1,138.1	–	1,138.1
Debt securities in issue		5,259.3	4,807.9	453.8	–	5,261.7
Subordinated liabilities	4	1,035.1	975.7	34.0	–	1,009.7
Society						
Assets						
Loans and advances to credit institutions	1	568.8	–	568.8	–	568.8
Loans and advances to customers	2	11,238.9	–	–	10,678.9	10,678.9
Debt securities – amortised cost		14,914.8	14,798.4	–	–	14,798.4
Liabilities						
Shares	3	42,008.2	–	41,835.3	–	41,835.3
Amounts due to credit institutions		5,160.9	–	5,160.9	–	5,160.9
Other deposits		15,836.3	–	15,836.3	–	15,836.3
Debt securities in issue		6,153.4	6,013.6	–	–	6,013.6
Subordinated liabilities	4	1,035.1	975.7	34.0	–	1,009.7

1. The fair values of all cash in hand, balances with the Bank of England and loans and advances to credit institutions have been measured at par as they are all due in under one year.
2. The fair value of loans and advances to customers is assessed as the value of the expected future cash flows. Future cash flows are projected using contractual interest payments, contractual repayments and the expected prepayment behaviour of borrowers. The resulting expected future cash flows are discounted at current market rates to determine fair value.

   For standard variable rate mortgage products, the interest rate on such products is equivalent to a current market product rate and as such the Group considers the fair value of these mortgages to be equal to their carrying value. Fixed rate mortgages have been discounted using current market product rates. The difference between book value and fair value results from market rate volatility relative to the fixed rate at inception of the loan; in addition to assumptions applied in relation to redemption profiles, which are regularly reviewed and updated where necessary.

   As these redemption profiles are not considered to be observable by the market, then the fair value of loans and advances to customers continues to be a Level 3 valuation technique. Overall the fair value is lower than the carrying value by £1,517.4 million (2022: £2,200.9 million lower), which arises primarily due to the fair value losses being calculated on a lifetime basis for all mortgage accounts.
3. All of the Group's non-derivative financial liabilities are initially recorded at fair value less directly attributable costs and are subsequently measured at amortised cost, except where an adjustment is made to certain fixed rate shares balances that are in hedging relationships. The fair value of shares and deposits that are available on demand approximates to the carrying value. The fair value of fixed term shares and deposits is determined from the projected future cash flows from those deposits, discounted at the current market rates. In 2023, the estimated fair value of share balances, using a Level 2 method, is lower than the carrying value by £80.0 million (2022: £172.9 million lower).
4. The Society accounts include some subordinated liabilities classified as Level 2 as fair values are calculated using a method based on observable market prices. The fair value of subordinated liabilities, which is a fixed rate product, is lower than the carrying value due to the significant increases in market rates over the course of the year.

The table below classifies all financial instruments held at fair value on the face of the Group's balance sheet according to the method used to establish the fair value.

Group	Fair values Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
2023				
Assets				
Debt securities	**27.3**	**–**	**–**	**27.3**
Debt securities – fair value through OCI	**5,195.7**	**–**	**–**	**5,195.7**
Derivative financial instruments	**–**	**1,751.9**	**3.1**	**1,755.0**
Investments	**–**	**–**	**3.3**	**3.3**
Liabilities				
Derivative financial instruments	**–**	**697.4**	**–**	**697.4**
2022				
Assets				
Debt securities	25.5	–	–	25.5
Debt securities – fair value through OCI	4,292.7	–	–	4,292.7
Derivative financial instruments	–	2,344.0	12.5	2,356.5
Investments	–	–	2.8	2.8
Liabilities				
Derivative financial instruments	–	666.3	–	666.3

The Group's Level 1 portfolio of available for sale debt securities comprises liquid securities for which traded prices are readily available.

Some derivative financial instruments are also included within Level 2 as fair values are derived from discounted cash flow models using yield curves based on observable market data.

Level 3 instruments

Derivative financial instruments within Level 3 are interest rate swaps held in the SPVs. These are valued using similar valuation technique as Level 2 derivatives, namely present value calculations using interest rate curves, but these are not based on market observable data.

The interest rate swaps are balance tracking and the swap notional is projected, and changes over time to match the balance of the underlying mortgage portfolio. The changes in the fair value of these instruments from movements in Level 3 parameters related to prepayment risk will largely offset across the interest rate swaps as the Group is hedged across these positions. Sensitivity analysis to the individual Level 3 parameters has not been disclosed on the basis that the Group does not have a significant exposure to these.

Investments classified in Level 3 relate to the Group's holding in equity preference shares. These shares are convertible into common equity shares at various intervals during the life of the instrument, based on a conversion factor set by the issuer. The valuation method therefore uses the quoted share price of the unrestricted stock as a base, applies the current estimated conversion factor as advised by the issuer and applies a discount.

This discount reflects the current illiquidity of the instrument and the risks to changes in the conversion factor between the balance sheet date and the next conversion date. Whilst the valuation is primarily based on an observable market price, the level and significance of the unobservable input relating to the calculation of the discount moves this asset into Level 3.

Changes in the carrying value of Level 3 financial instruments in the period relate to the redemption of a derivative financial instrument and changes in fair value. There have been no changes in methodology, additions or transfers in or out of Level 3 in the year.

Fair value through other comprehensive income and hedging reserve

Amounts within the fair value through other comprehensive income reserve are transferred to the income statement upon the disposal of debt securities. During the year a gain of £1.2 million (2022: £1.9 million loss) was recognised in net realised losses.

Notes to the Financial Statements (continued)

33. Offsetting

In accordance with IAS 32 *'Financial Instruments: Presentation'* the Society must offset in the financial statements financial assets and liabilities where there is a legally enforceable right to offset the recognised amounts and there is the intention to settle these amounts on a net basis.

The Group enters into derivative contracts to mitigate various risks, see note 26 for further details. These derivatives are governed by International Swaps and Derivatives Association (ISDA) master agreements, an agreement is in place with each counterparty the Group transacts derivatives with. These agreements define the terms of how the Group will enter derivative contracts with the counterparty, including any netting arrangements.

In addition to these ISDA agreements the Group has various Credit Support Annexes (CSAs) with counterparties which defines how collateral will be exchanged with a counterparty to mitigate market risk.

The following table shows the impact on the financial statements of these arrangements:

	2023				2022			
	Gross amounts* £m	**Master netting arrangements £m**	**Financial collateral** £m**	**Net amount £m**	Gross amounts* £m	Master netting arrangements £m	Financial collateral** £m	Net amount £m
Group								
Financial assets								
Derivative financial instruments	**1,755.0**	**(479.7)**	**(1,254.5)**	**20.8**	2,356.5	(393.5)	(1,928.5)	34.5
Total financial assets	**1,755.0**	**(479.7)**	**(1,254.5)**	**20.8**	2,356.5	(393.5)	(1,928.5)	34.5
Financial liabilities								
Derivative financial instruments	**697.4**	**(479.7)**	**(103.5)**	**114.2**	666.3	(393.5)	(113.0)	159.8
Total financial liabilities	**697.4**	**(479.7)**	**(103.5)**	**114.2**	666.3	(393.5)	(113.0)	159.8
Society								
Financial assets								
Derivative financial instruments	**1,751.9**	**(479.7)**	**(1,254.5)**	**17.7**	2,323.7	(393.5)	(1,928.5)	1.7
Total financial assets	**1,751.9**	**(479.7)**	**(1,254.5)**	**17.7**	2,323.7	(393.5)	(1,928.5)	1.7
Financial liabilities								
Derivative financial instruments	**584.3**	**(479.7)**	**(103.5)**	**1.1**	507.0	(393.5)	(112.8)	0.7
Total financial liabilities	**584.3**	**(479.7)**	**(103.5)**	**1.1**	507.0	(393.5)	(112.8)	0.7

Collateral is received and paid in the form of cash. Where cash is received from counterparties it is included as a liability in amounts owed to credit institutions. Where cash is paid to a counterparty it is recorded as loans and advances to credit institutions. Cash collateral paid and received is not restricted and is returned at the end of the contract.

* As recognised in the balance sheet
** Collateral is restricted by the value of the related financial asset or liability

34. Related parties

Identity of related parties

The Society has related party relationships with its controlled entities, a joint venture, the pension schemes and key management personnel. The Society considers its key management personnel to be its directors.

Contributions to the pension schemes

The Society paid contributions of £19.3 million to the pension schemes (2022: £16.3 million).

Remuneration of and transactions with directors

Full details of directors' remuneration, including the highest paid director, bonuses and pensions are given in the *Directors' Remuneration Report*. In addition, past directors' pensions in respect of services as directors from the closed scheme amounted to £24,345 (2022: £23,176).

None of the directors of the Society had any equity interest in, or loans to or from, any subsidiary of the Society at any time during the financial year.

A register containing details of loans, transactions and arrangements between the Society and its directors and connected persons is maintained at the head office of the Society. A statement containing the details of this register for 2023 will be available for inspection at the head office by members for a period of 15 days up to and including the date of the annual general meeting.

Key management personnel compensation

The directors of the Society are considered to be the key management personnel as defined by IAS 24 *Related Party Disclosures*. Total key management personnel compensations was as follows:

	2023 £000	2022 £000
Short-term employee benefits	**6,286.5**	2,667.6
Post-employment benefits	**162.0**	118.0
Total key management personnel compensation	**6,448.5**	2,785.6

Key management compensation in 2023 includes amounts paid to key management personnel who both retired and joined the Society during 2023. The number of key management personnel at 31 December 2023 totalled 12 (31 December 2022: 9).

Notes to the Financial Statements (continued)

34. Related parties (continued)

Transactions with key management personnel

Key management personnel and their close family members have undertaken the following transactions with the Society under normal business terms.

	2023		2022	
	No. of key management personnel	**Amounts in respect of key management personnel and their close family £000**	No. of key management personnel	Amounts in respect of key management personnel and their close family £000
Deposit accounts and investments				
At 1 January	**9**	**1,462.5**	11	1,067.7
Net movements in the year	**3**	**(325.9)**	(2)	394.8*
At 31 December	**12**	**1,136.6**	9	1,462.5*

There were no mortgage loan transactions or balances key management personnel and their close family members in 2023 (2022: nil).

Amounts relating to directors who joined or left during the year are included in net movement in the year.

Mortgage loans made to key management personnel and their close family members were granted in the ordinary course of business and are subject to repayment under normal lending terms. The maximum outstanding balances during the year were £nil (2022: £nil).

Amounts deposited by key management personnel and their close family members earn interest at the same rates offered to the public.

Key management personnel and their close family members paid interest totalling £nil (2022: £nil), received interest totalling £27,054 (2022: £6,639), and paid no fees and commissions during the year. Interest paid includes amounts relating to 'offset' mortgages where savings balances are used to reduce the interest-bearing balance of mortgage loans.

* The 2022 deposit account and investment amounts in respect of key management personnel and their close family have been updated in these financial statements.

Transactions with controlled entities

The Society transacts with its controlled entities in the form of intra-group loans and equity shareholdings in the normal course of business. The value of related party transactions and outstanding balances at the year end for the financial year are as follows:

	Shares in subsidiaries £m	Loans to controlled entities £m	Deposits from controlled entities £m
At 1 January 2023	**104.9**	**35,632.1**	**(15,137.3)**
Net movements	**–**	**1,722.3**	**1,465.0**
At 31 December 2023	**104.9**	**37,354.4**	**(13,672.3)**
At 1 January 2022	104.9	32,129.2	(15,075.2)
Net movements	–	3,502.9	(62.1)
At 31 December 2022	104.9	35,632.1	(15,137.3)

The value of related party transactions income and expense for the financial year is as follows:

	2023 £m	2022 £m
Interest revenue on loans	**1,349.0**	475.8
Interest expense on deposits	**(1,182.1)**	(231.4)
Fees and expenses revenue	**87.6**	79.9
Fees and expenses expense	**–**	–
Dividends received	**50.0**	100.0

Other

The Society has a joint-venture investment in Arkose Funding Limited. In 2014, a loan of £4.0 million to Arkose Funding Limited was fully impaired.

Notes to the Financial Statements (continued)

35. Notes to the cash flow statements

	Group 2023 £m	Restated* 2022 £m	Society 2023 £m	Restated* 2022 £m
Depreciation and amortisation	**20.4**	21.8	**20.4**	21.8
Loss/(profit) on sale of assets	**0.3**	(2.4)	**0.3**	(2.4)
Interest on subordinated liabilities	**51.5**	33.7	**51.5**	33.7
Impairment charge/(release) for the year	**4.0**	6.0	**–**	(0.6)
Provision (release)/charge for the year	**(0.6)**	4.2	**(0.6)**	4.2
Non-cash movements on subordinated liabilities	**73.0**	(122.6)	**73.0**	(122.6)
Gain on realisation of debt securities	**(1.6)**	(2.9)	**(1.6)**	(2.9)
Non-cash items included in profit before tax	**147.0**	(62.2)	**143.0**	(68.8)
(Increase)/decrease in operating assets:				
Change in loans and advances to customers and related fair value adjustments for hedged risk, excluding impairment	**(2,509.0)**	(1,779.0)	**(574.5)**	1,726.6
Investments	**(0.5)**	2.6	**(1,722.8)**	(2,603.8)
Derivative financial assets	**588.3**	(1,867.6)	**558.6**	(1,906.2)
Other assets	**(16.0)**	(3.2)*	**(42.6)**	(39.6)*
Net increase in operating assets	**(1,937.2)**	(3,647.2)	**(1,781.3)**	(2,823.0)
Increase/(decrease) in operating liabilities:				
Shares	**5,048.5**	6,501.8	**5,048.5**	6,501.8
Amounts owed to credit institutions	**(3,274.6)**	(928.9)	**(3,274.6)**	(928.9)
Non cash movements on debt securities	**84.6**	(117.9)	**23.1**	21.6
Other deposits	**(154.5)**	264.6	**(1,756.1)**	274.2
Derivative financial liabilities	**31.1**	393.6	**77.3**	326.1
Other liabilities and provisions	**9.6**	(18.5)*	**25.2**	2.3*
Net increase in operating liabilities	**1,744.7**	6,094.7	**143.4**	6,197.1

* The classification of these two lines have been corrected in 2023, moving them to their current position. Both line items were previously reported within the "Non-cash items included in profit before tax" section.

This has had the following impacts on the sub-totals in Note 35 and, accordingly, on the Statement of Cashflows. Both have been restated as a result.

Group
- Reduced the "Non-cash items included in profit before tax" by £21.7 million, from (£83.9 million) to (£62.2 million)
- Increased the "Net increase in operating assets" by £3.2 million, from (£3,644.0 million) to (£3,647.2 million)
- Reduced the "Net increase in operating liabilities" by £18.5 million, from £6,113.2 million to £6,094.7 million

Society
- Reduced the "Non-cash items included in profit before tax" by £37.3 million, from (£106.1 million) to (£68.8 million)
- Increased the "Net increase in operating assets" by £39.6 million, from (£2,783.4 million) to (£2,823.0 million)
- Increased the "Net increase in operating liabilities" by £2.3 million, from £6,194.8 million to £6,197.1 million

In all cases, there is no impact on the "Net cash from operating activities" line in the Statement of Cashflows as the impacted lines all form part of that sub-total.

The following table reconciles liabilities arising from financing activities.

Liabilities from financing activities	Brought forward £m	**Cash flows** Redemption £m	Issue £m	**Non-cash changes caused by:** Foreign exchange £m	Accrued interest £m	Fair value and other movements £m	**Carried forward** £m
2023 – Group							
Debt securities in issue	5,259.3	**(1,423.7)**	**999.2**	**(58.6)**	**3.4**	**139.8**	**4,919.4**
Subordinated liabilities	1,035.1	**(136.4)**	**650.0**	**–**	**6.6**	**66.4**	**1,621.7**
Total	6,294.4	**(1,560.1)**	**1,649.2**	**(58.6)**	**10.0**	**206.2**	**6,541.1**
2022 – Group							
Debt securities in issue	5,890.9	(1,225.2)	711.5	198.6	6.9	(323.4)	5,259.3
Subordinated liabilities	857.7	–	300.0	–	2.3	(124.9)	1,035.1
Total	6,748.6	(1,225.2)	1,011.5	198.6	9.2	(448.3)	6,294.4
2023 – Society							
Debt securities in issue	6,153.4	**(1,165.4)**	**506.5**	**(52.1)**	**1.7**	**73.5**	**5,517.6**
Subordinated liabilities	1,035.1	**(136.4)**	**650.0**	**–**	**6.6**	**66.4**	**1,621.7**
Total	7,188.5	**(1,301.8)**	**1,156.5**	**(52.1)**	**8.3**	**139.9**	**7,139.3**
2022 – Society							
Debt securities in issue	4,993.7	(773.4)	1,911.5	168.8	8.0	(155.2)	6,153.4
Subordinated liabilities	857.7	–	300.0	–	2.3	(124.9)	1,035.1
Total	5,851.4	(773.4)	2,211.5	168.8	10.3	(280.1)	7,188.5

OTHER INFORMATION

Annual Business Statement

1. Statutory percentages

	2023	2022	**Statutory limit**
	%	%	%
Lending limit	**6.4**	5.3*	25.0
Funding limit	**14.2**	21.6	50.0

The above percentages have been calculated in accordance with the provisions of the *Building Societies Act 1986*.

The Lending limit measures the proportion of business assets not in the form of loans fully secured on residential property. The Funding limit measures the proportion of shares and borrowings not in the form of shares.

The statutory limits are as laid down under the *Building Societies Act 198*6 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

	2023 %	2022 %
As a percentage of shares and borrowings:		
Gross capital	**9.70**	8.27
Free capital	**9.46**	8.05
Liquid assets	**23.34**	23.30
Profit after taxation for the financial year as a percentage of mean total assets	**0.55**	0.68
Management expenses as a percentage of mean total assets	**0.56**	0.54

The above percentages have been prepared from the Group financial statements and further details on the above percentages can be found in the *Glossary*.

* The 2022 lending limit has been updated in these financial statements.

Annual Business Statement (continued)

3. Information relating to the directors at 31 December 2023

Director name and date of birth	Business occupation	Date of appointment	Other Directorships
J R Heaps, LLB 8 July 1953	Chair of the Board	20 November 2014	None
A V F Durbin, BComm LLB MSc 9 October 1963	Chair of the Board Designate	18 December 2023	Persimmon PLC Petershill Partners plc
S M Allen, OBE, BA Hons (Econ) ACIB ACT 1 September 1966	Chief Executive	2 March 2023	Alzheimer's Society
G L T Bainbridge, MA (Cantab), ACA 13 September 1960	Non-Executive Director	1 January 2019	ICE Clear Europe Limited Manulife Financial Corporation The Manufacturers Life Insurance Company
A J Darlington, BSC FIA 7 May 1968	Non-Executive Director	26 April 2022	Rothesay Life Plc Rothesay Limited
D J Davies, BA (Hons) 8 February 1963	Non-Executive Director	26 July 2023	AXA UK Plc AXA PPP Healthcare Limited AXA Insurance UK Plc Intrum AB (Sweden)
A E Hutchinson, CBE, BSc 5 February 1967	Charity Chief Executive	4 February 2015	DFS Furniture plc Foresight Group Holdings Limited Your Penny Limited
A B Lenman, MA, ACMA 25 December 1969	Chief Finance Officer and Executive Director	4 December 2017	YBS Pension Trustees Limited Arkose Funding Limited
D Matta, BSc, BA 15 May 1962	Non-Executive Director	27 April 2021	Fat Fractal Inc
D E T Morris, BA (Hons), MA 26 September 1983	Chief Commercial Officer and Executive Director	1 January 2022	Accord Mortgages Limited BCS Loans & Mortgages Limited Chelsea Mortgage Services Limited Norwich and Peterborough Insurance Brokers Limited
M A Parsons, BA, FCMA 24 October 1961	Non-Executive Director	20 October 2020	Fairstone Capital Group Limited Fairstone Private Wealth Limited
J L Tilling, BBus, BA 19 June 1969	Non-Executive Director	1 November 2021	Marketing with Insight Limited Camelot UK Lotteries Limited Shaftesbury Plc Guide Dogs for the Blind Association (The)

Mr A.B. Lenman entered into a contract on 28 September 2017 and was appointed to the Board on 4 December 2017 – his mutual contractual notice period is six months.

Mr Morris entered into a contract on 25 June 2018 and was appointed to the Board on 1 January 2022 – his mutual contractual notice period is twelve months.

Ms Allen entered into a contract on 5 August 2022 and was appointed to the Board on 2 March 2023 – her mutual contractual notice period is twelve months.

Documents may be served on the above named directors: Ref. 'Yorkshire Building Society' c/o PricewaterhouseCoopers LLP at the following address: Central Square, 29 Wellington Street, Leeds, LS1 4DL.

4. Registered office

Yorkshire Building Society is a building society incorporated and domiciled in the United Kingdom. The address of the principal office is Yorkshire House, Yorkshire Drive, Bradford, BD5 8LJ.

Country-by-Country Report

Disclosure requirements under CRD IV country-by-country reporting

We are required to disclose the following information in our Annual Report and Accounts to comply with the Regulations of Article 89 of the Capital Requirements Directive IV (CRD IV) country-by-country reporting (CBCR).

This regulation requires us to disclose financial information by country. Yorkshire Building Society has a number of subsidiaries; these can be found in note 8 to these financial statements.

All the activities of Yorkshire Building Society and its subsidiaries (together, 'the Group') are conducted in the United Kingdom.

Country	Nature of activities	Number of employees (average full time equivalent)	Turnover (note i) £m	Profit before tax £m	Corporation tax paid £m
United Kingdom	Provision of financial services	3,058	786.0	450.3	101.0

i) Turnover represents 'total income' on the Group's income statement as disclosed in the Group's Annual Report and Accounts.

No public subsidies were received by the Group in 2023.

Basis of preparation

The Group's CBCR disclosure has been prepared to comply with the Regulations. The requirements place certain reporting obligations on financial institutions that are within the scope of CRD IV. CBCR requires annual publication of certain statutory information on a consolidated basis, by country, where an institution has a subsidiary or branch.

The CBCR disclosure has been prepared solely to comply with the requirements of the Regulations and may not be relied on for any other purpose.

Full-time equivalent employees

The figures disclosed above represent the average number of FTE's all of which were employed in the UK.

Turnover and Profit before tax

Turnover and profit before tax are compiled from the Yorkshire Building Society Group consolidated financial statements for the year ended 31 December 2023, which are prepared in accordance with IFRS.

Corporation tax paid

Corporation tax paid represents the net cash taxes paid during 2023. Corporation tax paid is reported on a cash basis and will normally differ from the tax expenses recorded for accounting purposes due to:

- Timing differences in the accrual of the tax charge
- Brought forward losses from previous years
- Other differences between when income and expenses are accounted for under IFRS and when they become taxable.

Independent auditors' report

to the directors of Yorkshire Building Society

Report on the audit of the country-by-country information

Opinion

In our opinion, Yorkshire Building Society's country-by-country information for the year ended 31 December 2023 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2023 in the Country-by-Country Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the basis of preparation note of the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance;
- Evaluation of management's going concern assessment;
- Review of regulatory correspondence and reports provided to governance forums; and
- Evaluation of the appropriateness of the relevant disclosures in the financial statement.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in the basis of preparation note to the country-by-country information and accounting policies in the Group and Society financial statements, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this country-by-country information.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to determined that the principal risks were related to posting manual journal entries to manipulate financial performance and the application of management bias in the assumptions underpinning significant accounting estimates. Audit procedures performed included:

- Enquiries of management, those charged with governance and the Group's in-house legal counsel throughout the year, including consideration of known or suspected instances of non-compliance with laws and regulations;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Review of internal audit reports throughout the year, in so far as these related to the financial statements;
- Review of correspondence with, and reports to, the PRA and FCA;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging estimates and judgements made by management in forming significant accounting estimates in particular those relevant to the key audit matters below; and
- Identifying and testing any higher risk manual journal entries.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the company's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

28 February 2024

Glossary

The following glossary defines terminology used within the Annual Report and Accounts:

Additional Tier 1 (AT1) capital	Capital that meets certain criteria set out in CRD IV. In particular, the criteria require that upon the occurrence of a trigger event, the AT1 capital instrument converts to a form of Common Equity Tier 1 capital or the principal is written down on a permanent basis.
Arrears	Amounts unpaid at their contractual date. A customer is in arrears when they fall behind in meeting their obligations to pay their mortgage.
Buy-to-let (BTL) mortgages	Lending on property that is rented out to individuals.
Capital Requirements Directive (CRD) & Capital Requirements Regulation	European legislation that defines the regulatory capital framework in the UK. The latest legislation – the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) (together commonly referred to as CRD IV) came into effect from 1 January 2014.
Collateral (for loans and advances to customers)	Security (property) pledged for the repayment of a loan. Collateral is valued as the lower of the value of the property or the outstanding loan amount.
Commercial lending	Secured loans to a commercial borrower.
Common Equity Tier 1 (CET1) capital	The highest quality regulatory capital resources, comprising retained earnings less regulatory adjustments, as defined under CRD IV. Equivalent to Core Tier 1 defined under previous CRD legislation.
Contractual maturity	The final payment date of a loan or financial instrument, at which all the outstanding loan and interest is repayable.
Council of Mortgage Lenders (CML)	A not-for-profit organisation and trade association for the mortgage lending industry.
Covered bonds	A type of wholesale funding backed by cash flows from mortgages that are segregated from the issuer's other assets to be solely for the benefit of the holders of the covered bonds.
Credit Valuation Adjustment (CVA)	The risk of financial loss arising from a failure of a customer or counterparty to settle their financial and contractual obligations as they fall due. These are adjustments applied to the fair values of derivatives to reflect the creditworthiness of the counterparty.
Cross currency interest rate swap	An arrangement in which two parties exchange equivalent principal amounts of different currencies at inception and subsequently exchange interest payments on the principal amounts. At the maturity of the swap, the principal amounts are re-exchanged at the original rates.
Currency risk	The exposure to risk from assets and liabilities denominated in currencies other than Sterling.
Debt securities in issue	Transferable certificates of indebtedness including certificates of deposits and fixed and floating rate notes.
Debit Valuation Adjustment (DVA)	These are adjustments applied to the fair values of derivatives to reflect the entity's own credit risk.
Defined Benefit Obligation	The present value of expected future benefit payments resulting from past service of employees in the defined benefit pension plan.
Derivative financial instruments	Contracts or agreements whose value is derived from one or more underlying prices, rates or indices inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices. Examples of derivatives include interest rate swaps, forward rate agreements and futures.
Effective interest rate	The method used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows (excluding credit losses) to zero, through the expected life of the instrument.
Encumbered assets	Assets on the balance sheet which are pledged in order to secure, collateralise or credit-enhance a financial transaction from which they cannot be freely withdrawn.

Expected credit losses	An estimate of the potential losses on current exposures due to potential defaults.
Exposure	The maximum loss that a financial institution might suffer if a borrower or counterparty fails to meet its obligations to the Group.
Exposure at default (EAD)	An estimation of the amount of exposure that will be outstanding at the time of default.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.
Financial Conduct Authority (FCA)	The UK conduct regulator which is responsible for regulation of conduct in retail, as well as wholesale, financial markets and the infrastructure that supports those markets. The FCA's objective is to protect consumers, promote competition and enhance market integrity.
Financial Ombudsman Service (FOS)	An independent service which provides a service for settling disputes between financial services providers and their customers.
Forbearance	The Group grants concessions to assist borrowers who experience difficulties in meeting their obligations to pay their mortgage. Examples of forbearance tools are described in note 31.
Free capital	The aggregate of gross capital and collective impairment provision less property, plant and equipment, intangible assets and investment properties.
Gross capital	The aggregate of general reserve, hedging reserve, available for sale reserve, subordinated liabilities and subscribed capital.
Impaired loans	Loans which have been assessed and there is evidence to suggest a measurable decrease in the present value of cash flows expected from the loans that have occurred after initial recognition of the asset, but before the balance sheet date.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Group's internal assessment of the levels of liquidity that need to be held by the Society to meet its regulatory liquidity requirements.
Interest rate swap	An arrangement under which two counterparties agree to exchange periodic interest payments based on a predetermined notional principal amount.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's internal assessment of the levels of capital that need to be held by the Society to meet its regulatory capital requirements.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).
Level 1 High Quality Liquid Assets (HQLA)	Assets which can be easily and immediately converted into cash at little or no loss of value.
Liquidity Coverage Ratio (LCR)	A liquidity metric which aims to ensure that a firm maintains an adequate level of liquidity to meet its needs for a 30 calendar day time horizon under a severe stress scenario.
LIBOR (London Interbank Offered Rate)	A benchmark interest rate which banks can borrow funds from other banks in the London interbank market. Due to the IBOR reform this has been phased out during 2021, with the exception of USD LIBOR that will be phased out by cessation date of June 2023.
Liquid assets	The total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities and other liquid assets.
Liquidity risk	The risk that the Group does not hold sufficient liquidity, in terms of quantity and quality, to meet its liabilities as they fall due.
Loan-to-value (LTV)	A ratio showing outstanding loan balance as a percentage of the value of the security.
Loss given default (LGD)	An estimate of the difference between exposure at default (EAD) and the net amount of the expected recovery expressed as a percentage of EAD.
Loss given possession	The loss that is expected to crystallise when a repossessed property is sold.

Glossary (continued)

Management expenses	The aggregate of administrative expenses, depreciation and amortisation.
Market Risk	The risk that the value of, or income derived from, the Group's assets and liabilities changes unfavourably due to movements in interest rates or foreign currency rates.
Mean total assets	The amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
Medium-term notes (MTN)	Corporate notes continuously offered by a company to investors through a dealer. Investors can choose from differing maturities.
Member	A person who has a share account or a mortgage loan with the Society.
Minimum Requirement for Eligible Liabilities (MREL)	The minimum requirements a financial institution must hold to meet the loss absorption and recapitalisation components if an institution were to fail.
Net interest income	The difference between the interest received on assets and the interest paid on liabilities.
Net interest margin	The ratio of net interest income as a percentage of mean total assets.
Operational risk	The risk of direct and indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.
Other income	The income received from selling non-mortgage and savings products (e.g. home and contents insurance, investment products and other insurances).
PRA Remuneration Code	Guidance provided by the PRA on directors' remuneration.
Probability of default (PD)	An estimate of the probability that a borrower will default on their credit obligations.
Probability of possession	The likelihood of an account moving into possession. This is used when calculating loan loss provisions.
Prudential Regulation Authority (PRA)	The UK prudential regulator, which is a part of the Bank of England and alongside the FCA has responsibility for the oversight of building societies, banks and insurers. The PRA's objective is to promote the safety and soundness of regulated firms.
Repossessions	Property taken into ownership by the Society as a result of the borrower's failure to make contractual loan repayments.
Residential Mortgage Backed Securities (RMBS)	An asset backed security that represents a claim on the cash flows from residential mortgage loans through a process known as securitisation.
Risk appetite	The level of risk that the Group is willing to take (or not take) in order to safeguard the interests of members whilst achieving business objectives.
Risk weighted assets	A regulatory measure that adjusts the value of assets to reflect their level of risk when calculating capital requirements.
Securitisation	A process by which a group of assets, usually loans, are aggregated into a pool which is used to back the issuance of debt securities in issue. A firm transfers these assets to a special purpose vehicle which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities and uses residential mortgages as the asset pool.
Shares	Money deposited by members in a retail savings account with the Society and held as a liability in the balance sheet.
Shares and borrowings	The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.
SONIA (Sterling Overnight Interbank Average)	An index that tracks actual market overnight funding rates calculated as a weighted average overnight deposit rate for each business day.

Subordinated liabilities	Tier 2 capital that is subordinated to the claims of all depositors, creditors and members holding shares in the Society (other than holders of PIBS).
Term Funding Scheme with additional incentives for small and medium sized entities (TFSME)	A scheme launched by the Bank of England designed to boost lending to households and businesses by providing term funding to banks and building societies participating in the scheme at rates close to Bank Rate.
Tier 1 (T1) capital	The sum total of Common Equity Tier 1 and Additional Tier 1 capital.
Tier 1 capital ratio	The ratio of Tier 1 capital to risk weighted assets.
Tier 2 (T2) capital	A measure of regulatory capital that includes subordinated liabilities and provisions for collective impairment, less regulatory adjustments.
Total capital	The total capital resources, including retained earnings, PIBS and subordinated liabilities, less regulatory adjustments.
Total capital ratio	The ratio of total capital to risk weighted assets.
UK Corporate Governance Code	The UK code on corporate governance, published by the Financial Reporting Council in October 2012 which sets out standards of good practice in relation to Board leadership and effectiveness, accountability and remuneration. Reporting in relation to these accounts is based on the version of the Code published in July 2018 (with the most recent Code published in January 2024 beginning to apply from accounting years after 1 January 2025).
Value at Risk (VaR)	A risk management tool which evaluates the potential losses that may be incurred as a result of movements in market conditions over a specified holding period and to a given level of confidence.
Watch list	The watch list is used by the commercial lending team to flag those loans where there are circumstances which could impact on the quality and safety of the loan.
Wholesale funding	The funding that is available between banks and other financial or commercial institutions. Examples of wholesale funding include covered bonds, deposits and government guarantees.

Glossary (continued)

The following glossary defines Alternative Performance Measures (APM) used within the Annual Report and Accounts:

APM	Calculation of Measure	Reconciling items to statutory measure	Definition and purpose
Income Statement measures			
Core operating profit	Profit before tax adjusted for one-off items.	A full reconciliation between profit before tax as shown in the income statement and core operating profit is shown in the *Strategic Report*.	Core operating profit excludes items such as fair value volatility and material one-time charges that do not reflect the Group's day-to-day activities. Our Board considers core operating profit to be a more appropriate measure of the underlying performance of the business and this is how financial performance is reported to and assessed by the Board.
Cost to core income ratio	Management expenses as a percentage of core income.	Management expenses = administrative expenses plus depreciation and amortisation per the income statement. Core income = total income less gains/(losses) from financial instruments held at fair value per the income statement.	This is a measure of the Group's costs in relation to its income excluding fair value volatility. This is used by the Group to monitor and manage its overall cost position and understand how efficient the Group is at generating income on an underlying basis.
Cost to income ratio	Management expenses as a percentage of total income.	Management expenses = administrative expenses plus depreciation and amortisation per the income statement. Total income as per the income statement.	This is an industry-standard measure of the Group's costs in relation to its income. This is used by the Group to monitor and manage its overall cost position and understand how efficient the Group is at generating income.
Management expense ratio	Management expenses (the aggregate of administrative expenses, depreciation and amortisation) as a percentage of mean total assets.	Administrative expenses and depreciation and amortisation (management expenses) are as shown in the income statements. Mean total assets are calculated by taking the average of the value of the opening balance for the year and the value of the closing balance, as shown in the Statements of Financial Position.	This is an industry-standard ratio of the Group's costs as a proportion of its mean assets during the year, and is used to measure how efficient the Group is at maintaining its asset base.
Net interest margin	Net interest income as a percentage of mean total assets.	Net interest income is as shown in the income statements. Mean total assets are calculated by taking the average of the value of the opening balance for the year and the value of the closing balance, as shown in the Statements of Financial Position.	This is an industry-standard measure of the relationship between net interest income (the difference between the interest received on assets and the interest paid on liabilities) and assets. This is a key measure used by the Board to monitor how the Group manages income from its assets and interest paid on funding.
Balance Sheet items			
Asset growth	Total assets at the end of the year less total assets at the start of the year.	Total assets are as shown in the Statements of Financial Position.	Movement in total asset over the period.
Average savings rate differential	None	Not applicable	Calculates the average savings rate applied to the Group's savings accounts during the period versus the average UK savings interest rates for the rest of the market, based on savings stock from CACI's Current Account and Savings Database (CSDB), based on stock value. This is used to assess how much the Group is paying out in interest in comparison to peers.
Gross lending	None	Not applicable	The total value of mortgage loans advanced by the Group in the period, including loans for house purchase, further advances, re-mortgages etc.
Lending to first time buyers	None	Not applicable	The total value of mortgage loans advanced by the Group in the period to first time home buyers. This measure displays how the Group is helping people overcome the challenge of buying their first property.

APM	Calculation of Measure	Reconciling items to statutory measure	Definition and purpose
Liquidity ratio	Cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities as a percentage of shares and borrowings.	Cash in hand, balances with the Bank of England, loans and advances to credit institutions, debt securities, and shares are as shown in the Statements of Financial Position. Borrowings comprise amounts owed to credit institutions, other deposits and debt securities in issue, also as shown in the Statements of Financial Position.	The liquidity ratio measures those assets available to meet requests by savers to withdraw their money, to fund mortgage advances and to fund general business activities. It expresses cash and assets easily converted into cash as a percentage of the Group's liabilities to investors.
Loan to deposit ratio	Loans and advances to customers as a percentage of shares and other retail customer deposits.	Not applicable	This is an industry-standard measure of the relationship between Loans and advances to customers and retail customer deposits.
Mortgages funded by retail savings and retained profits	Shares and total reserves as a percentage of loans and advances to customers.	Shares, total reserves and loans and advances to customers are as shown in the Statements of Financial Position.	The retail savings and reserves to mortgages ratio shows the extent to which the Group is dependent on financing from the wholesale markets.
Mortgage balance growth	Loans and advances to customers at the end of the year less loans and advances to customers at the start of the year.	Loans and advances to customers are as shown in the Statements of Financial Position.	Movement in mortgage balances including impairment provisions and fair value accounting adjustments over the period.
Net lending	Loans and advances to customers at the end of the year less loans and advances to customers at the start of the year, excluding movements in provisions and accounting adjustments detailed in note 12.	Mortgage growth less movements in provisions and accounting adjustments detailed in note 12.	Net lending represents gross lending less repayment of principal and redemptions and is a key measure to monitor the Group's overall lending performance. This measures our effectiveness in both new mortgage lending and in retaining borrowers.
Number of accounts more than three months in arrears	None	Not applicable	The number of mortgage accounts where the amount of arrears is greater than three monthly payments, or the account is in possession, as a proportion of the total number of mortgage accounts. The industry average for mortgage arrears is measured as the number of accounts more than three months in arrears (including possessions). We produce this KPI to assess how our level of mortgage arrears compares to the market.
Percentage of outstanding retail mortgage balances in arrears by three months or more	None	Not applicable	The percentage of mortgage account balances where the amount of arrears is equal to or greater than three monthly payments, or the account is in possession, as a proportion of the entire mortgage book. This measures the overall quality of our mortgage book.
Retail Savings balance growth	Shares at the end of the year less shares at the start of the year.	Shares are as shown in the Statements of Financial Position.	Movement in overall savings balances over the period, including capitalised interest and accounting adjustments.
Savings inflow/outflow	None	Not applicable	Displays the cash in/out of savings accounts held, excluding capitalised interest. The Group uses this to monitor its main funding source throughout the year.
Share of the gross mortgage market	None	Not applicable	Displays the Group's total gross lending as a percentage of the gross lending in the UK housing market by banks, building societies and other lenders as measured by the Council of Mortgage Lenders (CML), which represents 97% of the UK mortgage market. From 1 July 2017 the Council of Mortgage Lenders integrated into a new trade association, UK Finance.

Glossary (continued)

APM	Calculation of Measure	Reconciling items to statutory measure	Definition and purpose
Regulatory Measures			
Common Equity Tier 1 (CET1) capital ratio	None	Common equity tier 1 capital ratio is defined as a percentage of risk weighted assets.	This ratio represents the relationship between the strongest form of capital (primarily accumulated profits that have built up over time) and assets, weighted by the level of risk they carry. It is a regulatory-defined ratio whose purpose is to ensure that institutions are able to absorb unexpected losses. It is a key measure of financial sustainability.
Leverage ratio	Reserves as a percentage of total assets.	Leverage ratio measures the Society's Tier 1 capital as a percentage of total assets adjusted for certain off-balance sheet exposures. The CRR leverage ratio is defined by the EU's Capital Requirements Regulation, while the UK leverage ratio modifies this ratio to exclude Central Bank reserves.	The leverage ratio is also a regulatory-defined ratio used to assess capital adequacy, but removes the risk-weighting element of assets. It is therefore a more simplified measure of financial sustainability.
Total capital ratio	None	Total capital ratio is defined as a percentage of risk weighted assets.	This measure is used to assess the total amount of capital the Group retains compared to its risk weighted assets, hence it includes externally issued capital. It is also defined by the regulatory authorities.
Non-financial measures			
Absenteeism	None	Not applicable	This indicator is for measuring the average absenteeism rate, as a % of the total working days. This KPI can be an indicator of colleague motivation as a high absence rate may indicate poor motivation and engagement.
Colleague engagement score	None	Not applicable	Our annual colleague engagement survey is used to calculate an engagement score which helps to understand our people's needs and what will lead to their enjoyment and commitment in work.
Net Promoter Score (NPS)	None	Not applicable	NPS is a measure of how willing customers are to recommend the Group to others. It measures the difference between the percentage of 'promoters' (those willing to recommend the Group to others) and 'detractors' (those unwilling to recommend the Group). The score can range from -100 if all customers are 'detractors' to +100 if all customers are 'promoters'. The Group uses this as a key measure of customer satisfaction with our products and service.
Peakon survey result	None	Not applicable	This is an external benchmarking exercise conducted by Peakon, involving an employee survey and a culture audit. The Group uses this measure to understand how successful we are at delivering our vision as a workplace where our people can give their best and thrive. This is monitored annually and reported to the Board as a colleague engagement measure.

Forward-looking statements

This document contains certain forward-looking statements, which are made in good faith based on the information available up to the time of the 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.

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