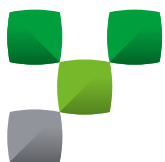




# BUILDING OUR SOCIETY AROUND YOU



**YORKSHIRE  
BUILDING  
SOCIETY**



**YORKSHIRE BUILDING SOCIETY**  
Annual Report and Accounts 2020



Our purpose is to provide *Real Help with Real Life*. We do this by helping people find a place to call home, improve their financial wellbeing and by creating value for our members, our colleagues and our communities. Our purpose-driven strategy puts these stakeholders at the very centre of how we run the Society.



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# WELCOME

2020 has been a challenging year for all of us. The COVID-19 pandemic has had deep and far-reaching consequences for the physical, emotional and financial wellbeing of the UK and many of our customers and colleagues have been directly impacted. Throughout the year, the Yorkshire Building Society has prioritised the key services that we provide and the health and safety of our customers, colleagues and all other stakeholders. **We are proud of the work that we have done to support our communities and remain guided by our purpose – to provide *Real Help with Real Life*.**

COVID-19 has led to many challenges. Changing customer needs, as well as our commitment to providing safe working environments, have tested our operational resilience. Some change programmes have been delayed by both working restrictions and the prioritisation of resources. And we have invested significant sums into our resources and premises.

Despite all of this, through the combined efforts of our colleagues, we have delivered a strong set of financial results and excellent strategic progress. We have chosen to carry higher levels of liquidity than in previous years, we continue to hold levels of capital comfortably in excess of our regulatory requirements and profitability is broadly in line with 2019. We have continued to simplify our business and have, once again, reduced our overall cost base while still growing both our mortgage and savings balances.

We have also refreshed our strategy. Our purpose of *Real Help with Real Life* remains constant and we have established an ambitious and challenging programme of transformation that will lead to significant improvements in both customer experience and efficiency through investment in technology. Our first deliverables under this programme included the launch of our customer app in 2020 and investments in processes to reduce our use of paper, which also supports our environmental commitments.

This remains a challenging time for savers, with the reduction in base rates to a historic low of 0.1% leading to further reductions in savings rates across the market as well as for our own members. Our strong financial performance has enabled us to increase, in January 2021, the rates we pay to over 1.6m of our members.

There are still substantial challenges for the Society to address. The COVID-19 pandemic poses significant economic threats and operational challenges and whilst we always prioritise risk management and business continuity it is likely that new and unexpected challenges will continue to arise. The economic impacts of Brexit remain uncertain as the practical consequences of the new trading arrangement are worked through in detail.

**The Yorkshire Building Society goes in to 2021 in a position of financial strength, with robust risk management and an enduring commitment to serving our customers, communities and wider stakeholders.**



**Our strong financial performance has enabled us to increase, in January 2021, the rates we pay to over 1.6m of our members.**



# PERFORMANCE AT A GLANCE

## Member value

### We are here to deliver long term value to our members.

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

#### Statutory Profit before tax

**€161.3m**

€167.2m in 2019

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

#### Core Operating Profit<sup>1</sup>

**€170.5m**

€184.6m in 2019

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

#### Cost to core income ratio<sup>1</sup>

**59%**

60% in 2019

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

#### Common Equity Tier 1 ratio

**16.7%**

16.6% in 2019

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

#### Liquidity ratio

**19.2%**

13.8% in 2019

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

#### Leverage ratio

**5.9%**

5.8% in 2019

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

#### Average savings rate paid

**0.78%**

1.09% over 2019

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

#### Net Promoter Score (NPS®)<sup>2</sup>

**+53**

+51 in 2019

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

#### Carbon Footprint

**+4%**

-17% over 2019

This shows how much our carbon emissions have changed.

<sup>1</sup> Definitions of alternative performance measures are provided on pages 226 to 229

<sup>2</sup> Net Promoter Score and NPS are trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.

## Place to call home

### We are here to help people have a place to call home.

This includes people choosing us to be their mortgage provider, people renting from our customers who are buy-to-let landlords and people living in housing association accommodation we have funded.

#### Gross lending

**£7.1bn**  
£7.9bn in 2019

The amount we have lent to customers towards the value of their property over the period.

#### Gross mortgage market share

**2.8%**  
2.9% in 2019

This represents our share of all new lending in the UK housing market.

#### Growth in mortgage balances

**2.1%**  
3.5% in 2019

This represents the growth in our overall mortgage balance over the period.



## Financial wellbeing

### We are here to help people towards greater financial wellbeing.

This includes customers choosing to build up their savings with us, directly or through our partners, or people who have benefited from financial literacy and employability support through our Money Minds and Career Minds community programmes.

#### Savings accounts opened

**227,000**  
243,000 in 2019

The number of new accounts opened by members over the period.

#### Savings market share

**1.88%**  
1.96% in 2019

This reflects our share of the UK savings market.

#### Retail savings balances

**£33.4bn**  
£30.7bn in 2019

This shows the total deposits we use to fund the mortgages we offer to our customers.

#### Average savings rate differential vs. market average

**0.17%**  
0.34% in 2019

The differential between the average market rate and the average rate paid to members.

# PERFORMANCE AT A GLANCE

## Awards

We are delighted that our work to deliver on our purpose has been recognised by our customers and industry experts, who have chosen to honour the Society and its colleagues with high-calibre awards throughout 2020.

### Mortgages



AWARDS	ACCOLADE
<b>Moneynet Personal Finance Awards</b>	Best Offset Mortgage Provider
<b>Moneynet Personal Finance Awards</b>	Best First Time Buyer Mortgage Provider
<b>Moneynet Personal Finance Awards</b>	Best Overall Mortgage Provider
<b>2020 Moneyfacts Awards</b>	Best Building Society Mortgage Provider
<b>Mortgage Finance Gazette Awards</b>	Lenders' Innovation Award
<b>Mortgage Finance Gazette Awards</b>	Lenders' Customer Service / Treating Customers Fairly Award
<b>Financial Adviser Service Awards</b>	5* Rating for Service
<b>Fairer Finance</b>	Gold Ribbon for Mortgages Customer Experience

### Savings



AWARDS	ACCOLADE
<b>Moneynet Personal Finance Awards</b>	Best Building Society Savings Provider
<b>Yorkshire Financial Awards</b>	Savings Provider of the Year
<b>2020 Moneyfacts Awards</b>	Best Building Society Savings Provider
<b>Fairer Finance</b>	Gold Ribbon for Savings Customer Experience



## Community



### AWARDS

**2020 Third Sector Business Charity Awards**

### ACCOLADE

Charity Partnership - Financial Services Category

## Culture



### AWARDS

**Working Families**

### ACCOLADE

Top 30 Employers for Working Families

**National Centre for Diversity**

National Centre for Diversity Top 100 Index

**Inclusive Companies**

Inclusive Top 50 UK Employer

## Communications\*



### AWARDS

**Award of Excellence - National**

### ACCOLADE

Game Changer – Our Strategy: Unplugged

**Award of Excellence - Central and North**

Best Campaign – My Benefits

**Award of Excellence - Central and North**

Stand Out Communication – Our Strategy: Unplugged

## Reward



### AWARDS

**The Rewards**

### ACCOLADE

Best Reward Strategy

**IoIC Award of Excellence - National**

Raising the Roof

\*Institute of Internal Communications (IoIC)

# CHAIRMAN'S WELCOME

**JOHN HEAPS**



# Continuing to provide Real Help with Real Life

I am pleased to present our 2020 Annual Report and Accounts. Once again, I am able to report a strong set of financial results and excellent progress against our strategic plan, despite operating in perhaps one of the more challenging years in our Society's long history.

We have been a mutual business for more than 150 years, owned by our members. Since the very beginning, we have been driven by our social purpose, reflecting and cementing the commitment to the people who trust us with their savings and their mortgages. This year, in particular, we have demonstrated the strength and resilience of our mutual ownership business model.

Our purpose is to provide Real Help with Real Life. We do this by helping people find a place to call home, improve their financial wellbeing and by creating value for our members, our colleagues and our communities. Our purpose-driven strategy puts these stakeholders at the very centre of how we run the Society.

Working together to achieve these aims is how we make our most impactful contribution to society. In 2020 our purpose formed the foundation of how

we responded to one of the most far and deep reaching health, social and economic crises in living memory – the COVID-19 pandemic.

It was the driving force behind our operational priorities during this very challenging year: keeping members in their homes, protecting their savings, providing them with the essential financial services many needed at the time, and safeguarding our colleagues' health and wellbeing.

Whilst our purpose endures, the needs of our customers, our competitive environment and the external risk context are all subject to increasingly rapid change. During 2020 the Board reviewed the strategic priorities, culture and behaviours that will enable us to continue to deliver on our purpose. Taken together, we describe our purpose, priorities and behaviours as our strategic blueprint. Underpinning our blueprint we have established an ambitious and challenging four-year programme of change

which will transform the experience of our members and improve our management of risk through investment in our digital capability and operational resilience.

I am proud of our response to COVID-19. We were able to quickly divert resources to provide real help by supporting our borrowers to stay in their homes when the Government led mortgage payment deferrals scheme was announced. We continued to help people into homes throughout 2020 by lending to new customers, including first-time buyers.

Financial wellbeing has been crucial to many in these insecure times, we ensured new and existing customers were able to access savings safely when they needed to in branch, online or over the telephone and supported them in building extra resilience through savings.

I would like to thank our colleagues for their unwavering



commitment and professionalism throughout 2020. Our colleagues make us who we are and I am extremely appreciative of all the dedication that they have shown on a daily basis, in supporting our customers and each other and delivering an exceptional customer experience in hugely challenging circumstances.

Building a more inclusive and diverse organisation is key to supporting colleagues to realise their potential and is a central component of our strategy. While we have made good progress in some areas such as the number of women in senior management positions, there remains much more to do including continuing our work on inclusion and diversity at Board level.

### External factors

Considerable economic uncertainty remains. The consequences of the COVID-19 pandemic are highly uncertain as is the economic impact of the UK leaving the EU. Although the UK regulator has approved vaccines and a trading agreement has been reached between the UK and the EU, there is significant risk around how effective these remedies will be both in terms of immediate impact and longer-term structural challenges.

These two themes are expected to dominate the UK's economic landscape in the coming year. The Yorkshire Building Society remains well-capitalised, with a good amount of liquidity and a strong balance sheet, and therefore well-placed to withstand any expected economic shock as a result.

### Regulatory factors

The short term regulatory reliefs and government interventions to support the economy, and in particular the housing market, in response to COVID-19 will continue to play out into 2021.

The UK's Prudential Regulation Authority has announced plans to review the regulatory framework for smaller non-systemic UK banks and building societies as a result of the UK's exit from the EU. Their stated intention is to introduce a 'strong and simple' regime that looks to streamline the rules without weakening prudential regulation. We will continue to monitor these developments

and engage with the Regulator as appropriate to ensure our voice is heard in any discussions about the future of our regulatory environment.

The increased regulatory intervention on climate change reflects our own focus in this area and we welcome the encouragement to prioritise this work and to better understand climate-related financial risks and to improve climate-related disclosures. Again, we will monitor the developments and work closely with regulators to support the development of a coherent and effective response that will enable a sustainable transition to a low carbon economy.


### Corporate governance

As Chairman, a key responsibility of mine is to ensure that we are secure in our position and have robust controls in place to remain so for years to come. I make sure that we are a well-run organisation, lead our Board and ensure that it is operating effectively. We work to the highest standards of corporate governance and are committed to maintaining this robust approach to support the long term success and sustainability of the Society and the Group in these uncertain times, which will remain the priority of the Board in 2021.

**John Heaps,**  
Chairman

23 February 2021





**Our colleagues make us who we are and I am extremely appreciative of all the dedication that they have shown on a daily basis, in supporting our customers and each other and delivering an exceptional customer experience in hugely challenging circumstances.**



# CHIEF EXECUTIVE'S SUMMARY



# The crucial importance of financial wellbeing

We have always been a member-owned mutual and our purpose is to provide *Real Help with Real Life*. In 2020, as the COVID-19 pandemic created a challenging environment for our members, our colleagues and our communities, this purpose has determined our priorities and guided our decisions.

From the very beginning of the pandemic our priorities have been to support our customers, our colleagues and our communities. We have prioritised helping customers to find and keep their homes, ensuring their savings are safe and accessible, and looking after the health and wellbeing of our colleagues. Almost a year later, these priorities remain the same.

We enabled 39,331 customers to take mortgage payment deferrals. We're pleased to report that the vast majority of these customers have now returned to normal repayments. We were one of the few mortgage lenders to offer lending at 90% loan-to-value. Demand on service levels, including some of the busiest trading days in our history, has meant we have had to offer this

type of mortgage intermittently throughout the pandemic, but we wanted to remain in this market as much as we possibly could to continue supporting the many first-time buyers who rely on low-deposit mortgages. Throughout 2020, we provided 10,854 mortgages to people buying their first home. We will continue to support people to become homeowners throughout 2021.

The COVID-19 pandemic has highlighted the importance of financial wellbeing. Our focus is to support members in building financial wellbeing through saving, the importance of which has been emphasised this year as households suffering an income shock were shielded to an extent if they had savings to fall back on. We enabled members to open 227,019 savings accounts in 2020 and helped them to access savings when they needed them. We delivered rates which consistently beat the market, on average by 0.17%, equating to £51 million in additional interest for savers. We also launched our savings app, which has supported 93,026 customers to stay at home and transact digitally through a brand new channel.

With the Bank of England base rate falling to a new all-time low of 0.1%, this continues to

be a difficult time for savers. A key element of our purpose remains to deliver long term value for our members. I'm very pleased to say that our strong financial performance has enabled us to increase the rates we pay to many of our most loyal members. In January we increased the rate that we pay on savings to over 1.6 million members.

High standards of customer service have become even more important during this uncertain and challenging period and, although COVID-19 has tested our operational resilience, we have delivered on this for our members. Our Net Promoter Score, which is an independent measure of customer satisfaction, increased to +53 (31 December 2019: +51), demonstrating our commitment to providing excellent service when our members need us the most.

I'm proud of the outstanding way our colleagues have supported our customers throughout the crisis. To ensure that we were able to continue providing customers with essential financial services safely, in March all office-based colleagues who were able to work remotely were transitioned to working from home. Our contact centres and the vast majority





**To ensure that we were able to continue providing customers with essential financial services safely, in March all office-based colleagues who were able to work remotely were transitioned to working from home.**



of branches and agencies remained open throughout 2020 as our key workers continued to be there for our customers.

The changing circumstances have been difficult for many of our colleagues with caring responsibilities, so we changed our policies to offer colleagues unlimited dependents' and carers' leave. Any colleague who is shielding, unwell or needs to self-isolate and cannot work from home qualifies for paid sick leave at their full salary. We haven't furloughed any colleagues and all colleagues remain on full pay.

In these challenging and uncertain circumstances, our colleagues have been nothing short of brilliant. Every day throughout these challenging times, I have heard stories of colleagues going above and beyond to support our customers and one another. They are an absolute credit to the Society and I want to say I am incredibly grateful to, and very proud of, each and every one of them.

The COVID-19 pandemic has brought into sharp focus the challenges many people were facing around financial wellbeing, employment and skills. Before this many were already struggling to save enough to build the financial resilience necessary to cope with life's unexpected events, such as unemployment, divorce or bereavement. 2020 has undermined financial wellbeing for many people.

With this in mind, we have augmented our efforts to support communities, with increased investment in and focus on our community programmes. At the end of 2020, the Board committed to enhance existing initiatives and establish new schemes to help people of all ages and stages of life with financial wellbeing.

This includes enriching our award-winning Money Minds financial literacy programme with new digital content to help us in reaching many more young people across the UK; working with financial support charities to explore new ways for people to access help on the high street; reaching more SMEs and their employees with workplace savings schemes through our branch network; and establishing a charity partnership with Age UK to ensure that financially vulnerable older people have the support they need to prepare for their financial futures.

We are also committing to help people improve their skills and employability as these are intrinsically linked to financial wellbeing and as COVID-19 has left many people uncertain about the future. We will launch an employability programme in our heartland community of Bradford with a particular focus on digital skills. This will help 2,000 people, including both young people starting their careers and those of working age who may be left behind without the right skills to find new opportunities or switch careers.

This enhanced agenda builds on our work in these areas to date, and we remain ambitious for our community work in the future. Our colleagues have now delivered financial education sessions to more than 27,000 children and young people since Money Minds launched in 2015. We hope that our renewed commitment to this flagship programme in 2021 will help us to reach 55,000 people with financial education by the end of 2022.

In 2020, we also continued our work to help homeless young people, launching a second bond for our then charity partner End Youth Homelessness, with both bonds raising a combined £248,782. This brought the total raised for the charity during our three-and-a-half-year partnership to more than £1.1m and has so far helped 557 young people with 117 dependent children into a home. Together with our new charity partner Age UK, we aim to raise £1m to deliver the Building Better Lives programme. Our partnership will provide one-to-one support to help prevent more than 4,700 older people reaching financial crisis point whilst supporting up to 100,000 more with crucial advice around planning for significant life changes.

We also continue to increase our focus on the environment. In 2020 we reduced our use of paper by over 30%, invested in improved energy efficiency in IT and initiated a programme of work to assess the climate change financial





risks to our business. One unexpected impact of the COVID-19 pandemic has been to break our 5-year run of consistently reducing carbon emissions, although we remain carbon net neutral for the fifth year running as a result of our carbon offsetting initiatives. In line with government guidance we kept a constant flow of fresh air in all of our buildings to protect customers and colleagues. In order to also meet minimum standards for internal temperatures we've had to work our boilers harder and that has directly led to an increase in our carbon footprint.

We've had to make some difficult decisions as well, including the reshape and rebalance of our branch network to ensure it is delivering good value to our membership as a whole. This involved reducing our high street presence in areas where it is most concentrated; announcing plans to close 12 branches that all have other YBS branches or agencies within nine miles. We also announced that we would be discontinuing our face-to-face mortgage advice available in branches, which has been declining in popularity for the past five years. Personal and convenient mortgage advice will continue to be available from fully-qualified mortgage advisors by telephone, which is a popular channel with our customers.

In 2020 we undertook a review of our strategic priorities and launched our Strategic Blueprint. Our challenges

include: a high degree of external uncertainty; increasing customer expectations, particularly in respect of digital capability; and highly competitive markets. Our new priorities will enable us to continue to deliver against our enduring purpose of providing *Real Help with Real Life* as we have done throughout our 156 year history. Helping people to find a place to call home, delivering long term member value and helping people to build greater financial wellbeing remain core to our purpose. Through our new strategic priorities (Savings Rebooted; Properly Personal Experience; Purposeful Analytics; Unbelievably Easy & Efficient) we will drive a transformation in customer experience, efficiency and risk management over the next four years. This represents an ambitious programme of upgrades to our digital capability, which is both exciting and deliberately challenging.

Our commitment to inclusion and diversity is at the heart of our new strategic blueprint. In line with our Women in Finance commitment, female representation in senior management positions increased from 39% to 46% and we were delighted to receive external recognition for our broader work on inclusion and support for working families.

Throughout 2020, we continued to invest in our future. Our investments have targeted both supporting our response to COVID-19 and our future

beyond it. Improvements in our digital channels and underlying infrastructure will make it easier for our customers to transact and communicate with us in the way they choose and enable even more colleagues to maximise the benefits of flexible working. We will also continue to focus on our people and our communities by enhancing and developing our culture and behaviours for future success.

Our financial strength and focused business model have served us well through the COVID-19 crisis. Although our profitability was slightly down on 2019, we remain strongly capitalised with enough money in reserve to shield us from financial shock and protect our savers. We've been growing our capital ratios over the past five years, with our Common Equity Tier 1 ratio growing to 16.7% in 2020. We have also increased the level of liquidity we carry to weather stresses which may come during and following this crisis.

This means that as a business, we entered this crisis from a position of strength and we are set to achieve our aim of emerging stronger still.

**Mike Regnier,**  
Chief Executive

23 February 2021

# EXTERNAL ENVIRONMENT

The environment in which we operate inherently impacts our ability to deliver value to our members and to our other stakeholders. In order to maintain our sustainability over the longer term, it is important that we monitor our environment effectively to allow us to prepare for and adapt to emerging risks and opportunities.



## Economic and Political Overview

The economic landscape in 2020 has been dominated by the COVID-19 pandemic with the introduction of social distancing measures, as well as the succession of national lockdowns, causing disruption to the operation of markets and the spending and

saving habits of many. As a result, the level of government and regulatory intervention has been significant this year and is likely to remain so; the Government has put in place a series of stimulus packages estimated to cost around £400bn in the 2020/21 fiscal year.

The approval and distribution of multiple coronavirus vaccines are

positive steps toward bringing about an end to the COVID-19 pandemic and the gradual resumption of daily life. However, much uncertainty remains around the length of time it will take to reach a level of immunity where social distancing measures can begin to be unwound safely and what the impacts on unemployment and the economy will be.

Economic Factor	Impact
<b>Future UK/EU Trade Agreement</b>	We start 2021 following the positive news for the UK as a trade agreement has now been reached, bringing long-awaited clarity for business. The deal goes further than other Free Trade Agreements by providing for zero tariffs and zero quotas. The outcomes for services, and in particular financial services, however, remain uncertain where negotiations have yet to be concluded.
<b>Bank Base Rate</b>	The Monetary Policy Committee reduced Bank Rate twice in succession by a total of 0.65% in March to a historic low of 0.10% <sup>1</sup> . In the February 2021 meeting of the MPC, members voted unanimously to hold Bank Rate at this level.
<b>Gross Domestic Product (GDP)</b>	UK Gross Domestic Product (GDP) has fallen materially this year, an 8.9% drop in the 12 months to November 2020 <sup>2</sup> , exacerbated by the introduction of national lockdown measures at multiple stages in the year, with a double-dip recession likely.
<b>Unemployment Rate</b>	The unemployment rate to December was estimated at 5.0%, which is 1.2 percentage points higher than the previous year <sup>3</sup> . However, the introduction and subsequent extensions of the Coronavirus Job Retention Scheme has supported furloughed workers and likely prevented larger increases, so the full extent of the pandemic may still remain to be seen.  Both COVID-19 and the UK's exit from the EU are likely to have a significant influence on future rates of unemployment in the UK.
<b>House Price Index</b>	The housing market has been remarkably resilient in the face of uncertainty since activity resumed in May 2020, aided, in no small part, by the increase in stamp duty thresholds announced by the national governments. The average house prices in the UK increased by 7.6% over the year to November. At £250,000 this represents a record high - the highest annual growth rate seen in the UK since June 2016 <sup>4</sup> .

<sup>1</sup> <https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate>

<sup>2</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/january2021>

<sup>3</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/december2020>

<sup>4</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/november2020>

## UK Mortgage Market

At the beginning of 2020, the outlook for mortgage trading appeared relatively positive, with the return of healthier margins as price competition eased, particularly in the segments requiring higher levels of capital. As the year progressed, the emergence of the COVID-19 pandemic affected the housing and mortgages markets significantly. For a period, the national mortgages market was locked down as, amongst other issues, difficulties were experienced in conducting property valuations safely and delays in receiving local authority search reports. As part of the Government's response to the pandemic, the Bank of England also reduced Bank Base Rate twice in quick succession, from 0.75% to 0.10%.

To mitigate the impact of lockdown and to boost the economy, the Government announced a stimulus package, including the temporary raising of stamp duty/land tax thresholds, to provide additional incentives for those moving home. This, combined with other factors such as a rise in home working, drove an increase in demand in the house purchase market. Funding costs for lenders also remained low, aided by the Government's Term Funding Scheme (TFSME) intending to ensure lenders remained active through the pandemic.

Those moving home and first-time buyers have been impacted by

increases in mortgage pricing this year, particularly at higher LTVs, where many providers opted to retrench entirely from these segments to manage the increased risk and operational capacity constraints; others launched time-bound offers at higher LTVs at periodic intervals. The re-mortgage market proved to be more stable, as lenders utilised technology including online applications and automated valuations to allow easier, socially-distanced customer journeys.

Overall, the mortgage market recovered to end the year strongly given the circumstances. The operational and capital constraints experienced by some lenders in 2020 have led to a greater proportion of the market being underserved. This has presented opportunities to well-positioned competitors to meet those customers' needs. The extent to which these dynamics will continue largely depends on the speed of economic recovery and whether government lockdowns continue to impact lender service.

## UK Savings Market

The impacts of the COVID-19 pandemic, and subsequent Bank of England response measures, have resulted in further pressures on the UK savings market; a market already subject to downward pressures on customer rates for a number of years.

Existing concerns around the potential outcomes of the UK/EU negotiations, coupled with the uncertainty related to the spread of coronavirus, negatively impacted household finances and consumer confidence. Although many people who are directly impacted by the pandemic will be relying on their savings more than usual, the reduced opportunity to spend has driven a material increase in saving activity compared to levels before the pandemic.

Pricing decisions made by key competitors also heavily influenced the available rates and competition levels in the market in the year. Most notably National Savings & Investments, having attracted exceptionally high savings flows earlier in the year, announced large-scale rate reductions in November. As a consequence, much of the market lowered their pricing so as not to attract an unsustainable level of deposits.

Customer preferences have also adapted to the uncertain environment, as ready access to savings is prioritised, with many choosing variable products over fixed-term alternatives. In addition, the impact of social distancing measures on the operation of physical branch locations added to the already-shifting emphasis on the use of online channels and the efficient use of technology.



## Regulatory Overview

A significant amount of new regulation is expected to impact the financial services industry over the next few years.

### Key changes include:

- **Support for customers impacted by COVID-19**

As a result of the COVID-19 pandemic, a significant effort has been made to support customers through this period and YBS will continue to do so as the situation develops. Since March, there have been a number of guidance updates from the FCA aimed at supporting customers who are experiencing financial difficulties due to the pandemic. Initially these related to providing customers with payment deferrals (or payment holidays), where we worked hard to support these customers at the same time as continuing to provide help to existing customers who are in arrears. This has also included a repossession moratorium where lenders have agreed not to commence court proceedings to repossess people's homes unless in specific circumstances.

- **Breathing Space**

HM Treasury announced measures to support customers who are experiencing financial hardship, allowing them a period of time to seek debt advice without being pursued by creditors. The measures

apply mainly to unsecured lending; however they can also be applied to customers with mortgage arrears with lenders unable to charge interest on arrears (or arrears-related fees) during the breathing space window. This also applies to rental arrears and impacts landlords at the point they may want to take possession. These measures come into place in May 2021 and we are in the process of making changes to accommodate them.

- **Capital Requirement Regulation (CRR II)**

The key changes introduced in the CRR II final rules, which come into effect in June 2021, include: the introduction of a binding leverage ratio requirement for all institutions; revised rules on capital requirements for counterparty credit risk and for exposures to central counterparties; and a revised Pillar 2 framework. The Prudential Regulation Authority (PRA) is consulting on how these rule changes will be implemented.

- **Minimum Requirement for own funds and Eligible Liabilities (MREL)**

These rules are to be implemented on a transitional basis from 2020, with final rules to be in place from 2022. The requirements have significantly increased the level of capital that institutions must hold. Regulators have delayed MREL

leverage by three years to 2024 as a result of the COVID-19 pandemic, and a consultation on this is also expected in the summer.

- **Countercyclical buffer**

The countercyclical buffer, a requirement to hold capital aside in normal times with the requirement to be reduced in the event of a downturn, was due to be increased from 1% of Risk-Weighted Assets to 2% in December 2020. Due to the COVID-19 pandemic, this was reduced to 0% and will remain at this level until at least March 2022. This has the effect of reducing the capital banks and building societies are required to hold.

- **London Inter-Bank Offer Rate (LIBOR) Transition**

The Bank of England set out a timeline to achieve the transition from LIBOR by no later than the end of 2021, with the expectation that firms use other rates such as the Sterling Overnight Index Average (SONIA). Legislation to enhance regulator powers around benchmarking rates and to support firms in moving legacy contracts away from LIBOR continues to be developed.

- **Climate change**

Financial services regulators have proposed changes to the rules which would require firms to understand



better the financial risks related to climate change, and to improve certain climate-related disclosures. The PRA has set an implementation deadline of December 2021 by which point these guidelines are expected to be adopted. The Society is working closely with regulators and cross-industry bodies to support the development and implementation of best practice in managing climate change risk; activity in this area is expected to gather momentum.

■ **Zero and Negative Interest Rates**

The Bank of England and the PRA have engaged with all financial services firms over 2020 to understand the operational and financial impact of zero and negative interest rates. The Society has provided responses to the PRA

and other industry bodies (e.g. the Building Societies Association and UK Finance) to assist the Bank in understanding the impact to members and the Society should the Monetary Policy Committee (MPC) implement these rates. The PRA has since written to firms setting out a timeframe for the development of tactical solutions to implement a zero or negative interest rate. Whilst this is not indicative that the Bank of England will employ a zero or negative rate policy, the expectation is that firms should be able to deploy tactical solutions to support a zero rate within six months from being given notice.

■ **Brexit**

The UK's Prudential Regulatory Authority has announced plans to review the regulatory framework

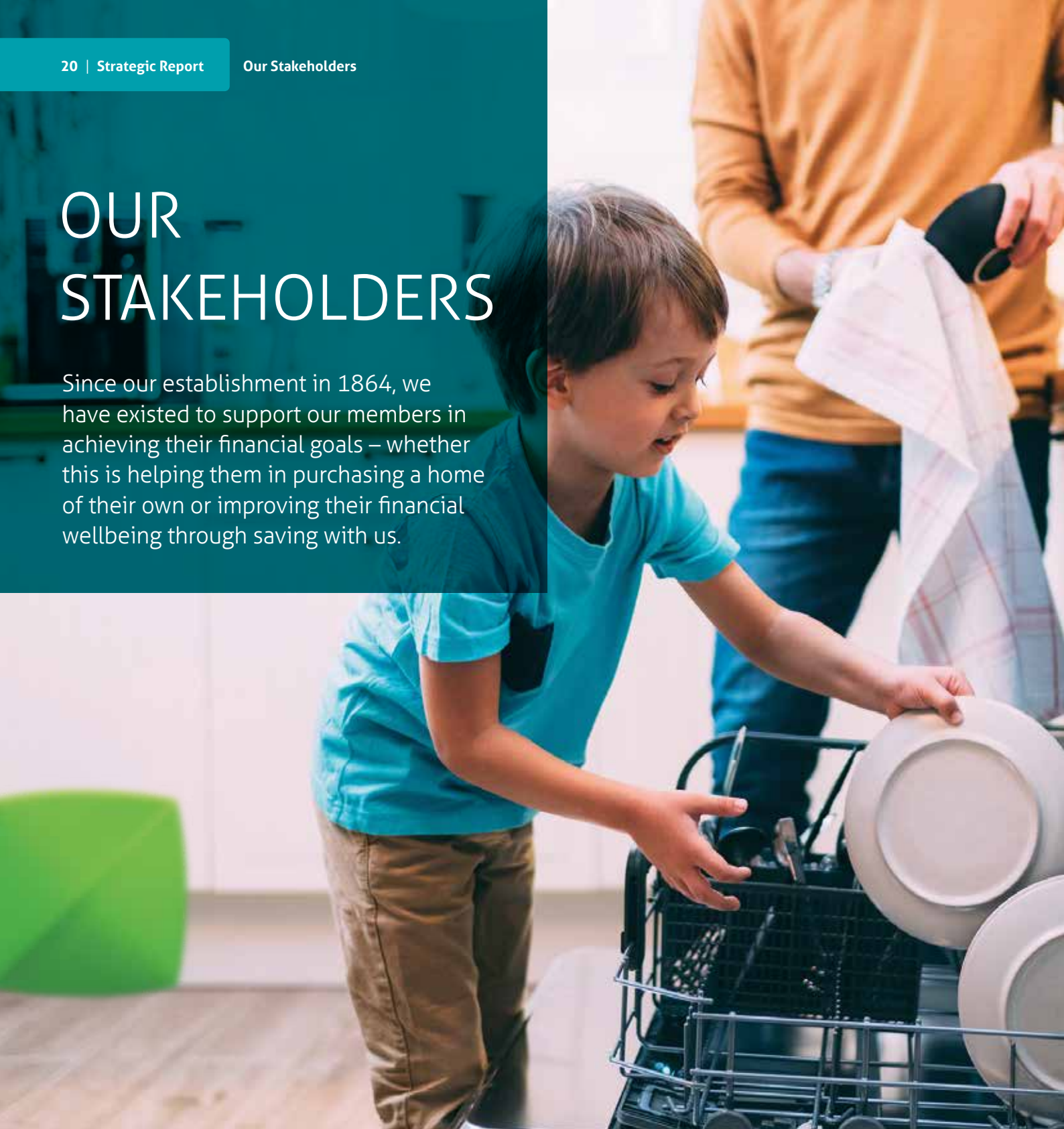
for smaller non-systemic UK banks and building societies as a result of the UK's exit from the EU. Their stated intention is to introduce a 'strong and simple' regime that looks to streamline the rules without weakening prudential regulation.

We will continue to monitor these developments and engage with the regulator as appropriate to ensure our voice is heard in any discussions about the future of our regulatory environment.



# OUR STAKEHOLDERS

Since our establishment in 1864, we have existed to support our members in achieving their financial goals – whether this is helping them in purchasing a home of their own or improving their financial wellbeing through saving with us.



Over the course of our history much has changed; the financial services sector is now a major part of the UK economy and the evolution of technology continues to transform the ways we are able to serve our members. Our fundamental purpose, however, remains the same as when we were founded: providing *Real Help with Real Life*.

We have developed our long term strategy around this purpose. Building on our largest, and most detailed, stakeholder engagement exercise to date in 2018, we continue to consult with our stakeholders regularly through a variety of channels. This exercise is instrumental in defining our purpose, shaping our strategy and demonstrating

that YBS is alive to the evolving social context in which we operate and that we are responding to stakeholder expectations.

Key stakeholders	Who they are	How we listen and engage	What they expect from us
<b>MEMBERS AND CUSTOMERS</b>	<ul style="list-style-type: none"> <li>Members</li> <li>Mortgages and savings customers</li> <li>Share Plans customers</li> <li>Registered Providers of Social Housing</li> <li>Commercial lending clients</li> </ul>	<ul style="list-style-type: none"> <li>Member events (Your Time to Talk sessions, in-branch events)</li> <li>Annual General Meeting</li> <li>Our Member Panel, My Voice, and regular surveys on customer experience and brand</li> <li>Direct engagement through specialist teams (face-to-face, online web chat, telephone calls, letters, emails and social media)</li> </ul>	<ul style="list-style-type: none"> <li>Offer good value and flexible savings accounts and mortgages</li> <li>Deliver helpful, effective, approachable, friendly and efficient service</li> <li>Invest in the products and services they need to gain better financial resilience or secure a mortgage</li> <li>Run a strong, secure and sustainable business in their long term interests</li> <li>Demonstrate action to support a wider societal purpose</li> </ul>
<b>COLLEAGUES</b>	<ul style="list-style-type: none"> <li>All colleagues</li> <li>Contractors</li> <li>Agency colleagues</li> </ul>	<ul style="list-style-type: none"> <li>Colleague Forum, attended by a Non-Executive Director appointed to lead on colleague representation</li> <li>Focus groups and surveys</li> <li>Colleague events and virtual conferences</li> <li>Intranet (live Q&amp;As, news, blogs)</li> <li>People Experience Forum</li> <li>Direct engagement through leadership teams</li> </ul>	<ul style="list-style-type: none"> <li>Provide a route where their views are heard both in terms of their experience at YBS and also business strategy</li> <li>Treat people with empathy, respect and fairness</li> <li>Encourage and support their development and training</li> <li>Fairly reward them</li> <li>Support a good work-life balance</li> <li>Care about their physical, mental and financial wellbeing</li> </ul>
<b>GOVERNMENT AND REGULATORS</b>	<ul style="list-style-type: none"> <li>Central and Local Governments</li> <li>Financial Conduct Authority</li> <li>Prudential Regulation Authority</li> <li>Payment Systems Regulator</li> </ul>	<ul style="list-style-type: none"> <li>Direct engagement through specialist teams (face-to-face, telephone calls, letters, emails)</li> <li>Engaging with consultations, including through industry bodies</li> <li>Monitoring, engaging and complying with regulatory change and reporting</li> </ul>	<ul style="list-style-type: none"> <li>Act within the law and regulation and in the interests of our customers</li> <li>Swiftly and proactively resolve customer issues</li> <li>Be financially strong and secure by maintaining adequate resources including capital and liquidity</li> <li>Act with integrity and transparency</li> </ul>
<b>INVESTORS</b>	<ul style="list-style-type: none"> <li>Wholesale investors</li> <li>Ratings agencies</li> </ul>	<ul style="list-style-type: none"> <li>Direct engagement through face-to-face meetings and events</li> <li>Annual Report and Accounts</li> <li>Regulatory News Service announcements</li> <li>Investor reporting</li> </ul>	<ul style="list-style-type: none"> <li>Offer appropriately-priced debt securities in the wholesale markets which adequately reward them for the risk on their investments</li> <li>Operate in a prudent manner, protecting our financial sustainability and ability to service our debt</li> <li>Behave responsibly in wholesale markets</li> <li>Keep them informed and updated on our strategy, financial performance and principal risks</li> <li>Share details of our funding strategy and the expected volumes of issuing securities</li> <li>Demonstrate good Environment, Social and Governance (ESG) practices, validated by Non-Financial Ratings Agencies</li> </ul>
<b>PARTNERS</b>	<ul style="list-style-type: none"> <li>Brokers</li> <li>Agency proprietors</li> <li>Suppliers</li> <li>Trade unions</li> <li>Industry bodies</li> <li>Charities and community groups</li> </ul>	<ul style="list-style-type: none"> <li>Direct engagement through specialist relationship management teams (face-to-face meetings and events, telephone calls, letters, emails)</li> <li>Charitable partnership and sponsorship agreements</li> </ul>	<ul style="list-style-type: none"> <li>Be simple and straightforward to deal with</li> <li>Collaborate with them as trusted partners to achieve mutual success</li> <li>Deliver helpful, effective, approachable, friendly and efficient service</li> <li>Demonstrate action to support a wider societal purpose</li> </ul>

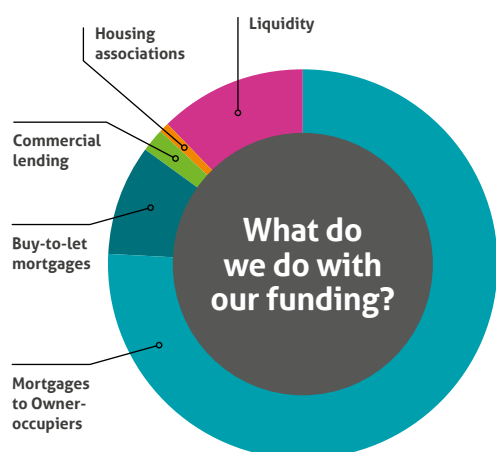
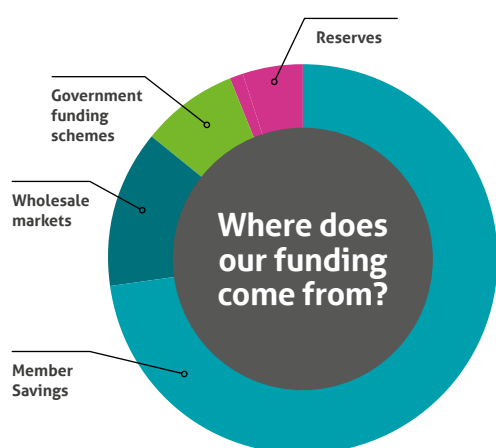
# OUR BUSINESS MODEL

This year we refreshed our strategy. Our purpose of ***Real Help with Real Life*** remains constant and we have established an ambitious and challenging programme of transformation that will lead to significant improvements in both customer experience and efficiency through investment in digital technology. Real Help with Real Life means delivering our central ambitions: ensuring long term value for our members, helping people to have a place to call home and helping them towards greater financial wellbeing.





## ENSURING FINANCIAL SUSTAINABILITY



*To help deliver our purpose we are continuing to prioritise lending to customers who are currently poorly served by the market.*

**Our business model is simple: we provide a secure home for our members' savings and use these to enable our mortgage customers to buy a home of their own. We also raise additional funds through the wholesale markets and Government funding schemes, which helps to diversify our funding base and provide us with greater stability and flexibility.**

The majority of our lending is in the residential property market, but we also provide loans to the buy-to-let, commercial and housing association sectors. To help deliver our purpose, we are continuing to prioritise lending to customers who are currently poorly served by the market, in order to help them overcome the financial barriers they face.

We earn interest on the mortgages that we provide, as well as generating a return on our investments in liquid assets. We pay interest to our members, at a rate above the market on average, and also pay interest to the providers of our wholesale funding. A smaller proportion of our income is generated from other products, such as our shareplans business and through insurance products provided by trusted partners.

To ensure the stability and security of the Society, a sufficient portion of our funding is retained as liquidity to make sure that we can cover our liabilities as they fall due.

As a member owned mutual, we have no external shareholders, so our profitability targets are set to ensure that the Society continues to be financially sustainable, enabling us to keep creating value for our stakeholders in the future. It is important to us that we ensure the level of income we generate covers the cost of running our organisation and delivering our products and services. Any additional profit is invested in:

- protecting our financial position and supporting our growth by building our capital strength
- our future, through the delivery of better products and services
- our people, local communities and other social or environmental responsibilities.

# OUR PURPOSE

## *Real Help with Real Life*

remains our purpose; we are here to help people have a place to call home, to help people towards a greater financial wellbeing and to deliver long term sustainable value to our members.



## Member Value

As a member owned mutual it is our purpose to deliver long term sustainable value to our members and we do this by providing flexible products with friendly, practical and efficient customer service. The Society is run for the benefit of our members and customers, not external shareholders, so every decision is made with their interests in mind.

2020 has been a challenging year for customers and colleagues and so we are proud to have achieved a Net Promoter Score (NPS) of +53, up from +51 in 2019. Our NPS measures how willing our customers are to recommend us to their friends and family based on their experiences with us. Our customers tell us how much they value the help and support offered by frontline YBS colleagues, the continuity of service we've provided throughout the pandemic, and the further improvements we've made to our Society's offering (including the launch of our mobile app). Our flexible

approach to lending and efficient response times continue to be well-supported by our mortgage borrowers and intermediary partners alike. This demonstrates our commitment to delivering a great service and experience for our customers.

One of the ways we measure the value we create for members is the average rate we pay to savings customers. Our customer rates are set in the interest of our members whilst also taking into account our long term profitability and managing our liquidity. The Bank of England base rate reductions to 0.1% put downward pressure on UK savings rates in 2020. Despite passing on these reductions across our savings range, our average rates were 0.17% higher (2019: 0.34%) than the market average giving savers an additional £51 million in interest between January and November 2020.

In January 2021 we increased the rates we pay to 1.6 million members as part of our ongoing member loyalty initiative. Our financial strength and

focused business model have served us well and will continue to do so allowing us to create further value for members.

We continue to focus on reducing our costs where it makes sense to do so, improving our efficiency, so that we can provide our members with value for money. Year-on-year costs have reduced by 5% (2020: £276m, 2019: £290m). It's not just about removing cost, we are committed to our programme of digital transformation which will deliver better colleague and customer experience and we have invested in physical measures and policies to keep our customers and colleagues safe and well during the COVID-19 pandemic.

Our levels of capital and liquidity continue to remain strong throughout 2020, which puts us in a secure financial position meaning we are better able to respond to the challenging market conditions and can continue to support our members.

## A Place to Call Home

We are here to help people have a place to call home. This includes people choosing us to be their mortgage provider, people renting from our customers who are buy-to-let landlords, people living in housing association accommodation we have funded, and people who have received our support in 2020 through our partnership with End Youth Homelessness (EYH).

It is our aim to increase the rate at which we help people find a place to call home each year. In 2020 we helped 54,217 people (2019: 50,069) with mortgages for first time buyers, house purchase, buy to let, social housing and via our EYH rent deposit scheme. Helping people to have a place to call home has been particularly challenging this year, against the backdrop of COVID-19. By the end of 2020, the annual average house price in the UK had increased by 7.3%, with many people faced with unexpected reductions in income through furlough or redundancy.

Home buyers were also faced with practical issues including long delays in receiving valuations or local authority search reports. Our operational capability and multi-skilled underwriting and mortgage customer

service colleagues allowed us to re-enter underserved segments of the market before many other lenders could. Stakeholder feedback gathered in 2020 has told us that they want to see responsible lending, providing support for people who are affected by the COVID-19 crisis as well as specific solutions for financially challenged age groups: older and young people. Throughout the COVID-19 crisis we were able to maintain good service levels, ensuring our customers received offers on their applications as quickly as possible. In November we were the first UK mortgage provider to re-enter the 90% LTV market for all buyer types (first time buyers, house purchasers and re-mortgagers) offering 2 and 5 year deals across all of our brands. This considered approach allowed us to lend £5.5 billion to new customers in 2020.

COVID-19 has also adversely impacted private, social and commercial rental markets. We applied the same approach to this as we did our residential mortgage lending, re-entering the Buy-to-Let market as soon as we could to help landlords with the financing they needed to provide rental properties. In 2020 we helped 1,400 new landlords in getting a loan and also provided £98.4 million in finance to social housing companies, supporting some of the

people who have found it particularly tough to secure a home.

## End Youth Homelessness

Our three and a half year partnership with End Youth Homelessness (EYH) came to an end in 2020. EYH is a collection of grassroots charities who work together at a local level to end youth homelessness on a national scale. It enables young people who have faced homelessness, to have the opportunity to access a home by providing a grant to support their set up and a guarantee certificate to landlords in replacement for a cash deposit.

EYH also provide them with essential support and advice to help support them into their new home such as managing household bills and beginning to build savings, so they could go on to live a successful, independent life.

We have helped 557 homeless young people move into their own rented home since our partnership with EYH commenced in 2017, including 171 in 2020, as well as 117 of their children throughout the partnership. The money we have raised will continue to support young people into their own home throughout 2021, through EYH's Housing Fund.



## Raj and Pam Uppal and Family

The father of a new mortgage customer gave specific thanks to our Accord team for providing help and intervention so that his daughter – Pam, a junior doctor working in A&E - could get on the housing ladder during the first lockdown in 2020, when many other lenders were unable to help.

Massive thanks to you and your team at Accord. The service received has been outstanding. A sincere thank you for your time and consideration. You have been there for us when we needed it the most.

## Greater Financial Wellbeing

We are here to help people towards greater financial wellbeing and our external stakeholders tell us that they value this commitment. This includes customers choosing to build up their savings with us, directly or through our partners, people who have benefited from financial literacy and employability support through our Money Minds and Career Minds community programmes or supporting those in later life, through our new partnership with Age UK.

It is our aim to increase the rate at which we help people towards greater financial wellbeing each year. In 2020 we improved the financial wellbeing of 107,427 people (2019: 84,008) through financial education support, employability support and new access savings, share plans and Salary Finance savers.

2020 has seen an increase in financial strain for some customers. COVID-19 has exacerbated an existing challenge where many people are sadly unprepared for life events that have a financial impact. Towards the end of 2020 we agreed that we should redouble our efforts to

support people with financial wellbeing at all stages of life and to invest more in a variety of social programmes that will help us achieve this goal.

The youngest have been hit hard by COVID-19, with under 35 year olds seeing the largest proportional increase between March and October 2020 in the national issue of low financial resilience. And so we are pleased that our flagship Money Minds financial literacy programme continued into 2020 providing valuable financial education to young people across the UK.

By the time the pandemic put a stop to face to face sessions, 109 colleagues had delivered a total of 125 money minds and career minds sessions. As with most areas of the business, our volunteering programme has been impacted by COVID-19, and so we have had to look at alternative ways of delivery, utilising technology to provide online bitesize sessions for young people. We created 6 online financial education sessions, which were available to view on our website and social media channels, so that we could support young people and their parents or carers with home-schooling.

But we want to go further. Responding to the increased need of young people from 2021 we will enhance Money Minds and connect 55,000 young people with new digital content by the end of 2022. Building on our Career Minds programme, we also plan to support both young people and those of working age, to make progress toward their life goals through a targeted employability and digital skills programme starting in our heartland community of Bradford. Our ambition is to help at least 2,000 people in the Bradford community by the end of 2022.

We know that for those in employment, workplace savings tools can play a crucial role in helping achieve financial resilience. Our YBS Share Plans service enables employers to provide direct-from-salary savings schemes to their employees. This includes the Salary Finance scheme, which helps to get people saving regularly – even if this is just a small amount each month. In 2020 we launched a new programme, which uses our branch network colleagues to promote our accessible workplace savings services to local SMEs.

**All schools, not just ours, find it very important for businesses and professionals to come in and talk to our students about the world of work. They need to experience the wide range of different careers and skills people have and draw on their experiences for later life. We are limited with expertise and time in schools, so external input is always valued – especially from local employers.**

Laura Turner, Head of Year 10,  
BBG Academy, Birkenshaw



The retired age community has also been hit hard with people having to delay their planned retirements directly due to the COVID-19 pandemic and forced to increase their pension withdrawals to help them through the crisis. That's why in November 2020 we launched a new partnership with Age UK, to support people with financial wellbeing in later life. The money raised throughout the two and a half year partnership will fund Age UK's Building Better Lives programme, which has been designed exclusively for the Yorkshire Building Society and will help to prevent more than 4,700 older people reaching financial crisis point, and support up to 100,000 more with crucial advice around planning for significant life changes.

Branches have continued to support our members and local communities through savings, as well as working with local mortgage brokers and with large local employers to encourage their employees to build greater financial wellbeing.

In a difficult year for our customers we have continued to provide *Real Help with Real Life*, making a number of changes to the way our members have been able to access and manage their savings. The national lockdown and restrictions affected the ability of many of our members to visit our branches and agencies to manage their finances; we extended the access periods for maturing funds, allowed overpayment into Regular Savers, implemented telephone account opening for our branch based members and delivered an online request process for branch products. All of these changes were put in place to support our members and allow them to transact safely and continue to manage their finances.

An unfortunate by-product of the speed of digital adoption is an increase in the opportunities for fraud and scams, in response to which we have launched a number of online videos to spread awareness among our customers around how they can protect themselves online.

Salary Finance has been a huge help and a stepping stone for me to become more financially fit as well. I wouldn't be able to save money without having the Salary Finance system in place.

Salary Finance Customer  
Testimonial



Proudly supporting



A two and a half year partnership will fund Age UK's Building Better Lives programme, which has been designed exclusively for the Yorkshire Building Society and will help to prevent more than 4,700 older people reaching financial crisis point, and support up to 100,000 more with crucial advice around planning for significant life changes.

## The Blueprint

We know that clear ambition and well-defined outcomes are key to delivering our purpose.

During the first half of 2020 we redefined our strategy with this in mind **'The Blueprint'** outlines four clear priorities that underpin our strategy, to be delivered over the next four years, and sets out the four required behaviours – articulating the culture required to deliver our purpose *Real Help with Real Life*.



Customer expectations are increasing faster than ever and the COVID-19 pandemic represents an opportunity for digital adoption and has accelerated this as the primary channel of choice. We have created and agreed a transformation roadmap that will maximise impact by identifying the priority customer experiences and journeys that will underpin our approach to transforming our customer experience.

We recognise that most transformations fail due to a lack of attention to the human impact of change. We are prioritising this through a clear focus on communication, and on embedding new behaviours and the mind-set shifts required. We are aligning everything we do behind the new Blueprint, delivering a set of 'iconic moments' that represent a significant and tangible shift in our capability as a business and will differentiate us from our competitors, in service of our purpose *Real Help with Real Life*.

We are managing the risk of the scale of this change by creating a series of smaller change initiatives, rather than one or two monolithic transformations.

By 2024, our service offering to customers will look very different and will enable us to meet customer expectations. Our investments and our change programme will enable us to fundamentally change how we acquire, service, engage with and retain our customers.

## FOUR STRATEGIC PRIORITIES

### Savings Rebooted

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

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

### Properly Personal Experience

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

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

### Purposeful Analytics

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

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

### Unbelievably Easy and Efficient

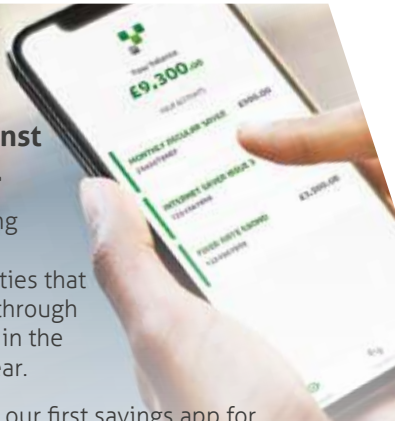
Making customers' lives easier and becoming unbelievably efficient through:

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

**We are already progressing against these ambitions.**

In 2020 we laid strong foundations for the transformation activities that began their journey through discovery and shape in the second half of the year.

- We have delivered our first savings app for customers and launched a new/improved Savings application journey online. In 2021 we will build out new journeys to enhance our digital offering to customers further.
- We have begun to move our processing teams from hard copy to scanned digital images, effectively removing paper from our Yorkshire Drive operations. In the first half of 2021 we will complete this exercise, removing even more paper from our operations.
- We are well underway to deliver enhanced authentication of digital customers (Q4 2020), and straight through mortgage applications for brokers (Q1 2021). In the first half of 2021 we will deliver connectivity to broker platforms to allow automated application submissions directly into our underwriting systems.
- Additionally, we have completed the majority of our branch/agency WAN migration and our Telephony phase 1 migration. This provides our colleagues with a modern platform to collaborate and serve customers and underpins our digitisation of the branch and agency network.



**Rolling out our strategy**

When we launched our new strategic blueprint, priorities and behaviours to the whole organisation in November 2020, people leaders were front and centre. We hosted a series of bespoke sessions for over 400 people leaders, with a clear push for them to take ownership of the onward cascade to their own teams through a series of events and activities.

This resulted in an overwhelmingly clear understanding from colleagues about what was planned, why, and how we were going to do it and their role in the process.

**Feedback included:**

**This is without a doubt the best support I have had as a people manager since working with the Society in the last seven years.**

One-to-one coaching programme, October 2020.

**It really helped me refocus on my communication with my team. I had to have a difficult conversation with one of them after the call regarding performance... [it] helped to ensure that the meeting was positive, supportive and had the outcome I was hoping for.**

Leaders as Communicators masterclass attendee, June 2020.

**The latest blueprint sessions we had over Zoom were fantastic and the senior leadership team have done a great job making sure they share our vision and direction for the next 4 to 5 years.**

Peakon survey respondent, October 2020.

**Just been involved in the Blueprint strategy, never worked for a business who shares their plans with their leadership team like this. Fantastic!**

Peakon survey respondent, October 2020.

**OUR BEHAVIOURS**

Our revised behaviours, developed in detailed consultation with colleagues, create a 'golden thread' between our purpose and strategy, to provide clarity for colleagues on how all three of these are linked together.

**Launched as part of the strategic blueprint, our four new aligned behaviours are:**



**WE CARE ABOUT PEOPLE**



**WE REACH FOR BETTER**



**WE MAKE IT HAPPEN**



**WE SAY IT STRAIGHT**

We need to care about people – both as customers and colleagues - to motivate us to go even further with the standard of products we create and the services we deliver. We need to say it straight to build trust and get great results faster. We need to reach for better to raise our level of ambition and success in a digital age. We need to make it happen so we are agile and act with pace - because we can't let barriers and bureaucracy slow us down in today's fast-paced world.

# CUSTOMERS, COLLEAGUES AND COMMUNITIES

Our purpose to provide **Real Help with Real Life** is our 'North Star'; it is against this that all our decisions are measured. What does this look like for our customers, colleagues, communities, both today and in the future?



## Customers

As a member owned mutual, customers are at our heart. Our customers tell us that they care most about the good value, friendly and efficient service that we offer and that we continue to invest in the products and services they need to achieve financial wellbeing or a place to call home. Ensuring we maintain a strong, secure and sustainable business in their long term interests is important to them.

The COVID-19 pandemic has had deep and far-reaching consequences for the physical, emotional and financial wellbeing of the UK and many of our customers have been impacted directly. Throughout we have prioritised the key services that we provide to customers and the health and safety of our customers, colleagues and all other stakeholders.

Our contact centres and most of our branches and agencies remained open throughout 2020, enabling our key workers to continue to provide services to our customers, who tell us that they valued this and felt safe visiting our branches. Our new mortgage application processing

system, implemented in 2019, enabled us to increase our processing speed at which our colleagues processed applications significantly, helping us to remain operational throughout the COVID-19 pandemic. We were able to deploy underwriting staff to help support the processing of c40,000 payment deferral requests with little impact on our mortgage processing service level.

Whilst we were able to divert resources to support those customers that were facing financial difficulties, there were periods where unfortunately this increased both call wait times and rates of call abandonment across customer services. The impacts of the COVID-19 pandemic on operational teams led to increased absence as colleagues took care leave during school closures and those self-isolating were unable to work from home. We flexed our reduced capacity to support customers where they needed us most.

In a year like no other, our colleagues once again demonstrated their customer focused approach. We are proud to have achieved a Net

Promoter Score (NPS®) of +53, up from +51 in 2019. Our NPS measures how willing our customers are to recommend us to their friends and family based on their experiences with us. This is our fifth consecutive year of NPS improvement.

Customer feedback shows that they value the helpfulness, knowledge and professional service provided by our colleagues. Brokers using our Accord brand also commended the helpfulness and supportiveness of our teams alongside our quick efficient processes, flexibility, efficiency and common-sense decision making especially during uncertain times.

We have had to make some difficult decisions too. In 2020 we reviewed our distribution network and announced the closure of 12 branches where they were no longer financially viable or meaningfully geographically dispersed. We remain committed to face to face savings and, where possible, will convert branches into agencies rather than close them. Where branches are due to close the next available branch is no more than 9 miles away. For some



**Well done again Accord Mortgages Limited. You are doing an amazing job of supporting the intermediary market and FTB'ers with high LTVs as and when you can and it's really appreciated by many.**

Nicola Firth, Founder & CEO of Knowledge Bank. Source: LinkedIn.



time, the demand for our face to face mortgage advice has been declining and so we have now announced the withdrawal of this offering. Personal and convenient mortgage advice will continue to be available from fully qualified mortgage advisors by telephone, which remains a popular channel with our customers.

One area where our customers continue to tell us we need to do more is in relation to our digital services. To address this, we have established an ambitious and challenging programme of transformation that will lead to significant improvements in both customer experience and efficiency through purposeful investment in digital technology. In 2020 we made it easier for customers to interact and do business with us online with the release of the first YBS mobile app. This allows customers to check their Savings account balances, transactions and interest rates on the go and make payments securely. In the background, we have made improvements to our digital platform which means that new customers can now apply for easy access savings products online through a journey optimised for the specific needs of web and mobile users, delivering improvements that have

reduced application times by 50%.

For our Accord Mortgage business, we've increased our first touch resolution of complaints by 17% and in 2020 not only did we successfully move all of our Accord Business Development Advisors ('BDA's') to home working, we also moved them from a telephony only based support system to Webchat support, within 48 hours. This allowed us to maintain timely support for brokers when many other lenders couldn't be contacted; our average satisfaction score for this service has been around 9.4/10 for the entire period.

In Q4 2020 we upgraded our mortgage application processing system in readiness for Buy-to-Let applications to migrate on to it in 2021, allowing even further efficiencies from broker application submission right the way through to completion.

And we're certainly not stopping there. By the end of 2024, we want to be unbelievably easy to do business with, our ambition will include five-minute digitally-enabled savings account opening through all channels. We will do this by developing our tools, services and product propositions through improved digital touchpoints.

We'll have payments in and out of savings accounts that will be in real time and we will be able to provide mortgage offers more quickly.

Our commitment to help people have a place to call home ensures we maintain our focus on product propositions with continuous review and improvements that will lead us to our goal of 75% of our lending to be genuinely purposeful by the end of 2024.

We always try to give our customers the best possible service but we do recognise that sometimes we fall short of the standard our customers expect. We encourage any customer who is unhappy with the service they have received to let us know. We try to resolve any issues as soon as customers tell us about them. If we are unable to do this for any reason, our Customer Solutions Team steps in to make sure problems are resolved quickly and fairly. We aim to resolve all payment issues within 15 days and all complaints within 28 days, or more quickly where possible. Any customers who are unhappy with our final response can escalate their complaint to the Financial Ombudsman Service (FOS). In the second half of 2020, we received complaints from 6.65 out

**Great stuff Accord Mortgages Limited, leading the way as per usual, supporting first time buyers at the time when many other lenders are left wanting.**

Jason Kopsidas, Mortgage & Protection Consultant



of every 1,000 mortgage customers and 0.65 out of every 1,000 savings customers.

Delivering consistently excellent service for all of our customers is our priority. We recognise that some of our customers experience difficulties that may affect their ability to manage their finances or could create barriers to accessing our products and services. During the COVID-19 pandemic we continued to enhance the support we provide to our customers who need it the most. We flexed processes to allow access to money without having to go to a branch and supported customers with online access to their accounts to manage their money from the safety of their homes. Our specialist colleagues have been making direct contact with our most vulnerable customers to ensure the support they require is still up to date and to check in with them during this challenging time. Our branches have also been reaching out to check in on their vulnerable customers too.

When business changes impact customers, such as a change in location of our branches, we proactively contact customers who may need additional support to ensure they understand the change and are aware of alternatives available to them, so they can make the right decision for them. This has included doing individual account reviews to identify an alternative that might best meet the personal needs of each customer.

## Colleagues

Valuing and rewarding our colleagues has been more important than ever during 2020, with the impact of COVID-19 being profound for both

customers and colleagues. Our responsive and adaptable approach throughout the COVID-19 pandemic has been guided by two key aims; maintaining the health and wellbeing of colleagues and continuing to deliver excellent customer service to those who need us most.

The ways we have supported colleagues fall broadly under three categories:

- **Wellbeing** - full compliance with revised health and safety regulations and government guidance, access to physical, mental and financial wellbeing support tools, use of regular formal and informal colleague wellbeing check-ins and an additional day of leave for all colleagues on Christmas Eve.
- **Financial** - ensuring no colleague was furloughed or had their pay reduced or were forced to take unpaid leave as a result of any COVID-19-related absence, including shielding, self-isolation or dependents leave.
- **Communication** - timely and clear leadership communications throughout that reinforced to our colleagues they, and customers, were our top priorities and that YBS was in a strong position to emerge from the pandemic stronger still. We also worked effectively with Aegis the Union throughout.

Colleagues have told us throughout the COVID-19 pandemic that they have felt supported and informed during this time, with comments including:

"I've always loved working for YBS for many reasons, but right now I couldn't feel any more pride in being a part of this group. I feel so incredibly lucky to

be an employee of YBS and to be made to feel so safe by you and our leaders at a very strange time."

(Response to an all-colleague email from our CEO, 8 April 2020).

"The change in the absence policy will have a real impact on one of my team. I've worked for YBS for 20+ years and always felt proud to work here but today, in these tough and unknown circumstances, I couldn't feel prouder."

(Response to an all-colleague email from our CEO, 24 April 2020).

## Engaging our colleagues with our purpose, priorities and behaviours

Against the backdrop of a global pandemic, our second Peakon (colleague engagement) survey showed an overall engagement increased from 7.4 to 8.3 in 2020; a change of 0.2 is considered significant in an organisation of our size.

We are now in the top quartile for engagement in our industry, and our eNPS score, which measures loyalty and advocacy, has improved by 34 points since November 2019, placing us in the top 25% of Finance, and just one point below the top 10%. A key part of our commitment to engagement remains our focus on people leaders. We consider them to be our most important communication channel, so work hard to equip them with the tools and support they need, including masterclasses, 1:1 coaching and quarterly two-way briefings.

## Learning and Development

Our behaviours will be the foundation on which we create a high-performance organisation, one where people are

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clear on what's expected of them, and are accountable for delivering it. The behaviours will be complemented by our refreshed learning and development programme and our revised performance management approach, which was launched in response to our new strategy and behaviours.

We also invested into a new learning management system, to provide colleagues with more accessible online learning for their work and wellbeing.

Feedback from colleagues on the new system included:

**"I love it! A lot better in how it's been set up and really easy to navigate around. As a Branch Manager, it's great that I can see my whole team through my log on to check on their progress...I feel it will be a great tool to work alongside coaching and development too."**

Colleague reaction to launch of our new learning platform, June 2020

In 2020, we invested £1.3m (2019: £1.48m) in the training of our colleagues to help them develop their skills and competencies.

We also encourage professional and technical training relevant to colleagues' roles and careers; by 2021 we will have supported 10 of our talented colleagues on the Building Societies Association (BSA) Masters in Strategic Leadership programme at Loughborough University. In 2020, nine colleagues completed their apprenticeships, with 17 more continuing on their programmes, and

a further 43 beginning an internal apprenticeship.

As we move into 2021, we'll continue to grow our apprenticeship programmes for existing colleagues and external applications. We'll target a range of levels, from school leavers to career changers and those looking to return to the work place, alongside leadership apprentices to develop diverse talent for the future.

## Reward and Recognition

Recognition remained key during 2020, with Raising the Roof, our annual recognition event celebrating the achievements of colleagues, being hosted online. It continues to be a real focus for colleagues, one of which told us:

"I'm so honoured and overwhelmed at winning a Yorkshire Building Society Raising the Roof 2020 award tonight! I'm proud to have worked alongside some incredible colleagues to get here."

Colleague reaction posted on LinkedIn, 26 November 2020

And as part of our focus on financial wellbeing, we kept our commitment to pay all colleagues at or above the Real Living Wage, proceeded with our annual 2020 pay review in May, and paid the 2019 annual bonus in March. Further, no colleagues were furloughed or placed on reduced pay in 2020. We continued to ensure all colleagues have access to the same set of benefits, including critical illness cover, private medical insurance and health cash plan, which they can flex, depending on their personal circumstances.

## Inclusion and Diversity

Our commitment to inclusion and diversity is at the heart of our new strategic blueprint:

**"We will be a high performance organisation where people are clear on what's expected of them and accountable for delivering it, and with great leaders who inspire their people to achieve more than they ever thought they could... Being a more diverse organisation will be seen as a critical part of our success."**

People Ambition for 2024, YBS Strategic Blueprint, June 2020.

We are proud of the external recognition received for our approach; in 2020 we were rated 35th in the 50 Inclusive Employers List, up from 47th previously, and also included in the charity Working Families Top 30 UK employers for the fourth consecutive year.

In 2020 we redefined our inclusion strategy and ambition to 'level the playing field'. As part of our Women in Finance commitments, this includes a continued commitment to increase female representation, which rose from 39% to 46% in 2020. We are confident this strategy will help us achieve the 'Leaders in Diversity' accreditation with the National Centre for Diversity.

We also partnered with Bradford City Council and Grant Thornton as part of the 'Bradford for Everyone Inclusive Employers' initiative. This provided important insight into both our own

**I'm so honoured and overwhelmed at winning a Yorkshire Building Society Raising the Roof 2020 award tonight! I'm proud to have worked alongside some incredible colleagues to get here.**

Colleague reaction posted on LinkedIn, 26 November 2020.



organisation through a series of surveys and focus groups and a review of our process and policies. As a result of this partnership, we have contributed to developing the Bradford Inclusive Employers Toolkit, which was launched in December 2020. YBS also became a founding member of an Inclusive Employers Network, bringing together local employers to share inclusion and diversity best practice.

For the fourth year running we have published our gender pay gap report, detailing the difference between the average pay of men and women regardless of seniority. In April 2020 our mean gender pay gap was 32.9%, which is 2.4% higher than in 2019. The main driver for our gender pay gap continues to be the imbalance of women and men at different levels of the organisation; with more men occupying senior roles and more women occupying less senior roles. We regularly review our pay by grade so men and women are treated equally, and are comfortable with our position in that respect. To bring this to life, if YBS had a 50:50 split of males and females at each level, our gender pay gap would reduce to 3.5%.

## Communities

YBS is committed to delivering its purpose of providing *Real Help with Real Life* for customers and colleagues alike. This alignment is nowhere more apparent than the commitment and work we undertake with the very communities we serve; colleagues support young people with financial literacy and employability through delivery of Money Minds and Career Minds, and drive fundraising efforts for our charity partnerships with End Youth Homelessness and Age UK.

"When someone gets the keys to their property it is amazing. I don't think words can describe what it means to a young person, to be given the chance to transform their life. It is a real privilege to see the transformations first hand, every penny raised really has made a difference."

Laura Rutter – Programme Manager RDS Scheme NE, Bradford and Manchester

"I have delivered three Money Minds sessions. It is really rewarding, the response that you get from the kids is brilliant, for many of them, this is the first time they've talked about money! It's also a great way to build skills, as well as building relationships with the local community." - Branch colleague.

**Estimated value in 2020 of the charitable giving of the Society, colleagues and customers, including staff volunteering:**

Funds raised for End Youth Homelessness

**£318,350**

£244,707 in 2019

Funds raised for Age UK

**£30,521**

Donation to Yorkshire Building Society Charitable Foundation (YBSCF)

**£130,000**

£30,000 in 2019

Small Change Big Difference® member donations to YBSCF

**£307,104**

£304,500 in 2019

Value of volunteering hours donated

**£40,176**

£266,462 in 2019

Other donations to charities

**£132,572**

£222,612 in 2019

**TOTAL**

**£958,723**

£1,068,281 in 2019

**When someone gets the keys to their property it is amazing. I don't think words can describe what it means to a young person, to be given the chance to transform their life. It is a real privilege to see the transformations first hand, every penny raised really has made a difference.**

Laura Rutter – Programme Manager RDS Scheme NE, Bradford and Manchester



We are really proud of the positive impact we make thanks to our members' and colleagues' passion for helping their communities to thrive. Our volunteering programme allows colleagues to deliver our community initiatives and support their local communities. Despite the restrictions, our colleagues spent 2,200 hours volunteering for good causes during the COVID-19 pandemic. Colleagues took up remote volunteering opportunities for most of 2020, or helped national organisations coordinating support for vulnerable and older people during this time.

### Yorkshire Building Society Charitable Foundation

Yorkshire Building Society Charitable Foundation ('YBSCF' or 'the Foundation') is an independent registered charity governed by a board of external and internal trustees. It makes donations of up to £2,000 to charities, nominated by members and colleagues, to provide support to causes focused on improving health, alleviating poverty and saving lives.

In 2020 the Foundation set up a Coronavirus Response Fund with a donation of £100,000 from the Society. The fund supported 61 smaller charities helping communities across the country to cope with the impact of the COVID-19 pandemic, with grants ranging from £500 to £2,000.

In 2020, the Foundation donated a further £321,000 to more than 290 charities around the UK. Donations are made possible thanks to Yorkshire Building Society members who

take part in the Small Change Big Difference® scheme. This scheme allows members to donate pennies from the interest they earn on their savings accounts or round up their mortgage payment to the next pound and donate the difference to the Foundation once a year.

**To find out more about the charities supported by Yorkshire Building Society Charitable Foundation and the Society's Small Change Big Difference® scheme please visit [ybs.co.uk/charitablefoundation](https://ybs.co.uk/charitablefoundation).**

### Human Rights

Our purpose is to provide *Real Help with Real Life* and inherent in this is a commitment that the way we conduct our business, including how we interact with our customers, colleagues and communities, and the way we manage our supply chain, should not negatively impact the human rights of others.

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

### Anti-Bribery and Anti-Corruption

The Society is bound by the laws of the UK, including the Bribery Act 2010, and is regulated by the Financial Conduct Authority; both of which convey responsibilities for identifying

and managing risks in respect of fraud, bribery and corruption.

The Society takes a zero-tolerance approach to such risks and enforces compliance via systems, processes and our internal control framework. These include mandatory annual colleague training and awareness initiatives, a whistleblowing procedure and regular reviews of our Financial Crime Policy, which includes our Anti-Bribery and Corruption Standard, our approach to the management of risks under the UK Corporate Criminal Offence (CCO) of Failure to Prevent the Facilitation of Tax Evasion legislation and other related policies.



**I have delivered three Money Minds sessions. It is really rewarding, the response that you get from the kids is brilliant, for many of them, this is the first time they've talked about money! It's also a great way to build skills, as well as building relationships with the local community.**



# ENVIRONMENTAL IMPACT




## Our Environmental Vision

We have a duty of care to reduce our environmental impact and help in the fight against climate change. In order to achieve this, YBS will ensure high environmental standards become integrated into all relevant business operations to support our purpose. Our vision incorporates the Society's key business functions. We will embed environmental and climate change cost benefit analysis into everyday business decision making.

## The Society celebrates 5 years of being Carbon Neutral

We have maintained our certified Carbon Neutral® status in line with the carbon neutral protocol for the 5<sup>th</sup> consecutive year. We achieve this through purchasing offsets through our verifiers Natural Capital Partners Ltd and complying with the Carbon Neutral Protocol. The purchased offsets are calculated based on our externally verified market-based carbon footprint calculations.

### Carbon footprint

**+4%**   
-17% in 2019

This shows how much our carbon emissions have changed.

Carbon offsetting is an internationally recognised way of balancing out carbon emissions by investing in projects that will reduce the same amount of carbon emissions elsewhere. Through this programme we support projects in several developing nations.

### The Leeds Climate Commission

Yorkshire Building Society has joined the Leeds Climate Commission, which was established to help Leeds to make a positive choice on issues relating to energy, carbon, weather and climate. It brings together organisations and people from across the city and from public, private and third sectors.

# LEEDS CLIMATE COMMISSION

### Our Carbon Footprint

Our 2020 location based emissions total, reported in tonnes CO<sub>2</sub> equivalent (tCO<sub>2</sub>e), of 5,445 represents a 4% increase on 2019's location based emissions. Since 2015, we have also reported on a market based methodology accounting for our purchase and consumption of renewable electricity.

Our electricity is sourced from the combustion of sustainable biomass. By this measure, in 2020 our market based emissions totalled 2,368 tCO<sub>2</sub>e which represents a 22% increase on 2019's figures. The Society's emission increases are attributed to a 57% rise in natural gas consumption. Natural gas consumption has increased due to the Society adhering to government guidance on the regulation of buildings during COVID-19.

Since March we have ensured that all internal air recirculation valves in our controlled buildings were closed ensuring a constant flow of fresh air to our members and colleagues. Due to the fresh air having a typical

temperature of 4-6°C below internal temperatures, our boilers were working harder, and consuming more gas, in order to maintain the 21°C internal temperature minimum standard. We are committed to improving this.

### Paperless Scheme

We are replacing paper communications through digital means where it is possible to do so. In 2020 the opening year of our scheme we removed 4 million sheets of paper representing a 32% paper usage reduction. So far we have saved 13 tCO<sub>2</sub>e from being emitted into our atmosphere by making a number of improvements in how our branches and operational teams work. Further work will see the completion of our roll out of up-front scanning, which will enable our operational teams to work from digital images.

### Getting to grips with our Waste

In 2020 YBS generated 367 tonnes of waste. Only 1% of our business-generated waste was sent to landfill meaning 99% was either recycled or recovered. We have also introduced food waste collections around our offices as well as in our restaurants. We ensure our food waste is disposed of responsibly, ensuring that none goes to landfill.

### Further energy and environmental saving measures we have taken in 2020

At our Head Office site in Bradford we have introduced programmes to increase biodiversity, modernise air conditioning and cooling systems in our server rooms, and we continue to generate electricity from our solar farm.

Across our estate we have introduced software to power off PCs in the evening and turn them back on in the morning.

### Colleague Engagement

Prior to lockdown, a large proportion of our colleagues commuted to work in their own or company car. We have put in place measures to reduce these emissions and will continue to support these as COVID-19 restrictions are lifted. These include a cycle to work scheme, interest free loans for public transport season tickets and an emissions cap of 160g CO<sub>2</sub>/km on company cars.

### Governance

Our environmental policy and environmental management manual are reviewed annually at our Executive Risk Committee. They explain the approach YBS will take on environmental and climate change risk, compliance and protection issues. The objective of the environmental policy is to ensure colleagues and contractors understand their responsibility with respect to the protection of the natural environment, climate change and reducing the environmental impact of our business activities. Our environmental policy can be viewed on our website.

## Total paper removed from the business

2019 pages used	2020 pages used	Pages saved	% Change	Emissions saved tCO <sub>2</sub>
12,529,125	8,464,477	4,064,648	-32%	13

## Climate Related Financial Disclosures

Since the release of the Prudential Risk Authority's Supervisory Statement 3/19 (SS3/19) and the Financial Conduct Authority's Feedback Statement on Climate Change and Green Finance (FS19/6) in 2019, the Society has committed itself to better understand the risks posed by climate change. These risks are both physical and transitional.

A summary of our 2020 progress and ambitions for 2021 is below:

Key Areas	Summary of 2020's Progress	2021 Target
<b>Strategy</b>	<p>YBS has launched an internal Financial Risks of Climate Change working group. This group is comprised of risk, governance, financial and environmental professionals. The aim of this group is to deliver a successful financial climate risk disclosure in 2021.</p> <p>YBS has also established an internal Environmental Working Group (EWG) to create an environmental vision for the Society to work towards over the next few years. The EWG will coordinate the Society's environmental activities to help reduce the Society's environmental impacts and help in the fight against climate change in a more focussed way.</p> <p>The working group has further carried out an internal review of all climate change and environmental activities ongoing throughout the Society and presented these to the Chief Finance Officer to inform the ongoing development of our climate change risk strategy.</p>	<p>YBS will develop a society wide approach to climate change risk that is compatible with our purpose, corporate plan and strategic outlook.</p>
<b>Governance</b>	<p>YBS has successfully implemented SS3/19 regulations into our Environmental Policy. The Environmental Policy is annually reviewed at our Executive Risk Committee. YBS has further committed to reporting our greenhouse gas emissions on a Scope 3 level as set out by the Green House Gas Protocol.</p> <p>We have further embedded climate change and environmental governance roles into our Senior Manager Function Documents. We have assigned key responsibilities so there is clear understanding throughout the business of ownership. Responsibilities are shared between our Chief Finance Officer (CFO) and our Chief Risk Officer (CRO).</p> <p>The CFO is responsible for managing the physical and transitional financial risks from climate change and accountable for leading the development and implementation of:</p> <ul style="list-style-type: none"> <li>• Identification, measurement, monitoring and reporting of the financial risks of climate change in line with YBS's risk appetite, including our risk exposure limits and thresholds.</li> <li>• Scenario Analysis (including a catastrophe modelling approach) to determine long term financial risks and assess the impacts on YBS's balance sheet.</li> <li>• Disclosing the financial risks of climate change to the PRA.</li> </ul> <p>The CRO will have joint accountability with the CFO for the development and implementation of a governance framework to ensure that Board understand and assess the financial risks from climate change that affect YBS, to address and oversee these risks within our overall business strategy and risk appetite.</p>	<p>YBS will continue to further develop our external and internal environmental reporting capabilities and disclosures in line with the Green House Gas Protocol and the TCFD.</p> <p>We will ensure that Board and executive knowledge on environmental/climate change issues is sufficient to inform our strategic decision making.</p> <p>YBS will identify the relevant policy areas in which to embed climate change risk. We will further aim to embed climate change risk in to the Society's wider risk appetite framework.</p>
<b>Scenario Analysis</b>	<p>A plan to perform a scenario analysis to comply with SS3/19 was presented to and approved by the Assets and Liability Committee in November. The YBS Board further reviewed the plan and progress on climate related disclosures in December.</p> <p>After an internal review YBS has committed itself to externally sourcing expertise to model the physical and transitional risks across the balance sheet.</p>	<p>YBS will publish the results of the scenario analysis in a report available to all our stakeholders. We will further write a report detailing the results in details in 2021's annual reporting and accounts documentation.</p>

We will stress test our business model to the expected risks posed by climate change over the next 50 years. We will assess three possible climate pathways assuming; no policy action; early policy action and late policy action scenario. Within these scenarios a series of transitional economic risks and physical risks (such as flooding and coastal erosion) will be considered. Initial investigations indicate flooding across the YBS mortgage portfolio is the most significant climate change risk facing the Society. We will disclose climate change financial risks in next year's annual report and continuing progress on other environmental topics as outlined in the above summary table.

### Summary Carbon Footprint Reporting

The table below shows carbon emissions for 2015 to 2020 on both a location-based and market-based methodology. Tonnes of carbon dioxide equivalent

(tCO<sub>2</sub>e) is a measure that allows the comparison of emissions from other greenhouse gases relative to one unit of CO<sub>2</sub>. It is calculated by multiplying the greenhouse gas' emissions by its 100-year global warming potential. We are carbon neutral through offsetting the

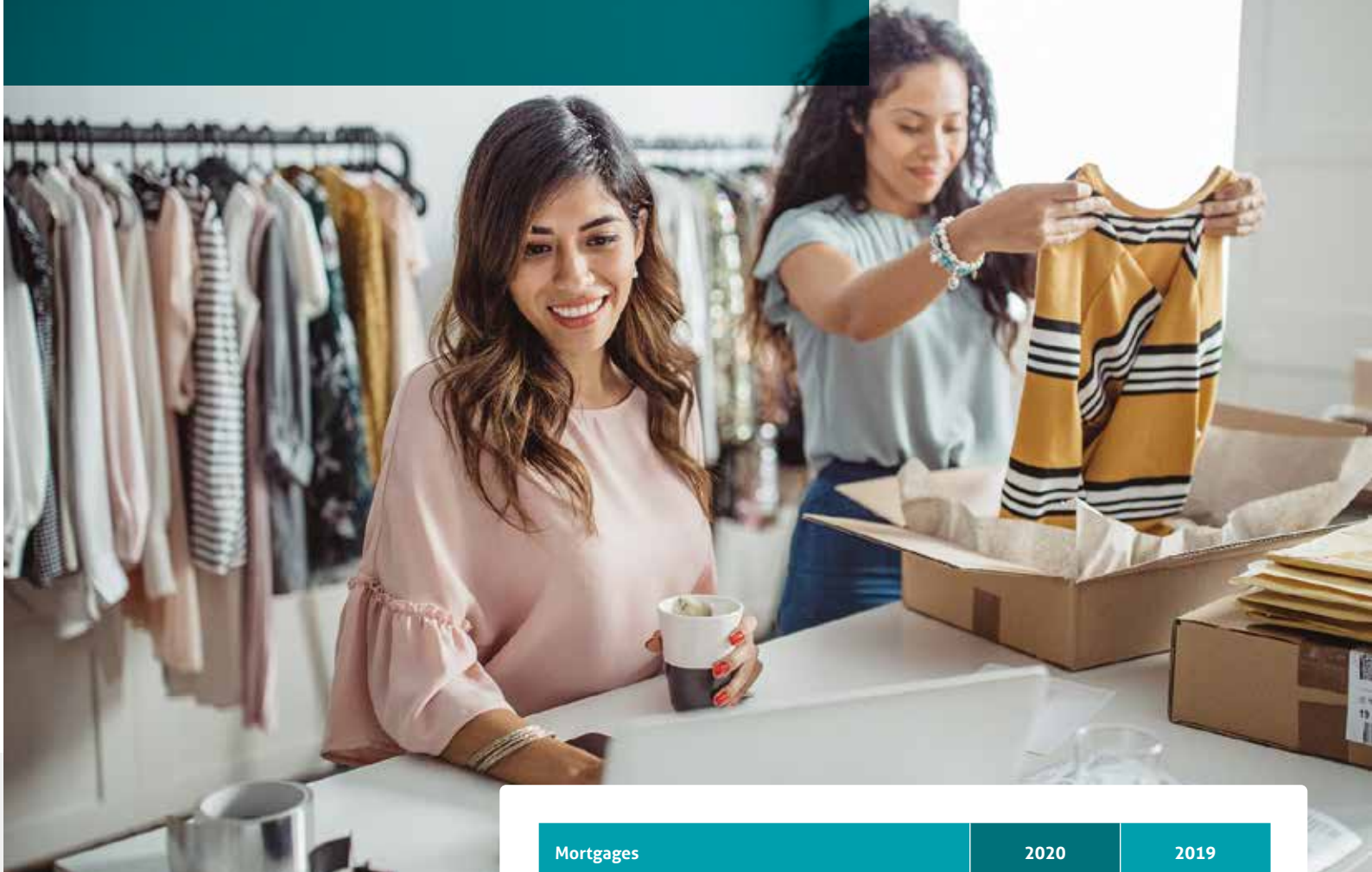
emissions of our market-based carbon footprint.

 **For more detailed Streamlined Energy and Carbon Reporting (SECR) please see pages 109 to 111 of the Directors Report.**

	2015	2016	2017	2018	2019	2020
Total Location Based Carbon Footprint	10,136	9,297	7,555	6,357	5,252	5,445
Total Market Based Carbon Footprint	2,055	2,176	1,880	1,946	1,942	2,368



# OUR FINANCIAL REVIEW



## Trading

The Society has delivered strong trading performance in a year that has presented numerous challenges to those operating in the mortgage and savings markets. Our trading performance in the opening months of the year was in line with our plans; however, the COVID-19 pandemic-induced changes to the Bank Base Rate and the national shutdown of the mortgage market in March inevitably impacted the industry as a whole. The second half of 2020 saw the markets reopen and our strong performance in this period contributes to the levels of growth achieved in both mortgages and savings this year.

Mortgages	2020	2019
Gross lending	<b>£7.1bn</b>	£7.9bn
Net lending	<b>£0.6bn</b>	£1.1bn
Mortgage balance growth	<b>2.1%</b>	3.5%
Market share (gross lending)	<b>2.8%</b>	2.9%
Savings	2020	2019
Retail savings balance growth	<b>8.8%</b>	3.8%
Retail savings balance growth (£)	<b>£2.7bn</b>	£1.1bn
Average savings rate differential vs. market average	<b>0.17%</b>	0.34%

## Mortgage Performance

Despite the challenging environment, we have achieved growth in our mortgage balances and, importantly, this growth has been achieved in a way that both aligns with our purpose and helps us to manage our margin performance. Among others, the challenges posed to the mortgage market included: restrictions on the ability to perform property valuations during lockdowns; the introduction and extension of payment holidays; the impending deadline for the removal of the temporary stamp duty threshold increase; and operational challenges in order to service the pent-up demand from customers, all while ensuring as safe an environment as possible for our customers and colleagues.

After the initial lockdown-related restrictions were eased, the effects of the COVID-19 pandemic on the competitive environment remained as many mortgage providers retrenched from certain lending segments. Many, including ourselves, implemented restrictions on lending according to factors including loan to value (LTV) banding as well as property and loan size.

We endeavoured to return to the underserved segments which align to our purpose as soon as we were safely able. The advantages afforded by our business model and our ability to adapt to the evolving operational circumstances allowed us to be present in the market at times when many competitors remained retrenched. Our capabilities, coupled with a lower level of competition in the market, led to significant increases in our mortgage application volumes. This high level of demand was sustained for much of the second half of the year.

Mortgage payment deferrals were also introduced in 2020, with the Financial Conduct Authority (FCA) looking to support people whose ability to meet their mortgage payments was directly impacted by the COVID-19 pandemic. The level of payment deferrals we have facilitated is broadly in line with the rest of the market, and there has been

no material deterioration in the cohort of loans observed to date. We will continue to monitor this closely.

Even with the unexpected challenges we and our customers faced, our Net Promoter Score improved again from +51 in 2019 to +53, a testament to the hard work and contributions of our colleagues in delivering the high-quality service valued by our customers and brokers, both new and existing.

## Savings Performance

We measure our retail savings performance by tracking the net retail inflow or outflow, the difference between deposits and withdrawals in each period. 2020 saw an increase in our savings balances of £2.7bn, an increase on 2019, despite the disruption to our branch network and operations as a result of the national lockdowns.

Overall savings balance growth in 2020 was 8.8% (2019: 3.8%), growth that reduces our retail funding requirements in 2021, and will support our future lending ambition. Growth was driven by performance in the second half of the year, where pricing changes by our largest competitors caused shifts in behaviour across the market. The HM Treasury-backed National Savings & Investments withdrew their most attractive rates in November, and as consumers sought better returns in the market, providers were inundated with flows driving further downward pricing as they looked to manage liquidity levels.

The impacts of the COVID-19 pandemic, and subsequent Bank of England response measures, have resulted in further pressures on the UK savings market, a market already subject to downward pressures on customer rates for a number of years. As the Society aims to protect the interests of our members, any reduction made to our customer rates is always carefully considered and undertaken in the interest of maintaining our long term sustainability.

Our purpose is to reward our members by maintaining a savings rate

differential to the market average. We set the rates we offer to customers to ensure value whilst managing our liquidity but in the current environment the market differential is lower than we would like. On average, in 2020 our savings rates were 0.17% above the market average of 0.62%, with the year-on-year reduction in the market average demonstrating the rate compression experienced across the sector, with a number of institutions reducing some savings rates to just 0.01%.

Given the unusual market dynamic, we continue to review the ways in which we are able to reward our members for savings with us in the best way. Our strong financial performance has enabled us to increase, in January 2021, the rates we pay to over 1.6 million of our members.

This year saw improvements in the performance of our online savings channel, and we have further enhanced our capabilities by successfully launching our first mobile application, which will deliver a better experience for our customers and extend our range of online services. Continuing investment in our digital programmes will further transform our capabilities in this area.

## Wholesale Performance

As a building society, our funding mix primarily comprises retail deposits, with an element of additional funding also raised via the wholesale markets. This alternative source of funding supports our liquidity position, helps to balance our flows of liquidity, and also provides our funding base with appropriate diversification.

Following the initial disruption to the wholesale markets due to the COVID-19 pandemic, the Society made successful issuances in the Medium Term Note and Covered Bond markets. In 2020, the Government also announced a new Term Funding Scheme (TFSME) to provide low-cost liquidity to the markets, which the Society is eligible for and has opted to drawdown on.

## Our Financial Performance

Despite the considerable market and operational disruption resulting from the COVID-19 pandemic, our financial performance continues to be strong. Our profitability is in line with the level planned, and we have successfully grown both our mortgage and savings books, with an overall balance sheet growth of 8.2% (2019: 2.8%). Our strong capital and liquidity positions have also been maintained. The figures below are consolidated amounts in respect of Yorkshire Building Society and its controlled entities (the Group).

	2020	2019
Statutory profit before tax	<b>£161.3m</b>	£167.2m
Core operating profit	<b>£170.5m</b>	£184.6m
Common equity tier 1 capital	<b>16.7%</b>	16.6%
Liquidity ratio	<b>19.2%</b>	13.8%
Net interest margin	<b>0.95%</b>	1.06%
Cost to core income ratio	<b>59%</b>	60%
Management expense ratio	<b>0.60%</b>	0.66%
Leverage ratio	<b>5.9%</b>	5.8%

Even with significant market challenges and pressures, our profit before tax and net interest margin performance have held up well. Our liquidity and common equity tier 1 capital positions remain strong, with ratios standing at 19.2% (2019: 13.8%) and 16.7% (2019: 16.6%) respectively. Our cost to core income ratio is reduced compared to last year at 59% (2019: 60%), this is despite the direct impacts of the

COVID-19 pandemic where delays in realising benefits from change projects were experienced, as well as additional costs relating to human resources and necessary changes to facilities to accommodate new health and safety measures.

Our financial performance is monitored by our Board who, in addition to looking at statutory profit before tax, look at core operating profit. Core

operating profit is an alternative performance measure which excludes items such as fair value gains and losses and material one-time charges that are either temporary or typically reverse over time, and so do not reflect the Group's day-to-day activities. Our Board considers core operating profit to be a more appropriate measure of the underlying performance of the business.

## Income statement

	2020	2019
	£m	£m
Net interest income	438.0	464.6
Fair value gains and losses	(10.7)	(21.9)
Net realised gains	12.9	6.3
Other income	13.8	8.4
<b>Total income</b>	<b>454.0</b>	<b>457.4</b>
Management expenses	(275.8)	(289.6)
	<b>178.2</b>	<b>167.8</b>
Impairment of loans and advances to customers	(12.2)	(0.2)
Movement in provisions	(4.7)	(0.4)
<b>Statutory profit before tax</b>	<b>161.3</b>	<b>167.2</b>

## Core operating profit

In 2020, statutory profit before tax was £161.3m (2019: £167.2m) and core operating profit was £170.5m, a reduction compared to £184.6m last year but a performance we are proud of given the challenges presented over the

course of the year. The main difference between core operating profit and statutory profit is a recorded loss on fair value gains and losses, the majority of which relates to timing differences for mortgage pipeline interest rate swaps which typically reverse in future periods.

Compared to 2019, the reduction in core operating profit is mainly a result of the external impacts of the COVID-19 pandemic including the Bank Base Rate reductions as well as higher impairment charges resulting from expectations around future economic conditions.

	2020	2019
	£m	£m
<b>Statutory profit before tax</b>	<b>161.3</b>	<b>167.2</b>
Reverse out:		
Fair value gains and losses	10.7	21.9
Historical fair value credit adjustments on acquired loans	(1.2)	(2.2)
Non-core elements of restructuring provision	2.8	0.5
Other non-core items	(3.1)	(2.8)
<b>Core operating profit</b>	<b>170.5</b>	<b>184.6</b>

## Net interest income

Net interest income for 2020 was £438.0m, a decrease on the previous year (2019: £464.6m), representing a net interest margin of 0.95% (2019: 1.06%). The year-on-year reduction in margin reflects the competitive pressure that has characterised the market in recent years with the low Bank Rate environment and excesses of liquidity resulting in margin compression.

Strong mortgage performance has supported net interest income and helped to offset reductions to margin brought about due to the Bank Rate cuts and the imposition of national lockdowns. A one-off reduction in margin occurred as a result of the Bank Rate reduction, due to the timing difference between the funding rate reduction and consequent changes to customer rates, as well as our decision not to pass the full reduction on to our members.

## Fair value gains and losses

A fair value loss of £10.7m was recorded in 2020 (2019: 21.9m loss), mainly as a result of the effects of the interest rate environment on our mortgage pipeline swaps which do not qualify for hedge accounting. This accounting adjustment will typically reverse in future periods.

## Other income

Other income in the year was £13.8m (2019: £8.4m). This includes income from our secondary lines of business in insurance distribution and shareplans, the performance of which remains stable and in line with our expectations. The sale of our office site at Charlton Kings was also completed this year with a profit on sale of £3.0m.

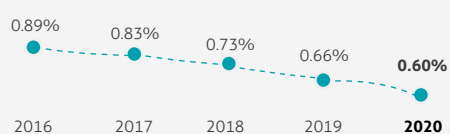
## Management expenses

Management expenses have again

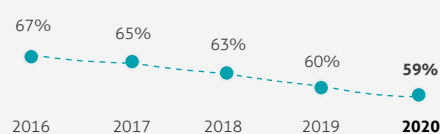
reduced year on year, from £289.6m in 2019 to £275.8m – a 5% decrease. This further reduction in our operating costs results from the successful delivery of a number of initiatives. It is our intention to continue transforming our operations through further investment in digital and efficiency programmes.

The cost reduction this year has been achieved even with unplanned expenditure required as a direct consequence of the COVID-19 pandemic. This includes: the cost of extra resource to service payment deferral and increased underwriting checks; facilities costs to prepare our branches and offices for new health and safety measures; and investment in IT resilience and capability to accommodate our office-based colleagues working from home on a much larger scale than before.

### Management Expenses (Cost to Mean Assets) %



### Cost to Core Income Ratio %



## Impairment

A significant impairment charge against our mortgage book of £12.2m has been recognised in 2020 (2019: £0.2m charge). This impairment charge includes our assessment of the likely impacts associated with the COVID-19 pandemic, along with the core projection of expected credit losses.

## Provisions

Provisions include customer redress, restructuring and other specific items. Business as usual restructuring costs relating to branch to agency conversions and branch closures of £1.4 million have remained in core profit, with the £2.8 million restructuring provision adjustment in the statutory

to core reconciliation consisting of one-off target operating model restructure costs.

 **More information on provisions can be found in note 24 to the financial statements.**

## Balance Sheet

**Overall balance sheet growth of 8.2% was achieved in 2020, with positive growth on both sides, driven in particular by strong retail performance in the second half of the year.**

	2020	2019
	£bn	£bn
Liquid assets	8.4	5.6
Loans and advances to customers	38.8	38.0
Other assets	0.7	0.7
<b>Total assets</b>	<b>47.9</b>	<b>44.3</b>
Shares – retail savings	33.4	30.7
Wholesale funding and other deposits	10.5	9.9
Subordinated liabilities	0.6	0.6
Other liabilities	0.6	0.4
<b>Total liabilities</b>	<b>45.1</b>	<b>41.6</b>
Members' interest and equity	2.8	2.7
<b>Total members' interest, equity and liabilities</b>	<b>47.9</b>	<b>44.3</b>

## Liquidity

Our liquidity position has increased over the year, now standing at 19.2% (2019: 13.8%), largely driven by our success in attracting retail savings deposits. This ratio expresses cash and assets easily converted into cash as a percentage of the Group's liabilities to investors. In addition to strong performance in retail funding, our liquidity position has been supported by inflows from wholesale funding and TFSME drawings. Sufficient headroom to regulatory thresholds for liquidity was maintained throughout the year. We have also continued to diversify our liquidity portfolio across a range of Level 1 High Quality Liquid Assets (HQLA), in line with our balance sheet strategy.

## Wholesale Funding

Although the need for wholesale funding is reduced due to availability of TFSME, the Society has maintained a presence in the wholesale funding

markets during 2020, supporting the diversification of our funding base. Following the first wave of the COVID-19 pandemic and the related volatility, our funding plan was adapted to reflect the impacts on both retail and wholesale funding markets. Successful issuances were subsequently made in the medium term note (MTN) and covered bond markets, and a liability management exercise was also approved and successfully undertaken, which helps in optimising our overall cost of wholesale funding.

## Arrears

The credit quality of our mortgage book is monitored on a monthly basis using a number of indicators. 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 value of loans meeting these criteria now stands at 0.43% (2019: 0.41%).

The industry average for mortgage arrears is measured as the number of accounts which are more than three months in arrears (including possessions). At 0.59% (2019: 0.56%) our performance continues to remain significantly better than the industry average of 0.84% (2019: 0.76%). More information on arrears can be found in the *Directors' Report* and in note 32 to the financial statements.

As at the end of December 2020, we had 26 retail mortgage properties in possession (2019: 63), however, the current year figure should be noted within the context of the repossession moratorium introduced by the Financial Conduct Authority in response to the COVID-19 pandemic during the period. The amount written off our loans and advances to customers in the period was £2.7m (2019: £2.0m). More information on write offs relating to arrears can be found in note 12 to the financial statements.

## Capital

The Group is subject to regulatory capital requirements regulated in the United Kingdom (UK) by the Prudential Regulation Authority (PRA). Our capital position remains strong, as demonstrated by our key capital

ratios. Our Common Equity Tier 1 ratio is 16.7% in 2020 (2019: 16.6%), which represents the relationship between the strongest form of capital (largely accumulated reserves) and risk-weighted assets. Our leverage ratio, which compares Tier 1 capital with total assets, is also stable at 5.9%

(2019: 5.8%). The Group has complied with the PRA's regulatory capital requirements during the year, further details of our capital position can be found in the 2020 Pillar 3 Disclosures for 2020 on our website [ybs.co.uk](http://ybs.co.uk).

Tier 1	2020	2019
<b>Common Equity Tier 1 (CET1)</b>	£m	£m
General reserve	2,779.1	2,644.9
Fair value through other comprehensive income reserve	12.3	7.5
Cash flow hedge reserve	(0.1)	(0.5)
<b>Common Equity Tier 1 prior to regulatory adjustments</b>	<b>2,791.3</b>	<b>2,651.9</b>
<b>Common Equity Tier 1 regulatory adjustments</b>		
IFRS 9 transitional arrangements	1.7	0.0
Pension fund adjustments	(66.4)	(64.8)
Intangible fixed assets	(14.8)	(35.9)
Prudent valuation adjustment	(3.8)	(3.2)
Cash flow hedge reserve	0.1	0.5
<b>Total Common Equity Tier 1 capital</b>	<b>2,708.1</b>	<b>2,548.5</b>
<b>Tier 2</b>		
Subordinated liabilities	350.7	342.0
Collective provisions for impairment	3.5	-
<b>Total Tier 2 Capital</b>	<b>354.2</b>	<b>342.0</b>
<b>Total capital (audited)</b>	<b>3,062.3</b>	<b>2,890.5</b>
<b>MREL Resources</b>		
Secondary Non-Preferential Liabilities	289.6	283.9
Tier 2 MREL Eligible	4.7	0.5
<b>Total MREL Resources (unaudited)</b>	<b>3,356.6</b>	<b>3,174.9</b>
<b>Risk weighted assets (unaudited)</b>	<b>16,175.6</b>	<b>15,380.1</b>
Common Equity Tier 1 capital ratio	16.7%	16.6%
Tier 1 ratio	16.7%	16.6%
Total capital ratio	18.9%	18.8%
Total MREL Resources ratio	20.8%	20.6%
CRR Leverage ratio	5.4%	5.5%
UK Leverage ratio (excluding claims on central banks)	5.9%	5.8%

Please refer to the Glossary at the end of this document on pages 220 to 229 for definitions of the terms used in this table.

# OUTLOOK

We recognise that there remains potential for disruptive outcomes driven by Brexit, the COVID-19 pandemic, negative rates and an unpredictable trading environment. We continue to plan for adverse outcomes, and invest to mitigate the risks they present. Our challenges include: a high degree of macroeconomic uncertainty; increasing customer expectations, particularly in respect of digital capability; and highly competitive markets.



Our new Blueprint priorities will enable us to continue to deliver against our enduring purpose of providing *Real Help with Real Life*.

**The 2021 priorities that we will be working on and delivering include an ambitious programme of digital capability upgrade and organisational reshaping which is both exciting and deliberately challenging:**

■ **Savings Rebooted**

We will help more people build financial resilience by redefining and re-engineering our savings business; getting the basics right, offering more than just price and reimagining our product offering. In 2021 we will build out new online journeys to enhance our digital offering to customers further.

■ **Properly Personal Experience**

We will build a service proposition

that tailors customer experience in line with individual customer needs; providing exceptional customer service, being digital ready and building a face to face service fit for the future.

■ **Purposeful Analytics**

Building analytics capability to understand better the needs of both existing and prospective customers; understanding customer journeys, building insight for risk management and increasing our trading ability.

■ **Unbelievably Easy & Efficient**

Making customers' lives easier and becoming ruthlessly efficient by building digitally capable and connected business, reshaping the organisation for the future and making a step change in our organisational culture. In the first half of 2021 we will complete our migration to digitally scanned images, removing

more paper from our operations. We will deliver connectivity to broker platforms to allow automated application submissions directly into our underwriting systems.

We will continue making improvements to legacy IT systems to mitigate risk and improve our services, building on the progress made this year with roll out of desktop refresh and completing the branch/agency WAN migration. We will develop our telephony systems further in 2021, building on the modern platform we deployed in 2020.

Our efficiency programme has delivered in line with our expectations and we intend to reduce costs further in the coming years driven by the outcomes our strategic blueprint will deliver, whilst still growing our business.



# PRINCIPAL RISKS AND UNCERTAINTIES



The environment within which we operate, and the nature of the threats that we face, are continually evolving. This includes the ongoing and evolving situation relating to the COVID-19 pandemic which currently dominates matters internationally, nationally and for YBS too. Additional uncertainties arising from the UK's

withdrawal from the European Union, and the economic impacts of the new trading relationship, also remain.

A description of the principal risks and uncertainties to which we are exposed is included in the table below, and further commentary on how these risks have evolved (including in the context of COVID-19 and the resulting economic downturn) are included after the table.

We have performed stress tests to assess the impact of a range of risks, particularly negative interest rates, a prolonged (L shape) recession as

a result of the COVID-19 pandemic, and a range of other operational and prudential risk scenarios. It is our belief that, whilst they each bring their individual challenges, we are well placed to manage them.

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



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

Risk	Description	Principal Mitigation
<b>Retail and Commercial Credit Risk</b>	The risk to the Group of credit losses as a result of failure to design, implement and monitor an appropriate credit risk appetite.	The Group sets a risk appetite for its retail and commercial lending activities which manages exposure to higher risk lending areas, and monitors adherence to this.
<b>Treasury Risk</b>	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.	The Group sets a risk appetite for treasury risk and monitors adherence to this. It adopts a low risk approach to its treasury activities, investing most of its liquidity in the highest quality assets.
<b>Funding and Liquidity Risk</b>	The risk of the Group having inadequate cash flow to meet current or future requirements and expectations.	The Group sets a risk appetite and stress tests its positions against this risk appetite. The Society operates a diversified funding base, primarily through retail savings, supported by a strong wholesale funding franchise.
<b>Market Risk</b>	<p><b>Repricing Mismatch Risk:</b> The risk that the value of, or income derived from the Group's assets and liabilities changes unfavourably due to movements in interest rates and foreign currency rates. This risk arises from the different re-pricing characteristics of the Group's assets and liabilities.</p> <p><b>Basis Risk:</b> Basis risk arises from possible changes in spreads where assets and liabilities re-price at the same time, but move in differing amounts causing unfavourable impacts to earnings.</p>	The Group adopts a low risk approach to market risk, and stress tests all positions against a range of scenarios.
<b>Capital Risk</b>	There is a risk that the Group is not able to meet regulatory capital requirements or deliver on its strategic plans due to insufficient capital resources.	The Group maintains a capital risk appetite and regularly stress tests its positions against severe scenarios.
<b>Model Risk</b>	The risk that the Group's models that are used to manage the business are inaccurate, perform inadequately or are incorrectly used.	The Group operates a Model Risk management framework which includes monitoring of model suitability and performance within agreed risk appetite.
<b>Operational Risk</b>	The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events.	The Group operates an internal control framework in line with the Board risk appetite and monitors adherence.
<b>Compliance and Conduct Risk</b>	The risk of direct or indirect loss as a result of a failure to comply with regulation or to ensure fair customer outcomes.	The Group operates an internal control framework in line with the Board risk appetite and monitors adherence.

Further detail on these risks is included in the *Risk Management Report*.





## Evolution of Principal Risk Exposures

The principal risks and uncertainties continue to evolve but the main driver of change over 2020 has been the COVID-19 pandemic, which has had a range of implications for the Group, along with the additional risks that we continue to address.

### Operational response to COVID-19 (Operational Risk)

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

In the early stages of the COVID-19 pandemic, we recognised the need to adapt our internal governance and reporting arrangements to maintain a detailed understanding of the evolving situation, and to monitor and continue to develop our response. To make us more agile and responsive, working groups were established to formulate and develop appropriate reporting at operational management, executive, Board and Committee levels.

In addition, some realignment of oversight responsibilities across the three lines of defence was enacted to help ease the pressure on those areas of the business facing the greatest impact.

We successfully implemented our operational response in line with Government guidelines and continue to monitor and implement changes resulting from updates to this guidance. Our approach has been to ensure the availability of critical services for our customers and to protect the health and wellbeing of our colleagues. Our key customer-facing processes and services continued to function as effectively as possible during 2020.

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

The impacts of the COVID-19 pandemic have dominated the economic

landscape since March 2020. The lockdown measures taken to manage the scale of the pandemic pose an ongoing risk to the economy, with the potential of a prolonged (L shape) recession, the resulting rise in unemployment and the added uncertainty this brings to future retail and commercial property values.

Our approach to modelling expected credit losses on loans and advances to customers in response to these changing economic conditions, and the impact of customers taking payment deferrals, is described in more detail in note 32 to the financial statements.

We considered lending criteria carefully throughout the year with an approach that was intended to balance the level of risk we take on against our Purpose of providing *Real Help with Real Life*.

The wider effect on the products offered by the Group, and any resulting downward pressure on trading volumes, is also a risk that is being closely monitored.

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

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

Our economic scenario modelling has considered the impacts of leaving the EU on the economy. These scenarios cover a range of impacts that reflect different levels of productivity and output of the UK and the subsequent impact on the broader economy.

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

### Negative interest rates (Operational and Market Risk)

There is a risk that a continued contraction in the UK economy may force the Bank of England to reduce the base rate from the current level

of 0.1% to zero or below. We have performed an initial assessment of the operational capability of the underlying systems to cope with negative interest rates and continue to prepare for any operational challenges.

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

### Model Risk (Model Risk)

We continue to monitor and address the risks associated with the use of models and specifically, with regard to the impact of the COVID-19 pandemic, the use of models that rely on historical data being applied to less predictable future scenarios. We continue to adapt and develop our approach to Model Risk management and the underlying models themselves in line with industry good practice and regulatory guidance.

### Continued focus on values and behaviours (Compliance and Conduct Risk)

Compliance and conduct are central to our values and behaviours, with an internal control framework that operates in line with the Board risk appetite and monitors adherence. However, ongoing focus and robust challenge will be required to keep pace with the rapidly changing legal and regulatory environment, as well as the constantly evolving threat levels.

The COVID-19 pandemic has presented a set of exceptionally fast evolving challenges: regulatory and legislative guidance has changed at pace; customer behaviour has altered in response to lockdown restrictions; the risk landscape we are subject to has shifted; and regulators have significantly increased engagement and scrutiny.

Against this backdrop, we refocused our risk management activities to prioritise matters of greatest importance to our regulators, in particular the *treating customers fairly* impacts of mortgage payment deferrals and forbearance (FCA) and the ongoing effectiveness of our operations through *Operational and Prudential Resilience* (PRA).

We have been proactive in adapting our risk-based approach to oversight, with a keen focus on maintaining a robust formal assurance mechanism. Across the board, regulatory engagement has increased in frequency and intensity, and our dialogue with regulators continues to be open and constructive. We also continue to work with regulators and industry bodies to contribute to the developing regulatory agenda.

### **Climate change risk (Credit and Operational Risk)**

We recognise that climate change is one of the most critical long term issues facing the UK and global economy. The main climate change risks impacting the Group are physical risks such as flooding, subsidence, and coastal erosion together with the risks posed by the transition to a low carbon economy such as energy efficiency regulation and exposure to sectors most affected by this change.

We continue to work towards fully embedding our strategic approach to managing these financial and transition risks by the end of 2021 in line with regulation that was published during 2019, guidance published in June 2020 by the Climate Financial Risk Forum and the 'Dear CEO' letter published by the PRA in July 2020. This incorporates consideration of governance, risk management, scenario analysis and disclosure. Our aim is to include the results of this work within the 2021 Annual Report and Accounts.

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

The ageing and diverse IT infrastructure, software, applications, satellite IT and use of third party packages present within institutions across the UK

financial services sector, expose these firms to increasing operational risks. As IT components age, their fit and value often deteriorate whilst cost and risk often conversely grow. Moreover, future digitalisation and modernisation initiatives may force firms to use old technology in ways in which they were not designed.

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

### **Increased competition and new technology (Operational Risk)**

Our digitalisation programme was well underway before the COVID-19 pandemic has brought a sharper focus on the need to develop wider access to our products and services through expanded digital channels. Challenger banks, FinTech firms and the digital transformation of direct competitors continue to place pressure on margins as cost to income ratios fall across the sector.

There is, however, a residual risk that the cost of delivering the level of change necessary to keep pace with rapidly changing technology may also prove unsustainable and require investment choices which may not fully meet customer expectations.

### **Financial crime threats (Compliance and Conduct Risk)**

We already operate in a hostile and constantly evolving financial crime environment. The COVID-19 pandemic has elevated the threat landscape, and the wider financial services industry has seen increased cyber-crime, including phishing and spam attempts that seek to take advantage of customers during this time of uncertainty.

Whilst we have not seen an increase in financial crime incidents directly attributable to COVID-19, the business remains on high alert. The Group's continued focus on its financial crime capability remains paramount in order to keep these evolving financial crime exposures within its risk appetite.

Investment continues to be made in this area, focusing particularly on anti-money laundering controls, customer due diligence and Open Banking compliance by looking at appropriately upgrading business standards, due diligence processes, IT and people capability.

### **New and evolving cyber security threats (Operational Risk)**

The increasing use of technology, and the pace of technological change, expose the UK financial services sector to ever increasing and evolving cyber security threats – including ransomware, data breaches and weaknesses in the supply chain. Resilience to such threats and an ability to effectively respond in the event of an attack remains essential in order to protect the Group, maintain the trust of customers and the confidence of regulators.

## Non-Financial Information Statement

Yorkshire Building 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	Page
Environment matters	See <b>Environmental Impact</b> section	<b>36</b>
Employees	See the <b>Colleagues</b> subsection of the <b>Customer, Colleagues and Communities</b> section	<b>32</b>
Social matters	See the <b>Communities</b> subsection of the <b>Customer, Colleagues and Communities</b> section	<b>34</b>
Respect for human rights	See the <b>Communities</b> subsection of the <b>Customer, Colleagues and Communities</b> section	<b>35</b>
Anti-corruption and anti-bribery	See the <b>Communities</b> subsection of the <b>Customer, Colleagues and Communities</b> section	<b>35</b>
Our business model	See <b>Our Business Model</b> section of the <b>Strategic Report</b>	<b>22</b>
Principal risks	See the <b>Principal Risks and Uncertainties</b> section	<b>46</b>
Key performance indicators	See <b>Performance at a Glance</b> section in the <b>Introduction</b> and the <b>Colleagues</b> section of <b>Customer, Colleagues and Communities</b> for a description of employee engagement scores	<b>4, 32</b>

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 building society not a company but details of how they have considered the matters set out in Section 172 in decision making are included in the *Directors' Duties* section of the *Corporate Governance Report*.



## Non-Financial Reporting Analyst Comparison

The Group actively engages with a number of specialist rating agencies that assess the quality of our Environmental, Social and Governance ('ESG') and sustainability performance and reporting. We are continuing to enhance our disclosures, focusing on transparency and availability of information.

A summary of our ratings and performance against these metrics is included below. Whilst rating agencies adopt different scoring methodologies, our trends show that we have made significant progress in recent years and rank highly among peers.

	2017	2018	2019	2020	Trend
<b>Sustainalytics<sup>1</sup></b>					
YBS overall score (0-40+)	-	-	20.9	17.4	↗
Risk Level	-	-	Medium	Low	↗
Ranking in industry group (banks)	-	-	10th percentile	9th percentile	↗
Ranking in subindustry group (thrifts and mortgages)	-	-	4th percentile	2nd percentile	↗
<b>MSCI<sup>2</sup></b>					
YBS overall score (CCC to AAA)	-	BBB	BBB	BBB	→
Accounting and Governance Risk (AGR)	-	25	76	99	↗
<b>ISS</b>					
YBS overall score (D- to A+)	-	C-	C-	C	↗
<b>imug   rating</b>					
YBS overall score (%)	36%	38%	48%	-	↗
Ranking in bank type	14/16	13/16	11/16	-	↗

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<sup>2</sup> The use by Yorkshire Building Society of any MSCI ESG RESEARCH LLC or its affiliates ("MSCI") data, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation or promotion of Yorkshire Building Society by MSCI. MSCI services and data are the property of MSCI or its information providers, and are provided 'as-is' and without warranty. MSCI names and logos are trademarks or service marks of MSCI.

# OUR LEADERSHIP TEAM

Our Board of Directors is responsible for the overall management of the Society on the behalf of our members, who vote to elect all Directors to the Board at the Annual General Meeting (AGM). More information on the role of the Board can be found in the *Corporate Governance Report*.

The Board is made up of 10 Directors: seven Non-Executive Directors, including our Chairman John Heaps, who are independent and not employed by the Society and three Executive Directors who work for the Society full time, including our Chief Executive, Mike Regnier. We also have an Executive Team which is responsible for managing the Society and is made up of our Executive Directors and our Chief Officers.

Our Board members and Executive Team bring a diverse set of skills and experience, which is key to running a major financial services organisation.



## Committee Membership Key:



Audit Committee



Board Governance and Nominations Committee



Group Risk Committee



Remuneration Committee

## Chairman



**John Heaps LLB**  
CHAIRMAN



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

### Background and career

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

### Skills and experience

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

### Other roles

Member of the board of The CityUK and also of its Audit and Risk Committee.

Member of the Audit and Constitutional Committees of the International Bar Association.

Member of the Advisory Board of the International Business and Diplomatic Exchange.

### Committee Membership

Chair of Board Governance and Nominations Committee and member of the Remuneration Committee.

## Non-Executive Directors



**Alison Hutchinson BSc, CBE**  
SENIOR INDEPENDENT NON EXECUTIVE DIRECTOR, VICE CHAIR AND NON EXECUTIVE DIRECTOR FOR WORKFORCE ENGAGEMENT



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

### Background and career

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

### Skills and experience

Alison has a strong background in technology and financial services as well as extensive experience in the retail financial services sector. She has more than 30 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 and a Non-Executive Director of Liverpool Victoria Friendly Society and the Senior Independent Director of DFS Furniture plc.



**Neeta Atkar BSc, MBE**  
INDEPENDENT NON-EXECUTIVE DIRECTOR



Joined the Board in 2017.

### Background and career

Neeta began her career at the Bank of England, including roles in its banking department and supervisory function. She joined the Financial Services Authority (FSA) when it was created; leaving in 2000 to move into consulting, working with a range of financial services clients. Following this, Neeta held senior positions in the financial services sector, including Chief Risk Officer at TSB until the end of 2016 where she was a member of the executive team that created and listed the bank on the London Stock Exchange.

### Skills and experience

Neeta has over 30 years' experience working in financial services, both in the private and public sectors across a range of risk areas, including credit, operational, financial crime and regulatory risks.

### Other roles

Senior Independent Director and Chair of the Risk Committee for the British Business Bank plc and Non-Executive Director and Chair of Risk Committees of Nomura Europe Holdings plc and other group companies. Neeta has also been a magistrate for over 20 years. Neeta was awarded an MBE in 2020 for services to Small Business Finance.

## Non-Executive Directors

**Guy Bainbridge** MA (Cantab), ACAINDEPENDENT  
NON-EXECUTIVE DIRECTOR

Joined the Board in 2019.

**Gordon Ireland** BSc, FCAINDEPENDENT  
NON-EXECUTIVE DIRECTOR

Joined the Board in 2015.

**Guy Parsons** BAINDEPENDENT  
NON-EXECUTIVE DIRECTOR

Joined the Board in 2013.

**Background and career**

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

**Skills and experience**

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

**Other roles**

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

**Background and career**

Gordon is a chartered accountant and worked for 36 years at PricewaterhouseCoopers specialising in financial services, including 24 years as a partner. His role included Vice Chairman of PwC's UK supervisory board and Chairman of the partner admissions panel and senior management remuneration committee. Following this, he was Chief Executive of a professional indemnity captive insurer of PwC's network.

**Skills and experience**

Gordon's role at PwC included auditing many of the UK's leading insurance companies, and acting as an audit review partner. He also represented PwC on external technical advisory groups at a UK and European level.

**Other roles**

Non-Executive Director, Chair of Audit Committee and member of Risk Committee of Aspen Insurance Holdings Ltd. Also a Non-Executive Director of Aspen Insurance UK Ltd.

**Background and career**

Guy was a director of Accor UK, responsible for sales, marketing and operations for the Novotel hotel chain. He has also held director positions at Whitbread Plc as Sales and Marketing Director for the hotel division and as Managing Director for TGI Fridays. In 2004 he joined Travelodge, becoming Chief Executive in 2010 and successfully growing the business to over 500 hotels in the UK, Ireland and Spain. Between August 2015 and 2019, Guy was Chief Executive at easyHotel plc. The business more than doubled in size and raised finance to build hotels across Europe during his tenure.

**Skills and experience**

Guy has more than 25 years' experience of director level roles in the leisure and hospitality industry.

**Other roles**

None.



### Non-Executive Director



**Mark Parsons** BA, FCMA  
INDEPENDENT  
NON-EXECUTIVE DIRECTOR



Joined the Board in 2020.

### Executive Directors



**Mike Regnier** MEng, MBA  
CHIEF EXECUTIVE

Joined the Board in 2014 and  
appointed Chief Executive in 2017.



**Alasdair Lenman** MA, ACMA  
CHIEF FINANCE OFFICER

Joined the Board in 2017.

#### 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

None.

#### Background and career

Mike began his career with 10 years in strategic management consulting with a focus on Retail and Retail Financial Services. After management positions at Asda, he joined the banking sector and held a number of senior positions at Lloyds Banking Group, including Personal Current Accounts and Credit Cards Director. Most recently, he was the Products and Marketing Director for TSB. Mike joined us as Chief Commercial Officer, became Chief Customer Officer in December 2015 and has been Chief Executive since 2017.

#### Skills and experience

Mike has a strong background in strategy and general management, mainly within the financial services sector. He has served as a Board Director of Visa UK, and Chairman of the merchant acquirer LTSB Cardnet. He is currently also the Chair of the Building Societies Association.

#### Background and career

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

#### Skills and experience

Alasdair has a strong finance background of over 20 years including previous experience as a Chief Finance Officer. Alasdair has also been a Non-Executive Director and Audit Committee Chair for both Sainsbury's Bank and Coventry Building Society.

## Executive Directors



**Stephen White** BComm  
CHIEF OPERATING OFFICER

Joined the Board in 2016.

### Background and career

Stephen started his career with Abbey National and subsequently gained experience in management roles at both Abbey National and later Ernst & Young. He was also an Executive General Manager at National Australia Bank looking after Payments and Customer Operations. Before working at YBS he was Group Chief Operating Officer at Allied Irish Bank. Stephen is responsible for our Retail and Branch Network, Operations and Customer Service functions, including Customer Relations, Lending, Customer Services, Arrears and Collections, Financial Crime, Procurement, IT, Information Security, Transformation and Change Management. Stephen is also Chair of Accord Mortgages Limited.

### Skills and experience

Stephen has 25 years' experience in financial services and has worked internationally at a senior level, including significant time in Australia, Asia, Ireland and the UK.

## Chief Officers



**Charles Canning**  
CHIEF CUSTOMER OFFICER

Joined the Society in 1987.

### Background and career

Charles was promoted to the leadership team in 2005 and has held a variety of roles including Head of Branch Network and Head of Distribution, responsible for the branch and agency network and telephony sales. More recently he was promoted to Chief Customer Officer and has overall responsibility for all aspects of distribution and the delivery of an exceptional customer experience.

### Skills and experience

Charles has over 30 years' experience with the Society across many areas, including Accord Mortgages Limited, our wholly owned intermediary lending subsidiary.

Charles will retire from his role at the Society at the end of February 2021.



**Suzanne Clark** BEng, FCA  
CHIEF INTERNAL AUDIT OFFICER

Joined the Society in 2017.

### Background and career

Suzanne has held a variety of roles throughout her banking career, including leadership roles at the Bank of England and several global banks. She joined us in April 2017 as Head of Internal Audit and was promoted to Chief Internal Audit Officer in 2019. Suzanne is responsible for making sure our Board is given an independent view of how effective we are at managing our risks.

### Skills and experience

Suzanne has over 20 years' internal audit experience in the Financial Services sector and is currently a Non-Executive Director and Chair of the Audit Committee for the Leeds Teaching Hospitals NHS Trust.



**Orlagh Hunt** BA, FCIPD  
CHIEF PEOPLE OFFICER

Joined the Society in 2019.

### Background and career

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

### Skills and experience

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



**David Morris** BA, MA  
CHIEF COMMERCIAL OFFICER

Joined the Society in 2018.

### Background and career

David began his career at Citigroup and has subsequently worked at various Financial Services institutions across the UK and abroad. Most recently 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, the marketing and digital channels and, more recently, mortgage distribution. David is also responsible for our Commercial Lending and SharePlans business.

### Skills and experience

David has over a decade of experience in retail banking and has a strong track record of driving commercial performance in financial services organisations, including the mutual sector. He is also a director of Accord Mortgages Limited.



**Richard Wells** FCIB  
CHIEF RISK OFFICER

Joined the Society in 2010.

### Background and career

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

### Skills and experience

Richard has extensive experience of risk management within the financial services industry. He is also a director of Accord Mortgages Limited.



# CORPORATE GOVERNANCE REPORT

## A WORD FROM OUR CHAIRMAN

I am pleased to present our Corporate Governance Report for 2020, which sets out the role of the Board and its Committees, along with their key activities.

As Chairman, I am responsible for leading our Board and ensuring it continues to be effective. Our approach to corporate governance is key to this and never more so than in these extraordinary times which have brought with them unprecedented challenges for all of us. Above all, the Board remain committed to protecting the wellbeing of our colleagues and continuing to provide the very best service we can to our members and customers.

## Our approach to Corporate Governance

Corporate governance is about the rules and policies 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, which we aim to comply with where it applies to a building society as we believe this is in the best interests of all of our stakeholders. This report sets out how we have done this during 2020.

For the 2020 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](http://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](http://bsa.org.uk)). As a mutual organisation we do not have shares or shareholders therefore references to long term shareholders 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.

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.

## Our Strategy and the Board

As a Board one of our key areas of focus during 2020 has been the development of our new Strategic Blueprint to support our purpose of providing Real Help with Real Life. We aim to build on the foundations of our purpose by helping people into a place to call home, to build greater financial wellbeing and to provide better value to our members.

The Board is committed to ensuring that Environmental, Social and Governance (ESG) factors form a part of its decision making. During 2020 this has included time spent developing the 'societal' aspect of our agenda, particularly in the context of the impact of the COVID-19 pandemic and how we can have a material impact in the areas linked to our purpose in the current challenging economic climate.

More information on our strategy and

ESG commitments is included in the Strategic Report.

## Impact of the COVID-19 pandemic on our governance in 2020 and beyond

As with so many issues in 2020, the COVID-19 pandemic meant that we had to adapt our governance to ensure we were able to continue to operate effectively and support the Society in meeting the operational challenges it created. Additional Board meetings were held to ensure the Board had sufficient oversight as the pandemic developed and we moved to using video conferencing to ensure that the Board could continue to meet whilst complying with government guidelines and protecting the health and safety of all those involved.

Our purpose of providing Real Help with Real Life has never been more important than during this time and in support of this the Board agreed that our priority during this period would be to support our customers, colleagues and communities whilst ensuring the long term sustainability of the Society.

In 2020 we were unable to hold our Annual General Meeting (AGM) in our usual format and we are looking at the options for the AGM in 2021 to take into account the ongoing impact from the COVID-19 pandemic.

## Changes to the Board in 2020

There has continued to be a significant focus on succession planning for our Board during 2020 to ensure it remains effective now and in the future. As a result of those succession plans, I would like to update you on the following changes to our Board during the year:

- Mark Pain stepped down from the Board and his roles as Vice Chair and Senior Independent Director on 30 September 2020. I would like to thank Mark for his outstanding contribution to the Society's success and wish him well for the future.
- Alison Hutchinson took on the role of Senior Independent Director and Vice Chair with effect from 1 October 2020 after Mark Pain stepped down, bringing her significant experience to these roles.
- Mark Parsons joined the Society on 20 October 2020 as a Non-Executive Director and member of our Audit and Group Risk Committees. Mark's

depth and breadth of experience in managing retail financial services at an executive level, alongside his broad ranging skillset, will further strengthen our Board.

We reported in last year's Annual Report and Accounts, that the Board Governance and Nominations Committee began a search in 2019 for a new Non-Executive Director as part of future succession planning. As a result of that search the Board was pleased to announce the appointment of Catharine French as a Non-Executive Director from 1 April 2020. Catharine brought significant skills and experience from a long and distinguished career in financial services. Sadly Catharine passed away in May 2020 but not before showing in that short time what an outstanding addition to our Board she would have been.

Non-Executive Director, Gordon Ireland, is due to retire from the Board at the conclusion of the 2021 AGM. I would like to take this opportunity to thank Gordon for his support and for his excellent contribution to the Board and also the Audit and Group Risk Committees of which he has been a member.

## External Board Evaluation 2020

As part of our commitment to follow the Code, the Board agreed to undertake an external review of its effectiveness, together with that of its Committees, in 2020 and appointed Halex Consulting as the external facilitator. Further details on the process are provided in the *Board Governance and Nominations Committee Report*.

## What are the Board's priorities for 2021?

Maintaining a robust approach to corporate governance to support the long term success and sustainability of the Society in these uncertain times will remain the priority of the Board in 2021 taking into account a range of issues including the ongoing situation with regard to the COVID-19 pandemic, the implications of Brexit and focusing on achieving the priorities in our Strategic Blueprint.

**John Heaps**  
Chairman

## Board Leadership and Company Purpose

### OUR BOARD AND COMMITTEE STRUCTURE

#### BOARD

Chair - John Heaps

Collectively responsible for the long term success of the Society.

#### BOARD COMMITTEES

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

##### CHAIRMAN'S COMMITTEE

Chair: John Heaps

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

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

##### REMUNERATION COMMITTEE

Chair: Guy Parsons

Oversees the development and implementation of the Remuneration Policy for all colleagues.

[Read more: page 90](#)

##### AUDIT COMMITTEE

Chair: Guy Bainbridge

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

[Read more: page 76](#)

##### GROUP RISK COMMITTEE

Chair: Neeta Atkar

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

[Read more: page 81](#)

##### BOARD GOVERNANCE AND NOMINATIONS COMMITTEE

Chair: John Heaps

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

[Read more: page 72](#)

#### MANAGEMENT COMMITTEES

##### EXECUTIVE COMMITTEE (EXCO)

Chair: Mike Regnier,  
Chief Executive

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

##### EXECUTIVE RISK COMMITTEE (ERC)

Chair: Richard Wells,  
Chief Risk Officer

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

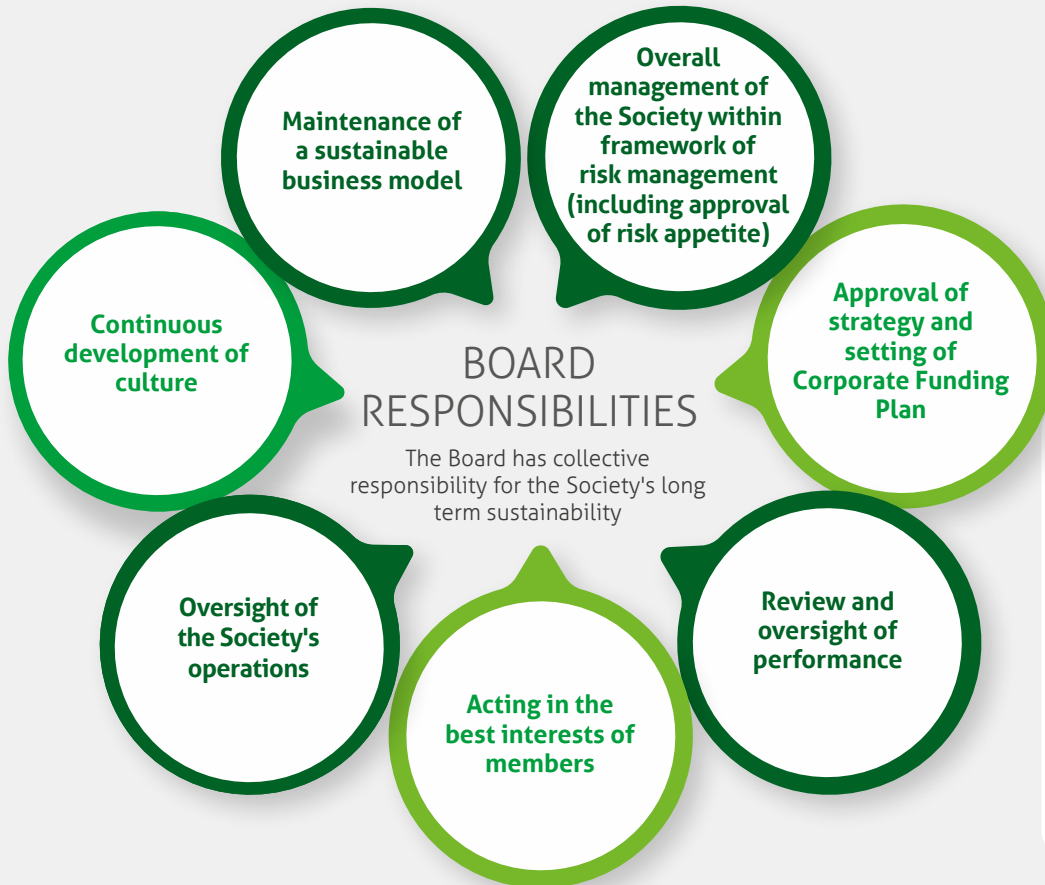
[Read more: page 84](#)

The Board and each of its Committees have terms of reference which set out their roles and responsibilities.

[You can find the terms of reference of our Board, Remuneration, Audit, Group Risk and Board Governance and Nominations Committees on our website at ybs.co.uk/board.](https://www.ybs.co.uk/board)

## Board’s Responsibilities

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



The Board keeps 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](http://ybs.co.uk/board).**

## Setting our purpose and generating long term success

The Board is committed to delivering our purpose and creating long-term value for our stakeholders through good governance and keeps the Society’s purpose and long term success under review.

**It does this through:**

- **Dialogue with the senior leadership team** - ongoing discussions regarding industry trends and the external environment are key to the Board’s ability to ensuring the Society’s long term success.
- **Effective decision making** - a strong governance structure supports quicker and better decision making, in line with our strategy.
- **Ensuring good quality reporting** - the quality of the information provided to the Board, including details of any impact on its stakeholders, wider community and the environment, ensures it is able to make informed decisions which can improve value creation and reduce costs.
- **Compliance** - good corporate governance ensures that we meet legal and regulatory requirements and avoid any consequences of not doing so.
- **Brand and reputation** - a clear and effective framework of corporate governance provides confidence to our stakeholders, supporting a positive brand reputation.
- **Risk management** - continuous identification and review of principal business risks and how those risks could affect the Society’s purpose and long term success, taking into account the agreed risk appetite.

## Board Activities in 2020

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

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

### At each meeting the Board receives:

- Chairman's Report
- Chief Executive's Report including an update on key issues
- Comprehensive management information including financial and non-financial
- Scorecards to monitor progress against key performance indicators (KPIs)
- External environment and consumer update
- Updates from and minutes of Board Committee meetings and Executive Committee minutes

### During 2020 Board agendas have also included the following key topics at scheduled meetings in the year:

- Strategy development
- Approval of the Annual Report and Accounts and Half-Yearly Financial Report
- Approval of key policies, including Conflicts of Interest Policy for Directors and Chief Officers
- Whistleblowing Annual Report (including Policy)
- Approval of Modern Slavery Act Statement
- Updates in relation to the management of cyber security and resilience
- Review of products and lending initiatives
- Approval of the 2020 Internal Liquidity Adequacy Assessment Process (ILAAP).
- Internal Capital Adequacy Assessment Process (ICAAP)
- Board Training Plan
- Corporate Insurance
- Operating Plan and Stress Tests
- People Plan including Engagement and Inclusion and Diversity
- Succession planning, including diversity of the pipeline
- Digital roadmap
- Minutes of Accord Board meetings and bi-annual governance updates
- Quarterly Chief Risk Officer updates, approval of Risk Appetite and ongoing monitoring of adherence
- Workforce engagement updates
- Transformation Roadmap
- Money Laundering Report Officers Annual Report
- Selection of the Society's Charity Partner
- Environmental, Social and Governance updates
- Regulatory updates, including Senior Managers and Certification Regime
- IT Strategy refresh and legacy review

In addition, during 2020 the Board received specific information in relation to the COVID-19 pandemic:

- Wider economic impact
- Regular updates including financial implications, service impacts and lasting impacts, including customer and colleague behaviour
- COVID-19 dashboard - including service updates in relation to key business areas covering people, technology, suppliers / fraud / cyber, property and social media / external
- Impact of COVID-19 on the Society's Annual General Meeting

### The Board also holds two separate strategy sessions each year which have covered the following topics:

- External perspectives on the COVID-19 crisis
- New ways of working - COVID-19 reflections
- Strategy to 2024 including new behaviours to guide our culture
- Purpose and Environment, Social Governance strategy
- Mortgage trading - progress during COVID-19
- Mortgage trading strategy
- Corporate Plan



## Our Board's Engagement With Stakeholders

A strong relationship between the Board and its stakeholders helps to drive the achievement of the Society's purpose and priorities. It is important that our Board understands the areas of interest or concern for our key stakeholders when it makes decisions and to support this each report to the Board includes details of the impact or potential impact of a decision on these stakeholders.

### WHO ARE THE BOARD'S KEY STAKEHOLDERS



For more details about how we engage with the Society's key stakeholders see page 20.



## Our Members

As a mutual we have no external shareholders – we are owned by our members. We encourage feedback from them on any aspect of our activities and use this to inform the Board's decisions.

We hold an AGM 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.

This year's AGM was due to be held at 2.30 pm on 28 April 2020 at the Met Hotel, Leeds, however, due to the outbreak of the COVID-19 pandemic and the subsequent restrictions on public gatherings we were unable to hold our AGM in the usual way. Throughout the outbreak, our priority has been to protect the wellbeing and safety of our members and colleagues, whilst providing our communities with the essential financial services they need and meeting our legal obligations. As with all building societies by law we still had to hold an AGM but we revised the arrangements to ensure we safely met our obligations within the context of the measures put in place by the Government and public health guidance at that time.

As such, the meeting was held at the Society's Head Office in Bradford at 4.00 pm on 28 April 2020. Due to the 'Stay at Home' measures in place at the time which prohibited public gatherings our members were not able to attend the AGM in person. For the AGM to be a valid meeting we asked Society colleagues who were already working at Head Office and were members of the Society, together with any directors in attendance, to help us comply with the meeting requirements in our Rules. In accordance with government guidance, banks and building societies are providers of essential services meaning that our colleagues are "key workers" and were permitted to continue working to support our members and the wider economy despite the restrictions in place. Those in attendance in person at the AGM observed the social distancing guidance in place at all times.

Despite the unexpected circumstances, it remained important that our members were able to have their say at the AGM even though they were unable to attend in person. As such, we strongly encouraged all our eligible members to exercise their voting rights either through voting online or returning their postal vote. In addition, as we were unable to hold a question and answer session for our members at the meeting, members called, emailed or wrote in with their questions and responses were issued in a timely manner.

The Code expects that if there is a vote of 20 per cent or more against any resolution put forward by our Board at the AGM, we should give details of how we will consult our members to understand the reason why. The Society has a process in place if this happens; however, there were no votes of 20 per cent or more against any of the resolutions our Board put forward at the 2020 AGM.

## Our Colleagues

The Board is committed to ensuring that the views of our colleagues are considered in decision making and in 2019 appointed Alison Hutchinson as the Non-Executive Director for Workforce Engagement.

One of the fundamental elements in supporting this role was the implementation of a Colleague Forum in 2019 which the Non-Executive Director for Workforce Engagement attends. The Colleague Forum meets quarterly and is attended by a cross section of representatives from across the Society together with the Non-Executive Director for Workforce Engagement who feeds back to the Board after each meeting.

During 2020 the Colleague Forum has been successfully adapted to enable colleagues to engage in a virtual context, with colleagues still able to actively participate and share views.

The Forum has been aligned with Executive Committee and Board agendas where possible and this has ensured colleague feedback has been a part of developing key items including:

the behaviours recently launched;

- our Digital Strategy
- bringing our purpose to life and our broader opportunity to support the communities in which we operate
- our inclusion and diversity agenda
- and in particular for 2020, our COVID-19 response and how this evolved over the year.

In March 2020 four colleagues joined the Board meeting to share an example of the work they have been doing through the Colleague Forum. They set out for the Board how they had been involved in shaping Flexible Working practices which led to an approach and policy that suits the very different requirements across the business and was important in supporting our colleagues during the COVID-19 pandemic.

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

In addition to the formal structure provided by the Non-Executive Director for Workforce Engagement and the Colleague Forum, the Board recognises the importance of colleagues having the opportunity to engage with other Board members where possible. As a result, Colleague Listening Groups were held at our Leeds office in February 2020, open to all colleagues they provided an opportunity for them to ask questions and share their thoughts on working for YBS. As outlined in the Colleague Section, we have also continued to engage with our colleagues through Reward Listening Groups, all People Leader calls and through the pulse survey tool with questions tailored to feedback to support during the COVID-19 pandemic and follow up measures.





## Colleague feedback at the end of 2020 included:

I feel like there is space for the voice of my department in the process.


I can honestly say as an attendee that this feedback feels like it is gratefully received, listened to by our Board Representative.

I think the forum collectively is making an impact and whilst it is still to a degree in its infancy, it is a very valuable forum that I am sure has a big part to play in the 'people/colleague' agenda, going forward for YBS.

### Our Culture

We have a strong and positive culture which supports our purpose and the delivery of our strategy. Whilst the revised Code published in 2018 made culture a key principle for the first time, work on refining our own culture had already started in early 2016 and continues to be overseen and led by our Board.

As part of the work that has been completed on the Society's Strategic Blueprint, we have developed a new set of behaviours which will be an important driver of our future culture.

 **For more information on the Society's new behaviours see page 29.**

### 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 have clear processes in our Whistleblowing Policy which is approved by our Board annually. Our Board also oversees how the policy works.

The Society's Whistleblowing Champion is Alison Hutchinson, Senior Independent Director and Vice Chair, who took over when Mark Pain stepped down in September 2020.



## 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 building society not a company, but the Code expects boards to report on how they have considered the matters set out in Section 172 in decision making.

**The table below summarises the Section 172 requirements and cross references to where this consideration is covered in other sections of this document.**

Summary of Section 172 Requirements (as applied to a building society)	Yorkshire Building Society Board	Relevant Disclosure
<b>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:</b>	<p>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.</p> <p>Building on our purpose to provide Real Help with Real Life the Board agreed our new Strategic Blueprint in 2020 which underpins its commitment to the success of the business for our members both now and in the future.</p>	<p>Our Business Model: <b>page 22</b></p> <p>Our Purpose: <b>page 24</b></p> <p>The Blueprint: <b>page 28</b></p>
<b>• likely consequences of any decision in the long term</b>	<p>Our Board recognises the importance of ensuring the likely consequences of decisions in the long term are considered which is reflected in our new Strategic Blueprint built around our purpose of providing Real Help with Real Life.</p>	<p>Our Business Model: <b>page 22</b></p> <p>Our Purpose: <b>page 24</b></p> <p>The Blueprint: <b>page 28</b></p>
<b>• interests of employees</b>	<p>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.</p> <p>The Board has also put in place a framework to ensure colleague views inform its decisions. <b>For more detail on our colleague engagement framework and how this links to Board decision making see page 64.</b></p>	<p>Our Stakeholders: <b>page 20</b></p> <p>Customers, Colleagues and Communities: <b>page 30</b></p>
<b>• need to foster business relationships with suppliers, customers and others</b>	<p>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 (<b>for more detail on our engagement with our key stakeholders see page 21</b>).</p>	<p>Our Stakeholders: <b>page 20</b></p> <p>Customers, Colleagues and Communities: <b>page 30</b></p>
<b>• impact of the business's operations on the community and the environment</b>	<p>The environment, social and governance impact of the Society has been a key consideration as part of the development of the new Strategic Blueprint and formed part of discussions at the Board's strategy days held in 2020. In addition, 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.</p>	<p>Customers, Colleagues and Communities: <b>page 30</b></p> <p>Environmental Impact: <b>page 36</b></p>
<b>• desirability of maintaining a reputation for high standards of business conduct</b>	<p>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. This was reflected in the development of the Society's new behaviours which will drive the culture that will support the delivery of our new Strategic Blueprint.</p>	<p>Awards: <b>page 6</b></p> <p>Our Business Model: <b>page 22</b></p> <p>Our Purpose: <b>page 24</b></p> <p>Customers, Colleagues and Communities: <b>page 30</b></p> <p>Whistleblowing: <b>page 65</b></p> <p>Internal Controls: <b>page 79</b></p>
<b>• need to act fairly as between members (i.e. the company's shareholders)</b>	<p>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.</p>	<p>Our Stakeholders: <b>page 20</b></p> <p>Customer, Colleagues and Communities: <b>page 30</b></p>

## Section 172 in Practice - The COVID-19 Pandemic

In 2020 our purpose of providing Real Help with Real Life has never been more important with the COVID-19 pandemic impacting our daily life across all parts of the UK. This was, therefore, central to the Board's considerations in the management of the impact of the pandemic and it agreed that the priority during this period would be to support our customers, colleagues and communities whilst ensuring the long term stability and sustainability of the Society.

In its role overseeing the running of the Society it was important that the Board remained up to date with the fast moving changes which could affect the business, working with the Executive Team on the Society's response to the pandemic.

### This has included:

- Additional Board calls held between March and June 2020 focused on the impact of the pandemic and any associated actions required by the Society.
- Review of the Society's COVID-19 dashboard providing critical service updates, including operational status and operating status reports.
- Regular updates from the Chief Operating Officer and Director of Operational Risk and Control on the management of operational resilience issues arising from the pandemic, including agreed standards of service for performance, management of payment deferrals, home working capability, safe use and management of office facilities and branch sites and the impact on ongoing programmes such as the telephone upgrade.
- Receiving updates on the short, medium and long term outlook from both internal and external sources.

As part of its decision making in relation to the pandemic, the Board also had regard to:

### Consequences of a decision in the long term

Whilst it was recognised that forecasting the future social and economic effects of the pandemic and its impact on business was difficult, in addition to managing the immediate impact of the pandemic, it was recognised that the Board also continued to have a responsibility to consider the long term impact of decisions being taken, such as:

- Managing the risks arising from a changing external environment within Board Risk Appetite, including discussions at the Group Risk Committee on the impact on the risk profile which all Board members attended.
- Impact of trading conditions on longer term performance.
- Long term impact on branch and call centre opening times as a result of changing customer demand.

### Interests of employees

As with most businesses, the pandemic brought unprecedented challenges for our colleagues in terms of their health, well-being and financial security. The Board agreed that one of the main business priorities during the COVID-19 pandemic was the welfare of our colleagues and

retained oversight of the steps being taken to ensure that their interests remained at the forefront of decision making, such as:

- Ensuring the segregation of teams across the business to support social distancing whilst accelerating the introduction of technology to support those colleagues working from home.
- Ensuring that appropriate support mechanisms were in place, including helping colleagues with physical and mental wellbeing challenges.
- Ensuring colleague engagement could be maintained during the pandemic to ensure that the progress made in building a strong employee engagement framework was not lost.
- Reviewing colleague policies to provide additional support for dependents and carers as well as for those colleagues required to self-isolate.

### Need to foster business relationships

During the COVID-19 pandemic in particular it has had oversight of:

- Engagement with our members and customers, ensuring regular and appropriate communications.
- Regulatory relationships and the assurance provided in relation to our operational and financial resilience.
- Progress in ensuring the Society's investors receive appropriate assurance on the capital, liquidity and performance position of the Society as well answering questions on areas of potential impact such as payment deferrals.
- Engagement with other key stakeholders, including suppliers, to ensure that the best possible service continued to be delivered to our members and customers.

### Impact of business operations on the community and the environment

The Board considered the development of the societal aspect of the Society's agenda and how this could be strengthened taking into account the impact of the COVID-19 pandemic. The Society's purpose of providing Real Help with Real Life through a 'place to call home' and 'financial wellbeing' was never more important than in 2020 when our members and the wider community were impacted by the challenging economic environment created by the pandemic.

As well as providing concerted support to the Society's new Charity Partner, Age UK, the Board agreed proposals to support the development of employability and digital skills in the community and develop a comprehensive programme to help people achieve financial wellbeing at a number of stages through life.

In 2020 our Board agreed a community investment strategy for the Society. This strategy is supported by two purposeful focus areas: financial resilience; and employability and digital skills in a changing world, which were selected due to the accelerated urgency created by the COVID-19 pandemic. The initial focus for work in relation to digital skills and employability will be our Bradford heartland, including the Bradford for Everyone Project.

### Maintaining high standards of business conduct

The Board and the Society has remained committed to maintaining the highest standards of business conduct throughout the pandemic ensuring from an operational perspective the Society continued to provide a good service through our branches, online and the telephone despite the challenges brought about by the pandemic.

Operational performance in key customer facing areas has been monitored by the senior team and the Board throughout and action taken where required to address any issues arising. For example, the introduction of a new online form for payment deferral requests and colleague training to assist them in supporting customers in dealing with the circumstances they found themselves in as a result of the pandemic. In light of the impact of COVID-19 on the UK economy, our Executive and Non-Executive Directors requested that their salaries/fees should not be increased for 2020.

### Need to act fairly as between members

Our members as our owners are at the heart of Board decision making and were one of the key priorities identified during the COVID-19 pandemic. The needs of our members and the service provided to them remained a key part of the Board's decision making process throughout this time and a driving force behind our operational priorities, including keeping members in their homes, protecting savings and providing essential financial services.

## Conflicts of Interest

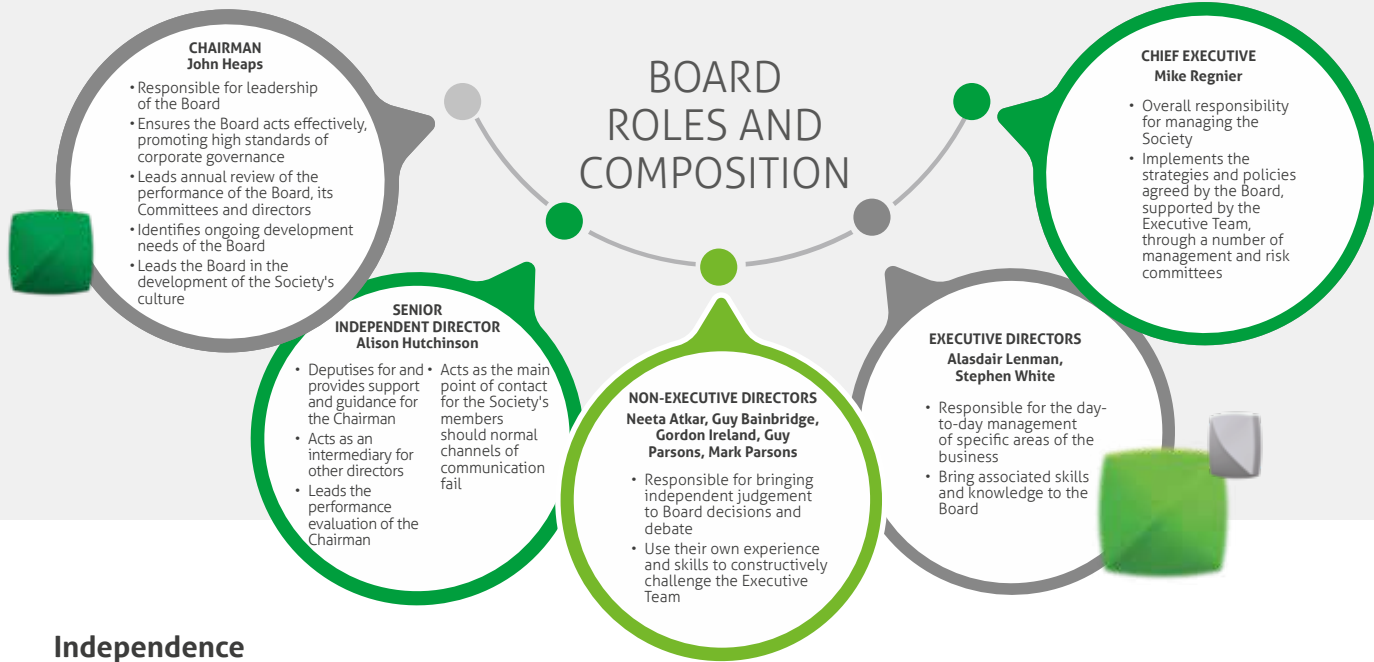
Our Board has a Conflicts of Interest Policy for Directors and Chief Officers which sets out how we will review and, where appropriate, approve any conflicts

or potential conflicts of interest. These are recorded in a Register of Interests which is reviewed and approved by our Board Governance and Nominations Committee at each meeting.

If any director wants to take on a new external position it must first be approved by our Board, which will consider whether there could be any conflicts of interest and / or an impact on the time they commit to their role with the Society.

## Division of Responsibilities

The size and composition of our Board and its Committees are kept under constant review, including future succession planning and all aspects of inclusion and diversity.



## Independence

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

## Attendance at Board and Committee meetings

The table below shows our directors and the scheduled Board and Committee meetings they attended during 2020 (where they were a member during the year) followed by the number of meetings the director was eligible to attend.

Director	Board	Board Strategy	Board Committees				
			Chairman's	Audit	Board Governance and Nominations	Remuneration	Group Risk
<b>Non-Executive Directors</b>							
John Heaps	9/9	2/2	No meetings required in 2020	–	4/4	5/5	–
Mark Pain <sup>1</sup>	7/7	1/1	–	–	3/3	–	3/3
Alison Hutchinson <sup>2</sup>	9/9	2/2	No meetings required in 2020	–	4/4	5/5	4/4
Neeta Atkar	9/9	2/2	–	4/4	–	–	4/4
Guy Bainbridge	9/9	2/2	–	4/4	–	–	4/4
Catharine French <sup>3</sup>	1/1	–	–	–	–	–	–
Gordon Ireland	9/9	2/2	–	4/4	–	–	4/4
Guy Parsons <sup>4</sup>	9/9	2/2	–	–	1/1	5/5	–
Mark Parsons <sup>5</sup>	2/2	1/1	–	1/1	–	–	–
<b>Executive Directors</b>							
Mike Regnier	9/9	2/2	No meetings required in 2020	–	–	–	–
Alasdair Lenman	9/9	2/2	–	–	–	–	–
Stephen White	9/9	2/2	–	–	–	–	–

<sup>1</sup> Vice Chair and Senior Independent Director and member of the Group Risk and Board Governance and Nominations Committees until 30 September 2020.

<sup>2</sup> Vice Chair and Senior Independent Director from 1 October 2020.

<sup>3</sup> Member of the Board and Remuneration Committee from 1 April 2020 to 10 May 2020.

<sup>4</sup> Joined the Board Governance and Nominations Committee from 1 October 2020.

<sup>5</sup> Joined the Board and the Audit and Group Risk Committees from 20 October 2020.

The following ad hoc meetings were also held at short notice during 2020:

- **Board:**  
Five conference calls between March and June 2020 to specifically address the impact of and the Society's response to the COVID-19 pandemic.
- **Remuneration Committee:**  
Two additional meetings in February and one additional meeting in each of March, April, November and December 2020.

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 Chairman and Chief Executive have attended all committee meetings, to which they were invited 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 it was used twice by the Board during the year.

### 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 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.

There were no new significant external appointments for the Non-Executive Directors during the year to 31 December 2020.

None of the Executive Directors held a Non-Executive Directorship in a FTSE100 company or any other significant appointment during 2020. Mike Regnier, Chief Executive, is currently the Chair of the Building Societies Association.

### Group Secretary

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

## Composition, Succession and Evaluation

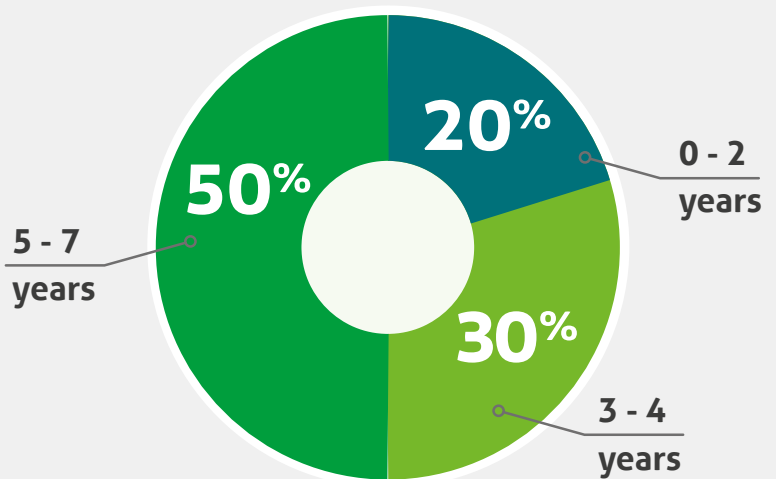
### Election of Directors

All of our directors are subject to 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.



### Tenure of Directors

Length of time spent as a member of our Board, for our Non-Executive and Executive Directors, is set out in the diagram below:



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

## Progress Against 2019 Board Evaluation Outcomes

Each year our Board reviews its performance, as well as that of its principal committees and the individual directors.

**In 2019 an internal evaluation was completed and the outcomes reported to and considered by the Board. Three main themes arose from the 2019 evaluation and good progress has been made on these during 2020 as set out in the table below:**

Themes from 2019	What the Board did in 2020
Continue to seek ways of enhancing and developing the diversity of our Board.	<p>Ensuring the Board has a diverse composition with a wide range of different skills, experience and perspectives remained a focus of both the Board and Board Governance and Nominations Committee during 2020.</p> <p>Significant work was undertaken through Board Governance and Nominations Committee to ensure that diversity was embedded within our recruitment processes for Non-Executive Directors.</p>
Ensure succession plans meet both the medium and long term needs of our Board.	<p>Succession planning has been an ongoing focus for the Board and BGNC to ensure that the Board remains effective in the short, medium and long term. Plans are in place to ensure the replacement of directors as they reach the end of their terms of office and are reviewed at each BGNC meeting to ensure they remain fit for purpose.</p> <p><b>For more information about the Board's approach to succession planning see page 74.</b></p> <p><b>Changes to the Board during 2020 which reflect the succession planning work which has been undertaken are set out in the Chairman's introduction to the Corporate Governance Report on page 59.</b></p>
Ensure the Board is engaging with and encouraging participation from our colleagues.	<p>The Board appointed Alison Hutchinson as the new Non-Executive Director for Workforce Engagement in 2019 to support the Board's engagement with colleagues.</p> <p>The role and the supporting workforce engagement framework were embedded during 2020 with bi-annual updates provided to the Board.</p> <p><b>For more information about our approach to workforce engagement see page 64.</b></p>

## Board Evaluation

The Board agreed to undertake an external evaluation of its performance and that of its Committees in 2020 and appointed Halex Consulting to facilitate the review.

The Board discussed the findings of the review in February 2021 and, following consideration of the final report, an action plan will be developed for completion during 2021. Further information on the outcomes and actions identified as a result of the external review will be presented in the Annual Report and Accounts for 2021.

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

## Board Development

The Board has an annual training plan which is developed in conjunction with members of the Board Governance and Nominations Committee to make sure that the skills and knowledge of its directors and the Board as a whole are kept up-to-date.

### The Board Training Plan includes:

- Key topics in relation to areas where the Board would benefit from gaining an external perspective, such as climate change.
- Any training or development requirements arising from the annual Board Effectiveness Review.

- Any areas identified as a result of ongoing reviews of Board composition and future succession plans.
- Topics covered by internal specialists through standing agenda items which provide an ongoing refresh of knowledge in relation to key subject areas.

All new directors also have an induction when joining our Board, based on their skills and experience and role specific inductions are arranged where a director takes on a new role or committee membership.



## INDUCTION OF A NON-EXECUTIVE DIRECTOR

**Mark Parsons joined the Board in October 2020 and took part in a tailored induction programme which took into account his existing experience together with the need to introduce him to the key areas of the Society.**

Due to the COVID-19 pandemic a revised approach was taken to ensure that the induction process was not delayed due to the inability to meet face to face as a result of health and safety requirements. The sessions were held through video conferencing to ensure the maximum possible interaction for Mark with the Society’s senior leadership and specialists. All directors undertake site visits to key operational areas, including branches and customer services, during their first

year on the Board. Where it is safe to do so, these will be undertaken in person in 2021 or otherwise technology will be used to provide an interactive session to introduce Mark to the operational areas of the business.

The induction took account of Mark’s extensive experience in financial services and was tailored to ensure he was provided with a strong understanding of how the Society operated across key business areas. This included specific induction sessions tailored to his roles on the Audit Committee and Group Risk Committee to ensure he was up to date on the current work including issues and opportunities being addressed by those committees.



**The induction programme I’ve experienced has been thorough and valuable. Not only has it given me added knowledge in specific areas of the business but also enabled me to see how the various parts of the Society join up. I’ve been impressed with the consistent playback of the strategy, demonstrating how it is widely understood, together with the enthusiasm for it. I’ve also got a great sense of the strength and depth of management capabilities.**

**Mark Parsons,  
Non-Executive  
Director**



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

Subject	Where to find this information
Succession planning for the Board	See our <i>Board Governance and Nominations Committee Report</i> on page 74.
Skills and experience of our Board and Committees	See our <i>Leadership Team biographies</i> on pages 53 to 57.
Recruitment and appointment of Directors	See our <i>Board Governance and Nominations Committee Report</i> on page 73.
Board diversity and inclusion	See our <i>Board Governance and Nominations Committee Report</i> on pages 74 to 75.

## Audit, Risk and Internal Control

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

Subject	Where to find this information
Ensuring that both internal and external audit are effective	More information can be found in the <i>Audit Committee Report</i> on pages 78 to 80.
Setting our risk appetite	More information can be found in the <i>Risk Management Report</i> on page 83.
Our systems of internal controls	More information about the internal controls framework can be found in the <i>Audit Committee Report</i> on page 79.

## 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 Chairman, Executive Directors and other members of the Leadership Team.

 For further details please see the *Remuneration Committee Report* on page 90.

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

On behalf of the Board,

**John Heaps**  
Chairman

23 February 2021

# 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 and provide a summary of the work that the Committee has been doing during the year. The Committee has continued its focus on ensuring that the Board has in place robust succession plans to ensure its effectiveness both now and in the future.

The Committee's work in overseeing the Board's succession plans is ongoing and will continue to be a focus in 2021 as it is in every year, including supporting the Board in the embedding of its diversity ambitions.

### John Heaps

Chair of the Board Governance and Nominations Committee

## Board Governance and Nominations Committee members and meetings

### The members of the Committee are\*:



**John Heaps**  
Committee Chair



**Alison Hutchinson**  
Independent  
Non-Executive Director



**Guy Parsons**  
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 and Chief People Officer are usually invited to attend each meeting.

The Committee met four times in 2020 and also agreed one resolution in writing.

**The number of meetings attended by each member is available on page 68.**

\* Mark Pain stepped down as a member of the Committee when he left the Board on 30 September 2020.

## Board Governance and Nominations Committee is responsible for:

The terms of reference for the Board Governance and Nominations Committee can be found on the Your Society section of our website, at [ybs.co.uk/board](http://ybs.co.uk/board).

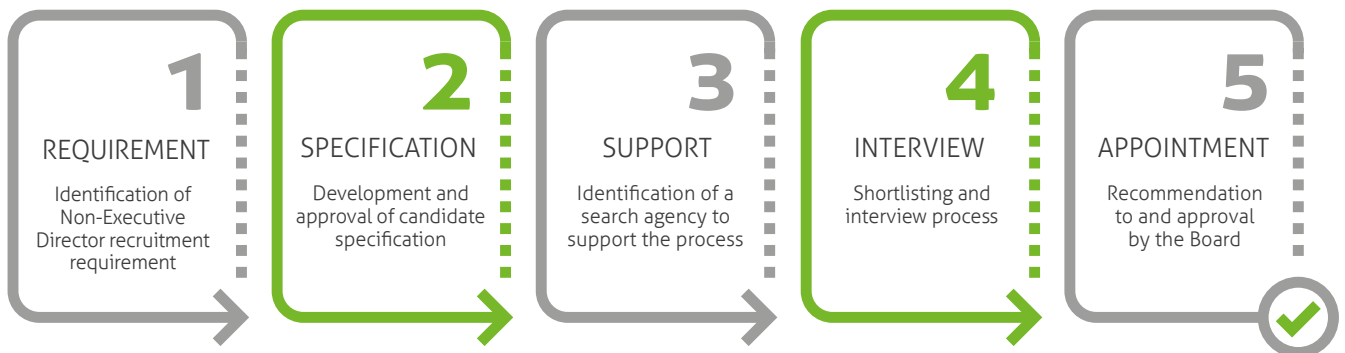


## Corporate Governance

The Committee has an important role in making sure we work within a strong corporate governance framework. It keeps up to date on any new developments and recommends changes to the Board to ensure we continue to have a framework based on best practice.

## Recruiting Directors

The Committee leads the recruitment of any new Non-Executive Directors on behalf of the Board, using the following process:



During 2020 the Committee oversaw a review of the recruitment processes for Non-Executive Directors which identified a number of opportunities to potentially increase diversity by accessing a wider talent pool and ensuring that diversity is embedded within our recruitment processes.

As a result of the review, the Committee agreed to establish a Preferred Recruitment Supplier List to ensure 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 Supplier List will be to ensure that the Society has access to a range of size and style of search firms providing a wider pool of potential candidates. All search firms will be expected to adhere to the Board's Diversity Statement and ensure it is part of their search process.

In 2019 the Committee began a new Non-Executive Director recruitment search as part of its ongoing work to support succession planning for future years and ensure the Board maintains an appropriate mix of skills and experience. The external recruitment consultancy Egon Zehnder was appointed to support the search. Egon Zehnder have previously supported the appointment of the Chairman and Alison Hutchinson as Non-Executive Directors and assisted in the search for the Chief Operating Officer and Chief Executive.

Following a robust process, taking into account the Board's commitment to diversity and the requirements for current and future composition of the Board, the appointment of Catharine French as a Non-Executive Director was agreed from 1 April 2020 and Mark Parsons with effect from 20 October

2020. As referenced earlier, sadly Catharine French passed away in May 2020.

The Committee began a new recruitment process in 2020 as part of the next stage of succession planning and that process is currently ongoing. The external search agency Warren Partners was appointed to support the search. Warren Partners have previously supported senior executive appointments but they have not previously assisted in a search for Non-Executive Directors.

The Committee is responsible for supporting the recruitment of any new Executive Directors. No new Executive Directors were appointed during 2020.

## Succession Planning for Directors

The Board works to ensure it has the right members both now and in the future to deliver our strategy and ensure the long term success of the Society. To support this, 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 meeting. It also plans ahead for future recruitment to make sure that the Board continues to have the skills and experience it needs.

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

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

- **Skills Matrix and Skills Map**  
based on an annual self-evaluation by our directors of their skills and experience.
- **Succession Timeline**  
setting out appointment dates, terms of office and expected retirement dates against the succession plan.
- **Board Committee Membership**  
setting out current Board Committee membership, composition and any future requirements.
- **Board Diversity Statement**  
setting out our Board's commitments to inclusion and diversity.

## Board Diversity

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

**The table below provides an update on progress during 2020 based on the targets set out in the Diversity Statement:**

Diversity Statement Ambitions	Progress 2020
<b>Aim to have at least 30% female representation on the Board in the medium term.</b>	<p>Our Board seeks to ensure that its composition reflects a wide range of different skills, experience and perspectives. However, it also believes that all appointments should be based on merit and the skills and experience an individual can bring to our Board as a whole.</p> <p>In 2016 our Board agreed our target of achieving 30% of female representation in the medium term, taking into account the Hampton Alexander Review* recommendation of 33%.</p> <p>Following the appointment of Catharine French on 1 April 2020 the percentage of women on the Society's Board was making good progress towards achieving the 30% target in accordance with the Board's succession plans. The percentage of women on our Board at 31 December 2020 was 20% (2019: 20%).</p> <p>As such the percentage of women on the Board at the year-end did not meet the target, however, our Board remains committed to working towards reaching this target.</p>
<b>Only use search and specialist recruitment agencies that have signed up to the Standard Voluntary Code of Conduct for Executive Search Firms (with a preference for those signed up to the Enhanced Code).</b>	<p>The Voluntary Code of Conduct was created by executive search firms themselves with the aim of raising the standards of professionalism and conduct in the recruitment of women to the boards of FTSE350 companies (the largest 350 companies listed on the London Stock Exchange).</p> <p>Egon Zehnder was appointed to support the search for a new Non-Executive Director which commenced in 2019. Egon Zehnder was one of the firms that helped develop the code of conduct and were amongst the first to be accredited under the enhanced code for recruitment practices, leading to measurable success in increased gender diversity on FTSE350 company boards.</p> <p>Warren Partners was appointed to support the search for a new Non-Executive Director which commenced in 2020. Warren Partners have adopted the Enhanced Voluntary Code of Conduct for Executive Search firms. They have also been accredited by the Department of Business, Innovation and Skills for delivering 40% female longlists and at least 40% female appointments in relation to their work on board recruitment.</p>
<b>Commitment to fostering an inclusive culture and investing in the talent pipeline, particularly nurturing black, Asian and minority ethnic (BAME) and female talent and delivering tailored leadership development and robust succession planning.</b>	<p>Our inclusion and diversity ambition is to support an inclusive environment where everyone can contribute to our success. The Board believes investing in this culture is key to making sure it achieves its target. The importance of having a diverse workforce is recognised because it reflects the composition of our membership and the wider community.</p> <p>A review of talent takes place annually; further details are provided in the Director succession planning section.</p>
<b>Regularly review and assess the composition of the Board and its Committees, including succession plans, considering the balance of skills, experience, independence and knowledge with its diverse composition.</b>	<p>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.</p> <p>During 2020 the Committee assessed the composition of the Board and the appointment to its key roles taking into account the changes required as a result of Mark Pain stepping down from the Board and his roles as Vice Chair and Senior Independent Director. As a result, it recommended the appointment of Alison Hutchinson to the roles with her extensive skills and experience both at YBS and in her external roles.</p>

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

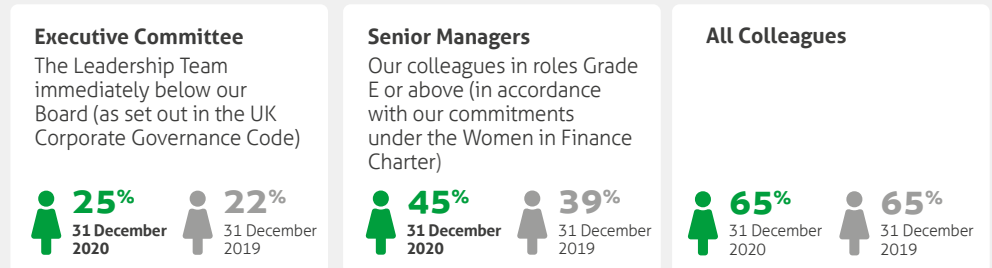
The Committee will continue to monitor progress against the Board Diversity Statement and provide an annual update on progress.

## Diverse Talent Pipelines

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

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

**By way of further information, we had the following percentages of women colleagues at 31 December 2020 (and for comparison 2019):**

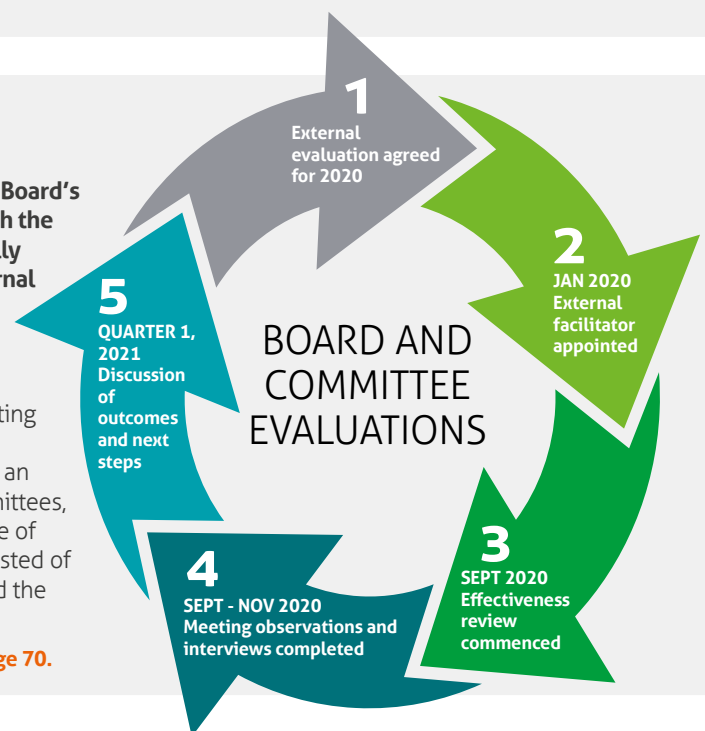


## Evaluation of the Board and its Committees

The Board Governance and Nominations Committee agree and recommend to the Board the process for the annual review of the Board's performance and that of each of its committees in accordance with the Code, which recommends the evaluation of the Board be externally facilitated every three years, for 2020, it was agreed that an external review would be completed based on the following cycle:

Following a robust tender process led by the Chairman and Group Secretary, on the recommendation of the Board Governance and Nominations Committee the Board agreed to appoint Halex Consulting to carry out the review. Halex Consulting has no other connection with the Society. As part of the review, Halex were asked to provide an independent review of the effectiveness of the Board and its Committees, including their decision making processes, composition and balance of skills, experience and diversity. The work carried out by Halex consisted of a review of Board and Committee papers, one to one interviews and the observation of Board and Committee meetings.

 For an update on the Board evaluation process for 2020 please see page 70.



## Evaluation of Board Members

### Chairman

Our Senior Independent Director meets with our Chairman twice a year on behalf of our Board.

The Senior Independent Director, Mrs Hutchinson, conducted the annual review of the Chairman's performance during 2020 and the outcomes were discussed at the January 2021 Board meeting without the Chairman present. It was agreed that he continues to provide strong and effective leadership to our Board and that he had a strong commitment to his role and the Society.

### Non-Executive Directors

Our Chairman has twice yearly meetings with each Non-Executive Director to review their performance and look at areas for development.

### Executive Directors

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

 You can read more in the Directors' Remuneration Report on page 90.

## Evaluation of the Board Governance and Nominations Committee

The Board Committee evaluations were incorporated in the external evaluation process for 2020. The Board discussed the findings of the review in February 2021 and following its consideration of the final report, each committee will review any outcomes and recommendations relevant to its role. Further information on any actions identified as a result of the review will be presented in the 2021 Annual Report and Accounts.

On behalf of the Board

### John Heaps

Chair of the Board Governance and Nominations Committee

23 February 2021

# AUDIT COMMITTEE REPORT

## A WORD FROM THE CHAIR OF THE AUDIT COMMITTEE

I am pleased to present our 2020 Audit Committee Report which sets out the Audit Committee's role and its key activities during the year, including its review of key financial reporting matters, oversight of the Group's internal controls, and its internal and external auditors.

In what has been a challenging year for everyone, the Audit Committee has adapted both how we have operated and the topics we have covered to ensure we were able to remain effective. I am most grateful to our Finance team, internal and external auditors and the Audit Committee secretary for ensuring they remain fully effective, whilst working mostly or exclusively from home, as they continue to deliver their respective very important roles for the Group.

In 2021, 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



**Guy Bainbridge**  
Committee Chair  
Independent Non-Executive Director



**Neeta Atkar**  
Independent Non-Executive Director



**Gordon Ireland**  
Independent Non-Executive Director



**Mark Parsons**  
Independent Non-Executive Director

### Audit Committee membership:

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 2020, 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 2020. The meetings began with a private session between the invited members of the Leadership Team and the Audit Committee members and 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 about the number of meetings attended by each of the Committee members during 2020 are shown on page 68.

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 in the *Corporate Governance Report* on page 59.**

In 2020, 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. With Mark Parsons joining the Audit Committee his recent and relevant financial services experience has further strengthened our compliance with this Code requirement. 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 Committee members in the directors' biographies on pages 53 to 55.**

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 and the Audit Committee and the Board approve them each year.

**You can find them on our website [ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.html](https://ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.html)**

## 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, PricewaterhouseCoopers LLP (PwC).

### Significant financial reporting matters considered by the Audit Committee during 2020


Matters considered	Progress 2020
<b>Expected credit losses</b>	<p>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. However, this took on an additional significance over the period in light of the heightened uncertainty, and shifting economic outlook, resulting from the COVID-19 pandemic and Brexit.</p> <p>The selection of economic assumptions, and the relative weighting of the range of economic scenarios, have a material impact on ECL and the Audit Committee vigorously challenged management to demonstrate that these decisions appropriately reflected the uncertainty in the economic outlook. For the purposes of calculating ECLs, loans are categorised into stages (1 to 3) to reflect their relative levels of credit risk. A key metric used by the Audit Committee to support their review is the split of this staging across the portfolio, and the ECL coverage ratio across each of these stages.</p> <p>This challenge was ongoing throughout the period, but particular focus was given to the ECL calculations reported at 30 June 2020 in our Half-Yearly Financial Report, and for the amount included in the 31 December 2020 numbers.</p> <p>At the half year, the main points of discussion with the Audit Committee were around the development of a full new suite of economic scenarios in response to COVID-19, and the application of relative weightings to these based on the prevailing outlook at the time. In addition the Audit Committee discussed the need for, and reviewed the assumptions feeding into, the post model adjustment (PMA) to reflect the increased credit risk for those customers that had applied for a mortgage payment deferral at that time.</p> <p>Over quarter three and towards year end, the discussions shifted to monitoring the run-off of payment deferrals, the impact of UK Government stimulus on the housing market, the approval of COVID-19 vaccines and the increasing risks arising from a no-deal Brexit. The Audit Committee were also provided with a benchmarking of half-year economic assumptions and scenario weightings against our peers to support the assessment of their appropriateness.</p> <p>In terms of the input into the final 31 December 2020 ECL balance, the Audit Committee has reviewed the opposing impacts on economic assumptions of the UK vaccine rollout and the virus third wave and lockdown, as well as the expected impacts of the withdrawal of UK Government stimulus measures on the housing markets and unemployment. Specific PMAs in respect of emerging COVID-19 related risks on our commercial buy-to-let book, and against the impacts on delays in credit bureau data on our models, have also been discussed and agreed by the Audit Committee.</p> <p>The Audit Committee has begun to assess the implications of climate risk on expected credit losses, but whilst there is considered to be negligible impact on the 31 December 2020 amount, it is expected that this will be a key area of focus for the Audit Committee in future periods.</p> <p><b>You can find out more about our expected credit losses in note 12 and note 32 to the financial statements.</b></p>
<b>Run-off fair values associated with acquired books</b>	<p>The Audit Committee has reviewed the estimates made and discussed these with management and is comfortable that a cautious, consistent and appropriate approach has continued to be taken.</p>
<b>Hedge accounting</b>	<p>The Audit Committee has overseen management's control activities in this area, including reviewing the methodology and key assumptions applied. This allows the Audit Committee to be confident that the amounts set out in the Income Statement are fairly stated and that appropriate disclosures have been made.</p>

Matters considered	Progress 2020
<b>Revenue recognition</b>	The Audit Committee considered the results of management's detailed reviews of the methods and assumptions used in the calculation of income recognition for mortgage related fees and early repayment charges which are subject to the Effective Interest Rate (EIR) methodology. The assumptions were assessed on a longer term approach with consideration given to the effects of COVID-19. The Audit Committee concluded that the balance sheet was fairly stated.
<b>Pensions</b>	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. The Defined Benefit scheme is accounted for under IAS 19 with assumptions agreed with this Audit Committee. During 2020, there have been several industry wide areas of focus for the Audit Committee including volatile markets, Retail Price Index /Consumer Price Index alignment and mortality assumptions. We have reviewed the assumptions proposed by management, reviewed the supporting documentation for those assumptions and also reviewed how they benchmark against the rest of the industry.
<b>Provisions</b>	The Audit Committee reviewed and challenged these provisions and agreed with the overall amount held. More information on these provisions can be found in note 24 to the financial statements.
<b>IBOR reform</b>	The Audit Committee reviewed papers prepared by management and discussed the Group's potential risk exposure arising from amendments to IAS 39, IFRS9 and IFRS7 for IBOR reform. The Audit Committee is comfortable that the approach to IBOR reform is adequate. More information on IBOR reform can be found in note 1 of the financial statements.
<b>Viability and going concern</b>	The Audit Committee reviewed papers prepared by management and recommended to the Board that the financial statements should be prepared on a going concern basis. The Audit Committee confirmed that, whilst there is no guarantee, there is a reasonable expectation that the Society will be able to continue to operate and meet its liabilities as they become due over the next three years. More information can be found in our Directors' Report.
<b>Disclosures</b>	The Audit Committee reviewed papers prepared by management and agreed that the disclosures included within the Annual Report and Accounts met disclosure requirements and that disclosures aligned to showing a fair and balanced view of the performance and position of the Group. The Audit Committee also reviewed the Annual Report and Accounts and provided feedback in order to ensure that they are fair, balanced and understandable.

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

## Oversight of the External Auditor and External Audit Process

The Audit Committee oversees the audit process and the relationship with our external auditor. The Audit Committee begins each annual audit cycle by reviewing and approving the proposed audit plan presented by our external auditor. 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.

 **For further information about materiality and how it is calculated, please refer to the Independent Auditors' Report on pages 113 to 124.**

The Audit Committee has assessed PwC's risk assessments, planned work, resources and audit fees throughout the year and monitored the progress of PwC's audit work through discussions with PwC and management. The external auditor provides regular updates to the

Audit Committee on their work on the Half-Yearly Financial Report and the Annual Report and Accounts before the Audit Committee approves them.

Throughout the year the Audit Committee assesses the effectiveness of the external audit process, an assessment which is based on guidance from the Financial Reporting Council (FRC). The Audit Committee's assessment includes a survey sent to members of the Audit Committee and senior managers in the Society's Finance Division. This helps the Audit Committee review the quality of the external audit team and process. 2019 was PwC's first year as the Group's external auditor. The Audit Committee noted the fresh challenge they provided and the high quality reporting to the Committee and, whilst not detracting from overall audit quality, also noted lessons learned in areas such as project management and communications, which were built into the 2020 external audit plan. During 2020 the Audit Committee has monitored the impact of COVID-19 on PwC's working practices and the effectiveness of the audit process. The Audit Committee concluded that the

overall external audit process in 2020 was effective.

## External Auditor Independence

The Audit Committee oversees the relationship with the external auditor, which includes monitoring and assessing annually 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 Board 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.

The policy was reviewed and updated in 2020 to reflect guidance in the FRC's Revised Ethical Standard that changes



the emphasis from giving examples of prohibited services to defining a list of allowable non-audit services. 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 2020.

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 Board also has a policy on the employment of employees of the Group's external auditor, and the Audit Committee monitors the implementation of this policy. In summary this restricts the Society from offering employment to certain individuals from the external audit firm for key management positions within a two year period from working on a Society or Group statutory audit and ensures all such offers of employment concerning such key management roles 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 current Committee members and relevant senior members of the Finance Division and it remains satisfied there are no conflicts or independence issues.

The Audit Committee takes into account the performance of the external auditor when considering their reappointment as well as their length of tenure and the date of rotation of the audit partner. PwC were appointed as external auditor following a competitive tender process in 2018 and their appointment was approved by members at the 2019 AGM. The Audit Committee was satisfied with the performance of PwC during 2019 and they were reappointed at the AGM for the current year.

## Review of Internal Controls

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

laws and regulations.

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

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



You can find further details of risk management practices in the Risk Management Report on pages 81 to 89.

### The main types of information the Committee considered during 2020 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, taking into account the impacts of COVID-19. In doing this the Audit Committee considered the ongoing appropriateness of Internal Audit's coverage of the Group's risks, processes, systems and controls. This included receiving and reviewing a report on Internal Audit's coverage of information technology. 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 were 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 were being taken to address them. The Audit Committee also considered

reports from the Leadership Team, the Risk Division and Internal Audit assessing the effectiveness of internal controls.

- **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, including IT general controls. No significant weaknesses were noted but points 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.

- **The Audit Committee** considered whether any recommendation should be made to the Remuneration Committee to adjust the variable remuneration of the Leadership Team, in respect of internal control weaknesses.

Taken together, the information the Audit Committee reviewed provided assurance that, in 2020, the Group maintained an adequate internal control framework and there were no significant breaches of control or regulatory standards. This supports our aim of complying with the principles and provisions of the Code where they apply to building societies. The Leadership Team proactively took action to tackle control weaknesses where it was reasonable to do so, thereby improving the maturity of the internal control environment, so that our Group remains financially and operationally resilient.

## Oversight of the Internal Audit Function

Our Internal Audit function is governed by a charter, which the Audit Committee reviews and approves annually. The Audit Committee reapproved the charter in September 2020 and you can find a copy of it on our website [ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.html](https://ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.html).

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. 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 and during 2020 the Audit Committee considered the results of this programme and the actions taken by the Chief Internal Audit Officer to enhance the function's approach, effectiveness, quality, skills and experience.

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

## Audit Committee Effectiveness

The Board Committee evaluations were incorporated in the Board external evaluation process for 2020. The Board discussed the findings of the review in February 2021 and following its consideration of the final report, each committee will review any outcomes and recommendations relevant to its role. Further information on any actions

identified as a result of the review will be presented in the the 2021 Annual Report and Accounts.

The Audit Committee completed its annual review of its Terms of Reference in 2020 and confirmed that it had met all of its responsibilities.



**You can find out more about our Board and Committee effectiveness reviews in the Board Governance and Nominations Committee Report on page 75.**

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 2020 the Audit Committee set aside additional time to be briefed on the ongoing application of IFRS 9, with emphasis on the effect of COVID-19 on expected credit losses (ECL). We were updated on payment deferrals and the revised economic scenarios and weightings used within the IFRS9 model. This briefing included benchmarking analysis, which compared the Group's half year ECL results against peer building societies and banks. The Audit Committee used a combination of external and internal specialists to provide the briefing, which included industry developments relevant to the Group and presentations by economists. This allowed the Committee the time to reflect on what the Society had learned from the application of IFRS9 in a COVID-19 environment and how it could plan to reflect those learnings at year end.



**Our Board Chairman 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 on page 69.**

On behalf of the Board

**Guy Bainbridge**  
Chair of the Audit Committee

23 February 2021

# RISK MANAGEMENT REPORT

## A WORD FROM THE CHAIR OF THE RISK COMMITTEE

As the Chair of the YBS Board's Group Risk Committee (GRC), I am pleased to present our Risk Management Report for 2020 which describes our approach to the management of risk through our Enterprise Risk Management Framework (ERMF). It also sets out the principal risks to which we are exposed, including how those risks are mitigated, along with emerging risks and highlights of progress that has been made during 2020.

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



### Group Risk Committee Membership\*

**Neeta Atkar**  
Independent Non-Executive Director



**Alison Hutchinson**  
Independent Non-Executive Director



**Guy Bainbridge**  
Independent Non-Executive Director



**Gordon Ireland**  
Independent Non-Executive Director



**Mark Parsons**  
Independent Non-Executive Director

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

The GRC also invites certain members of the Leadership Team when it is felt that this would help it discharge its duties. The GRC's Terms of Reference are available from the Corporate Governance section of our website at <https://www.ybs.co.uk/your-society/inside-your-society/corporate-governance/committees>.

As the Non-Executive Director who chairs the GRC, it is my role to ensure that the Committee effectively oversees and advises on how risks are being managed across the Group in line with our agreed appetite for those risks.

During this particularly challenging year, the GRC met four times and considered all of the matters relating to its responsibilities as summarised in its terms of reference.

\* Mark Pain stepped down as a member of the Committee when he left the Board on 30 September 2020.

As you will have read elsewhere in this document, even more so than usual for this sector, 2020 has been a year that has drawn into focus the risks resulting from the economic and operational impacts of the COVID-19 pandemic, as well as the uncertainty surrounding Brexit. As a result, the GRC has pressed for increasing levels of insight into our credit risks, our financial resilience, our operational resilience and our protections for customers. I am pleased to say that the assurances we have received, and will continue to receive, have demonstrated that we understand well the risks to which we are exposed, take a balanced approach to adjusting our approach to risk management in the face of uncertainty, even when we have considered them under material stress, and confirms that management is operating in a responsible manner that protects YBS and its customers.

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

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

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

#### Neeta Atkar

Chair of the Group Risk Committee

## Group Risk Committee Membership

**A wide range of topics was considered throughout the year, both specifically in the context of the COVID-19 pandemic and in the GRC's broader work as follows:**

- Monitoring the assessment and response to the risks to the Group of the COVID-19 pandemic across its principal risk exposures, including:
  - ▷ The Group's operational response to the COVID-19 pandemic in terms of incident management and operational resilience whilst ensuring an appropriate level of risk appetite

adherence, colleague wellbeing and fair outcomes for customers within a robust control environment. This included ensuring that colleagues working from home continued to comply with rules and regulations, and the operational implications of buildings being opened in a COVID-19 safe way.

- ▷ In response to staffing pressures, allowing second line risk management teams to provide direct risk management support and oversight activities, whilst maintaining the integrity of the Enterprise Risk Management Framework and the three lines of defence model.
- ▷ Reviewing the conduct approach and impact of mortgage payment deferral activity on the Group's financial resilience in the context of its wider lending strategy and the potential longer term effects on the mortgage book.
- ▷ Maintaining strong relationships with the Group's regulators through a continuing period of uncertainty.

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

- **Credit Risk:** Whilst pleased with the responsible approach to lending taken across the Group and the low level of arrears, the GRC has undertaken three thorough reviews into the portfolio to provide greater insight into the potential impacts of a deteriorating economic environment. These have provided valuable insight into our mortgage book and helped contribute to the robustness of our expected credit loss/impairment calculations.
- **Operational Risk:** Customers rightly expect things to work when they need them to, even in times of stress, and there is, in addition, a great deal more regulatory scrutiny of how resilient operational processes should be across the industry. The GRC has therefore been receiving quarterly updates to enable it to oversee progress on the upgrades being made to our operational risk capabilities and to seek additional assurances where appropriate.
- **Customer Treatment:** We share the Financial Conduct Authority's passion for appropriate customer treatment whatever the circumstances. The GRC has therefore been keeping a close watch to ensure that all lending remains responsible in these changed circumstances including, in particular,

the treatment of those customers experiencing any repayment stress.

**More broadly, the GRC also focused on the following areas:**

- The UK's evolving political and economic landscape in the context of the Group's risk appetite, business model and strategy.
- The progress in continuing to improve our operational risk control frameworks in relation to Cyber Security, Financial Crime and the General Data Protection Regulation.
- The approach to preparing for compliance with applicable regulation arising from the Resolvability Assessment Framework.
- Exploring the potential risks and mitigation opportunities as the Group continues to develop its lending strategy relating to higher Loan-to-Value Mortgage Lending.
- Continuous review of policy, lending practices, stress testing, management capabilities and MI for retail credit risk, with specific consideration of higher risk segments of the mortgages portfolio, including debt consolidation and risk layering dynamics.
- Monitoring the progress of enhancements to the Group's management and governance of Model Risk.

## Committee Evaluations

In 2020 Board Committee evaluations were incorporated into the Board external evaluation process. The Board discussed the findings of the review in February 2021 and, following its consideration of the final report, each committee will review any outcomes and recommendations relevant to its role. Further information on any actions identified as a result of the review will be presented in the 2021 Annual Report and Accounts.

## Future Developments

Good progress has been made in 2020 with the continued embedding of our risk management framework across the business, evidenced by our ability to adapt and respond to rapid change in our operating environment. Areas of future focus will now include how our risk management teams will support the delivery of the strategic blueprint. This in turn will cover the continued embedding of current risk management initiatives, ensure the safe delivery of the strategic transformation programme, with customer experience and outcomes prioritised as part of all risk management interventions.

## Our Enterprise Risk Management Framework ('ERMF')

We recognise that for the business to grow and achieve its commercial aspirations, effective risk management is essential. During 2020 we continued to enhance and embed our ERMF in order to further improve robust yet efficient risk management which has an important and integral role in:

- delivering the strategic blueprint within an appropriate culture
- protecting against unplanned financial outcomes
- being resilient to operational risks
- protecting customers from unfair outcomes
- demonstrating credibility to external stakeholders

The ERMF explains how a variety of processes fit together to create a consistent and effective way of managing risk across the Group. The key elements of risk management encompass the activities relating to the assessment, control, monitoring and reporting of risk. It is reviewed and approved annually by the GRC and consists of:

- **Strategic risk management priorities** – the Society’s priorities for risk management and how it is aligned to the Society’s strategy.
- **Society culture** – the values and behaviours that shape our risk decisions.
- **Risk appetite** – how much risk we can take in order to deliver the Society’s strategy while ensuring we provide fair customer outcomes and continue to operate as a safe and secure business.
- **Policy and governance** – how we organise ourselves, make decisions and take approved risks.
- **Risk assessment and control** – how we understand our risks and limit undesirable outcomes from occurring.
- **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 towards risk management, which seeks to differentiate between those:

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

A summary of these respective responsibilities is set out below:

#### First Line of Defence

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

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

#### Second Line of Defence

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

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

The Chief Risk Officer provides a formal update to the Board and

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

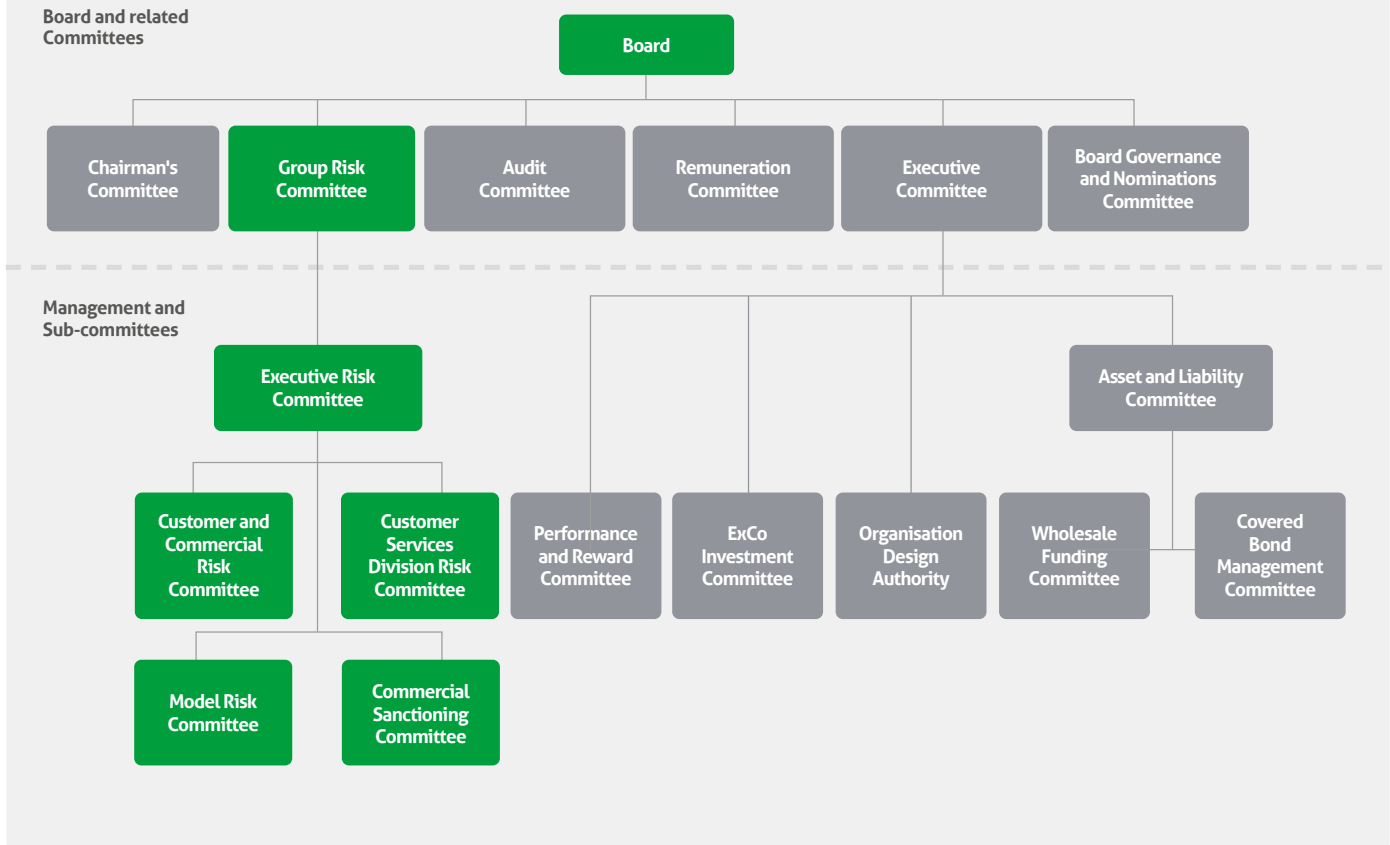
#### Third Line of Defence

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



## Governance

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



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

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

The Executive Risk Committee looks to ensure that the Group's balance between

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

Below the Board and senior management committee structure is a set of Divisional Risk Committees. These committees monitor risk management activity across the divisions, acting as a point

of escalation for matters of Group level significance. These committees also have authority to direct mitigating actions and to approve or endorse risk acceptance for risks within the Division, in accordance with defined levels.



## Principal Risks and how we mitigate them

Our principal risks and our risk profile evolve as we move through the economic cycle. These risks are set out below along with how we manage and measure the risk and the progress that has been achieved in 2020:

Retail and commercial credit risk														
The risk of credit losses as a result of failure to design, implement and monitor an appropriate credit risk appetite.														
Risk mitigation	Key risk indicators	Commentary												
<ul style="list-style-type: none"> <li>Retail and commercial credit risk is constrained by a risk appetite, which is approved by Board and further governed through the Retail and Commercial Lending Policy.</li> <li>A robust credit risk framework ensures that lending remains within risk appetite limits and appropriate remedial action is taken if a breach occurs. Adherence is monitored regularly through governance committees.</li> <li>Stress testing confirms portfolio resilience.</li> <li>A model governance framework ensures that credit risk models are operating as intended.</li> </ul>	<div style="text-align: center;"> <p><b>Mortgage arrears (incl. possessions) ≥3 months by volume</b></p> <table border="1"> <tr> <th>Year</th> <th>Arrears (%)</th> </tr> <tr> <td>2019</td> <td>0.56%</td> </tr> <tr> <td>2020</td> <td>0.59%</td> </tr> </table> </div> <div style="text-align: center;"> <p><b>Mortgage arrears (incl. possessions) ≥3 months by value</b></p> <table border="1"> <tr> <th>Year</th> <th>Arrears (%)</th> </tr> <tr> <td>2019</td> <td>0.41%</td> </tr> <tr> <td>2020</td> <td>0.43%</td> </tr> </table> </div>	Year	Arrears (%)	2019	0.56%	2020	0.59%	Year	Arrears (%)	2019	0.41%	2020	0.43%	<ul style="list-style-type: none"> <li>The Group continues to exhibit a low level of mortgages in arrears. The UK finance market average for &gt;3 months arrears by volume is currently 0.84% compared to the Group's rate of 0.59%.</li> <li>As at Q3 2020, our mortgage book has experienced favourable HPI movements overall – this is anticipated to continue once indexation for Q4 is included.</li> <li>In 2021, the credit risk focus will continue to be delivery of strong asset quality aligned to responsible growth of the mortgage book.</li> <li>Despite the COVID-19 related payment deferrals, the asset quality of our loan portfolio remains strong. The proportion of accounts deemed to have significantly increased in risk (as per IFRS9) is in line with competitors and a large proportion of the Group ECL relates to pre-2009 lending, the Group's lending after that downturn being of a higher credit quality.</li> </ul>
Year	Arrears (%)													
2019	0.56%													
2020	0.59%													
Year	Arrears (%)													
2019	0.41%													
2020	0.43%													

Treasury Risk								
The risk of losses following default on exposures arising from balances with other financial institutions, liquid asset holdings and the use of derivative instruments to manage interest rate and foreign exchange risk.								
Risk mitigation	Key risk indicators	Commentary						
<ul style="list-style-type: none"> <li>Treasury risk is constrained by a Board approved risk appetite, which is further governed through the Treasury Risk Policy.</li> <li>Most of the Liquid Asset Buffer portfolio is invested in the highest quality assets.</li> <li>The majority of derivative contracts are subject to centralised clearing to minimise risk exposures to counterparties. Where this is not possible, derivative exposures are restricted to high quality counterparties which are subjected to regular review and scrutiny by the Asset and Liability Committee (ALCO) within overall risk limits.</li> </ul>	<div style="text-align: center;"> <p><b>Wholesale AA- or above</b></p> <table border="1"> <tr> <th>Year</th> <th>Wholesale AA- or above (%)</th> </tr> <tr> <td>2019</td> <td>95.0%</td> </tr> <tr> <td>2020</td> <td>94.5%</td> </tr> </table> </div>	Year	Wholesale AA- or above (%)	2019	95.0%	2020	94.5%	<ul style="list-style-type: none"> <li>Each wholesale counterparty limit is reviewed at least on an annual basis, or sooner if a risk event occurs in the interim.</li> <li>The size of the credit limit allocated per counterparty is driven by their credit status as determined by internal analysis and is calibrated to the size of the Society's capital position to ensure that the financial viability of the Society is not overly exposed to any single counterparty.</li> <li>Exposure to AA- or above counterparties remains high, maintaining the low risk profile in accordance with Board risk appetite.</li> </ul>
Year	Wholesale AA- or above (%)							
2019	95.0%							
2020	94.5%							

## Funding and Liquidity Risk

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

Risk mitigation	Key risk indicators	Commentary						
<ul style="list-style-type: none"> <li>Funding and liquidity risk is constrained by a Board approved risk appetite, which is further governed through the Liquidity and Funding risk Policy.</li> <li>The key assumptions, risks and controls around the management of liquidity risk are outlined in the ILAAP document which is approved annually by the Board.</li> <li>We operate a range of internal stress tests to ensure that sufficient liquidity is available at all times to address stress and business as usual requirements.</li> <li>The Group also manages to the external regulatory measure, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).</li> <li>We are primarily funded through retail savings balances, supported by a strong franchise in key wholesale funding markets.</li> </ul>	<p style="text-align: center;"><b>Liquidity Coverage Ratio</b></p> <table border="1"> <caption>Liquidity Coverage Ratio</caption> <thead> <tr> <th>Year</th> <th>LCR (%)</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>169%</td> </tr> <tr> <td>2020</td> <td>192%</td> </tr> </tbody> </table>	Year	LCR (%)	2019	169%	2020	192%	<ul style="list-style-type: none"> <li>We maintained strong liquidity levels throughout 2020, with overall liquidity adequacy increasing from 2019 as a result of strong savings performance in the latter part of the year. We forecast that our liquidity levels will remain comfortably in excess of regulatory requirements.</li> </ul>
Year	LCR (%)							
2019	169%							
2020	192%							

## Market Risk

**Repricing Mismatch Risk:** The risk that the value of, or income derived from the Society's assets and liabilities changes unfavourably due to movements in interest rates and foreign currency rates. This risk arises from the different re-pricing characteristics of the Society's assets and liabilities.

**Basis Risk:** The risk arises from possible changes in spreads where the Society's assets and liabilities re-price at the same time, but move in differing amounts causing unfavourable impacts to earnings.

Risk mitigation	Key risk indicators	Commentary															
<ul style="list-style-type: none"> <li>Market Risk is constrained by a Board approved risk appetite, which is further governed through the Market Risk Policy.</li> <li>The Society adopts a risk averse approach to interest rate mismatch although some scope for position taking is allowed in line with an agreed in house rate view, subject to the agreed risk appetite.</li> <li>The Society operates a wide range of measures and scenarios that review this risk in respect of both earnings and value. Earnings are stressed over a 12 month period for +/- 250bps changes in rates. Rates are assumed to floor at 0%.</li> <li>The Society operates a range of internal stress tests to ensure that market risk is within an acceptable range over a series of rate scenarios including negative rates and non-parallel shifts.</li> <li>The Society's limits for basis risk include limits for sensitivities around isolated movements in underlying rates (LIBOR/SONIA), for overall mismatch ratios and for ensuring the Society has sufficient levels of margin management capability.</li> </ul>	<p style="text-align: center;"><b>PV100 Market Value</b></p> <table border="1"> <caption>PV100 Market Value</caption> <thead> <tr> <th>Year</th> <th>Value (£m)</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>£17.1m</td> </tr> <tr> <td>2020</td> <td>£41.1m</td> </tr> </tbody> </table> <p style="text-align: center;"><b>12 Month Earning Sensitivity</b></p> <table border="1"> <caption>12 Month Earning Sensitivity</caption> <thead> <tr> <th>Year</th> <th>+250bps shock (£m)</th> <th>-250bps shock (£m)</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>(£6.80m)</td> <td>(£27.80m)</td> </tr> <tr> <td>2020</td> <td>(£0.50m)</td> <td>(£14.70m)</td> </tr> </tbody> </table>	Year	Value (£m)	2019	£17.1m	2020	£41.1m	Year	+250bps shock (£m)	-250bps shock (£m)	2019	(£6.80m)	(£27.80m)	2020	(£0.50m)	(£14.70m)	<ul style="list-style-type: none"> <li>The PV100 (Market value change on the Society Balance Sheet of a parallel 100bps increase in interest rates) has increased primarily due to an increase in Treasury interest rate risk positioning (within Risk Appetite) following falls in market rates over the year. Both the Retail &amp; Treasury positions are now liability led and positioned favourably for an increase in rates. Further information is included in note 29 to the financial statements.</li> <li>The decrease in the 12 month earnings sensitivity for a down 250bps scenario is primarily driven by the assumed floor for market rates of 0bps, this has reduced the quantum of the expected shock as rates have fallen throughout the year. Although the internal risk appetite earnings metrics are floored at zero, the impact of negative rates on the Society's earnings have been quantified through analysis supporting the Society's 2020 ICAAP and action has been taken to mitigate these risks. One such action being the build-up of a portfolio of Temporarily Rate Insensitive Balances to organically hedge fixed rate mortgages and reduce the SONIA asset basis risk position.</li> <li>With respect to LIBOR reform risk, the Society's remaining LIBOR position is not material and is being managed down in line with regulatory expectations. As such, the Society has not adopted the proposed amendments to accounting standards to allow reliefs for the effects of LIBOR reform.</li> </ul>
Year	Value (£m)																
2019	£17.1m																
2020	£41.1m																
Year	+250bps shock (£m)	-250bps shock (£m)															
2019	(£6.80m)	(£27.80m)															
2020	(£0.50m)	(£14.70m)															



## Capital Risk

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

Risk mitigation	Key risk indicators	Commentary																		
<ul style="list-style-type: none"> <li>Capital risk is constrained by a Board approved risk appetite, which is further governed through the Capital Strategy.</li> <li>Current and projected capital positions are regularly monitored and also considered in stress scenarios as part of the ICAAP.</li> <li>The Group operates a range of internal stress tests to ensure that sufficient capital is available at all times to allow the Group to maintain its minimum capital requirements even in a stress scenario.</li> <li>Specific details on capital management can be seen in the Group's Pillar 3 disclosures (available on the Group's website).</li> </ul>	<div data-bbox="655 416 1018 647"> <p><b>Leverage Ratio (UK Definition)</b></p> <table border="1"> <tr> <th>Year</th> <th>Ratio</th> </tr> <tr> <td>2019</td> <td>5.8%</td> </tr> <tr> <td>2020</td> <td>5.9%</td> </tr> </table> </div> <div data-bbox="655 685 1018 920"> <p><b>CET1 Ratio</b></p> <table border="1"> <tr> <th>Year</th> <th>Ratio</th> </tr> <tr> <td>2019</td> <td>16.6%</td> </tr> <tr> <td>2020</td> <td>16.7%</td> </tr> </table> </div> <div data-bbox="655 958 1018 1279"> <p><b>MREL Resources % Risk Weighted Assets</b></p> <table border="1"> <tr> <th>Year</th> <th>Ratio</th> </tr> <tr> <td>2019</td> <td>20.6%</td> </tr> <tr> <td>2020</td> <td>20.7%</td> </tr> </table> </div>	Year	Ratio	2019	5.8%	2020	5.9%	Year	Ratio	2019	16.6%	2020	16.7%	Year	Ratio	2019	20.6%	2020	20.7%	<ul style="list-style-type: none"> <li>The Society maintained strong capital levels throughout 2020, well above regulatory requirements and internal risk appetite.</li> <li>The leverage ratio presented uses the PRA's revised exposure criteria which excludes central bank deposits from the exposure measure.</li> <li>The Society maintains a strong capital position both currently and in forecast.</li> <li>The Society is progressing its application to use the advanced IRB approach to calculate capital requirements for credit risk. Once the Society gains IRB permissions, its key capital ratios (notably the CET1 ratio) will better reflect its level of credit risk, with an expected increase in the ratio.</li> <li>The Society is subject to end state MREL requirements (double pillar 1 and 2A) and comfortably met these requirements throughout 2020.</li> </ul>
Year	Ratio																			
2019	5.8%																			
2020	5.9%																			
Year	Ratio																			
2019	16.6%																			
2020	16.7%																			
Year	Ratio																			
2019	20.6%																			
2020	20.7%																			

## Model Risk

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

Risk mitigation	Key risk indicators	Commentary
<ul style="list-style-type: none"> <li>Model Risk is managed within the framework set out in the Society's Model Risk Policy.</li> <li>Compliance with the policy is monitored through the Model Risk Committee (MRC) which is the designated committee for the oversight of Model Risk.</li> <li>MRC is chaired by the Chief Risk Officer and is a sub-committee of the ERC.</li> </ul>	<ul style="list-style-type: none"> <li>Number of models governed by the model risk framework</li> <li>Individual model ratings which reflect model performance and regulatory policy compliance.</li> </ul>	<ul style="list-style-type: none"> <li>The Society operates an inventory of all models that are used within YBS which is used to manage compliance with the Model Risk Policy.</li> <li>In Q1 2020, a final plan to bring all 'back-book' models under full governance was agreed at Model Risk Committee. Significant progress has been made against this plan with all Critical models now fully governed. Work will continue in 2021 to ensure all models used within the Society are fully governed.</li> <li>Model Risk has been embedded into the Risk and Control Self-Assessment process which outlines the controls that must be followed to prevent model risk.</li> </ul>

## Operational Risk

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

Risk mitigation	Key risk indicators	Commentary						
<ul style="list-style-type: none"> <li>Operational risk is constrained by a Board approved risk appetite, which is further governed through the ERMF.</li> <li>The ERMF sets out how colleagues are expected to identify, assess, monitor, manage and report their risk exposures.</li> <li>A Risk &amp; Control Self-Assessment (RCSA) process outlines the controls that must be followed and the frequency of assurance in order to determine whether the current set of controls is appropriate to manage its risks going forwards.</li> <li>The ERC provides oversight across the Group's operational risk exposures.</li> </ul>	<p style="text-align: center;"><b>Operational Losses (Net of monies recovered)</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Operational Losses (Net of monies recovered)</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>£9.89m</td> </tr> <tr> <td>2020</td> <td>£5.52m</td> </tr> </tbody> </table>	Year	Operational Losses (Net of monies recovered)	2019	£9.89m	2020	£5.52m	<ul style="list-style-type: none"> <li>There has been a decrease in the value of Operational Losses in 2020 with an underlying decrease in PPI payments to £2.8m from £7.5m in 2019.</li> <li>During 2020 the Risk Management Information System was further embedded and is now used for Risk &amp; Control Self-Assessment, as well as by Compliance, Legal, Internal Audit, Enterprise Risk and Prudential Risk Teams.</li> <li>The key priority has been to improve the control framework of the key Risk Categories and to ensure the continued embedding of these across the business. Alongside this our Operational Resilience initiative continues to further strengthen the resilience of the Society and its ability to meet an ever changing threat landscape.</li> </ul>
Year	Operational Losses (Net of monies recovered)							
2019	£9.89m							
2020	£5.52m							

## Compliance and conduct risk

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

Risk mitigation	Key risk indicators	Commentary												
<ul style="list-style-type: none"> <li>Compliance and Conduct risk, including financial crime risk, is constrained by a Board approved risk appetite, which is further governed through the ERMF.</li> <li>Key conduct risk metrics are in place to protect customer outcomes in all key areas including sales, service, complaints and collections.</li> <li>Clear responsibilities have been determined in a revised governance model that established defined risk management and oversight accountability within the divisions.</li> <li>A comprehensive programme of independent oversight with reporting to GRC takes place.</li> <li>Compliance support and guidance is provided to the business on all key matters. This includes regulatory developments, strategic change programmes and new developments alongside day to day BAU support.</li> </ul>	<p style="text-align: center;"><b>Complaints per 1,000 accounts - Mortgages (H2)*</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Complaints per 1,000 accounts - Mortgages (H2)*</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>5.78</td> </tr> <tr> <td>2020</td> <td>6.65</td> </tr> </tbody> </table> <p style="text-align: center;"><b>Complaints per 1,000 accounts - Banking, Savings and Loans (H2)</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Complaints per 1,000 accounts - Banking, Savings and Loans (H2)</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>0.85</td> </tr> <tr> <td>2020</td> <td>0.65</td> </tr> </tbody> </table> <p>*Complaints per 1000 accounts reported has been restated to combine Complaints reported to the FCA for YBS and Accord.</p>	Year	Complaints per 1,000 accounts - Mortgages (H2)*	2019	5.78	2020	6.65	Year	Complaints per 1,000 accounts - Banking, Savings and Loans (H2)	2019	0.85	2020	0.65	<ul style="list-style-type: none"> <li>Contributing to the complaint performance has been the impact of the ongoing COVID-19 pandemic in adapting and meeting the needs of our customers in unprecedented and challenging times.</li> <li>A Compliance Monitoring plan, approved by the GRC, has been completed during 2020 allowing robust oversight of the key areas of conduct risk. This was adapted during 2020 to provide robust oversight of the Group's response to the COVID-19 pandemic with particular focus on Mortgage Collections &amp; Recoveries.</li> <li>All oversight findings, whether of a compliance, conduct or financial crime nature are the subject of a formal action plan overseen to closure by the GRC.</li> <li>Key areas prioritised for review in 2020 included: mortgage collections &amp; recoveries; responsible lending; data protection and privacy; and, customer treatment.</li> <li>The Society is committed to ensuring that it has effective policies and procedures to counter the risk of bribery and corruption. A formal Anti-Bribery and Corruption Policy is in place and all colleagues are required to undertake appropriate training annually.</li> <li>Despite the COVID-19 pandemic, the pace and extent of external regulatory change continues to be high. The implementation of regulation such as GDPR, PSD2 and the fifth money laundering directive continue to require compliance support and oversight. However, this year significant compliance support and oversight has been directed to the Group's response to the COVID-19 pandemic and in particular to support the payment deferrals process. Compliance has also supported the Group in dealing with the impact of the UK's withdrawal from the EU and in its Digital Transformation programme.</li> </ul>
Year	Complaints per 1,000 accounts - Mortgages (H2)*													
2019	5.78													
2020	6.65													
Year	Complaints per 1,000 accounts - Banking, Savings and Loans (H2)													
2019	0.85													
2020	0.65													

## Stress Testing

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

### The key uses of stress testing are:

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

It should be noted that unlike other stress tests, reverse stress tests start

from the identification of a predefined outcome, that being the point at which the firm's business model becomes unviable, or at which the firm can be considered to be failing because the market has lost confidence in it.

## Concurrent Stress Test

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

On behalf of the Board

### Neeta Atkar

Chair of the Group Risk Committee

23 February 2021

# DIRECTORS' REMUNERATION REPORT 2020

## A WORD FROM THE CHAIR OF THE REMUNERATION COMMITTEE

I am pleased to share the Director's Remuneration Report, including details of the Directors' pay, for the year ending 31 December 2020. Our role as the Remuneration Committee is to ensure that all of our remuneration policies align with the Board approved strategy to make sure that the business is run safely, successfully and sustainably for our members.

This report includes a summary of the Remuneration Policy as well as the key decisions made by the Remuneration Committee this year. As in previous years, where possible this report discloses information in line with the *Building Societies (Accounts and Related Provisions) Regulations 1998* and the Pillar 3 disclosure requirements under CRD IV relevant to a Proportionality Level 2 firm.

The Society also voluntarily complies, where possible, with the disclosure requirements of the *Large and Medium-sized Companies (Accounts and Reports) Regulations 2008* and the *Companies (Miscellaneous Reporting) Regulations 2018* and seeks to comply with the UK Corporate Governance Code (the Code) in its reporting, expectations of management behaviour and stakeholder engagement.

### Looking back to 2020

This has been a very challenging year for the Society, our members and our colleagues. Throughout the extremely difficult environment created by the COVID-19 pandemic we have remained focused on safeguarding the wellbeing of our colleagues and we have not had to call on the government for support (for example, we did not draw down on the Coronavirus Job Retention Scheme). As you'll have seen from this year's Strategic Report, the Society has been able to continue its strong financial performance, meaning we are well-placed to deliver improvements in member value over the long term. This is an important time for the Society. We are embarking on an ambitious transformation journey over the next few years that aims to deliver better service and value to our members alongside strong, sustainable long term performance.

During the year, the Remuneration Committee has maintained focus on the requirements of the Code and we are making further changes to our remuneration framework, to keep us aligned with the principles of the Code and protect the interests of our members and colleagues.

### The key considerations and decisions made by the Remuneration Committee include:

- In May 2020 we delivered an average pay settlement of 2.6% to colleagues to reflect the vital role they play in delivering critical services to our customers and members, and in our strong financial performance (Executive Directors did not receive a pay increase in 2020).
- The Remuneration Committee regularly seeks views through colleague forums in the development of the Society's remuneration framework. Alison Hutchinson, one of our Non-Executive Directors, has formal accountability for the 'Voice of the Employee' and is a member of the Remuneration Committee. She has attended the colleague forum, serving to further ensure that colleague views form a key part of our decision making in terms of reward policy.
- We're committed to ensuring the Society's Remuneration Policy is gender neutral and offers a fair outcome to all colleagues in its design and practice. As at April 2020, our Gender Pay Gap stands at 32.9%. The main driver for the gap continues to be the imbalance of males and females at different levels in the organisation. If this were to be equal, the gap would be 3.5%. The Society has developed a broad Inclusion and Diversity Strategy (see the *Colleague* section of the *Strategic Report* for more detail) to build a more balanced workforce that's genuinely representative of the views of our customers, colleagues and society as a whole.

#### The 2020 Gender Pay Gap Report can be found at:

<https://www.ybs.co.uk/your-society/inside-your-society/corporate-governance/policies/gender-pay-gap.html>

- A proposal that from April 2021, all Executive Directors will now receive a pension contribution of 11% of base salary (a reduction of 5%) which aligns to that payable to all colleagues across the Society.

### Remuneration Outcomes for 2020

The Remuneration Committee believes the Executive Directors have continued to deliver benefits for members. This is demonstrated by a strong and sustainable financial performance, continued high level of customer service excellence and highly engaged colleagues. All achieved in the context of a very challenging 2020. It is based on this that we have awarded bonuses to our Executive Directors in respect of the 2020 performance year. On average, Executive Directors' achieved 76.42% of their maximum opportunity and all other colleagues received an average of 71.7% of their maximum bonus opportunity. We have included full details of how remuneration is awarded to Executive Directors and the amounts later in this report.

### Proposed Directors' Remuneration Policy for 2021

With the context of the current environment in mind, plus the strong financial performance and ongoing commitment to enhance member value, the Remuneration Committee has conducted its annual review of all aspects of Executive Director remuneration and believes that changes need to be made.

On bonus, we plan to refocus Directors' remuneration to focus on long term value creation in addition to the achievement of profitability and customer satisfaction, which is the focus of the current bonus scheme. This means continuing to protect the Society's financial strength and stability, whilst also delivering strategic change, and protecting and enhancing the interests of our members and colleagues in a way that reflects our purpose and culture.

Retaining and motivating a skilled and committed senior team is critical to the Society achieving these goals and delivering on our longer-term objectives, so it is important to ensure that total remuneration is competitive.

### The changes to the bonus we are proposing are:

- Increasing the maximum bonus opportunity for Executive Directors through a new bonus plan which will be tied to the longer-term strategic goals of the Society, as set out in the 2024 Corporate Plan.

- The new bonus plan will include a broader set of performance targets linked to enhanced member value, Environment, Social and Corporate Governance (ESG) and Diversity priorities.
- Performance measures and targets will be set each year, taking account of multi-year performance and the longer-term goals.
- Annual eligibility and overall maximum quantum of opportunity for the new bonus plan will be considered by the Remuneration Committee each year. There will be no automatic entitlement and a pre-grant performance assessment will enable the Remuneration Committee to apply judgement in setting the maximum opportunity, based on achievement of the previous year's performance, overarching stability of the Society and external market conditions.
- Payment of bonus will also remain subject to the established business controls overlay process and Remuneration Committee discretion.
- Compulsory deferral, malus and clawback will continue to apply. This further increases the link between long term performance and bonus outcomes in line with regulatory expectations.

Each Executive Director will have the same performance targets under the new bonus plan and any payments made will be determined by the level of stretching performance that has been delivered.

The second area we are proposing a change is in relation to pension contribution as alluded to above; the equalisation of pension contributions so all colleagues receive the same percentage of base salary.

I strongly believe that the proposed changes to the Remuneration Policy are right for the Society and encourage members to vote for its approval at the forthcoming AGM.

#### Guy Parsons,

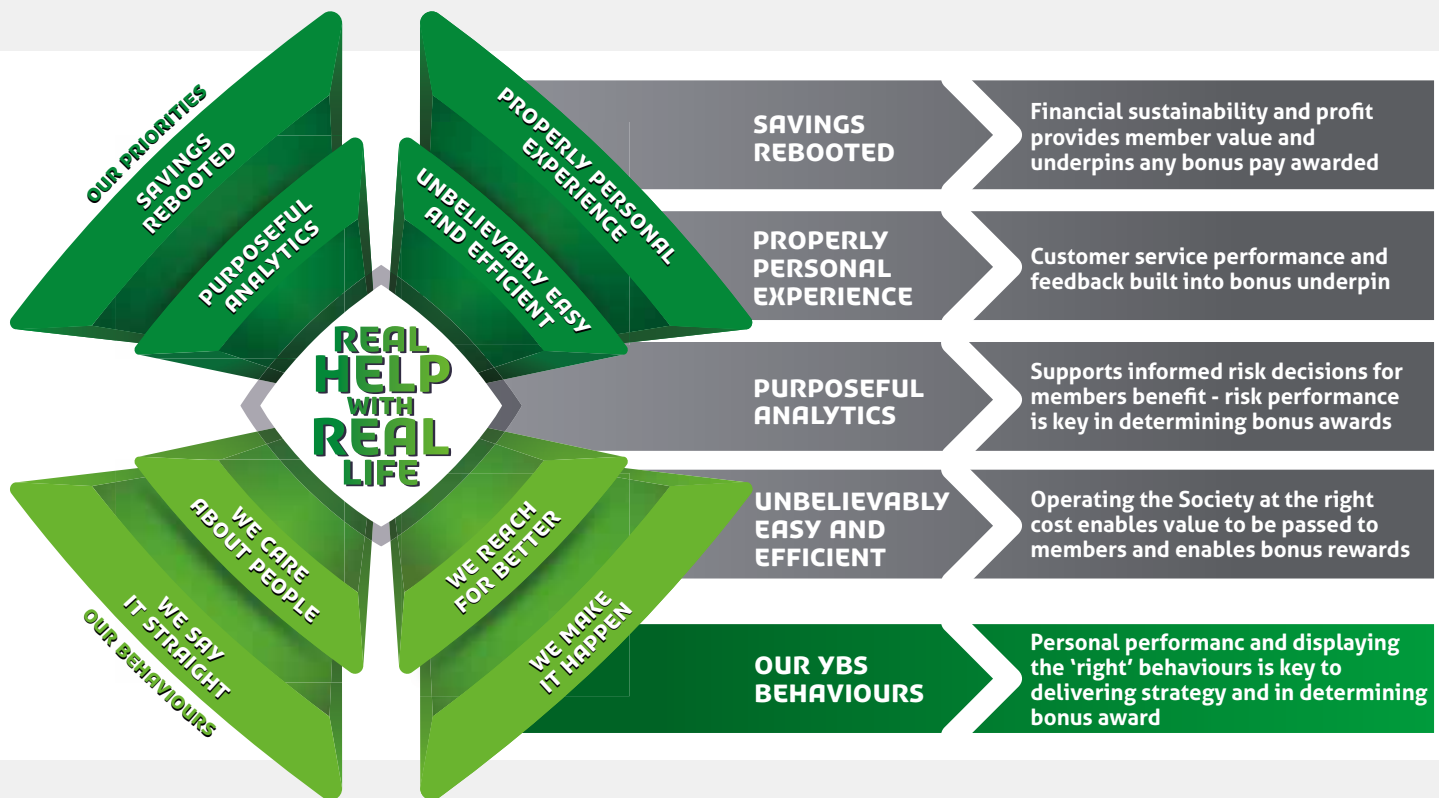
Chair of the Remuneration Committee

## Overview of our Executive Directors' remuneration in 2020 (At a glance section)

A summary of how we have rewarded Executive Directors is outlined below. The Group's financial performance and key customer service measures are used for bonus calculations (in line with the Remuneration Policy approved at the last advisory vote at the 2019 AGM). Unless otherwise stated the report is unaudited.

The 2021 Remuneration Policy (outlined in full on page 99) is based on a number of key principles; including the ability to attract and retain talent; a focus on the total remuneration package and the recognition of both collective and individual achievements. These principles are designed to ensure that colleagues work together for the benefit of the Society and the best interests of our members and customers.

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



### How much have our Executive Directors earned in 2020?

Executive Director	Base Salary (£'000)	Other Fixed Pay* (£'000)	Bonus (£'000)	Total Earnings (£'000)
Mike Regnier CEO	591	109	226	926
Alasdair Lenman CFO	359	88	137	584
Stephen White COO	433	100	165	698

**Key**

■ Base Salary £'000 
 ■ Other Fixed Pay\* £'000 
 ■ Bonus £'000 
    Total Earnings £'000

\* Fixed pay includes pension allowance, any location or additional responsibilities allowance and taxable benefits.

The Building Together bonus scheme is based on sharing in business success, sustainability and delivering for our members. The senior leadership team has an additional bonus earning opportunity which is based on overall business performance, underpinned by an individual scorecard. Full details of the how the scheme operates is outlined in our Remuneration Policy alongside proposals to align remuneration to the wider strategy and growth of the Society.

The Remuneration Committee retains the discretion to make financial and risk adjustments prior to the payment of any bonus to ensure it reflects the true underlying performance of the Society.

## Building Together



### Overview of the proposed Directors' Remuneration Policy for 2021

The following table sets out the key elements of the proposed Executive Directors' Remuneration Policy and an explanation of the changes being made. Full details of the *Directors' Remuneration Policy* are set out on page 101 of this report.

Remuneration element	Summary	Proposed change for 2021	
Fixed remuneration	Base Salary	Cash base salary determined based on a combination of skills, knowledge and experience, on-going performance and demonstration of the Society's behaviours and values.	No change proposed.
	Benefits	Various cash and non-cash benefits including private medical insurance, life assurance, concessionary financial products, sick pay and company car (or cash equivalent).	No change proposed.
	Pension	Current Executive Directors receive a contribution (or cash allowance) equal to a maximum of 16% of base salary. Newly appointed Executive Directors (appointed after 1 January 2019) will receive a contribution in line with the wider colleague group equal to a maximum of 11% of salary.	From April 2021, it is proposed for all Executive Directors to receive a maximum pension contribution (or cash allowance) of 11% of base salary, aligning the contribution level for all colleagues.
Variable remuneration	Building Together Bonus scheme	Annual bonus scheme which rewards Executive Directors' for performance against challenging financial, customer and individual measures. The maximum bonus available for executive directors is 50% of base salary.	No change proposed
	Leading for Value Scheme	It is proposed that a new bonus scheme (Leading for Value) is introduced which will focus on achieving milestones within our strategic plan and the delivery of long term value to our members. The maximum bonus available under the Leading for Value Scheme is 75% for the Chief Executive and 50% for other Executive Directors. All grants under the Leading for Value Scheme will be subject to a pre-grant assessment of performance by the Remuneration Committee which will incorporate both Group and individual performance.	It is proposed that payment under the Leading for Value Scheme will be based on metrics which include: <ul style="list-style-type: none"> <li>• Delivery of key strategic milestones;</li> <li>• Enhancement of member value; and</li> <li>• ESG metrics</li> </ul> The total maximum bonus under both Schemes available for the Chief Executive will increase from 50% to 125% of base salary and for other Executive Directors it will increase from 50% to 100%. Member approval is sought to extend the fixed to variable pay ratio from 1:1 to 1:2 in respect of the CEO, in line with regulatory requirements.
	Applicable to all variable remuneration	All bonuses will be delivered through a combination of cash and SEIs. All bonus payments will also be subject to regulatory underpins including risk adjustment, deferral, malus and clawback.	

## Annual Report on Remuneration

### Executive Directors' Remuneration

All remuneration in the 2020 performance year has been awarded in line with the Society's Remuneration Policy, which was last approved by members at the 2019 AGM.

The table below shows the single total figure table of remuneration for the Executive Directors of the Society for the years ended 31 December 2020 and 2019. This is a regulatory requirement seeking to provide accessible information outlining the total remuneration of the directors for the previous two performance years. This information has been audited by our independent auditors, PricewaterhouseCoopers LLP ('PwC').

Executive Director	Fixed Remuneration						Variable Remuneration				Total Remuneration			
	Base Salary		Taxable Benefits		Pension/ Pension Allowance		Total FIXED Remuneration		Bonus				Total VARIABLE Remuneration	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Mike Regnier CEO	591	583	15	15	94	93	700	691	226	280	226	280	926	971
Alasdair Lenman CFO	359	356	31	43	57	57	447	456	137	177	137	177	584	633
Stephen White COO	433	429	31	31	69	69	533	529	165	186	165	186	698	715
<b>Total</b>	<b>1,383</b>	<b>1,368</b>	<b>77</b>	<b>89</b>	<b>220</b>	<b>219</b>	<b>1,680</b>	<b>1,676</b>	<b>528</b>	<b>643</b>	<b>528</b>	<b>643</b>	<b>2,208</b>	<b>2,319</b>

### Base Salary

As outlined in the 2019 *Directors' Remuneration Report*, Executive Directors were not part of the Society's annual pay review and therefore did not receive a pay increase in 2020.

### Bonus

The Building Together bonus scheme is linked to financial performance, customer experience and risk management. All colleagues are invited to participate in the scheme. An additional element is available for senior managers and Executive Directors up to a maximum of 50% of salary with an on-target opportunity of 30% of salary.

Payment is subject to meeting a number of business and personal, financial and non-financial stretching objectives and is awarded at the discretion of the Remuneration Committee. All measures are set so they seek to drive long term value for

the Society and our members. A risk overlay is undertaken to ensure the Society is not exposed to undue risk and forms part of our sustainability review.

In line with the PRA and FCA remuneration regulations and the Senior Managers and Certification Regime, all bonuses payable to Executive Directors designated as Senior Managers are subject to deferral. The Society's Remuneration Policy requires deferral to be in place for all senior management. Bonus deferral ensures the Society delivers variable pay in a manner which prevents unnecessary risk taking.





## 1. FINANCIAL PERFORMANCE

The first performance measure is the profit before tax (PBT) of Yorkshire Building Society and its controlled entities ('the Group'). Under the terms of the Building Together scheme, the Remuneration Committee has scope to make adjustments to the calculation of profit within the bonus scheme.

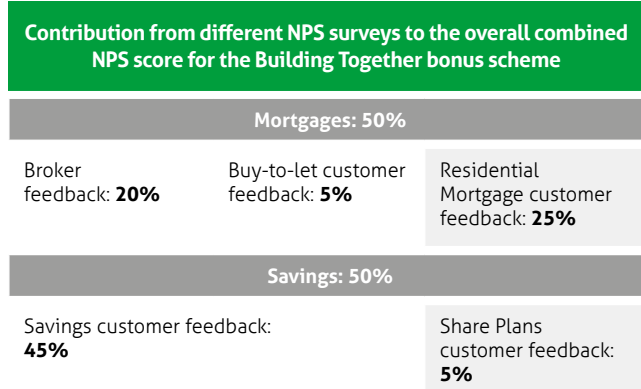
### The following principles are applied when identifying potential adjustments:

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

In line with the principles above, the overall PBT figure was adjusted to produce an achieved position of £171.7 million against a reported figure of £161.3 million. This represents a performance above target, which was £170.1 million, and sets the financial element of the bonus earning potential.

## 2. CUSTOMER EXPERIENCE

The second performance measure is the customer 'Net Promoter Score' (NPS), which unlocks the bonus award. The NPS measures how likely our members and customers are to recommend us, and we obtain this through customer and broker surveys. The results are combined, at a ratio of 50% mortgages and 50% savings, to create the 'combined NPS' used for bonus calculations. To pay an 'on-target' bonus, the target NPS for the year was +53. The average NPS achieved throughout 2020 was +53



## 3. FINANCIAL SUSTAINABILITY REVIEW

The following calculations are undertaken and reviewed before any bonus payment is awarded:

- an assessment of the level of capital held by the Group to ensure it remains sustainable and compliant with regulation; and
- an assessment of the Group's cost management to ensure that we are managing our costs in line with targets approved by the Board.

Payments will be reduced or forfeited if the Group has not met these targets.

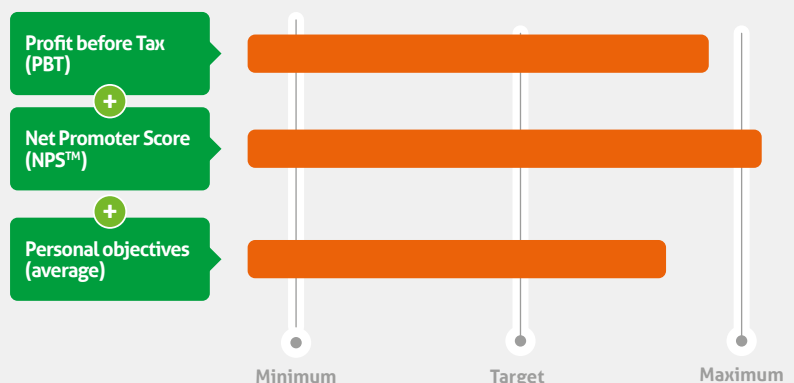
As part of this review, we conducted a risk overlay, which considers the management of specific business risk appetite measures and payment can be amended if we identify material breaches. Following a rigorous review where we assessed business controls processes, it was concluded that no action was required to adjust the bonus levels for the 2020 performance year.

## 4. INDIVIDUAL PERFORMANCE FOR SENIOR MANAGERS

The Group's performance determines the core bonus award; all three elements above need to be achieved before any bonus will be awarded under both the collective and individual elements of the scheme. Individual performance determines the percentage of bonus to be awarded for the Executive Directors (and the wider Senior Management team). This assessment is measured on the achievement of their individual scorecard, containing both financial and non-financial measures.

### How bonus is calculated for executive directors

The table below summarises the outcome against the various measures for 'Building Together'.



## Share Equivalent Instruments (SEI)

In a performance year, where Executive Directors total remuneration falls below the de-minimis<sup>1</sup> limit, the annual bonus awards will be delivered as cash and paid over three years: 50% of any bonus is paid out in the year following the performance year; the remaining 50%

is deferred with 25% released after one year and 25% released after two years.

For Executive Directors whose remuneration is over the 'de-minimis' limit, bonus awards are required to have a longer deferral period, and/or a larger percentage deferred in line with regulations. Where also required by regulation, 50% of each bonus

payment will be delivered via an SEI and is subject to a retention period. For the 2020 performance year, an Executive Director whose remuneration exceeds the de-minimis limit will receive 20% of their total bonus in 2021, with a further 20% delivered via a SEI in 2022. The remaining 60% is deferred over seven years, with a one-year retention period applying to the SEIs received.

### For example:

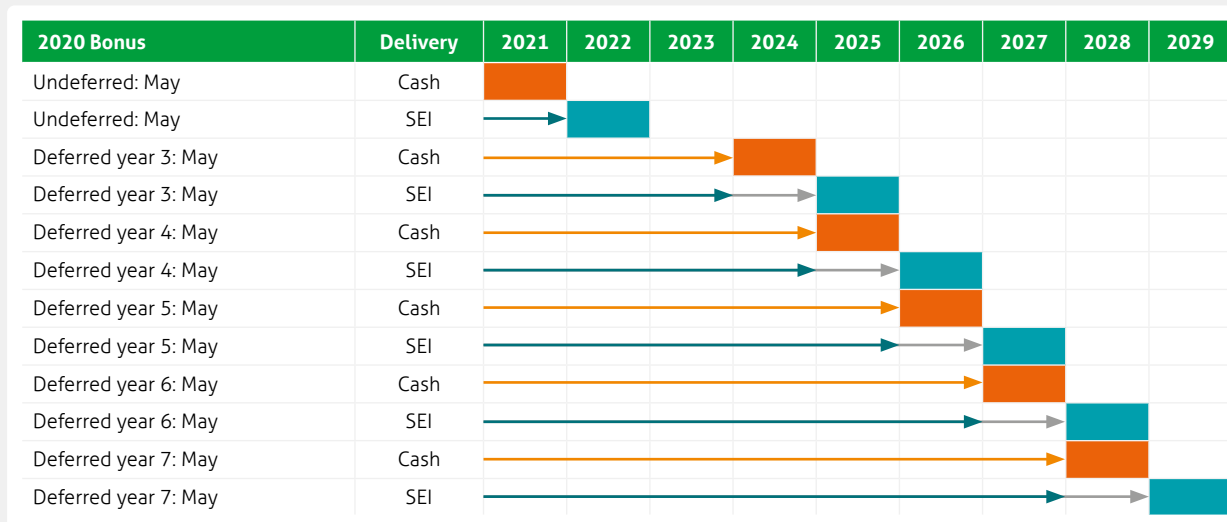
#### ■ Year 1

40% of any bonus earned is paid out in the year following the performance year. Half of this amount is paid in cash (in 2021) and the other half is delivered in a SEI and subject to an additional retention period prior to revaluation and payment (in 2022).

#### ■ 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 retention period prior to revaluation and payment. SEI valuations continue every 12 months until the bonus schedule is complete.

### Length of time variable pay is at risk



#### Key

→ Cash bonus deferral → SEI deferral → SEI holding period ■ Cash ■ SEI

## How 2020 bonus is awarded for our Executive Directors

Executive Director	Role	Total Award		Deferral schedule							
		% of salary	£'000	2021	2022	2023	2024	2025	2026	2027	2028
Mike Regnier	CEO	38.21	226	90	-	-	27	27	27	27	27
Alasdair Lenman	CFO	38.21	137	55	-	-	16	16	16	16	16
Stephen White	COO	38.21	165	66	-	-	20	20	20	20	20

For the 2020 performance year, 99.06% of eligible colleagues will receive a bonus. On average an eligible Executive Director achieved 76.42% of their maximum bonus opportunity, with all eligible colleagues on average receiving 71.70% of their maximum bonus opportunity. Bonuses for Executive Directors remain subject to malus and clawback, with bonus subject to clawback for up to ten years.

<sup>1</sup> A de-minimis limit level is set by regulation, in relation to the level of bonus deferral applied. It impacts colleagues whose total remuneration is greater than £500,000 per annum and where colleagues' variable remuneration is more than 33% of their total remuneration.

## Taxable Benefits

The taxable benefits awarded to Executive Directors are in line with what we offer to all colleagues, comprising a company car (or equivalent allowance), private medical insurance, permanent health insurance and any location allowances. Executive Directors, like all colleagues, can also participate in a concessionary mortgage scheme which is subject to a maximum concessionary amount of £160,000; no Executive Directors have taken up this mortgage scheme.

No significant changes to the construct of the Executive Directors' taxable benefits entitlement are planned for 2021.

## Pensions

From 1 January 2018 all Executive Directors are members of the Society's defined contribution scheme; a core contribution of up to 16% of their base salary is paid into the scheme. Where prevailing tax restrictions limit pension contributions, the remainder is paid as a cash allowance.

From 1 January 2019 all newly appointed Executive Directors will be eligible for a core contribution of up to 11% of base salary. This is in line with all other colleagues.

From 1 April 2021 – Executive Directors will receive a maximum pension contribution (or cash allowance) of 11% to align with all colleagues.

The pension scheme also provides a lump sum of six times' their pensionable salary on death in service. This is in line with all other colleagues.

## CEO Pay Ratio Reporting

For the second year we are publishing the ratio of the Chief Executive's pay to the wider employee population. This ratio reflects the nature of the Society, in particular the range of different roles and skillsets required to operate within financial services; from a number of customer facing colleagues in the branch network and call centres, through to, for example, heavily technical specialist roles in our Treasury department.

**This ratio compares the total remuneration of the Chief Executive against the total remuneration of the median employee and those who sit at the 25th and 75th percentiles (lower and upper quartiles).**

Year	Method	25th percentile	50th percentile	75th percentile
2020	Option B	39:1	28:1	20:1
2019*	Option B	40:1	35:1	22:1

\* The table above shows the correct ratios based on the salary and total remuneration figures published in 2019, correcting an error with the published ratios made in the 2019 report.

**The total remuneration values and base salary values for the 25th, 50th and 75th percentile employees for 2020 are:**

	25th percentile	50th percentile	75th percentile
Total remuneration	£23,662.28	£32,852.41	£47,155.49
Salary	£20,533.00	£27,917.00	£39,456.25

We have utilised the reporting method of 'Option B', which involves utilising our existing gender pay gap reporting data as the basis for identifying the colleagues at each of the required quartiles. We have chosen to utilise Option B as the data collated as part of the gender pay process is subject to external assurance, and as such provides an accurate basis for the calculation of CEO ratios.

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 bonus. One of the colleagues identified via the Gender Pay data works part time hours. To ensure an accurate representation of pay at each of the quartiles, the full-time equivalent salary and total remuneration has been calculated for this colleague.

In order to validate the colleagues identified via the Gender Pay figures are reasonable

representatives of the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentile, checks were made against the full-time equivalent salaries of all colleagues within the Society. When ranking our colleagues purely on base salary, there was less than a 1.5% variance between the base salaries of the colleagues identified through the gender pay figures, compared to base salary alone at the 25th, 50th and 75th percentile. As such we are confident that the colleagues identified provide a reasonable representation of remuneration at these percentiles.

To ensure that pay is managed appropriately across the organisation, we regularly review how similar roles are paid in both the wider market and financial services. We take this approach across all roles in the Society from our Chief Executive to our front-line colleagues. When setting individuals base salaries, we also take into account a colleague's performance and contribution. The Remuneration Committee oversee this process, with a specific focus on the

remuneration of the Society's Material Risk Takers.

We are committed to paying all our employees the real living wage, whilst undertaking additional pay analysis e.g. gender pay gap reporting, to ensure that we can identify, and where appropriate, address any pay issues.

## Payments for loss of office

There were no payments for loss of office in 2020.

## Payments to past directors

There were no payments to past directors in 2020 that had not already been disclosed in previous reports.

## Chairman and Non-Executive Directors

The Chairman and Non-Executive Director fees are reviewed annually. However, at the time of review, the COVID-19 pandemic was impacting the UK economy as a whole, including Financial Services. As a result, the Non-

Executive Directors requested that no increase be proposed for their fees for 2020. Fees remain as they were for 2019 and are detailed below. A review of the market data available for these roles indicates that fees continue to be broadly well positioned within the market.

The Remuneration Committee review the fees payable to the Society's Chairman. Whilst being a member of the Remuneration Committee, the Chairman is not involved in any decisions relating to his own remuneration. Non-Executive Director fees are determined and approved by the Board on recommendation from the CEO.

Non-Executive Director fees (annual equivalents)	Fees at 1 July 2019	Fees at 1 July 2020
	£'000	£'000
Chairman basic fees	196.9	196.9
Vice Chair basic fees	73.6	73.6
Non-Executive Director basic fees	51.7	51.7
<b>Additional fee for:</b>		
Audit Committee – Chair	21.5	21.5
Audit Committee – Member	8.8	8.8
Remuneration Committee – Chair	17.5	17.5
Remuneration Committee – Member	6.4	6.4
Group Risk Committee – Chair	21.5	21.5
Group Risk Committee – Member	8.8	8.8
Board Governance and Nominations Committee	6.4	6.4

## Single total figure of Remuneration for each Non-Executive Director

The Non-Executive Directors' basic and committee fees earned in 2020 are outlined below (as referenced above, these are at the same level as 2019). Non-Executive Directors do not receive any benefits, but are reimbursed for any expenses incurred, such as travel and subsistence. Any tax due is the responsibility of individual non-executive directors. This information has been audited by our independent auditors, PwC.

	Basic Fees 2019	Committee Fees 2019	Total 2019	Basic Fees 2020	Committee Fees 2020	Total 2020
Audited	£000	£000	£000	£000	£000	£000
John Heaps (Chairman)	197	-	197	197	-	197
Neeta Atkar	52	30	82	52	30	82
Alison Hutchinson (Vice Chair from 01/10/2020)	52	22	74	57	20	77
Gordon Ireland	52	18	70	52	18	70
Mark Pain (Vice Chair – retired 30/09/2020)	73	30	103	55	7	62
Guy Bainbridge	52	13	65	52	30	82
Guy Parsons	52	18	70	52	19	71
Catharine French*	-	-	-	9	1	10
Mark Parsons (joined 20/10/2020)	-	-	-	10	4	14

\* Member of Board and Remuneration Committee 1 April to 10 May 2020.

**The remainder of this remuneration report has not been externally audited.**

## 2021 Remuneration Policy

### Our Reward Aims

Our aim is to build a working environment where colleagues feel engaged and committed to the Society's purpose, 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.

### Our Reward Principles

To support us in achieving our long term aspirations we follow five key principles, which apply to all colleagues within the Society. These help us know when we are doing the right things and set out what we believe good reward practice for all of our colleagues looks like.

**Our five reward principles developed with YBS colleagues are:**

- 1 **Attract and retain talent**, aligned to our mutual values and forward thinking to ensure relevance in a changing world.
- 2 **Focused on total reward**; recognising that reward is more than just pay, enabling colleagues to make the choices that work for them at different stages in their life.
- 3 **Flexible within a framework** to ensure a consistent approach whilst responding to different challenges, supported by education to help managers balance doing the right thing for both the Society and their people.
- 4 **Reward decisions and choices are clear and transparent** for colleagues; delivered through effective and open communication.
- 5 **Our reward arrangements** are reflective of Society, team and individual achievements, with the ability to recognise the contribution all colleagues have made to our success.



...working  
together  
for the  
benefit of  
the Society  
and our  
members  
and  
customers



## 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 risks to the Society, colleagues, members and customers.

### 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

This Committee has specific responsibility for making sure we have the right policies and processes in place for our most senior roles and the overarching Remuneration Policy for the wider organisation. The Remuneration Committee is made up of Non-Executive Board Directors and its purpose is to oversee the Remuneration Policy in place for the Society, making sure this aligns to our

business strategy and any regulatory requirements. Details in relation to the composition and the Terms of Reference of the Remuneration Committee can be accessed on the Society's website.

### The Remuneration Committee oversees a broad range of activities within the Society such as:

- Governance of its Material Risk Takers (MRT's - senior decision makers).

This responsibility includes;

- ▷ review of MRT performance objectives to ensure that they do not encourage excessive risk taking (along with input and evidence from the Society's control functions – Risk and Internal Audit).
- ▷ the Remuneration Committee can apply clawback and or discretion to previous and future MRT bonus payments if any evidence of risk taking or behaviour not conducive with our principles is identified.
- ▷ processes and procedures to ensure MRT's do not undertake hedging strategies in regard to their bonus opportunities.
- The activity of the Performance and Reward Committee to independently challenge and ensure any conflicts of interest (such as individuals making decisions about their own remuneration) are managed in

the design and governance of the Remuneration Policy.

### Performance and Reward Committee

The Performance and Reward Committee is in place to ensure effective governance and oversight of our reward policy with a focus on regulatory compliance and alignment to our business strategy. This Committee also ensures that any bonus arrangements that we offer colleagues drive the right behaviours towards risk taking and safeguard good customer and member outcomes. The Performance and Reward Committee comprises of several senior leadership team members within the organisation with representation from the Customer Services, People, Finance and Risk functions.

### 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 Group. This means that from a performance, reward and benefits perspective we ensure that our base salary, bonus 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.



## Executive Director Remuneration Policy

This document details the Society's remuneration policy for its Executive Directors, making comparisons where applicable to the wider colleague group. For Executive Directors, the remuneration policy is voted on every three years (or sooner if required). It was last approved by members at the 2019 AGM and is subject to advisory vote again at the 2021 AGM due to a policy change.

### Fixed Remuneration – Base Salary

<b>Purpose and link to strategy</b>	<p>To enable the attraction and retention of high performing experienced Executive Directors by ensuring that they are appropriately rewarded for their role.</p> <p>The level of base salary awarded serves to reflect the contribution of Executive Directors in their role as defined by the combination of:</p> <ul style="list-style-type: none"> <li>■ Skills, knowledge and experience</li> <li>■ On-going performance</li> <li>■ Demonstration of the Society's behaviours and values.</li> </ul> <p>Actual base salary levels are also determined by a review of market conditions to ensure that we offer levels of base salary that are appropriate in the market and enable us to attract and retain talent into the organisation.</p>
<b>In practice</b>	<p>Base salary is typically reviewed annually and determined with reference to:</p> <ul style="list-style-type: none"> <li>■ Role, experience and individual performance.</li> <li>■ Affordability – the economic environment and overall financial position of the Society.</li> <li>■ Comparison to the external market, supported by reference to the Society's grading structure, the Career Framework.</li> <li>■ Internal relativities and wider workforce base pay levels.</li> </ul> <p>A consistent set of principles are applied when considering both Executive Directors' base salaries and those of the wider organisation.</p>
<b>Opportunity</b>	<p>There is no 'maximum' base pay opportunity.</p> <p>We seek to target a median external market position in relation to 'total remuneration'. To ensure that this is achieved base salary ranges are developed with reference to the total package including variable pay.</p> <p>Annual base salary increases will normally be in line with the typical level of increases awarded to the wider workforce and will be a reflection of the individual's performance.</p> <p>The Remuneration Committee may award increases above this level in certain circumstances, for example taking on additional responsibilities.</p>

**Short term performance-based remuneration ('variable pay' or 'bonus')**

This is divided into two sections, reflecting the two different bonus schemes which Executive Directors can participate in. The Leading for Value Scheme represents a change to the policy as set out above.

	Building Together Scheme	Leading for Value Scheme
<b>Purpose and link to strategy</b>	<p>To ensure that an Executive Director's remuneration has a direct link to the success of the Society, motivating delivery of core business metrics in line with our values.</p> <p><b>The Society's bonus scheme – Building Together</b> - rewards annual performance against challenging financial and customer measures as well as key individual objectives. All colleagues participate in this scheme.</p> <p><b>Bonus is driven by 3 key factors:</b></p> <ul style="list-style-type: none"> <li>■ Financial performance currently measured via adjusted Profit Before Tax</li> <li>■ Customer Experience currently measured via the Society's Net Promotor Score</li> <li>■ Individual performance measured with reference to an executive director's performance against key objectives</li> </ul>	<p>To ensure that an Executive Director's remuneration has a direct link to the success of the Society, supporting delivery of long term strategic objectives, and protecting and enhancing member and colleague interests in line with our values.</p> <p><b>The Society's bonus scheme – Leading for Value</b> - rewards annual performance against challenging Group objectives.</p> <p><b>Bonus payment is driven by 3 key factors:</b></p> <ul style="list-style-type: none"> <li>■ Delivery of key strategic milestones initially based on our 2024 Corporate Plan.</li> <li>■ Delivery of measurable and targeted financial value for members.</li> <li>■ ESG performance based on colleague engagement, diversity and inclusion and social impact.</li> </ul>
<b>In practice</b>	<p>Key measures within the Corporate Plan have to be achieved for 'on target' pay-out, and considerably exceeded for maximum pay-out.</p> <p><b>Bonus is achieved in the following way:</b></p> <ul style="list-style-type: none"> <li>■ The development of a bonus pool determined by reference to the Group's financial performance.</li> <li>■ The bonus pool is moderated up or down as a result of the Customer Experience received by our Members and customers.</li> <li>■ The total individual awards are determined by an executive director's performance against his or her annual objectives.</li> </ul> <p>A minimum level of performance across all 3 metrics is required to activate a bonus payment.</p>	<p>Executive Directors and senior management may participate in this scheme. The Remuneration Committee will carry out a pre-grant assessment before determining individual eligibility for this scheme and will consider both personal and Group performance. The outcome of this assessment will determine the maximum opportunity that will be available to the individual, subject to the overall scheme maxima set out below.</p> <p><b>Payments under the bonus will then be achieved in the following way:</b></p> <ul style="list-style-type: none"> <li>■ For all metrics there will be specific targets set to reflect threshold, target and maximum performance.</li> <li>■ The metrics are weighted such that strategic milestones will make up 40% of the bonus, member value 30% and ESG 30%.</li> <li>■ The Remuneration Committee will assess performance across all performance metrics to determine the bonus outcome.</li> </ul>
<b>All payments are made in line with regulatory requirements</b>		
<b>Business Controls Process</b>	<p>Bonus payments are subject to the operation of a Business Controls Process that considers current and future risks through a range of key metrics provided by the Society's control functions to evidence the robust management of the Society e.g. cost indicators, risk indicators.</p>	
<b>Remuneration Committee Discretion</b>	<p>The Remuneration Committee retains the discretion to make adjustments to the bonus to ensure that it reflects a true view of the underlying performance of the Society prior to the payment of any bonus.</p>	
<b>Risk Overlay</b>	<p>Bonus payments applicable to Material Risk Takers are subject to a formal risk overlay process where a series of key risk indicators are considered to provide assurance that no inappropriate risk taking behaviours have taken place.</p> <p>Material Risk Taker objectives are subject to review by the Remuneration Committee to ensure the appropriate balance of financial and non-financial objectives, to align with the Society's purpose and desired behaviours. The objectives for the Society's control functions are also reviewed by the Group Risk and Group Audit Committee Chairs' to ensure objectives (and bonus opportunity) are linked to performance of their functions and not the businesses they oversee.</p> <p>In instances where issues are identified the Remuneration Committee reserve the right to apply a malus adjustment (reduce bonus or lapse deferred elements) and to apply clawback (recover bonus payments already made) as applicable. Awards are subject to clawback for up to a maximum of ten years.</p>	



<b>Deferral and Share Equivalent Instrument (SEI)</b>	<p>In line with relevant remuneration regulations, including the Remuneration part of the PRA Rulebook, the FCA's Dual-Regulated Firms Remuneration Code, and the Senior Managers and Certification Regime, all bonuses paid are subject to deferral. In addition to regulatory requirements, the Society's Remuneration Policy requires bonuses for all members of the senior management team are subject to an element of deferral. Bonus deferral ensures that the Society delivers variable pay in a manner that prevents unnecessary risk taking, whilst achieving a level of sustainable performance.</p> <p>In a performance year where Executive Directors' total remuneration falls below the de-minimis<sup>1</sup> limit, the annual bonus awards will be delivered as cash and paid over three years: 50% of any bonus is paid out in the year following the performance year; the remaining 50% is deferred with 25% released after one year and 25% released after two years.</p> <p>For Executive Directors whose remuneration is over the 'de-minimis' limit, bonus awards are required to have a longer deferral period, and/or a larger percentage deferred in line with regulations. Where also required by regulation, 50% of each bonus payment will be delivered via an SEI and is subject to a one-year retention period. For the 2020 performance year, an Executive Director whose remuneration exceeds the de-minimis limit will receive 40% of their bonus in 2020 with the remaining 60% deferred over a period of up to seven years.</p> <p>Bonuses for Executive Directors are disclosed annually in this document, the Annual Report and Accounts.</p>	
<b>Building Together Scheme</b>		
<b>Opportunity</b>	<p>'On-target' achievement of Society performance criteria results in a bonus of 30% of base salary for the Executive Directors. The maximum bonus available to Executive Directors is 50% of base salary.</p> <p>Failure to meet organisational or individual performance thresholds can reduce bonus awards to zero.</p> <p>All Executive Directors are subject to deferral.</p> <p>All of the Society's bonus schemes made under the Building Together Scheme are underpinned by the same metrics.</p>	<b>Leading for Value Scheme</b> <p>Maximum achievement against all performance criteria results in a bonus of 75% of base salary for the Chief Executive and 50% of base salary for other Executive Directors.</p> <p>Failure to meet performance thresholds can reduce bonus awards to zero.</p> <p>All Executive Directors are subject to deferral.</p> <p>All of the bonus payments made under the Leading for Value Scheme are underpinned by the same metrics.</p>
<b>Taxable Benefits</b>		
<b>Purpose and link to strategy</b>	<p>To provide a total reward package that is in line with market practice and enables the attraction and retention of executive directors of the required calibre.</p>	
<b>In practice</b>	<p>Executive Directors are eligible to receive a number of benefits, principally consisting of:</p> <ul style="list-style-type: none"> <li>■ Private medical insurance</li> <li>■ Life assurance (6x salary)</li> <li>■ Concessionary mortgage</li> <li>■ Insured sick pay</li> <li>■ Provision of a company car, or cash equivalent.</li> </ul>	
<b>Opportunity</b>	<p>There is no 'maximum' level of benefits – the overall value of benefits to the Society's executive directors is determined by the nature of its benefit offering which is subject to change throughout a given year.</p>	
<b>Pension</b>		
<b>Purpose and link to strategy</b>	<p>The Society's pension arrangements support the recruitment and retention of Executive Directors through the provision of competitive retirement benefits.</p>	
<b>In practice</b>	<p>The Society operates a single defined contribution pension scheme and all colleagues have the opportunity to participate. Where contributions exceed the annual or lifetime allowance, or participation in the scheme is tax inefficient, colleagues may be permitted to take a cash supplement instead of contributions to the plan.</p>	
<b>Opportunity</b>	<p>From April 2021, it is proposed for all Executive Directors to receive a maximum pension contribution (or cash allowance) of 11% of base salary, aligning the contribution levels for all colleagues.</p>	

<sup>1</sup> A de-minimis limit level is set by regulation, in relation to the level of bonus deferral applied. It impacts colleagues whose total remuneration is greater than £500,000 per annum and where colleagues' variable remuneration is more than 33% of their total remuneration. The de-minimis level is subject to change following the implementation of CRD V).

## Remuneration Arrangements in relation to specific circumstances

New Hires	
<b>Remuneration Package</b>	<p>When agreeing the components of a remuneration package for the appointment of Executive Directors, the Remuneration Committee will apply the following principles:</p> <ul style="list-style-type: none"> <li>■ 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;</li> <li>■ The Remuneration Committee will look to align the remuneration package offered with the Society's broader Remuneration Policy; and</li> <li>■ The Remuneration Committee will ensure that the level of pay is necessary but not excessive.</li> </ul> <p>The Remuneration Committee has discretion within the policy to make remuneration decisions where it considers it appropriate to do so.</p> <p>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.</p>
<b>Buy out arrangements</b>	<p>The Remuneration Committee may make awards on hiring an external candidate to the Board to compensate them for the forfeiture of any award entered into with a previous employer. In determining any such 'buy out', the Remuneration Committee will consider all the relevant factors including the likelihood of the awards vesting should the candidate have remained in their previous employment, the form in which they were awarded and the time over which they would have vested.</p> <ul style="list-style-type: none"> <li>■ The buy-out value may not exceed the aggregate amount of unvested variable remuneration.</li> <li>■ Consideration is given to the reason for the "firm or relevant business unit suffering material failure of risk management" when considering any reduction of unvested variable remuneration.</li> <li>■ The buy-out will vest no faster than any awards they replace.</li> <li>■ The Society will provide former colleagues with the details and reasons of any proposed application of malus or clawback to awards in writing and notify the former colleagues within 14 working days of any amounts of malus or clawback that have been applied.</li> </ul> <p>Bonus buyouts will be liable to forfeiture or 'clawback' in the event of early departure and are executed in line with the Remuneration Code.</p>
<b>Retention arrangements</b>	<p>The approach to rewarding retention payments is considered on an exceptional basis and will be agreed by the Remuneration Committee and subject to the relevant regulations, deferral, malus and clawback and Remuneration Committee discretion.</p>
Leaver Arrangements and Loss of Office	
<p>The Remuneration Committee shall apply the policy in relation to leavers, considering performance, conduct and commercial justifications, as summarised below:</p>	
<b>Notice period</b>	<p>The standard notice period is 12 months from the Society and 12 months from the Executive Director.</p> <p>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 will receive a payment in lieu of notice, or they may be placed on garden leave.</p> <p>Chief Officers and other MRTs have notice periods varying between three months and one year, depending on the role undertaken.</p>
<b>Termination payment</b>	<p>Typically, termination payments will consist of basic pay and other contractual benefits for the notice period, the emphasis being to not reward failure.</p>
<b>Annual bonus – leaver provisions</b>	<p>On termination of office, the leaver provisions as set out below will apply.</p> <p><b>These are also outlined in the Society's bonus plan rules:</b></p> <ul style="list-style-type: none"> <li>■ In the event of retirement or redundancy, ill-health or disability, any bonus will be pro-rated to reflect the time served during the performance period. Any deferred payments due remain subject to future performance conditions and are payable at the end of the corresponding performance periods. There will be no acceleration of payment. They are also subject to the Society's risk overlay process, and therefore subject to the Society's malus and clawback provisions.</li> <li>■ In the case of death, any bonus payments will be pro-rated to reflect the time served during the performance period. Payment of any deferred amounts, including deferred amounts from previous years, is accelerated and payable at the next payment date.</li> <li>■ Subject to Committee discretion, in the event of resignation, any eligibility to participate in the current year's bonus scheme will cease. Leavers under these circumstances will be eligible to receive deferred bonus payments earned in previous years, subject to the Society's risk overlay process.</li> </ul> <p>Subject to Remuneration Committee discretion and the Society's risk overlay process, Executive Directors who resign from the Society will retain eligibility to any deferred bonus payments earned in previous years. Malus and clawback provisions continue to apply.</p>

## Remuneration Policy in relation to Non-Executive Directors

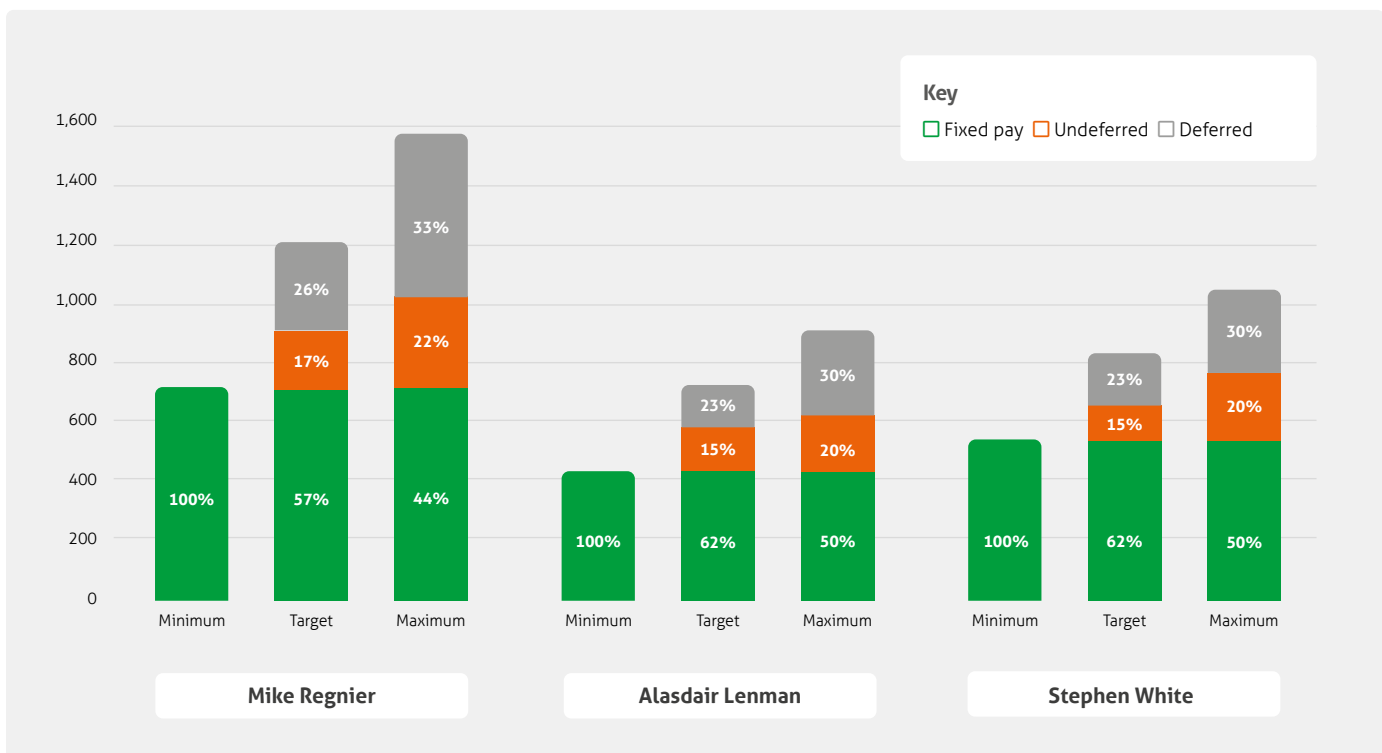
Non-Executive Director Fees	
<b>Purpose and link to strategy</b>	Sole element of remuneration set at a level that reflects market conditions and sufficient to attract individuals with appropriate knowledge and experience to provide a meaningful contribution to the Society.
<b>In practice</b>	<p>Fees are based on 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.</p> <ul style="list-style-type: none"> <li>Non-Executive Director fees are determined and approved by the Board on recommendation from the CEO.</li> <li>The Chairman's fees are determined by the Remuneration Committee.</li> <li>Both the Chairman's and Non-Executive Directors' fees are reviewed periodically, at least annually.</li> <li>The Chairman's and Non-Executive Directors' fees are not subject to any specific performance measures; however, their overall performance is reviewed on a regular basis.</li> </ul> <p>Neither the Chairman nor any of the Non- Executive Directors have any influence over the setting of their own fees.</p>
<b>Opportunity</b>	<p>There is no 'maximum' fee opportunity.</p> <p>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.</p>

**Decision-making process:** The Remuneration Committee followed a robust process when determining proposed amendments to the Society's Remuneration Policy, considering both the strategic objectives of the business and evolving market practice. Input was also sought from management, while ensuring that conflicts of interests were suitably mitigated. An external market perspective was provided by our independent advisers. The Remuneration Committee also assessed the proposed policy against the Society's Remuneration principles, designed to ensure that colleagues work together for the benefit of the Society, our members and customers.

### Remuneration Scenarios in relation to the 2021 Remuneration Policy

The chart below shows the potential split of remuneration between fixed pay (base salary, benefits and pension) and total variable pay for the CEO and other executive directors under the following scenarios:

- Minimum** – under certain performance conditions, bonus can be zero.
- Target** - represents remuneration (75% of base salary for the Chief Executive Officer and 60% of for the remaining Executive Directors) that would be paid if Society and personal performance measures are achieved in 2021.
- Maximum** –the maximum bonus (125% of base salary for the Chief Executive Officer and 100% for the remaining Executive Directors) that could be paid assuming Society and personal performance measures are fully realised.



## Remuneration Committee

The Remuneration Committee has specific responsibility for ensuring we have the right policies in place for our most senior roles and setting the tone for the wider organisation. Its purpose is to oversee the remuneration policy in place for the Society, making sure it aligns to our strategy and any regulatory compliance requirements, with a specific focus on the risks posed by remuneration policies and practices.

**The Remuneration Committee's terms of reference were reviewed and updated in November 2020; they are available on the Society's website <https://www.ybs.co.uk/your-society/inside-your-society/corporategovernance/committees>.**

In 2020 Board Committee evaluations were incorporated into the Board external evaluation process. The Board discussed the findings of the review in February 2021 and, following its consideration of the final report, each committee will review any outcomes and recommendations relevant to its role. Further information on any actions identified as a result of the review will be presented in the 2021 Annual Report and Accounts.

The Remuneration Committee met nine times during the year and covered the following activities (please note additional meetings in relation to the change in policy were held in 2020).

- Reviewing the Society's Remuneration Policy for Executive Directors and all colleagues
- Reviewing the Society's Reward strategy
- Reviewing the Society's bonus scheme structure and targets
- Ongoing work in relation to the Prudential Regulation Authority's (PRA) Remuneration Code and how it applies to the Society
- Oversee performance and remuneration of the Society's Material Risk Takers
- Reviewing and monitor the risk measures in place relating to director performance
- The Society's gender pay gap

## Remuneration Committee Membership



**Guy Parsons**  
Committee Chair



**John Heaps**  
Chairman



**Alison Hutchinson**  
Independent  
Non-Executive Director

The members of the Remuneration Committee consist of Non-Executive Directors and include a member of the Group's Risk Committee.

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

- Agreeing the approach for Executive Director base salary increases in 2020.

The Remuneration Committee draws on the advice of independent external consultants to support in performing its duties. During the year, the Remuneration Committee sought advice on executive director salaries, variable pay structures and regulatory matters from EY. The Remuneration Committee is satisfied that the advice received is objective and independent. EY's fees for advice provided to the Remuneration Committee in 2020 were £50,735 (including irrecoverable VAT).

On behalf of the Board

**Guy Parsons**  
Chair of the Remuneration Committee

23 February 2021

## 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.

	2016	2017	2018	2019	2020
To approve the Directors' Remuneration Report	91.88%	89.67%	90.29%	91.86%	91.32%
To approve the Directors' Remuneration Policy	91.16%	n/a	n/a	90.95%	n/a

## Appendix - Aggregate remuneration data (Pillar 3)

The main components of Material Risk Taker (MRT) remuneration structures are:

In accordance with the Capital Requirements Regulation (CRR) as part of CRD IV, which requires the disclosure of the aggregate remuneration data for senior managers and material risk takers (MRT), the Society's data is as follows:

	Senior Management <sup>1</sup>	Other MRTs	Total
	£'000	£'000	£'000
<b>Aggregate remuneration data</b>			
Fixed pay	7,034	477	7,511
2020 Variable Pay (undeferred)	956	41	997
2020 Variable pay (deferred)	1,086	20	1,106
2020 Variable Pay of which is due via SEI	325	-	325
Deferred variable pay to be paid 2020	824	39	863
Outstanding deferred variable pay from previous years	2,826	43	2,869
<b>Total</b>	<b>12,726</b>	<b>620</b>	<b>13,346</b>
<b>Aggregate bonus buyout and severance payments</b>			
Bonus buyout payments - 2020	-	-	-
Severance Payments - 2020	223	114	337
<b>Total</b>	<b>223</b>	<b>114</b>	<b>337</b>

	Senior Management	Other MRT	Total
Number of MRT colleagues at 1.1.20	27	6	33
Number of MRT colleagues at 31.12.20	28	6	34

### Ratios between fixed and variable pay

Shareholder approval will be sought at the 2021 AGM to extend the fixed to variable pay ratio from 1:1 to 1:2 in respect of the CEO, in line with regulatory requirements. The maximum annual bonus opportunity for the CEO will be 125% of base salary and for other Executive Directors is 100% of base salary.

The Group's full Pillar 3 disclosure is available on our website.

<sup>1</sup> Senior managers and colleagues whose actions have a material impact on the risk profile (including executive and Non-Executive Directors). Non-Executive Directors' fees are included under fixed pay. No variable pay was awarded to Non-Executive Directors.


# DIRECTORS' REPORT

We are pleased to present our Directors' Report for Yorkshire Building Society and its controlled entities (the Group), which tells you about the role of our directors and some of our key activities during 2020, including business performance, risk management, the future outlook, key performance indicators and environmental reporting.

This report also includes information we are required to disclose to ensure we comply with regulatory requirements including the *Building Societies Act 1986 (The Act)*.

## Our Directors

The names of the directors who served during the year and to the date of this report, their roles and membership of Board Committees are described in the *Our Leadership Team* area of the *Governance* section. At our 2021 Annual General Meeting (AGM) our directors will all retire and stand for re-election, with the exception of Gordon Ireland who plans to retire at the conclusion of the AGM.

 **Details of the directors, including their previous experience, are shown on pages 53 to 56.**

None of the directors had an interest in, or share of, any associated body of the Society at any time during the financial year.

The directors in office at the date of the Directors' Report confirm that, so far as they are aware, there is no such relevant audit information of which the Society's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.


## Our Strategy, Future Developments and Key Performance Indicators (KPI's)

Information on the Society's Purpose including the *Blueprint* strategy can be found in the Strategic Report on pages 28 to 29. Details of future developments are included in the *Outlook* section of the Strategic Report on page 45 and KPI's are

set out in the *Performance at a Glance* section on pages 4 to 5.

## How We Manage Risks


As a result of our normal business activity the Group is exposed 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 to do so.

 **Details of these risks are set out in the Risk Management Report on pages 85 to 89.**

## Our Mortgage Arrears

Details of the mortgage accounts that were 12 months or more in arrears at 31 December are as follows:

	2020	2019	2020	2019
	% of mortgage account/balances			
Number of accounts	278	143	0.11%	0.06%
Balances outstanding on accounts	£34.0m	£19.4m	0.09%	0.05%
Amount of arrears included in balances	£3.8m	£2.1m	0.01%	0.01%

 **Further details of the arrears position are set out in the *Our Financial Review* section of the *Strategic Report*. Note 32 to the financial statements also details the various forms of support offered by the Society to borrowers experiencing difficulties in meeting their repayments.**

## Our Charitable and Political Donations

Details of the charitable donations made by the Group, fundraising by our colleagues, members and customers, and the value of volunteering time of YBS staff can be found in the *Communities* section of the *Strategic Report*. No political donations were made in the year (2019: nil).

## Our Colleagues

In 2021, we will 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 people from different backgrounds and experiences enhance the way we work. We are building a diverse workforce and we make adjustments for our colleagues wherever we possibly can to provide an inclusive working environment for all. See the *Colleagues* section of the *Strategic Report* for more details.

## Our responsibilities in respect of Accounting Records and Internal Control

We are responsible for making sure the Society and its subsidiary undertakings:

- Keep accounting records in accordance with the Act
- Take responsible 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 general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities. We consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Society's performance, business model and purpose driven strategy.

## Our 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 annual accounts in the Independent auditors' report to the members of Yorkshire Building Society* on page 123, is made by the directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts, Annual Business Statement and Directors' Report.

We are required by the Act to prepare annual accounts which give a true and fair view of the income and expenditure of the Yorkshire Building Society ('YBS' or 'the Society') and YBS and its controlled entities ('the Group' or 'the YBS Group') for the financial year and the state of affairs of the Group and the Society as 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 our Annual Report and Accounts, the directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and accounting estimates that are reasonable;
- State whether the annual accounts have been prepared in accordance with International Accounting Standards;
- Prepare the Annual Report and Accounts on a going concern basis, unless it is inappropriate to presume that the Group will continue in business.

In addition to the annual accounts and directors' report, the Act requires the directors to prepare, for each financial year, an Annual Business Statement containing prescribed information relating to the business of the Society and its subsidiary undertakings.

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.

## Streamlined Energy and Carbon Reporting

### Annual greenhouse gas and emissions report

The Society reports our greenhouse gas (GHG) emissions and environmental impacts on both a location and market based methodology as outlined in the Green House Gas Protocol Corporate Standard. The Society's 2020 emissions are reported in tonnes CO<sub>2</sub> equivalent (tCO<sub>2</sub>e) which can be viewed in the tables below. The Society further documents its energy usages and emission intensity ratios below in line with the requirements of Streamlined Energy and Carbon Reporting (SECR).

Ricardo Energy and Environment, our external carbon footprint verifiers and consultants, have carried out a limited level assurance review which included the data input into the carbon footprint calculations and the primary data on which our carbon footprints are based. The assurance validation has reviewed YBS data collection and calculation methodologies against the requirements of ISO 14064-3 (specification with guidance for the validation of greenhouse gas emissions) and the Green House Gas Protocol Corporate Standard.

 **A full review of the Society's environmental achievements and energy reduction initiatives can be viewed within the *Environmental Impact* section of the *Strategic Report* on pages 36 and 38.**

### Methodology

The Society adheres to the requirements of the GHG Protocol Corporate Standard to record our Scope 1, 2 and 3 emissions generated from our business activities including those of our subsidiaries. The reporting corresponds to the financial year\*. The report covers all Yorkshire Building Society's business activities including those of our subsidiaries. The Society utilises the BEIS emission conversion metrics for advanced users to ascertain exact emissions totals

\* Estimates have been used for the month of December for the Society's energy and fuel consumption. These estimates are based on November's invoiced consumption figures or the annual average monthly consumption figures. In the 2021 SECR report 2020's figures will be recalculated to reflect the actual consumption in December.

for all Scopes. The Society has further used BEIS metrics to record the energy consumption for vehicles as required by SECR.

The Society's Scope 1 reporting covers emissions generated from; all fuel usages, delivery vehicles, passenger vehicles and refrigerant/air conditioning system gases. Scope 2 emissions account for all electricity usages within the YBS business. These are; electricity consumption throughout

directly controlled buildings and electricity used to power electric vehicles. Emissions generated from electricity consumption throughout our buildings are zero from our Market based calculations due to YBS consuming certified renewable energy from Haven Power. The Society's energy is derived from biomass. As part of our environmental strategy, the Society is committed to voluntarily reporting on Scope 3 emissions. These Scope 3 calculations currently include: water

consumption and treatment; business waste disposal; air travel (includes RF factors); land travel; transmission and distribution of electricity; hotel overnight stays (UK and abroad); and well to tank emissions.

Intensity Ratios	Income	GHG Emissions	Intensity ratio
Income intensity ratio	£m	tCO <sub>2</sub> e	tCO <sub>2</sub> e/£m
Location	450	5,445	12.1
Market		2,368	5.3
Colleague intensity ratio	Colleague numbers (including contractors)	tCO <sub>2</sub> e	tCO <sub>2</sub> e/person
Location	4,623	5,445	1.2
Market		2,368	0.5

## Emissions and Energy Report

In total our location based emissions are 5,445 tCO<sub>2</sub>e and our market based emissions are 2,368 tCO<sub>2</sub>e. In line with Streamlined Energy and Carbon Reporting, a breakdown of our energy usages (KwH) and carbon emissions by all 3 scopes are below.

Category	Energy usage KwH
Scope 1	8,856,590
Transport	431,277
Heating	8,425,313
Scope 2	12,023,261
Electricity consumption	12,023,170
Electric cars	91



<b>2020 Carbon footprint for the Yorkshire Building Society (tCO<sub>2</sub>e)</b>		
<b>Scope 1</b>	<b>Location</b>	<b>Market</b>
Natural gas	1,528	1,528
Diesel consumption	28	28
Delivery vehicles fuel consumption	1	1
Company and hire cars fuel consumption	71	71
Refrigerant gases	2	2
<b>Total scope 1</b>	<b>1,630</b>	<b>1,630</b>
<b>Scope 2</b>		
Electricity consumption	2,803	-
Company cars electricity consumption	-	-
<b>Total scope 2</b>	<b>2,803</b>	<b>-</b>
<b>Scope 3</b>		
Transmission and Distribution - Electricity consumption	241	-
Transmission and Distribution - Electric cars	-	-
Business travel – Aviation (includes RF Factors)*	11	11
Business travel - Rail	18	18
Business travel - Cars	33	33
Business travel - Hotel	13	13
Water supply and treatment	29	29
Waste disposal - Recycling	5	5
Waste disposal - Recovery	3	3
Waste disposal - Landfill	1	1
Waste disposal - Food waste	-	-
Well-to-tank - Natural gas	199	199
Well-to-tank - Diesel	7	7
Well-to-tank - Electricity transmission and distribution	33	-
Well-to-tank - Electricity generation	387	387
Well-to-tank - Delivery Vehicles	-	-
Well-to-tank – Aviation (includes RF Factors)*	1	1
Well-to-tank - Rail	4	4
Well-to-tank - Cars	27	27
<b>Total scope 3</b>	<b>1,012</b>	<b>738</b>
<b>Total carbon footprint</b>	<b>5,445</b>	<b>2,368</b>

\* Radiative forcing (RF) is a measure of the additional environmental impact of aviation. These include emissions of nitrous oxides and water vapour when emitted at high altitude.

## Going Concern and Viability

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 signing these financial statements. This confirmation is made after having reviewed assumptions about future trading performance, liquidity requirements, capital requirements and organisational sustainability. The Directors also considered potential risks and uncertainties in 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* sections.

Based on the above, together with available market information and the Directors' knowledge and experience of the Society and markets, the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts for the year ended 31 December 2020.

For the purposes of the viability statement the Directors have determined three years to be the most appropriate period to consider as this covers the typical term of a large proportion of our products and is the longest period over which the Board considers that it can form a reasonably firm view over the possible macroeconomic environment and associated key drivers of business performance.

The Directors have assessed the viability of the Group and the Society over the three years to December 2023,

taking account of the Society's current position and the potential impact of the risks documented in the *Strategic Report*, in particular those relating to COVID-19 and Brexit. The Society's financial planning process comprises of an Operating Plan for the next financial year, together with a forecast for the following four financial years. Achievement of the one-year Operating Plan has a greater level of certainty and is used to set near-term targets across the Society and the Group. Achievement of 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 Process). The Group stresses its capital and liquidity plans, under 'severe but plausible' stress test scenarios, in line with PRA requirements. This includes worst case scenario assumptions around the economic fallout from COVID-19 and a no-deal Brexit and encompasses a wide range of UK macroeconomic outcomes. A stress test of the Operating Plan and Corporate Plan were performed at the year end.

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 the assessment set out above, the Directors have a reasonable expectation that the Group and the Society will continue in operation and meet its liabilities as they fall due over the period to December 2023.

## Our Auditors

The reappointment of PricewaterhouseCoopers LLP as auditor is to be proposed at the AGM.

On behalf of the Board,

**John Heaps,**  
Chairman

23 February 2021

## INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF YORKSHIRE BUILDING SOCIETY

### REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS

#### OPINION

In our opinion, Yorkshire Building Society's Group annual accounts and Society annual accounts (the "annual accounts"):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2020 and of the Group's and the Society's income and expenditure and the Group's and the Society's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Building Societies Act 1986; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the annual accounts, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Society balance sheets as at 31 December 2020; the Group and Society income statements and statements of comprehensive income, the Group and Society statements of cash flows, and the Group and Society statements of changes in members' interest and equity for the year then ended; and the notes to the annual accounts, 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 annual accounts 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 annual accounts 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 note 6 to the annual accounts, we have provided no non-audit services to the Group in the period from 1 January 2020 to 31 December 2020.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

#### OUR AUDIT APPROACH

##### Overview

##### Materiality

- Overall Group materiality: £8.6m (2019: £9.4m), based on 5% of a three year average of Group profit before tax excluding net gains and losses from financial instruments held at fair value (2019: one year equivalent)
- Overall Society materiality: £5.6m (2019: £6.9m), based on 5% of a three year average of Society profit before tax excluding net gains and losses from financial instruments held at fair value and dividends received from subsidiary companies (2019: one year equivalent)

##### Scoping

- We performed audit procedures over all material account balances and financial information of the Society and Accord Mortgages Limited due to their size and significance to the Group; and
- We performed audit procedures over selected specific balances within other Group undertakings where they were significant to the financial performance and position of the Group; and
- Our audit scope covered 99% of the Group's profit before tax and 99% of the Group's total assets.

##### Key audit matters

- The application of judgements and estimates relating to the use of multiple economic scenarios as they apply to the expected credit loss ('ECL') allowance on loans and advances to customers (Group and Society) and the consideration of post model adjustments implemented to capture model limitations associated with COVID-19 (Group and Society);
- Risk of material misstatement as a result of incorrect identification of hedge accounting ineffectiveness where spreadsheet based calculations are performed for covered bonds and Euro Medium Term Note ('EMTN') hedges (Group and Society);
- Appropriateness of estimates used within the valuation of the defined benefit pension obligation (Group and Society); and
- Impact of COVID-19 (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 annual accounts. 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.



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

#### OUR AUDIT APPROACH (CONTINUED)

##### **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 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 Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to but are not limited to, the Financial Conduct Authority's ('FCA') regulations, the Prudential Regulation Authority's ('PRA') regulations and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the annual accounts. We also considered those laws and regulations that have a direct impact on the annual accounts such as the Building Societies Act 1986. We evaluated management's incentives and opportunities for fraudulent manipulation of the annual accounts (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate manual journal entries to manipulate financial performance, management bias in significant accounting estimates and significant one-off or unusual transactions.

Audit procedures performed included:

- Enquiries of management and those charged with governance throughout the year including consideration of known or suspected instances of non-compliance with laws and regulations;
- Enquiries of internal legal counsel;
- 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 regulators, specifically the PRA and FCA;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging estimates and judgements made by management in forming significant accounting estimates in particular those as described under the key audit matters below;
- Identifying and testing journal entries, in particular any journals posted by senior management, postings to unusual account combinations based on our understanding of business operations and material late adjustments.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

#### OUR AUDIT APPROACH (CONTINUED)

##### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the annual accounts 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 annual accounts 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 impact of COVID-19 is a new key audit matter this year. The appropriateness of estimates on residual credit related fair value adjustments in respect of previous acquisitions by the Society; and the appropriateness of behavioural assumptions within effective interest rate accounting models, were key audit matters last year, however we no longer consider these to reflect a significant risk of material misstatement. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><b>The application of judgements and estimates relating to the use of multiple economic scenarios as they apply to the expected credit loss ('ECL') allowance on loans and advances to customers and the consideration of post model adjustments implemented to capture model limitations associated with COVID-19 (Group and Society)</b></p> <p>The Group held £76m of impairment provisions (2019: £65m) against total loans and advances to customers of £38,799m (2019: £37,984m).</p> <p>The identification and determination of expected credit loss provisions is inherently judgemental and involves the use of unobservable inputs such as forward looking economic assumptions. This increases estimation uncertainty and risk of material error.</p> <p>Losses are recognised on an expected, forward-looking basis, reflecting the Group's view of potential future events. The COVID-19 pandemic has impacted individuals, businesses and the wider economy. There continues to be significant uncertainty regarding the path to recovery and the impact this may have on the ability of customers to repay debts. There remains uncertainty associated with the broader UK economic trajectory following the UK leaving the European Union.</p> <p>At the year end, the Group has experienced limited defaults. The additional allowances for impairment booked in 2020 therefore mainly comprise an increase in the estimated expected credit losses that might be incurred in the future.</p>	<p>We assessed whether the IFRS 9 ECL model methodologies used by management were appropriate, making use of our credit risk modelling experts and our industry knowledge. This included an evaluation of the ability of the models to appropriately reflect the impact of the COVID-19 pandemic on certain model assumptions, as well as the criteria set by management for determining whether there had been a significant increase in credit risk ('SICR'). When evaluating the SICR criteria in relation to our significant risk we specifically focused on the treatment of borrowers granted payment deferrals because of the pandemic since this is where management have overlaid model outputs with PMAs.</p> <p>We performed risk based substantive testing of models, including independent recalculation on a sample basis for elements of the model.</p> <p>We independently reviewed the model changes made over the course of the year to validate that they reflected approved updates to models, parameters and inputs.</p> <p>We critically assessed management's monitoring activity performed throughout the year independently re-performing a number of the monitoring tests to ensure that changes to customer behaviour are reflected in the ECL calculation.</p>

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

#### OUR AUDIT APPROACH (CONTINUED)

#### Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>The Group introduced a number of post model adjustments ('PMAs') in 2020 to respond to the latent risks caused by COVID-19 and the granting of payment deferrals to customers. The extent of mitigation existing government support schemes will have on future default levels is uncertain.</p> <p>We focused our audit work on the areas of the methodology that we identified as most judgmental.</p> <p>We consider the appropriateness of the model methodologies and their ability to reflect the impact of COVID-19, and the following judgements and assumptions used in the determination of the modelled ECL for residential mortgages to be significant:</p> <ul style="list-style-type: none"> <li>■ The appropriateness of forward looking estimates relating to HPI and unemployment forecasts in the base and the two downside scenarios applied by management and the associated scenario weightings; and</li> <li>■ Completeness and appropriateness of PMAs to adjust both the overall ECL and staging of customer loans in order to mitigate model limitations or latent risks not captured by the IFRS9 models, specifically those related to the emerging impacts of the COVID-19 pandemic on the performance of customer accounts.</li> </ul> <p>The Group's disclosures are given in Note 32. Management's associated accounting policies are detailed on pages 134 to 135. Management's judgements in application of accounting policy and critical estimates are disclosed on pages 138 to 139 and the considerations of the effect of the future economic environment are given on pages 138 to 139. The Audit Committee's consideration of the matter is described on page 77.</p>	<p>We used our economics experts and credit risk modelling specialists to critically assess the reasonableness of the multiple economic scenarios and scenario probability weightings adopted by management. We assessed the reasonableness of the base and downside scenarios against known or likely economic, political or other relevant events, including potential risks caused by COVID-19. The severity and magnitude of the scenarios, specifically the HPI and unemployment assumptions, were compared to external forecasts and data from historical economic downturns.</p> <p>The scenario weightings are set using significant management judgment. We performed testing including considering the distribution of industry wide losses in previous economic environments and compared these to those inferred by management's weighted scenarios. We observed that management were relatively conservative in the selection of downside scenarios and assigning a higher weighting to a slower recovery than the historical distribution would imply. We concluded that this was reasonable given the unique nature of the current economic situation and the Group's loan portfolio characteristics.</p> <p>We considered the completeness of post model adjustments to take account of known model limitations or latent risks using our industry expertise. We tested the valuation of post model adjustments by critically assessing the methodology, using modelling specialists, and testing critical data inputs used in the post model adjustment calculations to supporting evidence on a sample basis.</p> <p>Overall we found the adjustments to be reasonable.</p> <p>We discussed the severity and likelihood of downside economic scenarios that form part of the forward economic assumptions and the reasonableness of the scenario weights with the Audit Committee, including their impact on ECL. We also discussed key assumptions within the COVID-19 post model adjustments.</p> <p>We reviewed the adequacy of the disclosures in the annual accounts with a specific focus on the disclosure of critical estimates associated with ECL.</p> <p>From the evidence we obtained we found the judgments and estimates applied in relation to forward looking economics, weights and post model adjustment to be reasonable.</p>

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

#### OUR AUDIT APPROACH (CONTINUED)

#### Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><b>Risk of material misstatement as a result of incorrect identification of hedge accounting ineffectiveness where spreadsheet based calculations are performed for covered bonds and Euro Medium Term Note ('EMTN') hedges (Group and Society)</b></p> <p>Management has designated several hedge accounting relationships, linked to the Group's mitigation of interest rate and foreign exchange risks. A small number of the hedges relate to Covered Bonds and Medium Term Notes. These are considered more complex and are accounted for in spreadsheets.</p> <p>In our judgement there is a significant audit risk that these hedges may be accounted for incorrectly; or errors in the calculation of fair value adjustments or hedge effectiveness are introduced by the use of manual spreadsheets. At 31 December 2020, the net hedge accounting adjustments relating to the cross-currency hedges for Covered Bond and EMTNs is a liability of £29m (2019: liability of £32m).</p> <p>We focussed our work over Covered Bond and EMTN hedges in respect of the following areas:</p> <ul style="list-style-type: none"> <li>Assessing whether each hedge comprised a valid hedged item, hedging instrument and was designated in line with the requirements of accounting standards;</li> <li>Assessing whether the accounting policy is appropriate and correctly applied;</li> <li>Assessing the calculations of fair value adjustments and the calculations used by management to demonstrate that hedges were effective throughout the year.</li> </ul> <p>The Group's disclosures are given in Note 27. Management's associated accounting policies are detailed on page 135. The Audit Committee's consideration of the matter is described on page 77.</p>	<p>We understood the nature of the hedge accounting relationships designated by management in the context of the risk management strategy.</p> <p>We obtained relevant hedge accounting documentation to evaluate and assess whether each hedge relationship was compliant with the requirements of IAS 39. This included testing 100% of the Covered Bond and EMTN hedge designations and inspection of the hedge documentation.</p> <p>We reperformed the valuation of all derivatives used in the hedging of the Covered bond and EMTN instruments, together with the underlying hedged items, and tested 100% of the manual calculations for mathematical accuracy.</p> <p>We independently performed fair value and hedge effectiveness calculations to gain evidence over the accuracy of the spreadsheet driven calculations, using independent models and independent market data sources.</p> <p>From the evidence we obtained, we found that the hedge accounting methodology was compliant with IAS 39 and there were no material misstatements in the underlying hedging calculations.</p>
<p><b>Appropriateness of estimates used within the valuation of the defined benefit pension obligation (Group and Society)</b></p> <p>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 schemes was £91m at 31 December 2020 (2019: £86m) which is made up of assets carried at fair value of £1,072m (2019: £984m) and the present value of the defined benefit obligation of £981m (2019: £897m).</p> <p>The present value of the scheme liabilities is materially sensitive to a number of actuarial assumptions including the discount rate, inflation and mortality rates. Changes in these assumptions can have significant impacts on the valuation.</p> <p>A significant proportion of the assets are invested in an asset liability matching strategy which is expected to reduce the volatility of the difference between the market value of assets and liabilities. A portion of the liabilities are also insured having completed a buy-in in previous years. As such we considered our key audit matter to relate only to the assumptions driving the valuation of the liability rather than the fair value of the asset base of the scheme.</p> <p>We focused our work on the assumptions made by management, in conjunction with their third party actuaries, relating to the discount rate, inflation rate and mortality rate.</p> <p>The Group's disclosures are given in Note 18. Management's accounting policies are detailed on page 137. Management's judgements in application of accounting policy and critical estimates are disclosed on page 138. The Audit Committee's consideration of the matter is described on page 78.</p>	<p>We independently assessed, using our actuarial experts, the discount rate, inflation rate and mortality rates and compared them to external market rates at 31 December 2020 and to management's estimates derived by their experts.</p> <p>We recalculated the value of the defined benefit obligation using the scheme's membership data which we audited.</p> <p>We considered the independence, objectivity and competence of the third-party actuaries engaged by management to perform their valuation.</p> <p>We discussed with the Audit Committee the range of assumptions used by management for the calculation of the present value of the defined benefit obligation including the methodology adopted by management's actuaries. We also discussed the results of our recalculation of the scheme obligation.</p> <p>Based on the evidence obtained, we found the valuation of the pension liabilities to be reasonable.</p>



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

#### OUR AUDIT APPROACH (CONTINUED)

##### Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><b>Impact of COVID-19 (Group and Society)</b></p> <p>The impact of the COVID-19 pandemic has resulted in unprecedented economic conditions and resulting government support programmes and regulatory interventions to support businesses and individuals.</p> <p>The COVID-19 pandemic has also changed the way that companies operate their businesses, with one of most substantial impacts being the transition to remote working. A substantial proportion of Society's employees have been working remotely during 2020 as has our audit team for most of 2020.</p> <p>The roll out of vaccines has created an expectation that the restrictions will be eased however, there remains uncertainty about the future mutation and spread of the disease, the extent and impact of government measures and the economic outlook.</p> <p>The impact of the COVID-19 pandemic and resulting uncertainty has impacted certain estimates in the financial statements of the Group and Society. The directors have specifically considered a number of matters including:</p> <ul style="list-style-type: none"> <li>■ The going concern assessment of the Group and Society; and</li> <li>■ The expected credit loss allowance on loans and advances to customers.</li> </ul> <p>The directors' disclosures demonstrating how the pandemic gives rise to a principal risk for the Society is given on page 48. Disclosures relating to the appropriateness of the use of the going concern basis of preparation and the considerations made by the directors when drawing this conclusion is given on page 112.</p>	<p>We discussed the impact of COVID-19 on the Society's annual accounts and operations with the Audit Committee during the year.</p> <p>Our planning and execution of the audit has given specific consideration to the impact of COVID-19. This included adopting a different basis for determining materiality to take account of the volatility in results due to expected credit losses.</p> <p>We considered the impact of COVID-19 on the Group's control environment and where necessary made relevant changes to our audit approach. We also adapted our own working practices to remote working and ensured we gathered appropriate audit evidence.</p> <p>The impact of COVID-19 on the most significant account estimate and our audit is in relation to expected credit losses as reported in the relevant Key Audit Matter in this opinion.</p> <p>We have assessed management's going concern assessment and findings are included in the section 'Conclusions relating to going concern' later in this opinion. This included consideration of the future profitability of the Group.</p> <p>As a result of these procedures we concluded that the impact of COVID-19 has been appropriately evaluated and reflected in the preparation of these financial statements.</p>

##### 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 annual accounts 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.

All of the Group's activities are administered in the United Kingdom. The principal activity of the Group is the provision of savings products and mortgage finance to customers. The Group's mortgage book is predominantly secured on UK residential and commercial property.

The Group is formed of the Society, Accord Mortgages Limited and several other subsidiary companies which are small in the context of the Group's overall operations. The Group also consolidates the Brass and Tombac securitisation special purpose vehicles by virtue of the Group's control over these entities as such they are considered to be subsidiaries for accounting purposes.

Materially all of the Group's income for the year is driven by the Society and Accord Mortgages Limited, along with over 99% of the Group's total assets. The loan notes and related interest expense issued by the securitisation vehicles are in scope for our Group audit by virtue of these balances being material. We then considered the significance of the other subsidiaries of the Society in relation to primary statement account balances.

In doing this we also considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). For the remainder, the risk of material misstatement was mitigated through Group audit procedures including testing of entity level controls and subsidiary level analytical review procedures. We performed audit procedures over all material account balances and financial information of the Society and Accord Mortgages Limited due to their significance to the Group's financial performance and position. Our audit procedures on the Society and its subsidiaries provided us with sufficient audit evidence as a basis for our opinion on the Group annual accounts as a whole.

All procedures were conducted remotely due to the COVID-19 outbreak and consequent restrictions imposed by the UK Government. We perform all of the work to support the Group and Society audit opinion and do not involve any other component audit teams.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (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 annual accounts as a whole.

Based on our professional judgement, we determined materiality for the annual accounts as a whole as follows:

Overall materiality	Group annual accounts	Society annual accounts
	<b>£8.6m (2019: £9.4m)</b>	<b>£5.6m (2019: £6.9m)</b>
<b>How we determined it</b>	5% of three year average (2019: one year equivalent) profit before tax adjusted to exclude net gains and losses arising from financial instruments held at fair value; and in the context of the Society's annual accounts, adjusted to also remove dividends received from subsidiary companies.	
<b>Rationale for benchmark applied</b>	Profit before tax is one of the principal considerations when assessing the Group's and Society's performance and is a generally accepted benchmark for determining audit materiality. We have considered the economic impact of the COVID-19 pandemic on the Group and Society results. Whilst profit before tax is still considered to be the most suitable benchmark, we used a three year average, adjusted for certain items, to eliminate the volatility introduced by COVID-19. We adjust to exclude the impact of financial instruments held at fair value as these are more reflective of movements in market rates predominantly on swaps not yet in hedging relationships, rather than underlying business performance. The performance of the business is assessed relative to 'core operating profit' which is aligned to profit before tax adjusted to exclude fair value gains and losses. In the context of the Society's annual accounts we exclude the impact of dividends from subsidiary companies as these are not reflective of the performance of the Society on a stand alone basis.	

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 between £5.6m and £6.6m. Certain components were audited to a statutory audit materiality that was less than our overall Group materiality.

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 £6.4m for the Group financial statements and £4.2m for the Society materiality.

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 £430,000 (2019: £470,000) in respect of the Group and £280,000 (2019: £345,000) in respect of the Society as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

#### CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors' assessment of the Group's and the Society's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the Group operates;
- Evaluation of the reasonableness of the Group's Operating plan, covering a period to December 2022, including key assumptions and considering the outcome of stress tests incorporated within the plan;
- Consideration of the Group's Operating plan, ICAAP and ILAAP, regulatory correspondence and reports provided to governance forums, and audit of the total capital resources and liquidity financing facilities; and
- Assessing the appropriateness of the disclosures in the Annual Report.

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 annual accounts are authorised for issue.

In auditing the annual accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the annual accounts 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.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

#### REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the annual accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the annual accounts 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 annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts 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 annual accounts 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.

#### **Building Societies Act 1986 – Opinion on 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 2020 is consistent with the accounting records and the annual accounts; 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.

#### **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 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.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

#### RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS AND THE AUDIT

##### **Responsibilities of the directors for the annual accounts**

As explained more fully in the Directors' responsibilities in respect of the preparation of the Annual Report, the directors are responsible for the preparation of the annual accounts 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 annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, 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 annual accounts**

Our objectives are to obtain reasonable assurance about whether the annual accounts 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 annual accounts.

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 annual accounts is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://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 (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 annual accounts 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.

### OTHER VOLUNTARY REPORTING

#### OTHER CODE PROVISIONS

The directors have prepared a Corporate Governance statement and requested that we review it as though the Society were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies 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.

#### APPOINTMENT

Following the recommendation of the Audit Committee, we were appointed by the directors on 30 April 2019 to audit the annual accounts for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2019 to 31 December 2020.



#### DIRECTORS' REMUNERATION

The Society voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

#### **Heather Varley**

(Senior Statutory Auditor)  
for and on behalf of  
PricewaterhouseCoopers LLP  
Chartered Accountants and  
Statutory Auditors  
Leeds

23 February 2021

## INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Group		Society	
		2020	2019	2020	2019
		£m	£m	£m	£m
Interest revenue calculated using the effective interest method	3	<b>900.5</b>	962.8	<b>847.2</b>	940.6
Other interest revenue	3	<b>37.5</b>	40.8	<b>56.1</b>	49.7
Interest revenue	3	<b>938.0</b>	1,003.6	<b>903.3</b>	990.3
Interest expense	4	<b>(500.0)</b>	(539.0)	<b>(598.4)</b>	(638.1)
<b>Net interest income</b>		<b>438.0</b>	464.6	<b>304.9</b>	352.2
Fee and commission revenue		<b>21.8</b>	25.4	<b>12.4</b>	14.6
Fee and commission expense		<b>(12.8)</b>	(17.9)	<b>(6.0)</b>	(9.8)
<b>Net fee and commission income</b>		<b>9.0</b>	7.5	<b>6.4</b>	4.8
Net losses from financial instruments held at fair value	5	<b>(10.7)</b>	(21.9)	<b>(1.8)</b>	(18.5)
Income from investments	8	<b>–</b>	–	<b>59.3</b>	50.0
Net realised gains on disposal of financial instruments		<b>12.9</b>	6.3	<b>12.9</b>	5.5
Other operating income		<b>4.8</b>	0.9	<b>67.2</b>	63.7
<b>Total income</b>		<b>454.0</b>	457.4	<b>448.9</b>	457.7
Administrative expenses	6	<b>(250.0)</b>	(264.3)	<b>(249.8)</b>	(264.3)
Depreciation and amortisation		<b>(25.8)</b>	(25.3)	<b>(25.8)</b>	(25.3)
Impairment of financial assets	7	<b>(12.2)</b>	(0.2)	<b>(6.8)</b>	2.5
Movement in provisions	24	<b>(4.7)</b>	(0.4)	<b>(4.7)</b>	(0.4)
<b>Profit before tax</b>		<b>161.3</b>	167.2	<b>161.8</b>	170.2
Tax expense	9	<b>(37.8)</b>	(38.3)	<b>(25.2)</b>	(25.7)
<b>Profit for the period</b>		<b>123.5</b>	128.9	<b>136.6</b>	144.5

All profit for the financial year arises from continuing operations and is attributable to members.

## STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Group		Society	
		2020	2019	2020	2019
		£m	£m	£m	£m
<b>Net profit</b>		<b>123.5</b>	128.9	<b>136.6</b>	144.5
<b>Items that may be reclassified through profit or loss</b>					
Cash flow hedges:					
Fair value movements taken to equity		–	(0.2)	–	(0.2)
Amounts transferred to the income statement		<b>0.6</b>	1.9	<b>0.6</b>	1.9
Tax on amounts recognised in equity		<b>(0.2)</b>	(0.4)	<b>(0.2)</b>	(0.4)
Financial assets measured through other comprehensive income:					
Fair value movements taken to equity		<b>36.6</b>	12.0	<b>36.6</b>	12.0
Amounts transferred to the income statement		<b>(29.8)</b>	(10.2)	<b>(29.8)</b>	(10.2)
Tax on amounts recognised in equity		<b>(1.8)</b>	(0.4)	<b>(1.8)</b>	(0.4)
Effect of change in corporation tax rate		<b>(0.2)</b>	–	<b>(0.2)</b>	–
<b>Subtotal</b>		<b>5.2</b>	2.7	<b>5.2</b>	2.7
<b>Items that will not be reclassified through profit or loss</b>					
Remeasurement of retirement benefit obligations	18	<b>4.3</b>	8.4	<b>4.3</b>	8.4
Tax on remeasurement of retirement benefit obligations		<b>(1.4)</b>	(2.3)	<b>(1.4)</b>	(2.3)
Effect of change in corporation tax rate		<b>(1.7)</b>	0.3	<b>(1.7)</b>	0.3
<b>Subtotal</b>		<b>1.2</b>	6.4	<b>1.2</b>	6.4
<b>Total comprehensive income for the period</b>		<b>129.9</b>	138.0	<b>143.0</b>	153.6

The notes on pages 131 to 215 form part of these accounts.



## BALANCE SHEETS

AS AT 31 DECEMBER 2020

	Notes	Group		Society	
		2020	2019	2020	2019
		£m	£m	£m	£m
<b>Assets</b>					
Cash and balances with the Bank of England	10	4,455.7	2,528.1	4,455.7	2,528.2
Loans and advances to credit institutions		1,087.4	526.0	964.8	385.0
Debt securities	11	2,860.1	2,548.2	9,451.9	7,912.8
Loans and advances to customers	12	38,798.6	37,984.4	13,154.5	14,288.4
Derivative financial instruments	27	416.2	367.6	217.5	220.6
Investments	8	13.6	9.2	29,223.8	27,151.4
Intangible assets	13	30.2	36.0	30.2	36.0
Investment properties	14	14.6	15.0	14.6	14.9
Property held for sale	15	7.7	3.1	7.7	3.1
Property, plant and equipment	16	126.6	136.7	126.1	136.2
Deferred tax assets	17	6.0	4.6	5.9	4.5
Retirement benefit surplus	18	91.0	86.4	91.0	86.4
Other assets	19	23.1	32.6	42.2	47.3
<b>Total assets</b>		<b>47,930.8</b>	<b>44,277.9</b>	<b>57,785.9</b>	<b>52,814.8</b>
<b>Liabilities</b>					
Shares	20	33,368.3	30,677.3	33,368.3	30,677.3
Amounts owed to credit institutions		3,836.9	3,305.0	3,836.9	3,305.1
Other deposits	21	535.7	584.6	11,394.5	10,423.1
Debt securities in issue	22	6,128.3	6,034.8	5,379.6	4,988.7
Derivative financial instruments	27	490.9	230.8	465.1	232.4
Current tax liabilities		2.9	16.3	2.9	4.4
Deferred tax liabilities	17	34.9	28.5	33.1	26.9
Other liabilities	23	82.4	96.3	86.0	94.7
Provisions	24	8.6	11.1	8.6	11.1
Subordinated liabilities	25	645.0	626.4	645.0	626.4
<b>Total liabilities</b>		<b>45,133.9</b>	<b>41,611.1</b>	<b>55,220.0</b>	<b>50,390.1</b>
Members' interests and equity		2,796.9	2,666.8	2,565.9	2,424.7
<b>Total members' interest, equity and liabilities</b>		<b>47,930.8</b>	<b>44,277.9</b>	<b>57,785.9</b>	<b>52,814.8</b>

Approved by the Board of Directors on 23 February 2021 and signed on its behalf by:

**John Heaps**  
**Mike Regnier**  
**Alasdair Lenman**

**Chairman**  
**Chief Executive**  
**Chief Finance Officer**

## STATEMENTS OF CHANGES IN MEMBERS' INTEREST AND EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

Group	General reserve	Cash flow hedge reserve	Fair value through other comprehensive income	Total
	£m	£m	£m	£m
At 1 January 2020	2,659.6	(0.4)	7.6	2,666.8
Transitional tax adjustment	0.2	–	–	0.2
Profit for the period	123.5	–	–	123.5
Net remeasurement of defined benefit obligations	1.2	–	–	1.2
Net movement in cash flow hedge reserve	–	0.4	–	0.4
Net movement in fair value through other comprehensive income	–	–	4.8	4.8
<b>Total comprehensive income</b>	<b>124.7</b>	<b>0.4</b>	<b>4.8</b>	<b>129.9</b>
<b>At 31 December 2020</b>	<b>2,784.5</b>	<b>–</b>	<b>12.4</b>	<b>2,796.9</b>
At 1 January 2019	2,523.9	(1.7)	6.2	2,528.4
IFRS16 transition adjustment	0.4	–	–	0.4
Restated balance at 1 January 2019	2,524.3	(1.7)	6.2	2,528.8
Profit for the period	128.9	–	–	128.9
Net remeasurement of defined benefit obligations	6.4	–	–	6.4
Net movement in cash flow hedge reserve	–	1.3	–	1.3
Net movement in fair value through other comprehensive income	–	–	1.4	1.4
<b>Total comprehensive income</b>	<b>135.3</b>	<b>1.3</b>	<b>1.4</b>	<b>138.0</b>
<b>At 31 December 2019</b>	<b>2,659.6</b>	<b>(0.4)</b>	<b>7.6</b>	<b>2,666.8</b>

## STATEMENTS OF CHANGES IN MEMBERS' INTEREST AND EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Society	General reserve	Cash flow hedge reserve	Fair value through other comprehensive income	Total
	£m	£m	£m	£m
At 1 January 2020	2,417.5	(0.4)	7.6	2,424.7
Change in accounting policy adjustment*	(2.3)	–	–	(2.3)
Transitional adjustment	0.5	–	–	0.5
Profit for the period	136.6	–	–	136.6
Net remeasurement of defined benefit obligations	1.2	–	–	1.2
Net movement in cash flow hedge reserve	–	0.4	–	0.4
Net movement in fair value through other comprehensive income	–	–	4.8	4.8
<b>Total comprehensive income</b>	<b>137.8</b>	<b>0.4</b>	<b>4.8</b>	<b>143.0</b>
<b>At 31 December 2020</b>	<b>2,553.5</b>	<b>–</b>	<b>12.4</b>	<b>2,565.9</b>
At 1 January 2019	2,266.2	(1.7)	6.2	2,270.7
IFRS16 transition adjustment	0.4	–	–	0.4
Restated balance at 1 January 2019	2,266.6	(1.7)	6.2	2,271.1
Profit for the period	144.5	–	–	144.5
Net remeasurement of defined benefit obligations	6.4	–	–	6.4
Net movement in cash flow hedge reserve	–	1.3	–	1.3
Net movement in fair value through other comprehensive income	–	–	1.4	1.4
<b>Total comprehensive income</b>	<b>150.9</b>	<b>1.3</b>	<b>1.4</b>	<b>153.6</b>
<b>At 31 December 2019</b>	<b>2,417.5</b>	<b>(0.4)</b>	<b>7.6</b>	<b>2,424.7</b>

\* In the current year the Society changed the accounting policy for intra group interest rate swaps from fair value through the income statement to amortised cost. For further details please refer to note 1 to the financial statements.

The notes on pages 131 to 215 form part of these accounts.

## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Group		Society	
		2020	2019	2020	2019
		£m	£m	£m	£m
<b>Cash flows from operating activities</b>					
Profit before tax		<b>161.3</b>	167.2	<b>161.8</b>	170.2
Non-cash items included in profit before tax	35	<b>43.4</b>	24.9	<b>36.5</b>	17.2
Net change in operating assets	35	<b>(878.7)</b>	(1,086.1)	<b>(941.5)</b>	(2,315.6)
Net change in operating liabilities	35	<b>3,607.1</b>	(34.8)	<b>4,599.7</b>	1,398.0
Tax paid		<b>(51.3)</b>	(42.3)	<b>(26.8)</b>	(32.6)
<b>Net cash flow from operating activities</b>		<b>2,881.8</b>	(971.1)	<b>3,829.7</b>	(762.8)
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment, and intangible assets		<b>(16.3)</b>	(17.5)	<b>(16.3)</b>	(17.5)
Sale of property, plant and equipment		<b>5.0</b>	4.0	<b>5.0</b>	4.0
Purchase of debt securities		<b>(3,569.8)</b>	(2,655.5)	<b>(6,295.3)</b>	(3,913.2)
Redemption of debt securities		<b>3,277.6</b>	1,785.6	<b>4,775.9</b>	3,091.4
<b>Net cash flow from investing activities</b>		<b>(303.5)</b>	(883.4)	<b>(1,530.7)</b>	(835.3)
<b>Cash flows from financing activities</b>					
Redemption of debt securities in issue	35	<b>(1,129.5)</b>	(913.0)	<b>(831.9)</b>	(691.4)
Issue of debt securities	35	<b>1,050.0</b>	1,984.3	<b>1,050.0</b>	1,490.9
Redemption of subordinated liabilities		–	(250.6)	–	(250.6)
Issue of subordinated liabilities		–	280.0	–	280.0
Redemption of subscribed capital		–	(6.1)	–	(6.1)
Interest paid on subordinated liabilities and subscribed capital		<b>(22.5)</b>	(27.7)	<b>(22.5)</b>	(27.7)
Interest paid on lease liabilities		<b>(0.9)</b>	(1.0)	<b>(0.9)</b>	(1.0)
Capital repayments on lease liabilities		<b>(4.2)</b>	(3.6)	<b>(4.2)</b>	(3.6)
<b>Net cash flow from financing activities</b>		<b>(107.1)</b>	1,062.3	<b>190.5</b>	790.5
<b>Net change in cash and cash equivalents</b>		<b>2,471.2</b>	(792.2)	<b>2,489.5</b>	(807.6)
Opening balance		<b>2,950.2</b>	3,742.4	<b>2,809.3</b>	3,616.9
<b>Closing cash and liquid cash equivalents</b>		<b>5,421.4</b>	2,950.2	<b>5,298.8</b>	2,809.3
<b>Cash and liquid cash equivalents</b>					
Cash and cash equivalents		<b>4,455.7</b>	2,528.1	<b>4,455.7</b>	2,528.2
Less Bank of England cash ratio deposit		<b>(121.7)</b>	(103.9)	<b>(121.7)</b>	(103.9)
Loans and advances to credit institutions		<b>1,087.4</b>	526.0	<b>964.8</b>	385.0
<b>Closing cash and liquid cash equivalents</b>		<b>5,421.4</b>	2,950.2	<b>5,298.8</b>	2,809.3

The notes on pages 131 to 215 form part of these accounts.

## 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 2020. They 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 European Union (EU) and effective from 1 January 2020 – 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 at the end of each reporting period.

Pounds sterling is both the functional currency of the YBS Group and the presentation currency applied to these financial statements. Except where otherwise stated, all figures in the financial statements are presented in round hundreds of thousands of pounds sterling (£0.0m).

Accounting policies have been consistently applied, except where a new accounting standard has been introduced.

The preparation of financial statements under international accounting standards requires the use of certain critical accounting estimates and judgements. The areas involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the financial statements are set out in note 2.

#### Going concern

The YBS Board of Directors (the Board) undertake regular assessments of whether the Group is a going concern, taking into account changing economic and market conditions, and using all available information about future risks and uncertainties.

During the year to 31 December 2020 the impacts of the COVID-19 pandemic resulted in a large contraction in the UK economy and increased uncertainty around the future direction of the macroeconomic environment. The impacts on the Group's modelling of impairment losses on loans and advances to customers are discussed in more detail in note 2.

Given its strong capital position and high liquidity levels, the Group is well placed to cope with the economic downturn.

As a result, the directors confirm that, based on the latest formal review undertaken in February 2021, and stress tests performed throughout the period, they consider the Group has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these 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 (SPV) 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 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 continues to recognise the mortgage loans on its own balance sheet after the transfer, with the proceeds received from the transfer accounted for as a deemed loan from the SPVs.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### ACCOUNTING DEVELOPMENTS

##### Brexit

As stated in the *basis of preparation* above, the Group applies international accounting standards as endorsed by the EU. As a result of the UK's exit from the EU, the Group will need to apply 'UK adopted IAS' instead of 'EU adopted IAS' from 1 January 2021. Both sets of standards will be the same on 1 January 2021 but the two bases may diverge over time if the UK adopts or amends standards and the EU does not, or vice versa.

##### Changes to Accounting Standards Effective in the Period

The Group has applied a number of amendments to international accounting standards that were mandatorily effective from 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

##### Interest rate benchmark reform – Amendments to IAS 39, IFRS 9 and IFRS 7

Adoption of the amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Disclosures* issued by the IASB in September 2019 was mandatory from 1 January 2020.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by inter-bank offered rate (IBOR) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. The reliefs will cease to apply when the uncertainty arising from interest rate benchmark reform is no longer present.

The Group has retrospectively adopted the amendments to IFRS 9 and IFRS 7 to hedging relationships that existed at 1 January 2020.

The Group's risk exposure to interest rate benchmark reform is limited to the notional value of swaps transacted to hedge the fair value of £1.5 billion of euro denominated covered bonds issued and £500 million of medium term notes issued. The current benchmark interest for these swaps is 3 month GBP LIBOR and, in relation to the discount curves, 3 month EURIBOR.

##### Amendments to IFRS 3 Business Combinations

IFRS 3 *Business Combinations* prescribes the accounting when an entity assumes control of another business. As such, the amendments to this standard are not currently expected to have an impact on the Group, but this will be re-assessed if any acquisition activity were to occur. The guidance issued principally relates to clarifying the definition of a business, in particular, when only certain assets or services are acquired from another entity.

##### 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. This is currently at the discussion paper phase and the IASB plans to review the core model feedback in late 2021.

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 the discussion paper will be closely monitored and the Group will continue to assess the impacts of full adoption of IFRS 9 for hedge accounting.

##### IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts* is the comprehensive standard establishing recognition and measurement requirements for insurance contracts. It is expected that this standard will be effective for periods beginning on or after 1 January 2023. The Group does not currently have any products that meet the definition of an insurance contract so this is not expected to impact the financial statements upon adoption.

##### Change in Accounting Policy

During the current year the Society changed the accounting policy for intra Group interest rate swaps from fair value through the income statement to amortised cost. This change in accounting policy has eliminated fair value volatility, arising on intra-Group Swaps in the Statement of Comprehensive Income of the Society.

A transitional adjustment has been recognised through the Society's reserves of £2.3m. This represents the fair value loss accumulated within reserves to 1 January 2020.

The transitional tax adjustment of £0.2m in Group and £0.5m in Society has been brought into the charge to tax on a straight line basis over a ten year period.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### SIGNIFICANT ACCOUNTING POLICIES

##### Interest revenue and expense calculated using the effective interest rate method

The effective interest rate method is used to calculate the revenue and expense for financial instruments held at amortised cost. The effective interest rate is the rate that exactly discounts estimated future cash flows (excluding credit losses) over the expected life of the instrument back to the fair value on initial recognition.

For mortgage loans and advances to customers this includes an estimate of any early repayment income. Directly attributable acquisition costs, such as application and arrangement fees, are also incorporated in the calculation.

This has the effect of spreading these fees and costs over the expected life of the mortgage. Expected lives are estimated using historical data and management judgement. The calculation is adjusted when actual experience differs from estimates, with changes in deferred amounts being recognised immediately in the income statement.

##### Fees and commissions

Fees and commissions on referral of customers to third party service providers of financial products is accounted for on an effective interest rate basis, similar to interest revenue and expense above. Other fees and commissions are recognised on an accruals basis as the relevant service is provided or at a point in time if the service or product provided relates to a one-off action.

##### Other operating income

Other operating income comprises profits on disposal of fixed assets, rental income from investment property and software licensing income. The Society also includes the recharge of administrative expenses to its subsidiaries.

##### Income from investments

This consists of dividend income and is recognised when the rights to receive the payment have been established.

##### Financial instruments

###### Classification and measurement of financial assets and financial liabilities

The Group initially recognises financial assets and liabilities at their fair value (less any directly attributable transaction costs for those subsequently classified at amortised cost) on the date that the Group becomes a party to the contractual provisions of the instrument. Subsequent measurement of financial assets and financial liabilities depends on the contractual cash flow characteristics of the instrument.

**Amortised cost:** this measurement approach is applied to instruments that are held to collect interest and principal payments over the life of the contract. Subsequent measurement is via the effective interest rate method (see *Interest revenue and expense calculated using the effective interest rate method* above), subject to impairment (see *Impairment* below) plus any adjustment if designated as part of an effective hedge arrangement (see *Hedging* below).

##### Fair value through other comprehensive income:

this measurement approach is applied to financial assets whose business objective is collection of interest and principal payments but that are also bought and sold. Subsequent measurement is at fair value with changes in fair value recognised in other comprehensive income. When the instrument is derecognised, the cumulative gain or loss previously recognised in reserves is reclassified to the income statement.

##### Fair value through profit and loss:

this method is applied to those instruments that are not classed as amortised cost or fair value through other comprehensive income. Subsequent measurement is at fair value with any movements recognised in the income statement in the period in which they arise.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Financial instruments (continued)

The table below summarises the Group's financial instruments and the treatment adopted in these financial statements:

Financial instrument	Description	Subsequent measurement
Cash and cash equivalents	Cash balances and statutory deposits	Amortised cost
Loans and advances to credit institutions	Fixed and variable interest rates	Amortised cost
Debt securities	Fixed, variable and indexed linked interest rates	Fair value through other comprehensive income and amortised cost
Loans and advances to customers	Primarily mortgage products offering a variety of fixed and variable interest rates	Amortised cost
Derivative financial instruments	Swaps to manage interest rate and foreign exchange risk exposures	Fair value through profit and loss (unless designated as a cash flow hedge, see 'Hedging' below, then fair value through other comprehensive income)
Investments in subsidiaries	Equity investments in controlled entities	Amortised cost
Investment in equities	Equity investments in non-controlled entities	Fair value through profit and loss
Shares	Deposits made by members with a variety of fixed and variable interest rates	Amortised cost
Amounts owed to credit institutions	Time Deposits at fixed and variable interest rates	Amortised cost
Debt securities in issue, subordinated liabilities and other deposits	Fixed and variable interest rates	Amortised cost

##### Derecognition of financial instruments

Financial assets are only derecognised when the contractual rights to receive cash flows from the financial assets have expired, or when the Group has transferred substantially all the risks and rewards of ownership. As described in *securitisation transactions* above, the Group has not derecognised the loans transferred to the SPVs to secure the issue of covered bonds and mortgage backed securities because substantially all the risks and rewards are retained.

Financial liabilities are only derecognised when the obligation is discharged, cancelled, or has expired.

##### 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). 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.

**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%.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Financial instruments (continued)

##### Impairment of financial assets (continued)

Loans that are either purchased or originated credit impaired (POCI) default into stage 3 at initial recognition and cannot be transferred to stage 1 or 2 even if the credit quality of these assets improves. The Group has a portfolio of loans acquired as part of the Chelsea and Norwich & Peterborough acquisitions that meet this definition.

**ECL calculations:** these are assessed at individual loan level using three main components.

- PD, being the probability, at the point of assessment, that the customer will default in the future.
- Exposure at default (EAD), being the outstanding value of the loan, taking into account the repayment of principal and interest between the date of assessment and expected default date.
- Loss given default (LGD), is the net impact of the EAD after taking into account the mitigating effect of collateral and the time value of money.

PD is a point in time 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. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security.

##### 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 statement of financial position.

This balance is then amortised through the income statement over the expected life of the assumed portfolio in a manner that reflects the consumption of the economic benefits arising from the underlying assets and liabilities. To the extent that the fair value adjustment relates to estimated credit losses on a portfolio of mortgage assets, the *fair value credit adjustment* is included in the overall ECL balance.

The Group continues to run off balances in relation to the Chelsea Building Society and Norwich & Peterborough acquisitions. In addition to the *fair value credit adjustments*, it also includes *interest rate fair value adjustments* in the *loans and advances to customers* and *shares* balances.

##### Hedging

As discussed above, IFRS 9 *Financial Instruments* included a transitional relief allowing the continued use of the hedge accounting requirements of IAS 39 *Financial Instruments: Recognition and Measurement*, and the Group continue to adopt this approach.

The Group applies hedge accounting when the specific rules and conditions in IAS39 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, or is terminated for any other reason, the adjustment to the hedged item is released to the income statement, over its remaining life.

##### 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 over the life of the forecast transaction. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately. If the forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss recognised in equity is then recognised immediately in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 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's policy on segmental reporting has been updated during the year to better reflect the information reported to the chief operating decision maker for the purposes of resource allocation and assessment of performance. The Group has now determined that it has one reportable segment as the ExCo reviews performance and makes decisions on the Group as a whole. As a result, no segmental disclosure is provided.

##### Intangible assets

Intangible assets held by the Group consist primarily of externally acquired and internally developed computer software. This is measured at cost less accumulated amortisation and impairment.

Costs incurred in the development of computer software for internal use are capitalised as intangible assets where the expenditure leads to the creation of an identifiable non-monetary asset and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group.

Purchased software is classified as an intangible asset where it is not an integral part of the related hardware. Computer software costs are amortised using the straight line method over their estimated useful lives, which are generally three to five years.

Intangible assets are reviewed for impairment at each reporting date or at any point in time where there is an indication of impairment. Impairment is assessed by estimating the recoverable amount of the asset, being the higher of: fair value less costs of disposal; and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment in the value of these assets is recognised immediately in the income statement.

##### Investment properties

Investment properties comprise freehold properties, and parts of freehold properties, that are not used in the business and held for rental income or capital appreciation. These properties are generally flats and offices ancillary to branch premises. Investment properties are recognised stated at cost less accumulated depreciation and impairment.

The fair value of the Group's investment properties has been arrived at on the basis of external valuations provided by Gerald Eve surveyors.

##### 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 (including investment property), plant and equipment are reviewed for impairment annually and where there is an indication that events or circumstances may mean that the carrying amount is not recoverable. Where the recoverable amount of the asset is estimated to be less than the carrying amount, the carrying amount is written down immediately to the recoverable amount. Any impairment in the value of assets is recognised in the income statement as it arises.

##### Properties held for sale

The Group classifies property as held for sale when management is committed to a plan to sell and the asset is being actively marketed. It is measured at the lower of the carrying value and the fair value less costs to sell.

##### Leases

Contracts are accounted for as leases when the terms of the contract transfer substantially all the risks and rewards of ownership to the lessee. For such arrangements a 'right-of-use' asset, included in *property, plant and equipment*, and a corresponding lease liability, included in other liabilities, are recorded on the balance sheet upon initial recognition.

The right-of-use asset is measured at the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment. The lease liability is measured at the present value of the minimum lease payments.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Leases (continued)

Depreciation is recorded by the Group to write off the cost over the estimated useful economic life of the asset. Rent payable on finance leases is apportioned between the finance element, charged to the income statement, and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Leases with a short life, or relating to low value assets, are expensed to the income statement on a straight line basis over the period of the lease agreement.

##### Retirement benefit costs

The asset or liability is recognised in respect of the Group's defined benefit pension scheme measured at the present value of the defined benefit obligation at the reporting date, less the fair value of the plan assets, together with adjustments for unrecognised past service costs.

An asset is only recognised to the extent that it is recoverable by the Group via available refunds and reductions in future contributions to the scheme.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Gains or losses arising from changes in assumptions are recognised in other comprehensive income in the period in which they occur.

Defined benefit obligations are discounted to present value using the rate of return available on high quality corporate bonds of an equivalent term to the obligations.

Past service costs are recognised immediately in the income statement to the extent that benefits are already vested and otherwise are amortised on a straight line basis over the average period until the benefits become vested.

##### 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.

##### Foreign currency

Assets and liabilities denominated in foreign currencies are translated into Sterling at the appropriate rates of exchange prevailing at the reporting date and exchange differences are recognised in the income statement. All income and expense is translated into Sterling at the rate of exchange on the day of receipt or payment.

##### Statement of cash flows

For the purposes of the statements of cash flows, cash and cash equivalents comprise cash and other financial instruments. The statement of cash flows has been prepared using the indirect method.

##### Loans and advances to credit institutions

Included within loans and advances to credit institutions are balances held in collateral accounts relating to swap agreements and bank account balances held in the Group's SPVs. Such items are considered to be encumbered assets. The cash collateral placed related to swap agreements of £615.6m (2019: £388.6m) is subject to legally enforceable netting agreements. The cash collateral and derivative fair value are presented gross in the balance sheet as the requirements for offset in IAS 32 are not met.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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 confirmed that the accounting judgements and estimates applied are considered to be appropriate.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below.

#### RETIREMENT BENEFIT COSTS

The Group's accounting policy states that a net defined benefit pension scheme asset should only be recognised to the extent that the Group has the ability to access the pension scheme surplus in the form of a refund or reduction in future contributions.

The scheme trustees could act unilaterally in order to restrict the ability of the Group to seek a refund or reduce future contributions, hence a judgement on the likelihood of this event is required. The Group has received a legal opinion supporting the judgement that any surplus of the scheme can be recovered in full and that pension scheme trustees are unable to act to amend the scheme rules, and ultimately prevent the Society accessing the surplus, without the Society's support.

In addition, significant estimation uncertainty in respect of areas such as future interest rates, salary escalation and mortality rates have to be applied in estimating the value of the assets and liabilities of the defined benefit scheme. These are outlined in note 18.

The impact of a 0.5% per annum increase in the rate used to discount the future value of liabilities (from 1.3% per annum to 1.8% per annum) would result in a decrease of the liability by around 9%. The impact of a 0.5% per annum increase in inflation would increase liabilities by around 4%. The impact of a one year increase in each of the quoted life expectancies at age 60 would be to increase the liabilities by around 4%. The percentage changes used to calculate these sensitivities have been set based on an analysis of previous annual movements in these inputs.

#### 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. ALCO applies judgements to arrive at these

assumptions while the consensus view on these economic variables is being reached.

Judgement is also applied in determining the relative weighting of each economic scenario in the ECL estimate. The Group assessed the uncertainty associated with the ongoing COVID-19 pandemic, and the impact of UK's new trading arrangements with the EU, and determined that applying a combined 50% weighting to downside and stress scenarios as at the balance sheet date reflects a reasonable view of the outturn for the UK economy. The Group has applied a 5% weighting to upside, 45% to core, 35% to downside and 15% to stress.

The Group considered alternative sets of weightings in reaching these results. If the 2019 weightings had been applied to the 2020 balances the ECL would be £7.5 million lower. The most severe alternative considered applied a 5% movement from downside to stress scenario weightings, which would give rise to a £1.0 million (2019: £1.8 million) increase in ECL, the least severe applied a 10% movement from stress to core, which would decrease ECL by £8.8 million (2019: £10.9 million).

Additionally, a sensitivity was carried out for the key economic variables as well as scenario weightings. Applying the 2019 economic assumptions to the 2020 year end book would reduce the ECL by £3.0 million, with HPI accounting for £1.4 million and unemployment £1.6 million of this difference. In terms of in-year impacts of actual changes to economic variables, the quarterly UK House Price Index released by the Office for National Statistics (ONS) has reduced our ECL by £6.3 million over 2020 (2019: £3.7 million reduction). These changes in weightings have been fully modelled and been allowed to impact staging.

## 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)

##### 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 £4.0 million (2019: £4.2 million) increase in ECL.

##### Probability of default and possession

An estimate of the probability of default (PD) for accounts in stage 2 and the probability of possession for accounts in stage 3 is performed to arrive at the ECL. A 10% relative increase or decrease in these probabilities would give rise to a £5.8m (2019: £5.2m) increase or decrease in the ECL, respectively.

##### Customers in arrears with other lenders

A judgement has been applied to the staging for customers in stage 1 on their mortgage but in arrears on unsecured lending with other providers. The majority of these accounts were originated at high credit risk, so whilst there has been an increase in credit risk, this has not been considered sufficiently high on a relative basis to breach the transfer criteria to stage 2. If this was treated as a hard indicator of increased credit risk, and these loans were transferred to stage 2, there would be a £7.8 million (2019: £9.0 million) increase in ECL.

##### Acquired interest-only mortgages

A judgement has been applied in determining which probability of default assumptions to apply to different cohorts of customers for acquired interest-only mortgages.

The existence of an appropriate repayment vehicle has only been substantiated for 28% (2019: 28%) 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 8.3% (2019: 8.0%), generating expected credit losses of £16.7 million (2019: £18.7 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 £7.1 million (2019: £7.9 million).

##### COVID-19 payment deferrals

A judgement has been applied to determine that, where customers have applied for a payment deferral in response to the COVID-19 pandemic, this represents an increase in credit risk and a post model adjustment (PMA) is required as a result. This is on the basis that the widespread use of payment deferrals has reduced the predictive value of the behaviour score for these customers, the critical driver of our probability of default calculation.

Estimates have been made in the calculation of the COVID-19 PMAs. Further details on these can be found in note 32.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 3. INTEREST REVENUE

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Calculated using the effective interest rate method:				
Loans secured on residential property	846.4	885.4	315.2	372.2
Loans secured on connected undertakings	–	–	426.7	423.0
Other loans	19.8	23.5	19.8	23.5
Liquid assets	7.7	27.4	7.5	26.9
On debt securities	26.6	26.5	78.0	95.0
<b>Interest revenue calculated using the effective interest rate method</b>	<b>900.5</b>	<b>962.8</b>	<b>847.2</b>	<b>940.6</b>
Other:				
Derivatives in hedge relationships	16.6	16.1	16.6	16.1
Derivatives not included in hedge relationships	20.9	24.4	39.5	33.3
Financial assets held at fair value	–	0.3	–	0.3
<b>Other interest revenue</b>	<b>37.5</b>	<b>40.8</b>	<b>56.1</b>	<b>49.7</b>
<b>Total interest revenue</b>	<b>938.0</b>	<b>1,003.6</b>	<b>903.3</b>	<b>990.3</b>

## 4. INTEREST EXPENSE

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Shares held by individuals	246.3	330.4	246.3	330.4
Deposits from banks	8.0	38.6	8.0	38.6
Deposits from connected undertakings	–	–	96.5	115.4
Other deposits	0.8	2.0	0.8	2.0
Debt securities in issue	68.8	63.5	57.8	51.1
Subordinated liabilities	22.5	27.6	22.5	27.6
Subscribed capital	–	0.1	–	0.1
Other interest expense	–	0.1	–	0.1
Derivatives in hedge relationships	134.6	60.9	125.8	47.2
Derivatives not included in hedge relationships	18.1	14.8	39.8	24.6
Interest expense for leasing arrangements	0.9	1.0	0.9	1.0
<b>Total interest expense</b>	<b>500.0</b>	<b>539.0</b>	<b>598.4</b>	<b>638.1</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 5. NET LOSSES FROM FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Investments held at fair value	5.0	3.9	5.0	3.9
Structured credit assets	–	1.6	–	1.6
Hedge accounting ineffectiveness	(1.0)	(11.1)	5.3	(7.6)
Derivatives not included in hedge relationships	(14.7)	(16.3)	(12.1)	(16.4)
<b>Net losses from financial instruments held at fair value</b>	<b>(10.7)</b>	<b>(21.9)</b>	<b>(1.8)</b>	<b>(18.5)</b>

### DERIVATIVES AND HEDGING

Fair value gains and losses on derivatives and hedging relates to changes in the fair value of derivatives that provide effective economic hedges but where the Group has either not achieved hedge accounting or the nature of the hedge relationship has given rise to ineffectiveness. The loss in the current year has been predominantly driven by market rate movements.

### 6. ADMINISTRATIVE EXPENSES

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Staff costs:				
Salaries and wages	114.7	119.2	114.7	119.2
Social security costs	11.7	12.2	11.7	12.2
Pension costs – defined benefit plans	0.6	(0.6)	0.6	(0.6)
Pension costs – defined contribution plans	10.0	10.1	10.0	10.1
Other staff costs	2.1	1.3	2.1	1.3
Operating lease rentals	0.9	0.8	1.1	1.0
Professional consultancy costs	9.5	19.5	9.5	19.5
Other expenses	100.5	101.8	100.1	101.6
<b>Total administrative expenses</b>	<b>250.0</b>	<b>264.3</b>	<b>249.8</b>	<b>264.3</b>

Included within other expenses are costs for IT, marketing, utilities, repairs and maintenance, non payroll related staff costs and any other expenses.

The Society operates a salary sacrifice scheme whereby employees can opt to make pension contributions from their pre-tax salary. 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 these employee contributions made under 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 6. ADMINISTRATIVE EXPENSES (CONTINUED)

#### Remuneration of the auditor and their associates

	Group		Society	
	2020	2019	2020	2019
	£000	£000	£000	£000
Audit fees for the Group and Society statutory audit	600.0	418.5	600.0	418.5
Audit fee for the statutory audit of controlled entities	349.0	300.0	–	–
Audit related assurance services required by law or regulation	8.5	8.0	8.5	8.0
<b>Total audit and audit related assurance services</b>	<b>957.5</b>	726.5	<b>608.5</b>	426.5
Other permitted non-audit services	252.9	203.0	212.9	158.0
<b>Total remuneration of the auditor and their associates</b>	<b>1,210.4</b>	929.5	<b>821.4</b>	584.5

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 *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.

#### Staff numbers

The average number of persons employed by the Group and Society during the year (including executive directors) was as follows:

	2020		2019	
	Full time	Part time	Full time	Part time
Central administration	1,860	470	2,011	467
Branches	487	527	547	511
<b>Total staff numbers</b>	<b>2,347</b>	<b>997</b>	2,558	978

### 7. IMPAIRMENT OF FINANCIAL ASSETS

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Impairment of loans and advances to customers (note 12)	13.3	1.6	7.2	(1.8)
Recoveries relating to loans and advances previously written off	(1.2)	(1.5)	(0.5)	(0.8)
Impairment of other financial assets	0.1	0.1	0.1	0.1
<b>Impairment of financial assets</b>	<b>12.2</b>	0.2	<b>6.8</b>	(2.5)



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 8. INVESTMENTS

#### Income from investments

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Dividend income from subsidiaries	–	–	59.3	50.0
<b>Income from investments</b>	–	–	<b>59.3</b>	50.0

During 2020, the Society received dividends from Accord Mortgages Limited of £50.0m (2019: £50.0m) and Norwich & Peterborough Insurance Brokers Limited of £9.3m (2019: £nil).

#### Investments

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Equities	13.6	9.2	13.6	9.2
Subsidiaries	–	–	29,210.2	27,142.2
<b>Total investments</b>	<b>13.6</b>	9.2	<b>29,223.8</b>	27,151.4

#### Investment in equities

The Group holds equity investments relating to participation in banking and credit card service operations. The investments are held at fair value through profit or loss and the valuation technique is detailed in note 33.

#### Investment in subsidiaries

Society	Shares	Loans	Total
	£m	£m	£m
Cost:			
At 1 January 2020	105.4	27,037.6	27,143.0
Additions	–	2,925.5	2,925.5
Repayments	–	(857.5)	(857.5)
<b>At 31 December 2020</b>	<b>105.4</b>	<b>29,105.6</b>	<b>29,211.0</b>
Impairment losses at 1 January and 31 December 2020	(0.5)	(0.3)	(0.8)
<b>At 31 December 2020</b>	<b>104.9</b>	<b>29,105.3</b>	<b>29,210.2</b>
Cost:			
At 1 January 2019	105.4	23,483.3	23,588.7
Additions	–	3,875.5	3,875.5
Repayments	–	(321.2)	(321.2)
At 31 December 2019	105.4	27,037.6	27,143.0
Impairment losses at 1 January 2019 and 31 December 2019	(0.5)	(0.3)	(0.8)
<b>Total as at 31 December 2019</b>	<b>104.9</b>	<b>27,037.3</b>	<b>27,142.2</b>

All shares held are equity shares. All loans are charged interest with amounts recognised in interest revenue.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 8. INVESTMENTS (CONTINUED)

#### Subsidiaries

The Society holds 100% of the ordinary share capital for each of the following subsidiary entities, all of which are audited and consolidated.

Subsidiary	Principal activity
Accord Mortgages Limited .....	Mortgage lending
Norwich and Peterborough Insurance Brokers Limited .....	Non-trading
Norwich and Peterborough (LBS) Limited .....	Mortgage finance
YBS Properties (Edinburgh) Limited .....	Property holding

The Group has taken advantage of the audit exemptions available for small and dormant subsidiaries under sections 479 and 480 of the Companies Act 2006 for the following subsidiary undertakings, all of which are consolidated:

- BCS Loans and Mortgages Limited
- Chelsea Mortgage Services Ltd
- YBS Ltd
- Yorkshire Direct Ltd
- YBS Group Ltd
- YBS Pension Trustees Limited
- Yorkshire Group Ltd
- Yorkshire Insurance Services Ltd
- Yorkshire Guernsey Ltd\*
- Yorkshire Life Assurance Services Ltd
- Yorkshire Mortgage Services Ltd
- Yorkshire Personal Financial Services Ltd
- Yorkshire Property Services Ltd
- Yorkshire Services Ltd
- Yorkshire Key Services Limited

All subsidiaries have a 31 December accounting period end, are registered in England and operate in the United Kingdom and have their registered office as Yorkshire Drive, Bradford, BD5 8LJ, with the exception of *Yorkshire Guernsey Ltd* which is registered in Guernsey (in liquidation c/o Collas Crill Trust Limited, Gategny Court, Gategny Esplanade, St Peter Port, Guernsey, GY1 3HW) and is non trading.

#### Other controlled entities

The following entities are deemed to be controlled as, whilst the Group does not have a controlling 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 these entities in the Society is nil (2019: nil).

- Brass No.4 PLC\*
- Brass No.4 Mortgage Holdings Limited\*
- Brass No.5 PLC
- Brass No.5 Mortgage Holdings Limited
- Brass No.6 PLC
- Brass No.6 Mortgage Holdings Limited
- Brass No.7 PLC
- Brass No.7 Mortgage Holdings Limited
- Brass No.8 PLC
- Brass No.8 Mortgage Holdings Limited
- Brass No.9 PLC
- Brass No.9 Mortgage Holdings Limited
- Tombac No.2 PLC
- Tombac No.2 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. Their registered office is Third Floor, 1 King's Arms Yard, London, EC2R 7AF, with the exception 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 2020 is nil (2019: nil).

\* In liquidation

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9. TAX EXPENSE

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Current tax:				
UK Corporation tax	39.6	43.0	26.9	28.9
Corporation tax – adjustment in respect of prior periods	(1.6)	(3.7)	(1.6)	(7.1)
<b>Total current tax</b>	<b>38.0</b>	<b>39.3</b>	<b>25.3</b>	<b>21.8</b>
Deferred tax (note 17):				
Current year	(1.9)	1.5	(1.8)	1.7
Adjustment in respect of prior periods	1.7	(2.5)	1.7	2.2
<b>Total tax expense in income statement</b>	<b>37.8</b>	<b>38.3</b>	<b>25.2</b>	<b>25.7</b>

The actual tax expense for the year differs from that calculated using the standard rate of corporation tax in the UK. The differences are explained below:

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Profit before tax	161.3	167.2	161.8	170.2
Tax calculated at a tax rate of 19.00% (2019: 19.00%)	30.7	31.8	30.8	32.3
Effects of:				
Income not subject to tax	(1.8)	(1.2)	(13.1)	(11.3)
Fair value movements on securitisation	0.5	5.1	–	–
Expenses not deductible for tax purposes	2.1	1.2	1.4	2.0
Banking surcharge	6.0	7.7	6.0	7.7
Adjustment to tax charge in respect of previous periods	0.1	(6.2)	0.1	(4.9)
Change in tax rate	0.2	(0.1)	–	(0.1)
<b>Total tax expense in income statement</b>	<b>37.8</b>	<b>38.3</b>	<b>25.2</b>	<b>25.7</b>
Tax (credit)/expense recognised directly in equity:				
Tax on financial instruments held at fair value through other comprehensive income	1.8	0.4	1.8	0.4
Effect of change in tax rate on financial instruments held at fair value through other comprehensive income	0.2	–	0.2	–
Tax on remeasurement of net retirement benefit obligations	1.4	2.3	1.4	2.3
Effect of change in tax rate on remeasurement of net retirement benefit obligations	1.7	(0.2)	1.7	(0.2)
Deferred tax on cash flow hedges	0.2	0.4	0.2	0.4
<b>Total tax (credit)/expense recognised directly in equity</b>	<b>5.3</b>	<b>2.9</b>	<b>5.3</b>	<b>2.9</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9. TAX EXPENSE (CONTINUED)

The main rate of UK corporation tax remains at 19%, rather than the previously enacted reduction to 17% from 1 April 2020. The difference in rates is reflected in the financial statements resulting in a debit of £0.2m (2019: £0.1m credit) to the Income Statement and a debit of £1.9m (2019: £0.2m credit) to Other Comprehensive Income in the period, giving an overall debit of £2.1m (2019: £0.3m credit) in respect of the Group's net deferred tax liability.

The effective tax rate for the year is 23.45% (2019: 22.91%) which is higher than the statutory corporation tax rate of 19.00% (2019: 19.00%). The effective rate is increased due to a charge of £6.0m (2019: £7.7m) in respect of the banking surcharge which is charged at a rate of 8.00% (2019: 8.00%) on the Society's taxable profits above £25m.

### 10. CASH AND BALANCES WITH THE BANK OF ENGLAND

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Cash in hand	9.2	9.1	9.2	9.2
Unencumbered deposits with the Bank of England	4,324.8	2,415.1	4,324.8	2,415.1
<b>Cash in hand and unencumbered deposits</b>	<b>4,334.0</b>	2,424.2	<b>4,334.0</b>	2,424.3
Cash ratio deposit with the Bank of England	121.7	103.9	121.7	103.9
<b>Cash and balances with the Bank of England</b>	<b>4,455.7</b>	2,528.1	<b>4,455.7</b>	2,528.2

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		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Debt securities issued by:				
Public bodies	582.4	879.6	582.4	879.6
Other borrowers	2,277.7	1,668.6	2,215.1	1,668.6
Group companies	–	–	6,654.4	5,364.6
<b>Total debt securities</b>	<b>2,860.1</b>	2,548.2	<b>9,451.9</b>	7,912.8

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 11. DEBT SECURITIES (CONTINUED)

Debt securities issued by Group companies comprise retained investments in the Group's Brass and Tombac securitisation vehicles.

Group	Held at fair value	Fair value through Other Comprehensive Income	Amortised cost	Total
	£m	£m	£m	£m
Movements in debt securities during the year were:				
At 1 January 2020	–	2,548.2	–	2,548.2
Additions	–	3,182.7	387.1	3,569.8
Disposals and repayments	–	(3,330.8)	(2.4)	(3,333.2)
Exchange translation	–	1.6	2.8	4.4
Other changes in value	–	69.3	1.6	70.9
<b>At 31 December 2020</b>	–	<b>2,471.0</b>	<b>389.1</b>	<b>2,860.1</b>
At 1 January 2019	143.1	1,527.2	–	1,670.3
Additions	–	2,655.4	–	2,655.4
Disposals and repayments	(144.4)	(1,665.3)	–	(1,809.7)
Exchange translation	(0.1)	(1.2)	–	(1.3)
Other changes in value	1.4	32.1	–	33.5
<b>At 31 December 2019</b>	–	<b>2,548.2</b>	–	<b>2,548.2</b>

Society	Held at fair value	Fair value through Other Comprehensive Income	Amortised cost	Total
	£m	£m	£m	£m
Movements in debt securities during the year were:				
At 1 January 2020	–	2,548.2	5,363.8	7,912.0
Additions	–	3,182.7	3,112.6	6,295.3
Disposals and repayments	–	(3,330.8)	(1,492.0)	(4,822.8)
Exchange translation	–	1.6	2.6	4.2
Other changes in value	–	69.4	(6.2)	63.2
<b>At 31 December 2020</b>	–	<b>2,471.1</b>	<b>6,980.8</b>	<b>9,451.9</b>
At 1 January 2019	143.1	1,527.2	5,413.4	7,083.7
Additions	–	2,655.4	1,257.7	3,913.1
Disposals and repayments	(144.4)	(1,665.3)	(1,306.3)	(3,116.0)
Exchange translation	(0.1)	(1.2)	(0.8)	(2.1)
Other changes in value	1.4	32.1	0.6	34.1
<b>At 31 December 2019</b>	–	<b>2,548.2</b>	<b>5,364.6</b>	<b>7,912.8</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 12. LOANS AND ADVANCES TO CUSTOMERS

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Loans secured on residential property:				
Loans fully secured on residential property	37,387.6	36,774.2	11,729.4	13,068.4
Other loans secured on residential property	7.9	11.2	–	4.4
Loans secured on commercial property	1,204.8	1,178.0	1,204.8	1,178.0
Fair value hedging adjustments	274.3	86.1	274.3	86.1
Gross Loans and advances to customers	38,874.6	38,049.5	13,208.5	14,336.9
Impairment	(43.9)	(30.2)	(21.9)	(13.6)
Fair value credit adjustment	(32.1)	(34.9)	(32.1)	(34.9)
ECL	(76.0)	(65.1)	(54.0)	(48.5)
<b>Total loans and advances to customers</b>	<b>38,798.6</b>	<b>37,984.4</b>	<b>13,154.5</b>	<b>14,288.4</b>

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

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Opening Impairment	30.2	28.9	13.6	14.8
Amounts written off in the period	(1.2)	(2.0)	(0.2)	(0.6)
Reduction in discounting recognised in net interest	1.6	1.7	1.3	1.3
Impairment for the period recognised in the income statement (note 7)	13.3	1.6	7.2	(1.9)
<b>Impairment</b>	<b>43.9</b>	<b>30.2</b>	<b>21.9</b>	<b>13.6</b>

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Opening fair value credit adjustment	34.9	38.0	34.9	38.0
Release recognised in the income statement through net interest	(1.2)	(2.2)	(1.2)	(2.2)
Write-offs	(1.6)	(0.9)	(1.6)	(0.9)
<b>Fair value credit adjustment</b>	<b>32.1</b>	<b>34.9</b>	<b>32.1</b>	<b>34.9</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 13. INTANGIBLE ASSETS

Group and Society	Development costs	Purchased software	Internally generated assets	Other	Total
	£m	£m	£m	£m	£m
Cost:					
At 1 January 2020	1.9	58.3	21.4	7.1	88.7
Reallocation	–	3.2	(3.2)	–	–
Revised balance at 1 January 2020	1.9	61.5	18.2	7.1	88.7
Additions	0.2	4.3	0.2	–	4.7
Disposals	–	(4.5)	(1.9)	–	(6.4)
<b>At 31 December 2020</b>	<b>2.1</b>	<b>61.3</b>	<b>16.5</b>	<b>7.1</b>	<b>87.0</b>
Amortisation:					
At 1 January 2020	–	27.7	18.0	7.0	52.7
Reallocation	–	4.5	(4.5)	–	–
Revised balance at 1 January 2020	–	32.2	13.5	7.0	52.7
Charged in year	–	8.4	2.1	0.1	10.6
Disposals	–	(6.5)	–	–	(6.5)
<b>At 31 December 2020</b>	<b>–</b>	<b>34.1</b>	<b>15.6</b>	<b>7.1</b>	<b>56.8</b>
<b>Net book value at 31 December 2020</b>	<b>2.1</b>	<b>27.2</b>	<b>0.9</b>	<b>–</b>	<b>30.2</b>
Cost:					
At 1 January 2019	20.4	40.9	20.7	7.1	89.1
Additions	8.5	1.8	0.7	–	11.0
Disposals	(1.9)	(9.5)	–	–	(11.4)
Transfers	(25.1)	25.1	–	–	–
At 31 December 2019	1.9	58.3	21.4	7.1	88.7
Amortisation:					
At 1 January 2019	–	27.5	15.0	6.5	49.0
Charged in year	–	6.0	3.0	0.5	9.5
Disposals	–	(5.8)	–	–	(5.8)
At 31 December 2019	–	27.7	18.0	7.0	52.7
<b>Net book value at 31 December 2019</b>	<b>1.9</b>	<b>30.6</b>	<b>3.4</b>	<b>0.1</b>	<b>36.0</b>

The Group purchased software cost carried forward and depreciation carried forward include £1m which relates to Yorkshire Key Services Limited software licence. This is not included in the Society accounts. Other intangible assets primarily comprise the intrinsic 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 purchased software and internally generated assets. The additions under development costs relate mainly to the Society's investment in a new mortgage processing system with market leading technology required to meet the future needs of the business. To the extent that these new systems are not yet ready for use by the business, no amortisation has been charged.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 14. INVESTMENT PROPERTIES

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Cost:				
At 1 January	20.3	17.0	20.1	16.8
On transition to IFRS 16	–	0.6	–	0.6
Additions	0.2	0.4	0.2	0.4
Disposals	–	(0.4)	–	(0.4)
Transferred to held for sale	(1.5)	–	(1.5)	–
Transfers	0.8	2.7	0.8	2.7
<b>At 31 December</b>	<b>19.8</b>	<b>20.3</b>	<b>19.6</b>	<b>20.1</b>
Depreciation:				
At 1 January	5.5	4.3	5.3	4.2
Charged in year	0.3	0.3	0.3	0.3
Disposals	–	(0.3)	–	(0.3)
Transferred to held for sale	(0.8)	–	(0.8)	–
Transfers	0.2	1.0	0.2	1.0
<b>At 31 December</b>	<b>5.2</b>	<b>5.3</b>	<b>5.0</b>	<b>5.2</b>
<b>Net book value</b>	<b>14.6</b>	<b>15.0</b>	<b>14.6</b>	<b>14.9</b>
<b>Fair value</b>	<b>14.6</b>	<b>18.5</b>	<b>14.2</b>	<b>18.1</b>

Investment properties are generally flats and offices ancillary to branch premises and not used by the Group. Rental income of £1.3m on investment properties has been included within other operating income (2019: £1.5m).

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 2020 has been arrived at predominantly on the basis of external valuations provided by Gerald Eve surveyors, the remaining properties have been valued internally by the Group's Estates Manager, an appropriately qualified surveyor.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 15. PROPERTY HELD FOR SALE

Group & Society	2020	2019
	£m	£m
Cost:		
At 1 January	8.8	–
Transfer from property, plant and equipment	12.1	8.8
Disposals	(5.6)	–
<b>At 31 December</b>	<b>15.3</b>	<b>8.8</b>
Depreciation:		
At 1 January	5.7	–
Transfer from property, plant and equipment	4.1	5.7
Disposals	(3.9)	–
Impairment	1.7	–
<b>At 31 December</b>	<b>7.6</b>	<b>5.7</b>
<b>Net book value</b>	<b>7.7</b>	<b>3.1</b>

The disposal of held for sale property relates to the sale of the office site at Charlton Kings which was completed in 2020 with a profit on sale of £3.0m.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 16. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings	Equipment, fixtures and fittings	Right of Use property	Right of Use motor vehicles	Total
	£m	£m	£m	£m	£m
Cost:					
At 1 January 2020	110.2	69.9	42.5	0.9	223.5
Reallocation	0.3	–	(0.3)	–	–
Revised balance	110.5	69.9	42.2	0.9	223.5
Additions	2.8	7.3	1.0	0.3	11.4
Disposals	(1.4)	(5.9)	(0.6)	–	(7.9)
Assets transferred to held for sale	(10.6)	–	–	–	(10.6)
Transfers	(0.8)	–	–	–	(0.8)
<b>At 31 December 2020</b>	<b>100.5</b>	<b>71.3</b>	<b>42.6</b>	<b>1.2</b>	<b>215.6</b>
Depreciation:					
At 1 January 2020	30.7	51.4	4.6	0.1	86.8
Charged in year	3.6	5.1	4.2	0.3	13.2
Disposals	(1.4)	(5.9)	(0.3)	–	(7.6)
Assets transferred to held for sale	(3.2)	–	–	–	(3.2)
Transfers	(0.2)	–	–	–	(0.2)
<b>At 31 December 2020</b>	<b>29.5</b>	<b>50.6</b>	<b>8.5</b>	<b>0.4</b>	<b>89.0</b>
<b>Net book value at 31 December 2020</b>	<b>71.0</b>	<b>20.7</b>	<b>34.1</b>	<b>0.8</b>	<b>126.6</b>
Cost:					
At 1 January 2019	121.0	70.7	–	–	191.7
On transition to IFRS16	–	–	42.5	–	42.5
Additions	2.1	3.2	1.1	0.9	7.3
Disposals	(1.4)	(4.0)	–	–	(5.4)
Assets transferred to held for sale	(8.8)	–	–	–	(8.8)
Transfers	(2.7)	–	(1.1)	–	(3.8)
At 31 December 2019	110.2	69.9	42.5	0.9	223.5
Depreciation:					
At 1 January 2019	33.1	48.7	–	–	81.8
Charged in year	4.6	6.1	4.8	0.1	15.6
Disposals	(0.3)	(3.4)	(0.2)	–	(3.9)
Assets transferred to held for sale	(5.7)	–	–	–	(5.7)
Transfers	(1.0)	–	–	–	(1.0)
At 31 December 2019	30.7	51.4	4.6	0.1	86.8
<b>Net book value at 31 December 2019</b>	<b>79.5</b>	<b>18.5</b>	<b>37.9</b>	<b>0.8</b>	<b>136.7</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Society	Land and buildings	Equipment, fixtures and fittings	Right of Use property	Right of Use motor vehicles	Total
	£m	£m	£m	£m	£m
Cost:					
At 1 January 2020	109.5	69.5	42.5	0.9	222.4
Reallocation	0.3	–	(0.3)	–	–
Revised balance at 1 January 2020	109.8	69.5	42.2	0.9	222.4
Additions	2.8	7.3	1.0	0.3	11.4
Disposals	(1.4)	(5.9)	(0.6)	–	(7.9)
Assets transferred to held for sale	(10.6)	–	–	–	(10.6)
Transfers	(0.8)	–	–	–	(0.8)
<b>At 31 December 2020</b>	<b>99.8</b>	<b>70.9</b>	<b>42.6</b>	<b>1.2</b>	<b>214.5</b>
Depreciation:					
At 1 January 2020	30.5	50.9	4.6	0.2	86.2
Charged in year	3.6	5.1	4.2	0.3	13.2
Disposals	(1.4)	(5.9)	(0.3)	–	(7.6)
Assets transferred to held for sale	(3.2)	–	–	–	(3.2)
Transfers	(0.2)	–	–	–	(0.2)
<b>At 31 December 2020</b>	<b>29.3</b>	<b>50.1</b>	<b>8.5</b>	<b>0.5</b>	<b>88.4</b>
<b>Net book value at 31 December 2020</b>	<b>70.5</b>	<b>20.8</b>	<b>34.1</b>	<b>0.7</b>	<b>126.1</b>
Cost:					
At 1 January 2019	120.4	70.3	–	–	190.7
On transition to IFRS16	–	–	42.5	0.9	43.4
Additions	2.0	3.2	–	–	5.2
Disposals	(1.4)	(4.0)	–	–	(5.4)
Assets transferred to held for sale	(8.8)	–	–	–	(8.8)
Transfers	(2.7)	–	–	–	(2.7)
At 31 December 2019	109.5	69.5	42.5	0.9	222.4
Depreciation:					
At 1 January 2019	32.9	48.2	–	–	81.1
Charged in year	4.6	6.1	4.6	0.2	15.5
Disposals	(0.3)	(3.4)	–	–	(3.7)
Assets transferred to held for sale	(5.7)	–	–	–	(5.7)
Transfers	(1.0)	–	–	–	(1.0)
At 31 December 2019	30.5	50.9	4.6	0.2	86.2
<b>Net book value at 31 December 2019</b>	<b>79.0</b>	<b>18.6</b>	<b>37.9</b>	<b>0.7</b>	<b>136.2</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 17. DEFERRED TAX

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
At 1 January as originally presented:	(23.9)	(21.4)	(22.4)	(14.9)
Remeasurement due to change in accounting policy (2019: IFRS16)	0.2	(0.1)	0.5	(0.1)
As at 1 January (restated)	(23.7)	(21.5)	(21.9)	(15.0)
Income statement credit/(expense) (note 9)	0.2	1.0	0.1	(3.9)
Tax expense recognised directly in equity	(5.4)	(3.4)	(5.4)	(3.5)
<b>At 31 December</b>	<b>(28.9)</b>	<b>(23.9)</b>	<b>(27.2)</b>	<b>(22.4)</b>
Deferred tax assets and liabilities are attributable to the following items:				
<b>Deferred tax assets</b>				
Depreciation in excess of capital allowances	–	1.8	–	1.8
Other temporary differences	0.1	0.2	–	0.1
Fair value movements on external swap on intercompany loan	2.9	–	2.9	–
Deferred remuneration	1.3	0.9	1.3	0.9
Cash flow hedging	–	0.2	–	0.2
Restructuring costs	–	0.3	–	0.3
Transitional adjustment arising following implementation of IFRS9	1.2	1.2	1.2	1.2
Transitional adjustment arising following change in accounting treatment	0.5	–	0.5	–
<b>Total deferred tax assets</b>	<b>6.0</b>	<b>4.6</b>	<b>5.9</b>	<b>4.5</b>
<b>Deferred tax liabilities</b>				
Pensions and other post-retirement benefits	24.6	21.6	24.6	21.6
Capital allowances in excess of depreciation	0.1	–	0.1	–
Other temporary differences	1.1	1.1	1.0	1.0
Fair value movements on external swap on intercompany loan	–	0.2	–	0.2
Financial instruments held at fair value through profit and loss	2.9	1.6	2.9	1.6
Financial instruments held at fair value through other comprehensive income	4.5	2.5	4.5	2.5
Transitional adjustment arising following implementation of IFRS9	1.4	1.5	–	–
Transitional adjustment arising following change in accounting treatment	0.3	–	–	–
<b>Total deferred tax liabilities</b>	<b>34.9</b>	<b>28.5</b>	<b>33.1</b>	<b>26.9</b>

The Group has capital losses of £4.9m that have arisen during the year, these are available to reduce future capital gains. No deferred tax asset has been recognised in respect of these losses as the timing of their utilisation is uncertain. In addition there are unrecognised deferred tax assets (£0.5m) in respect of future capital losses expected on the sale of properties currently shown as held for sale.

The remainder of the deferred tax assets have not been discounted. The Group considers that sufficient future taxable trading profits will be available to utilise the Group's trading deferred tax assets and the Group has therefore recognised such deferred tax assets where they have arisen.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 17. DEFERRED TAX (CONTINUED)

The deferred tax charge/(credit) in the income statement comprise the following temporary differences:

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Pensions and other post-retirement benefits	(0.2)	0.2	(0.2)	0.2
Depreciation in excess of capital allowances	1.9	1.1	1.9	1.1
Other temporary differences	0.1	(0.1)	0.1	(0.2)
Fair value movements on external swap on intercompany loan	(3.1)	0.8	(3.1)	0.8
Deferred remuneration	(0.4)	–	(0.4)	–
Fair value gains and losses on financial instruments in securitisation entities	–	(4.8)	–	–
Financial instruments held at fair value through profit and loss	1.3	0.6	1.3	0.6
Restructuring costs	0.3	1.2	0.3	1.2
Transitional adjustment arising following implementation of IFRS9	(0.1)	–	–	0.2
<b>Total deferred tax assets and liabilities</b>	<b>(0.2)</b>	<b>(1.0)</b>	<b>(0.1)</b>	<b>3.9</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 18. RETIREMENT BENEFIT OBLIGATIONS

The Group operates one main employee benefit scheme (the Scheme), the costs of which are borne by the Society, with both defined benefit and defined contribution sections.

In addition, the Group operates unfunded defined benefit pension schemes for certain current and former members of staff. The present value at 31 December 2020 of the defined benefit obligation in relation to these schemes was £12.3m (2019: £9.8m) and the relevant disclosures have been aggregated with those of the main employee benefits scheme.

#### NET DEFINED BENEFIT ASSET

As at 31st December 2020 the defined benefit asset is £91.0m, this is an increase of £4.6m from 31st December 2019.

#### PENSIONER BUY-IN

In mid-November 2018 the Scheme entered into a pensioner buy-in with PIC. The premium of c£248m 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 £25m on an accounting basis. The transaction covered around £250m 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 2020, we have valued the YBS Scheme insurance contract with PIC to be equal to the corresponding IAS19 defined benefit obligation in respect of the insured members. The assessed value of £253.8m was calculated using a methodology consistent with the approach used to calculate the total pension benefit.

#### DEFINED CONTRIBUTION POST-EMPLOYMENT BENEFITS

In addition to the defined benefit section (see below), the Group operates a defined contribution section of the main scheme. This Scheme is used by the Society to fulfil its auto enrolment duties. In 2020, the total Society contribution into the pension scheme in respect of DC benefits was c£9.2m. In addition to this YBS also paid £0.9m 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 from, with the exception of N&P Section members, 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 20 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.

	31 December 2020	31 December 2019
	£m	£m
Deferred in service liability	128.0	188.9
Deferred liability	335.2	265.9
Pensioner liability	517.9	442.4
<b>Total liabilities</b>	<b>981.1</b>	897.2

#### GMP EQUALISATION

On 26 October 2018, the High Court ruled that the Lloyds Bank schemes had to equalise pension scheme benefits between males and females for the effects of Guaranteed Minimum Pension (GMP) and identified acceptable methods as to how this can be achieved. As a result the Group included £1.7m allowance for GMP equalisation in the determination of the defined benefit obligation in the 31st December 2018 accounting disclosures.

On 20 November 2020, the High Court ruled that individual transfer payments made since 17 May 1990 would need to be equalised for the effects of GMP. No further allowance has been made for this judgment as the impact is not material.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

#### 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:

- 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.
- 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.
- 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.
- Unanticipated improvements in the longevity of members leading to an increase in the Scheme's liabilities.

#### ASSETS

The Scheme's investment strategy, with a significant proportion of the assets invested in liability driven investments (consisting of index-linked government and corporate bonds and swaps), is expected to reduce the volatility of the difference between the market value of the assets and the IAS 19 liabilities.

#### Disaggregation of assets

	31 December 2020	31 December 2019
	%	%
Equities	3	3
Index-linked bonds	50	45
Corporate and other bonds	11	14
Cash and other	7	7
Swaps	5	7
Pensioner buy-in insurance contract	24	24
	<b>100</b>	100

The majority 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 ('DB') Section taking into account considerations such as the strength of the employer covenant, the long-term liabilities of the DB Section and the funding agreed with the Employer.

The Scheme's investment strategy had been to seek to reduce investment risk over time, within an agreed 'journey plan' that anticipates a managed transition to assets that carry lower risk albeit with expectations of lower investment returns. This transition would occur when the funding level met pre-agreed de-risking levels. The investment objective of the DB Section was to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the DB Section payable under the Trust Deed and Rules as they fall due.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

#### SCHEME INVESTMENT STRATEGY (CONTINUED)

During 2018, the Trustees agreed to implement a long term, lower risk portfolio targeting a return of gilts + 1% pa. It was agreed that this portfolio should incorporate Secure Income Assets, Diversified Return Seeking Assets and Long Term Credit. The Trustees also agreed to implement a buy-in policy, the size of which was carefully considered and positioned in the context of the Scheme's investment objective.

Over 2020 the Trustees reviewed the investment strategy and remained satisfied that asset growth has continued such that the Scheme remains on track to meet the Scheme's liabilities on the Scheme's long term funding target of Gilts + 0% ('gilts flat'). The Trustees also reviewed the risk associated with the investment strategy, including reviewing potential risks that could arise from different COVID-19 scenarios and the impact these could have on the Scheme's investments. Given the heightened uncertainty relating to the impacts of COVID-19, the Trustees continue to monitor developments and have made the strategic decision to hold an underweight allocation to return-seeking assets relative to the Scheme's Strategic Asset Allocation. By not rebalancing back to the strategic position, the Trustees are holding a lower risk portfolio whilst there is ongoing uncertainty.

As part of these changes the Trustees agreed that the investment objectives for the DB Section should be:

- To achieve a return on the Scheme's assets that is consistent with the long-term assumptions in determining the funding of the Scheme, whilst at the same time balancing risk.
- To aim for the assets to exceed the liabilities as determined in the event of the Scheme winding up on the basis of cash equivalent transfer values.
- To minimise the requirement for the Society to make further deficit recovery plan contributions.
- The investment strategy is set out in its Statement of Investment Principles (SIP).

The strategy is to hold:

- A range of instruments that provide a better match both to changes in liability values and expected cash flows, including (but not limited to) gilts, corporate bonds, derivatives, secure income assets and insurance policies.
- A diversified range of return-seeking assets, including (but not limited to) equities, corporate bonds, reinsurance and secure income assets, which may be provided through a multi-asset diversified growth fund.
- Passive and actively managed portfolios as appropriate, following consideration of efficiency, liquidity and level of transaction costs likely to prevail within each market as well as the impact of the investment managers' fees on future expected returns.

#### 31 DECEMBER 2019 ACTUARIAL VALUATION

The most recent actuarial valuation of the Scheme was carried out with an effective date of 31 December 2019 and was completed on 30 June 2020. The value of the benefits promised to members that fall within the DB section of the Scheme are referred to as the Technical Provisions, and are valued on a prudent basis as determined by the Trustees, having received advice from the Scheme Actuary.

The funding level (the ratio of assets to Technical Provisions) at 31 December 2019 was 102.3%. As the Scheme is in surplus i.e. the value of the Scheme's assets is higher than the value of the Technical Provisions, a Recovery Plan is not required.

One of the key financial assumptions is the discount rate and the approach to setting this is in line with that adopted at the previous actuarial valuation as at 31 December 2016. The discount rate used in calculating the Technical Provisions must be prudent and reflect the Trustees' long-term investment strategy. Therefore, this is set in line with gilt yields, plus a margin of 0.5% pa. The discount rate used in calculating the DB obligation for accounting purposes is prescribed by IAS19 and must be set with regard to the yield available on high quality corporate bonds. In general, this results in a higher discount rate for the calculation of the DB obligation.

The demographic assumptions adopted for accounting purposes have previously been set in line with the Technical Provisions basis, except that for accounting purposes the latest CMI model for future improvements in mortality would typically be reflected each year.

For the 31 December 2019 actuarial valuation, an explicit allowance is made in the Technical Provisions to cover expenses (1.5% of the liabilities to cover administration expenses, plus an increased GMP equalisation allowance to cover the expected expenses of that project). There is no such allowance made for accounting purposes.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

#### COVID-19

The Trustees recognise that the COVID-19 pandemic has had an impact on the global economy, the UK economy and on the day to day life of the members of the Scheme. Throughout 2020, the Trustees have monitored the situation and taken steps to mitigate the impact on the pension scheme members. The Trustees have maintained dialogue with their advisers and scheme administrators to ensure that service levels have been maintained and managed, the Trustees have undertaken additional member communications during the year to reassure and inform members about the potential impact of COVID-19 on the scheme and member benefits.

The Trustees have also undertaken additional due diligence on monitoring in respect of scheme investments, and have taken into consideration market volatility when reviewing the DC investment strategy. Further, the Trustees understand the potential for an adverse impact on YBS, and therefore the strength of the Covenant. Therefore, they have established a monthly meeting to discuss YBS performance with the Finance Team and receive a copy of the YBS Board report to inform these conversations.

#### SUMMARY OF ASSUMPTIONS

	31 December 2020	31 December 2019
	% pa	% pa
Retail prices index (RPI) Inflation	3.1	3.2
Consumer price index (CPI) inflation	2.4	2.3
Discount rate	1.3	1.9
Rate of increase in pay	1.3	1.3
	Above CPI	Above CPI
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	3.0	3.0
In line with RPI, subject to a min of 0% and a max of 2.5% pa	2.1	1.9
In line with RPI, subject to a min of 0% and a max of 3% pa	2.1	1.9

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.

	31 December 2020	31 December 2019
	Years	Years
For a current 60 year old male	28.3	28.3
For a current 60 year old female	30.0	29.7
For a current 45 year old male	29.4	29.7
For a current 45 year old female	31.1	31.1

Defined benefit actual contributions paid wholly relate to contributions made by the Society.

Changes in market conditions generate an actuarial gain (increase in liabilities) and a return on plan greater than discount rate (increase in assets) which broadly offset.

\* Term dependent inflationary increases have been adopted to reflect expected inflation in each future year. Illustrative inflationary assumptions have been provided which have been calculated to reflect the broad profile of the Society's pension obligations.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

## RECONCILIATION OF FUNDED STATUS

Group and Society	2020	2019
	£m	£m
Present value of defined benefit obligation	(981.1)	(897.2)
Assets at fair value	1,072.1	983.6
<b>Funded status/defined benefit asset</b>	<b>91.0</b>	<b>86.4</b>

## STATEMENT OF COMPREHENSIVE INCOME (SCI)

Group and Society	2020	2019
	£m	£m
Cumulative actuarial gains recognised at 1 January	30.8	22.4
Gain/(loss) due on change in financial assumptions	(99.4)	(107.7)
Gain/(loss) due to demographic assumptions	0.7	9.9
Gain/(loss) due to experience	(6.1)	3.2
Gain/(loss) due to investment return different from return implied by the discount rate	109.1	103.0
<b>Total actuarial (loss)/gain recognised in SCI</b>	<b>4.3</b>	<b>8.4</b>
<b>Cumulative actuarial gains recognised at 31 December</b>	<b>35.1</b>	<b>30.8</b>

## COMPONENTS OF PENSION EXPENSE AS SHOWN IN THE INCOME STATEMENT

Group and Society	2020	2019
	£m	£m
Administrative expenses	1.3	1.5
Interest on net defined benefit surplus	(1.6)	(2.1)
<b>Total pension expense</b>	<b>(0.3)</b>	<b>(0.6)</b>

## RECONCILIATION OF PRESENT VALUE OF DEFINED BENEFIT OBLIGATION

Group and Society	2020	2019
	£m	£m
Present value of defined benefit obligation at 1 January	897.2	815.9
Administrative expenses	1.3	1.5
Interest cost	16.7	21.5
Actuarial gain/(loss)	104.8	94.6
Defined benefit actual benefits paid	(38.9)	(36.3)
<b>Present value of defined benefit obligation at 31 December</b>	<b>981.1</b>	<b>897.2</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

#### MOVEMENT IN DEFINED BENEFIT FAIR VALUE OF ASSETS

Group and Society	2020	2019
	£m	£m
Fair value of assets at 1 January	983.6	891.8
Interest income on scheme asset	18.3	23.6
Return on plan assets (less)/greater than discount rates	109.1	103.0
Defined benefit actual Society contributions	–	1.5
Defined benefit actual benefits and costs paid	(37.6)	(34.3)
Admin costs paid	(1.3)	(2.0)
<b>Fair value of plan assets at 31 December</b>	<b>1,072.1</b>	<b>983.6</b>

#### SENSITIVITIES

The IAS19 liability measurement and the service cost are sensitive to the assumptions made about future inflation and salary growth levels, as well as the assumptions made about life expectation. They are also sensitive to the discount rate, which depends on market yields on Sterling-denominated high quality corporate bonds. A decrease in corporate bond yields will increase the liabilities although this will be partially offset by an increase in matching assets.

The table below shows the sensitivity of the defined benefit obligation and Scheme assets to changes in these assumptions. The final assumptions are chosen by the Society.

#### Principal Sensitivity Illustrations

	Defined benefit obligation	Assets	Net effect
	£m	£m	£m
Total as at 31 December 2020	(981.1)	1,072.1	91
Change in defined benefit obligation/assets given the following change in assumption;			
Discount rate*: 1.00% decrease	(222.8)	261.7	38.9
Salary Escalation: 0.75% increase	(6.3)	–	(6.3)
Inflation**: 0.50% increase	(53.1)	56.3	3.2
Life expectancy: 1 year average increase	(39.2)	14.2	(25.0)

The asset liability matching strategy implemented for the Scheme means that a change in discount rate or inflation assumption has a broadly similar impact on the liabilities and the assets, reducing the volatility of the net impact. It should be noted that this strategy is based on liabilities on the self-sufficiency basis, i.e. higher liabilities than on an accounting basis. As such, on an accounting basis, for the sensitivities above, the assets increase by more than the liabilities, resulting in an improvement in the accounting balance sheet position.

\* The change in the discount rate is assumed to be equivalent to a 1% decrease in gilt, swap and credit based interest rates.

\*\* The sensitivity illustrations above are calculated changing each assumption in isolation, keeping all other assumptions constant. In practice this is unrealistic as it ignores the impact from correlation between assumptions.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 19. OTHER ASSETS

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Prepayments and accrued interest	16.5	25.8	16.5	25.9
Due from subsidiary undertakings	–	–	20.2	16.0
Other assets	6.6	6.8	5.5	5.4
<b>Total other assets</b>	<b>23.1</b>	<b>32.6</b>	<b>42.2</b>	<b>47.3</b>

Included in other assets are finance lease receivables. The Group has entered into agency sublease arrangements as an intermediate lessor that are considered to be finance leases. The Group leases the former branch properties and as substantially all risks and reward are passed over as the subleases match the payment terms and duration of the headline leases they are classified as finance leases. The maturity analysis of lease receivables, including the undiscounted lease payments to be received are as follows:

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Less than 1 year	0.5	0.2	0.5	0.2
1-2 years	0.2	0.2	0.2	0.2
2-3 years	0.2	0.2	0.2	0.2
3-4 years	0.2	0.2	0.2	0.2
4-5 years	0.1	0.2	0.1	0.2
More than 5 years	–	0.1	–	0.1
<b>Total undiscounted lease payments receivable</b>	<b>1.2</b>	<b>1.1</b>	<b>1.2</b>	<b>1.1</b>
Unearned Finance Income	–	0.1	–	0.1
<b>Net investment in the lease</b>	<b>1.2</b>	<b>1.0</b>	<b>1.2</b>	<b>1.0</b>

Finance income on net investment in the lease in 2020 has been £17k (2019: £8k).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 20. SHARES

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Shares comprising balances held by individuals	<b>33,375.0</b>	30,696.1	<b>33,375.0</b>	30,696.1
Acquisition fair value adjustments	<b>(6.7)</b>	(18.8)	<b>(6.7)</b>	(18.8)
<b>Total shares</b>	<b>33,368.3</b>	30,677.3	<b>33,368.3</b>	30,677.3

### 21. OTHER DEPOSITS

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Amounts owed to:				
Subsidiary undertakings	–	–	<b>11,229.9</b>	10,180.8
Other customers	<b>535.7</b>	584.6	<b>164.6</b>	242.3
<b>Total other deposits</b>	<b>535.7</b>	584.6	<b>11,394.5</b>	10,423.1

### 22. DEBT SECURITIES IN ISSUE

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Covered bonds	<b>3,520.4</b>	3,398.7	<b>3,471.8</b>	3,357.1
Medium term notes	<b>1,795.8</b>	1,502.1	<b>1,795.8</b>	1,502.1
Residential mortgage backed securities	<b>700.1</b>	1,004.5	–	–
Certificate of deposits	<b>112.0</b>	129.5	<b>112.0</b>	129.5
<b>Total debt securities in issue</b>	<b>6,128.3</b>	6,034.8	<b>5,379.6</b>	4,988.7

Debt securities in issue include amounts secured on certain loans and advances to customers – Group £4.2bn (2019: £4.4bn) and Society £3.5bn (2019: £3.4bn).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 23. OTHER LIABILITIES

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Accruals and deferred income	32.0	38.0	32.0	36.7
Finance lease liabilities	41.2	45.0	41.2	45.0
Other	9.2	13.3	12.8	13.0
<b>At 31 December 2020</b>	<b>82.4</b>	<b>96.3</b>	<b>86.0</b>	<b>94.7</b>

The lease liabilities are secured by the related underlying assets. The underlying maturity analysis of lease liabilities at 31 December 2020 for the Group is as follows:

	Buildings Lease payments	Finance charges	NPV	Vehicles Lease payments	Finance charges	NPV
	£m	£m	£m	£m	£m	£m
Within 1 year	5.4	0.8	4.6	0.3	–	0.3
1-2 years	4.8	0.7	4.0	0.3	–	0.3
2-3 years	3.9	0.7	3.2	0.2	–	0.2
3-4 years	3.4	0.6	2.8	–	–	–
4-5 years	2.9	0.5	2.3	–	–	–
5-10 years	11.1	2.1	9.1	–	–	–
10-15 years	9.9	1.1	8.8	–	–	–
Over 15 years	6.4	0.8	5.6	–	–	–
<b>Total at 31 December 2020</b>	<b>47.8</b>	<b>7.3</b>	<b>40.4</b>	<b>0.8</b>	<b>–</b>	<b>0.8</b>

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.

The expense relating to payments not included in the measurement of the lease liability has been £0.5m during 2020. At 31 December 2020 the Group was committed to short term leases and the total commitment at that date was £0.5m.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24. PROVISIONS

Group	Customer redress	Restructuring	Property related provision	FSCS levy	Other	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2020	5.8	3.0	2.0	–	0.3	11.1
Amounts utilised during the year	(3.4)	(3.3)	(0.5)	–	–	(7.2)
Provision (release)/charge during the year	(0.3)	4.2	0.8	–	–	4.7
<b>At 31 December 2020</b>	<b>2.1</b>	<b>3.9</b>	<b>2.3</b>	<b>–</b>	<b>0.3</b>	<b>8.6</b>
At 1 January 2019	14.9	13.9	5.3	0.5	0.8	35.4
Amounts utilised during the year	(9.6)	(11.4)	(0.3)	(0.6)	–	(21.9)
Provision (release)/charge during the year	0.5	0.5	(0.2)	0.1	(0.5)	0.4
Provision (release)/charge on transition to IFRS16	–	–	(2.8)	–	–	(2.8)
<b>At 31 December 2019</b>	<b>5.8</b>	<b>3.0</b>	<b>2.0</b>	<b>–</b>	<b>0.3</b>	<b>11.1</b>

Society	Customer redress	Restructuring	Property related provision	FSCS levy	Other	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2020	5.8	3.0	2.0	–	0.3	11.1
Amounts utilised during the year	(3.4)	(3.3)	(0.5)	–	–	(7.2)
Provision (release)/charge during the year	(0.3)	4.2	0.8	–	–	4.7
<b>At 31 December 2020</b>	<b>2.1</b>	<b>3.9</b>	<b>2.3</b>	<b>–</b>	<b>0.3</b>	<b>8.6</b>
At 1 January 2019	14.9	13.9	5.3	0.5	0.8	35.4
Amounts utilised during the year	(9.6)	(11.4)	(0.3)	(0.6)	–	(21.9)
Provision (release)/charge during the year	0.5	0.5	(0.2)	0.1	(0.5)	0.4
(Release)/charge on transition to IFRS16	–	–	(2.8)	–	–	(2.8)
<b>At 31 December 2019</b>	<b>5.8</b>	<b>3.0</b>	<b>2.0</b>	<b>–</b>	<b>0.3</b>	<b>11.1</b>

#### CUSTOMER REDRESS

Provisions of £2.1 million (2019: £5.8 million) are held in respect of various potential customer claims and represent management's best estimate of the likely costs.

#### RESTRUCTURING

A restructuring provision of £3.9 million (2019: £3.0 million) is held in relation to business and organisational changes announced during 2020 and earlier periods.

#### PROPERTY RELATED PROVISION

Property related provisions of £2.3 million (2019: £2.0 million) are held in respect of lease costs for branch premises that are no longer in use. This will be utilised over the remaining term of the unoccupied leasehold branches.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25. SUBORDINATED LIABILITIES

Group and Society	2020	2019
	£m	£m
6¾% Subordinated Bonds 2024	4.1	4.1
13½% Convertible Tier 2 Capital Notes 2025	26.5	26.4
3¾% Subordinated Bonds 2028	300.9	300.6
3% Senior Non-Preferred Bonds 2025	280.2	280.0
Fair value hedging adjustments	33.3	15.3
<b>Total subordinated liabilities</b>	<b>645.0</b>	<b>626.4</b>

All subordinated liabilities are denominated in Sterling. The following notes are repayable at the dates stated or earlier at the option of the Society and with the prior consent of the PRA under the following conditions:

- Redemption of all (but not some only) of the 3¾% Notes at par on 13 September 2027 after giving not less than thirty nor more than sixty days' notice to the holders. In the event the Society does not redeem the notes on 13 September 2027 the fixed rate of interest will become the sum of the six month mid-swap rate plus 2.3175%.
- Redemption of all (but not some only) of the 13½% Convertible Tier 2 Capital Notes will occur on 1 April 2025 unless the notes are converted to Profit Participating Deferred Shares (PPDS). The 'Conversion Trigger' shall occur if on any Calculation Date the Society's Common Equity Tier 1 Capital Ratio, as confirmed in a report of the auditor to the Society and addressed to the Board of Directors of the Society, is less than 5%. Should the Conversion Trigger occur on the 13½% Convertible Notes and these notes convert into PPDS, the PPDS will be perpetual in nature.
- Redemption of all (but not some only) of the 3% Notes at par on 18 April 2024 after giving not less than thirty nor more than sixty days' notice to the holders. In the event the Society does not redeem the notes on 18 April 2024 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%.

The rights of repayment of the holders of subordinated liabilities are subordinated to the claims of all depositors, creditors and members holding shares in the Society, as regards the principal of their shares and interest due on them.

### 26. FINANCIAL COMMITMENTS

Group and Society	2020	2019
	£m	£m
Committed undrawn standby facilities	438.2	421.0

The Society has an obligation under the *Building Societies Act 1986* to discharge the liabilities incurred pre-11 June 1996 of all subsidiaries, in so far as those subsidiaries are unable to discharge the liabilities out of their own assets.

The Society has given undertakings whereby it has agreed to further discharge the liabilities incurred post-11 June 1996 by certain subsidiaries in the event that these subsidiaries are unable to discharge them out of their own assets.

In addition, the Society guarantees certain mortgage buyback obligations in Accord Mortgages Limited regarding the Group's special purpose vehicle securitisation entities in the event that Accord is unable to discharge these obligations.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments used for the management of market risk include derivative financial instruments (derivatives) which 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 only used by the Group in accordance with the *Building Societies Act 1986*. This means that such instruments are not used in trading activity or for speculative purposes and are only used to reduce the risk of loss on core assets or liabilities arising from changes in interest rates, currency rates or other factors of a prescribed description.

The principal derivatives used in balance sheet risk management are interest rate swaps, interest rate options, cross currency interest rate swaps and foreign exchange contracts. These are used to hedge Group exposures arising from fixed rate mortgage lending and savings products, funding and investment activities.

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the type of derivatives which are typically used in managing such risks after considering any offsetting risk from other activities.

Activity	Risk	Type of hedge
Management of the investment of reserves and other net non-interest bearing liabilities	Sensitivity to changes in interest rates	Interest rate swaps
Fixed rate savings products and debt issuance	Sensitivity to changes in interest rates	Interest rate swaps
Fixed rate mortgage lending	Sensitivity to changes in interest rates	Interest rate swaps
Management of the interest basis risk arising from differences in the underlying pricing basis of assets and liabilities	Sensitivity to changes in relationships between interest rate basis	Interest rate swaps
Equity linked investment products	Sensitivity to changes in equity indices	Equity linked 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

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 ones have been designated as such for accounting purposes. In some cases a natural offset can be achieved without applying the hedge accounting requirements of IAS 39. The Group only designates accounting hedges where a high degree of effectiveness can be achieved.

### HEDGING

The following table shows the balance sheet categories covered by hedge accounting relationships:

Hedge Relationship	Balance Sheet Line Item
<b>Fair value hedge for interest rate risk</b>	
Fixed rate mortgages	Loans and advances to customers
Fixed rate debt securities held	Liquid assets – Debt securities
Fixed rate debt securities issued	Debt securities in issue
<b>Fair value hedge for interest rate and FX risk</b>	
Fixed rate debt securities issued	Debt securities in issue
<b>Cash flow hedge for interest rate risk</b>	
Floating rate liquid assets	Liquid assets – Loans and advances to credit institutions
Floating rate deposits	Amounts owed to credit institutions

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

#### INTEREST RATE RISK ON FIXED RATE MORTGAGES AND PURCHASED DEBT SECURITIES (FAIR VALUE)

The Group holds portfolios of long-term fixed rate mortgages and debt securities. These portfolios expose the Group to changes in fair value due to movements in market interest rates. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term fixed rate mortgages arising solely from changes in SONIA (the benchmark rate of interest). Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the hedged item attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

Possible sources of ineffectiveness are as follows:

- differences between the expected and actual volume of prepayments for mortgage portfolios, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- difference in timing of cash flows between the mortgage loans and the hedging interest rate swaps;
- difference in the designated coupon rate % of the hedged asset and the hedging derivative; and
- hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument.

The exposure from the mortgage portfolio frequently changes due to new loans being originated, contractual repayments and early prepayments made by customers in each period. As a result, the Group adopts a portfolio hedging strategy to hedge the exposure by closing and entering into new swap agreements. The Group uses the portfolio fair value hedge of interest rate risk to recognise fair value changes related to changes in interest rate risk in the mortgage portfolio, and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone. This hedge relationship is updated on a monthly basis for changes in the portfolio.

#### FOREIGN EXCHANGE AND INTEREST RATE RISK ON FIXED RATE DEBT ISSUANCE (FAIR VALUE)

The Group accesses international markets in order to obtain effective sources of funding. As part of this process, the Group issues fixed rate debt in both GBP and EUR. The foreign currency and interest rate risk associated with the EUR debt 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 cash flows of the foreign currency debt arising solely from changes in the relevant foreign currency exchange rate. The interest rate risk component is determined as the change in fair value of the debt arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the debt attributable to changes in the hedged risk(s) with changes in the fair value of the hedging derivatives.

Possible sources of ineffectiveness are as follows:

- differences in discounting approach between the hedged item and hedging instrument, including the cross currency basis spread applied in the valuation of cross currency swaps;
- hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument;
- difference in the designated coupon rate % of the hedged liability and the hedging derivative; and
- counterparty credit risk which impacts the value of uncollateralised cross currency swaps but not the hedged items.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

#### INTEREST RATE RISK ON FLOATING RATE DEPOSITS AND INVESTMENTS (CASH FLOW HEDGE)

Historically, the Group have transacted interest rate swaps to mitigate the interest rate risk between its fixed rate assets and liabilities and those which pay or receive a floating rate of interest. Cash flow hedges were designated where interest rate swaps are used to convert the interest rate variability on floating rate financial instruments into fixed rates.

In 2019, all remaining cash flow hedges were terminated as ineffective. There are currently no plans to designate further cash flow hedges but the group will maintain the option to do so in future should this help to effectively manage risk.

Ineffectiveness has been recognised in the financial statements in 2019 up to the point of termination, primarily relating to the tear up of swaps. Other sources of ineffectiveness can include:

- differences in the floating rate basis of interest between the hedged item and hedging instrument;
- hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument; and
- difference in the designated fixed coupon rate % of the hedged item and the hedging derivative.

#### 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.

The primary sources of ineffectiveness has arisen on fair value portfolio hedges of interest rate risk as a result of the unwind of losses from prior year.

	2020	2019
	£m	£m
<b>Fair value hedges</b>		
Fixed rate mortgages	10.5	2.0
Fixed rate debt securities held	(1.6)	(0.6)
Fixed rate debt securities issued	(9.3)	(10.7)
<b>Cash flow hedges</b>		
Floating rate debt securities issued	(0.6)	(1.8)
Floating rate loans	–	–
<b>Total</b>	<b>(1.0)</b>	<b>(11.1)</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

## INEFFECTIVENESS (CONTINUED)

The following tables summarise the notional and fair value of all derivative financial instruments and the hedging designations in place at that date. The change in fair value used for calculating ineffectiveness is based on all derivatives held during the year.

	Contract/ Notional amount	Fair values		Change in fair value used for calculating ineffectiveness
		Assets	Liabilities	
	£m	£m	£m	£m
<b>Group</b>				
<b>At 31 December 2020</b>				
Interest rate swaps designated as fair value hedges	23,376.8	78.1	419.8	(169.3)
Interest rate swaps designated as cash flow hedges	-	-	-	-
Cross currency interest rate swaps designated as fair value hedges	3,599.1	298.3	27.0	(12.8)
Derivatives not designated as hedges:				
Interest rate swaps	6,825.3	38.2	41.2	n/a
Equity linked interest rate swaps	-	-	-	n/a
Foreign exchange	117.8	1.6	2.9	n/a
<b>Total derivative financial instruments</b>	<b>33,919.0</b>	<b>416.2</b>	<b>490.9</b>	<b>(182.1)</b>
<b>Society</b>				
<b>At 31 December 2020</b>				
Interest rate swaps designated as fair value hedges	23,376.8	78.1	419.8	(169.3)
Interest rate swaps designated as cash flow hedges	-	-	-	-
Cross currency interest rate swaps designated as fair value hedges	1,349.7	99.6	18.2	(6.3)
Derivatives not designated as hedges:				
Interest rate swaps	22,468.4	38.2	24.2	n/a
Equity linked interest rate swaps	-	-	-	n/a
Foreign exchange	117.8	1.6	2.9	n/a
<b>Total derivative financial instruments</b>	<b>47,312.7</b>	<b>217.5</b>	<b>465.1</b>	<b>(175.6)</b>

For collateralised derivatives, the expected future cash flows have been discounted using the Overnight Indexed Swap (OIS) curve, and for non-collateralised derivatives the LIBOR curve has been used for discounting with the exception of the October 2020 issuance where SONIA was used. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

#### INEFFECTIVENESS (CONTINUED)

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		Change in fair value used for calculating ineffectiveness
		Assets	Liabilities	
	£m	£m	£m	£m
<b>Group</b>				
<b>At 31 December 2019</b>				
Interest rate swaps designated as fair value hedges	21,673.9	52.0	158.0	(93.1)
Interest rate swaps designated as cash flow hedges	–	–	–	–
Cross currency interest rate swaps designated as fair value hedges	3,190.9	278.7	25.4	(8.7)
Derivatives not designated as hedges:				
Interest rate swaps	9,909.7	34.4	47.4	n/a
Equity linked interest rate swaps	–	–	–	n/a
Foreign exchange	50.9	2.5	–	n/a
<b>Total derivative financial instruments</b>	<b>34,825.4</b>	<b>367.6</b>	<b>230.8</b>	<b>(101.8)</b>
<b>Society</b>				
<b>At 31 December 2019</b>				
Interest rate swaps designated as fair value hedges	21,673.9	52.0	158.0	(93.1)
Interest rate swaps designated as cash flow hedges	–	–	–	(0.1)
Cross currency interest rate swaps designated as fair value hedges	1,063.6	108.1	19.8	(11.7)
Derivatives not designated as hedges:				
Interest rate swaps	23,880.7	58.0	54.6	n/a
Equity linked interest rate swaps	–	–	–	n/a
Foreign exchange	50.9	2.5	–	n/a
<b>Total derivative financial instruments</b>	<b>46,669.1</b>	<b>220.6</b>	<b>232.4</b>	<b>(104.9)</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

#### INEFFECTIVENESS (CONTINUED)

The following tables show the maturity profile of the hedging instruments designated in hedge relationships by notional used in the Group's hedging strategies:

Group	Repayable up to three years	In more than three years but less than five years	Over five years	Total
<b>As at 31 December 2020</b>	£m	£m	£m	£m
Interest rate swaps (pay fixed)	14,165.7	6,196.5	1,134.1	21,496.3
Interest rate swaps (receive fixed)	449.9	280.6	1,150.0	1,880.5
Cross currency interest rate swaps	2,249.4	899.8	449.9	3,599.1
<b>Total fair value hedges</b>	<b>16,865.0</b>	<b>7,376.9</b>	<b>2,734.0</b>	<b>26,975.9</b>

Group	Repayable up to three years	In more than three years but less than five years	Over five years	Total
<b>As at 31 December 2019</b>	£m	£m	£m	£m
Interest rate swaps (pay fixed)	12,416.7	6,435.0	1,016.1	19,867.8
Interest rate swaps (receive fixed)	–	700.5	1,105.6	1,806.1
Cross currency interest rate swaps	1,914.5	1,276.4	–	3,190.9
<b>Total Fair value hedges</b>	<b>14,331.2</b>	<b>8,411.9</b>	<b>2,121.7</b>	<b>24,864.8</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

#### INEFFECTIVENESS (CONTINUED)

Society	Repayable up to three years	In more than three years but less than five years	Over five years	Total
<b>As at 31 December 2020</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Interest rate swaps (pay fixed)	14,165.7	6,196.5	1,134.1	21,496.3
Interest rate swaps (receive fixed)	449.9	280.6	1,150.0	1,880.5
Cross currency interest rate swaps	899.8	449.9	–	1,349.7
<b>Total Fair value hedges</b>	<b>15,515.4</b>	<b>6,927.0</b>	<b>2,284.1</b>	<b>24,726.5</b>

Society	Repayable up to three years	In more than three years but less than five years	Over five years	Total
<b>As at 31 December 2019</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Interest rate swaps (pay fixed)	12,416.7	6,435.0	1,016.1	19,867.8
Interest rate swaps (receive fixed)	–	700.5	1,105.6	1,806.1
Cross currency interest rate swaps	638.2	425.5	–	1,063.6
<b>Total Fair value hedges</b>	<b>13,054.9</b>	<b>7,561.0</b>	<b>2,121.7</b>	<b>22,737.5</b>

The following table shows the average price/rate of the hedging instruments by maturity used in the Group's hedging strategies:

Group and Society	2020			2019		
	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
<b>Average fixed interest rate – Fair value hedges</b>						
Interest rate swaps (pay fixed)	0.68	0.62	0.45	0.76	1.00	0.99
Interest rate swaps (receive fixed)	0.88	0.93	1.52	–	0.88	1.80
Cross currency interest rate swaps	0.72	0.38	0.01	0.97	0.21	–
<b>Average fixed interest rate – Cash flow hedges</b>						
Interest rate swaps (pay fixed)	–	–	–	–	–	–
Interest rate swaps (receive fixed)	–	–	–	–	–	–
<b>Average EUR:GBP FX rate – Fair value hedges</b>						
Cross currency interest rate swaps	1.26	1.12	1.10	1.35	1.15	–

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

#### INEFFECTIVENESS (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
<b>Group</b>					
<b>At 31 December 2020</b>					
Fixed rate mortgages (interest rate risk)	19,774.4	–	274.3	–	188.3
Fixed rate debt securities held (interest rate risk)	1,659.5	–	51.6	–	22.0
Fixed rate debt securities issued (interest rate risk)	–	999.4	–	(55.9)	(31.7)
Fixed rate debt securities issued (interest rate and FX risk)	–	3,612.6	–	(29.4)	3.2
<b>Society*</b>					
<b>At 31 December 2020</b>					
Fixed rate mortgages (interest rate risk)	19,774.4	–	274.3	–	188.3
Fixed rate debt securities held (interest rate risk)	1,659.5	–	51.6	–	22.0
Fixed rate debt securities issued (interest rate risk)	–	999.4	–	(55.0)	(31.7)
Fixed rate debt securities issued (interest rate and FX risk)	–	1,358.0	–	(11.1)	2.9
<b>Group</b>					
<b>At 31 December 2019</b>					
Fixed rate mortgages (interest rate risk)	18,624.3	–	86.1	–	104.0
Fixed rate debt securities held (interest rate risk)	1,392.3	–	29.2	–	20.4
Fixed rate debt securities issued (interest rate risk)	–	999.3	–	(23.0)	(27.0)
Fixed rate debt securities issued (interest rate and FX risk)	–	3,206.1	–	(32.3)	(4.9)
<b>Society*</b>					
<b>At 31 December 2019</b>					
Fixed rate mortgages (interest rate risk)	18,624.3	–	86.1	–	104.0
Fixed rate debt securities held (interest rate risk)	1,392.3	–	29.2	–	20.4
Fixed rate debt securities issued (interest rate risk)	–	999.3	–	(23.0)	(27.0)
Fixed rate debt securities issued (interest rate and FX risk)	–	1,072.8	–	(14.2)	1.6

\* 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

#### INEFFECTIVENESS (CONTINUED)

The accumulated amount of fair value hedge adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses is £266.1 million (2019: £113.3 million).

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	Discontinued hedges
	£m	£m	£m	£m	£m
<b>At 31 December 2020</b>					
Floating rate debt securities issued	-	-	(0.6)	-	0.1
Floating rate loans	-	-	-	-	-
<b>At 31 December 2019</b>					
Floating rate debt securities issued	-	-	(1.7)	-	0.7
Floating rate loans	-	-	-	-	-

The following table shows the movements in the cash flow hedge reserve during the year:

Group and Society	2020	2019
	£m	£m
<b>At 1 January</b>	<b>(0.5)</b>	(1.7)
Effective portion of changes in fair value of interest rate swaps:		
Floating rate debt securities issued	-	(0.2)
Floating rate loans	-	-
Amounts reclassified from reserves to income statement:		
Floating rate debt securities issued	0.6	1.8
Floating rate loans	-	-
Taxation	(0.2)	(0.4)
<b>At 31 December</b>	<b>(0.1)</b>	(0.5)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 28. LIQUIDITY RISK

Liquidity risk is an intrinsic part of the Group'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 Group'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 the Group 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 Group's liquidity management comprises the following key areas:

- At the highest level, the Group 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 Group'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 Group 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 Group 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 Group also manages liquidity in line with prevailing regulatory requirements, which has been the Liquidity Coverage Ratio (LCR) as prescribed under the European Capital Requirements Directive IV (CRD IV) as part of the Capital Requirements Regulation (CRR) element (retained in UK law following the UK's exit from the European Union), since 1 October 2015. 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 at a Group and Society-only level, with the lower of the two being reported as 191.86% for December 2020 month end. For comparison, the lowest as at 31 December 2019 was 163.31%.
- The Group 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 Group. These are linked to balance sheet size.
- The liquidity position of the Group is forecast across the next two years and measured against forecasts of the requirements on both a regulatory and internal basis. This is to ensure that the short-term plans of the Group 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 Group actively seeks to manage its liquidity position, along with other complimentary metrics which are included within the Group'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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 28. LIQUIDITY RISK (CONTINUED)

#### PLEGDED ASSETS

The Group's asset backed funding programmes, reported within debt securities in issue (see note 22) are secured against certain loans and advances to customers.

In addition, as part of its liquidity management, the Group enters into sale and repurchase agreements whereby the Group 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:

	Carrying amounts of encumbered assets	Carrying amounts of unencumbered assets	Total
2020	£m	£m	£m
Liquid assets	1,927.1	6,476.1	8,403.2
Loans and advances to customers	10,447.0	28,351.6	38,798.6
Other assets	–	729.0	729.0
<b>Total assets</b>	<b>12,374.1</b>	<b>35,556.7</b>	<b>47,930.8</b>

	Carrying amounts of encumbered assets	Carrying amounts of unencumbered assets	Total
2019	£m	£m	£m
Liquid assets	1,308.8	4,293.5	5,602.3
Loans and advances to customers	10,282.6	27,701.8	37,984.4
Other assets	–	691.2	691.2
<b>Total assets</b>	<b>11,591.4</b>	<b>32,686.5</b>	<b>44,277.9</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 28. LIQUIDITY RISK (CONTINUED)

#### PLEDGED ASSETS (CONTINUED)

All of the assets pledged as security are shown in the Statement of Financial Position as the Group 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 2020 the Society had in issue £1,250m and €2,500m of covered bonds.

The Group established its first securitisation programme in 2011. This year the latest securitisation structure, Brass No.9 PLC was established and in June 2020 issued £2,300m of listed debt securities secured against certain loans of Accord Mortgages Ltd. Due to market conditions at the time of issuance, all of these debt securities were retained by the Society to be used as collateral for use in sale and repurchase agreements or central bank operations. The Society hopes to issue further public notes in 2021. As at 31 December 2020, the Group had in issue £6,640m of securitisation notes, of which £5,921m were retained.

Whole mortgage loan pools are pre-positioned at the Bank of England under the Funding for Lending Scheme (FLS) and the Term Funding Scheme (TFS). 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.

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 statement of financial position. 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	In more than three months but not more than one year	In more than one year but not more than five years	Over five years	Total
<b>As at 31 December 2020</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Shares	22,752.8	6,740.8	3,878.2	–	33,371.8
Amounts owed to credit institutions	468.8	1,738.4	1,652.0	–	3,859.2
Other deposits:					
Society	69.0	97.2	–	–	166.2
Subsidiaries	371.1	–	–	–	371.1
Debt securities in issue	32.8	625.5	4,727.4	864.0	6,249.7
Subordinated liabilities	–	22.1	382.6	330.4	735.1
Operating lease payments	–	0.1	–	–	0.1
Derivative financial liabilities	31.3	115.0	302.9	48.6	497.8
<b>Total</b>	<b>23,725.8</b>	<b>9,339.1</b>	<b>10,943.1</b>	<b>1,243.0</b>	<b>45,251.0</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 28. LIQUIDITY RISK (CONTINUED)

#### PLEGDED ASSETS (CONTINUED)

Group	Repayable on demand and up to three months	In more than three months but not more than one year	In more than one year but not more than five years	Over five years	Total
<b>As at 31 December 2019</b>	£m	£m	£m	£m	£m
Shares	19,323.9	7,143.2	4,227.1	0.7	30,694.9
Amounts owed to credit institutions	404.5	16.3	2,921.6	–	3,342.4
Other deposits:					
Society	154.6	88.8	–	–	243.4
Subsidiaries	342.3	–	–	–	342.3
Debt securities in issue	151.2	482.1	5,258.4	428.0	6,319.7
Subordinated liabilities	–	22.1	367.2	369.6	758.9
Operating lease payments	–	0.1	–	–	0.1
Derivative financial liabilities	9.6	49.0	167.1	21.1	246.8
<b>Total</b>	<b>20,386.1</b>	<b>7,801.6</b>	<b>12,941.4</b>	<b>819.4</b>	<b>41,948.5</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 28. LIQUIDITY RISK (CONTINUED)

## PLEGDED ASSETS (CONTINUED)

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings, based on the remaining period between the date of the Statement of Financial Position and the contractual maturity date.

Group	Repayable on demand	Less than three months	In more than three months but not more than one year	In more than one year but not more than five years	Over five years	Total
As at 31 December 2020	£m	£m	£m	£m	£m	£m
<b>Financial assets</b>						
Cash in hand and balances with the Bank of England	4,455.7	–	–	–	–	4,455.7
Loans and advances to credit institutions	1,087.4	–	–	–	–	1,087.4
Debt securities	–	80.5	233.4	1,451.9	1,094.3	2,860.1
Loans and advances to customers	–	349.2	108.0	1,420.6	36,920.8	38,798.6
Derivatives financial instruments	–	0.6	60.7	296.8	58.1	416.2
<b>Total financial assets</b>	<b>5,543.1</b>	<b>430.3</b>	<b>402.1</b>	<b>3,169.3</b>	<b>38,073.2</b>	<b>47,618.0</b>
<b>Financial liabilities</b>						
Shares	20,714.8	2,034.5	6,740.8	3,878.2	–	33,368.3
Amounts owed to credit institutions	103.6	364.5	1,718.4	1,650.4	–	3,836.9
Other deposits	379.5	49.0	107.2	–	–	535.7
Debt securities in issue	–	20.0	545.0	3,982.4	1,580.9	6,128.3
Derivative financial instruments	–	2.2	33.6	378.6	76.5	490.9
Subordinated liabilities	–	–	–	310.7	334.3	645.0
<b>Total financial liabilities</b>	<b>21,197.9</b>	<b>2,470.2</b>	<b>9,145.0</b>	<b>10,200.3</b>	<b>1,991.7</b>	<b>45,005.1</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 28. LIQUIDITY RISK (CONTINUED)

#### PLEGDED ASSETS (CONTINUED)

Group	Repayable on demand	Less than three months	In more than three months but not more than one year	In more than one year but not more than five years	Over five years	Total
<b>As at 31 December 2019</b>	£m	£m	£m	£m	£m	£m
<b>Financial assets</b>						
Cash in hand and balances with the Bank of England	2,528.1	–	–	–	–	2,528.1
Loans and advances to credit institutions	526.0	–	–	–	–	526.0
Debt securities	–	82.6	274.8	1,230.6	960.1	2,548.1
Loans and advances to customers	–	41.0	68.6	1,145.9	36,728.9	37,984.4
Derivatives financial instruments	–	0.6	65.1	269.4	32.5	367.6
<b>Total financial assets</b>	<b>3,054.1</b>	<b>124.2</b>	<b>408.5</b>	<b>2,645.9</b>	<b>37,721.5</b>	<b>43,954.2</b>
<b>Financial liabilities</b>						
Shares	16,590.8	2,715.5	7,143.2	4,227.1	0.7	30,677.3
Amounts owed to credit institutions	119.7	269.9	10.0	2,905.4	–	3,305.0
Other deposits	350.6	125.5	108.5	–	–	584.6
Debt securities in issue	–	90.4	465.7	4,057.4	1,421.3	6,034.8
Derivative financial liabilities	–	0.8	11.0	168.4	50.6	230.8
Subordinated liabilities	–	–	–	–	626.4	626.4
<b>Total financial liabilities</b>	<b>17,061.1</b>	<b>3,202.1</b>	<b>7,738.4</b>	<b>11,358.3</b>	<b>2,099.0</b>	<b>41,458.9</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 29. MARKET RISK

Market risk is the risk to earnings and capital arising from changes in interest rates, foreign currency exchange rates, structural mismatches within the Statements of Financial Position 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 252 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 and for the Group on a monthly 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:

- Historic data is not necessarily a good guide to future events.
- The model, by definition, does not capture potential losses outside the 99% confidence level, i.e. those events that are extreme in nature.
- VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intra-day exposures.

VaR measures 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, SONIA and LIBOR. The effect of LIBOR and 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 LIBOR/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 Group.

#### 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 and reported on a daily basis separately for each currency and at the full Statement of Financial Position 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 Group cannot dictate interest rate movements themselves, 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)

### 29. MARKET RISK (CONTINUED)

#### STRUCTURAL RISK ANALYSIS (BASIS RISK) (CONTINUED)

##### Repricing gap analysis (continued)

All market risk is managed in the Society on behalf of the Group, hence the tables below apply to the Group.

	Year end	Average	Maximum	Minimum
<b>2020</b>	£m	£m	£m	£m
LIBOR basis	0.1	0.1	0.1	–
SONIA basis	1.5	1.5	1.5	1.3
PV01 sensitivity	0.4	0.4	0.5	0.3
PV100 sensitivity	41.1	42.0	49.0	32.8
Treasury VaR	1.2	1.4	2.7	0.6

	Greater than one year	Greater than five years	Greater than ten years
<b>2020</b>	£m	£m	£m
Repricing gap	(549.0)	83.0	2.0

	Year end	Average	Maximum	Minimum
<b>2019</b>	£m	£m	£m	£m
LIBOR basis	0.1	0.1	0.1	0.1
SONIA basis	1.3	1.4	1.6	1.3
PV01 sensitivity	0.2	0.3	0.5	0.2
PV100 sensitivity	17.1	29.8	44.8	17.1
Treasury VaR	3.5	2.1	3.5	1.0

	Greater than one year	Greater than five years	Greater than ten years
<b>2019</b>	£m	£m	£m
Repricing gap	1,567.0	(159.0)	(12.0)

Detail of how the Group manages its interest rate risk is included in the *Strategic Report*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 30. CURRENCY RISK

Currency exchange risk is monitored daily and the Group seeks to minimise its net exposure to assets and liabilities denominated in currencies other than Sterling. In particular the Group's existing non-Sterling Liquidity portfolio and Wholesale Funding exposures are swapped back into Sterling. Maximum positions throughout the year represented less than 0.01% of total assets.

Actual exposures were:

Group and Society	2020	2019
	£m	£m
Year end	1.6	1.0
Maximum	1.9	1.3

### 31. WHOLESALE CREDIT RISK

The Group's wholesale credit risk arises principally from assets held for liquidity purposes. The risk is that counterparties with whom the Group invests liquid assets fail to repay those investments when they fall due. The Group, through the Treasury function, undertakes its own internal rating of all its counterparties and sets individual limits accordingly. These limits are regularly reviewed internally and against the external rating agencies, with revocation or suspension taking place where considered appropriate.

Limits are in place governing the types of instrument in which the Group will invest, as well as geographic limits designed to prevent over-exposure to a given country. The Group uses an internal credit ratings process to identify potential risks and wholesale related credit risks are reported and discussed monthly at the Asset and Liability Committee.

Whilst recognising that exposures will be maintained across a spectrum of counterparties the Board has maintained a low risk appetite for wholesale credit risk resulting in our inter-bank exposures being limited to operational requirements.

A diversified range of counterparties is in place to meet business and regulatory requirements and to meet the Board approved strategies. No credit risk exposures being undertaken by Treasury to counterparties that have not been through an internal approvals process, including a formal review by the second line of defence.

The following tables break down wholesale Group exposures by type using the composite external ratings\*.

	Aaa-Aa3	A1-A3	Baa1-Baa3	Ba1-B3	Caa1-C3	Unrated	Total
<b>2020</b>	£m	£m	£m	£m	£m	£m	£m
Central Bank and Sovereigns	5,028.9	-	-	-	-	-	5,028.9
Financial Institutions	1,114.7	1,602.2	58.5	-	-	-	2,775.4
Multilateral & Government Development Banks	1,015.1	-	-	-	-	-	1,015.1
<b>Total</b>	<b>7,158.7</b>	<b>1,602.2</b>	<b>58.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,819.4</b>

	Aaa-Aa3	A1-A3	Baa1-Baa3	Ba1-B3	Caa1-C3	Unrated	Total
<b>2019</b>	£m	£m	£m	£m	£m	£m	£m
Central Bank and Sovereigns	3,398.6	-	-	-	-	-	3,398.6
Financial Institutions	624.2	1,138.6	32.6	-	-	-	1,795.4
Multilateral & Government Development Banks	775.9	-	-	-	-	-	775.9
<b>Total</b>	<b>4,798.7</b>	<b>1,138.6</b>	<b>32.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,969.9</b>

\* The composite rating is derived from an average external rating.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 31. WHOLESALE CREDIT RISK (CONTINUED)

The Group has a low risk appetite to exposures outside the UK. This is reflected in the country exposure by type shown in the tables below.

	Central Banks and Sovereigns	Financial Institutions	Multilateral & Government Development Banks	Structured	Other	Total
2020	£m	£m	£m	£m	£m	£m
United Kingdom	5,028.9	2,530.1	–	–	–	7,559.0
France	–	196.7	–	–	–	196.7
United States	–	28.6	–	–	–	28.6
Germany	–	–	330.7	–	–	330.7
International	–	–	563.8	–	–	563.8
Canada	–	20.0	–	–	–	20.0
Spain	–	–	–	–	–	–
Netherlands	–	–	120.6	–	–	120.6
Belgium	–	–	–	–	–	–
<b>Total</b>	<b>5,028.9</b>	<b>2,775.4</b>	<b>1,015.1</b>	<b>–</b>	<b>–</b>	<b>8,819.4</b>

	Central Banks and Sovereigns	Financial Institutions	Multilateral & Government Development Banks	Structured	Other	Total
2019	£m	£m	£m	£m	£m	£m
United Kingdom	3,398.6	1,597.0	–	–	–	4,995.6
France	–	141.0	–	–	–	141.0
United States	–	26.7	–	–	–	26.7
Germany	–	–	322.7	–	–	322.7
International	–	–	389.4	–	–	389.4
Canada	–	20.0	–	–	–	20.0
Spain	–	–	–	–	–	–
Netherlands	–	–	63.8	–	–	63.8
Belgium	–	10.7	–	–	–	10.7
<b>Total</b>	<b>3,398.6</b>	<b>1,795.4</b>	<b>775.9</b>	<b>–</b>	<b>–</b>	<b>5,969.9</b>

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 £4,446.5m (2019: £2,518.9m) to the Bank of England and £582.4m (2019: £879.7m) in UK Government bonds.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 31. WHOLESALE CREDIT RISK (CONTINUED)

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 Statement of Financial Position as below:

	2020	2019
	£m	£m
Cash in hand and balances with the Bank of England	4,455.7	2,528.1
Loans and advances to credit institutions	1,087.4	526.0
Debt securities	2,860.1	2,548.2
Derivative financial instruments	416.2	367.6
<b>Total wholesale credit risk</b>	<b>8,819.4</b>	<b>5,969.9</b>

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS

#### GROSS CONTRACTUAL EXPOSURE

The table below splits the *loans and advances to customers* balance per the statement of financial position into its constituent parts and reconciles to the gross exposures used in the ECL model. *Effective Interest Rate* (EIR) and *hedging* adjustments have been excluded from the ECL model as these do not form part of the contractual cash flows from the assets.

EIR is the measurement method used for financial assets held at amortised cost, including *loans and advances to customers*, which spreads income and fees over the life of the asset. See note 1 for more details. *Hedging* is described in more detail in note 27. The *fair value rate adjustment* reflects the market value adjustment on acquired portfolios of mortgage assets in respect of interest rates on the underlying products. This is amortised over the expected life of the acquired portfolio.

Group	31 December 2020	31 December 2019
	£m	£m
Gross contractual exposures	38,609.6	37,986.2
EIR	52.0	49.2
Hedging	274.4	86.0
Fair value rate adjustment	(61.4)	(71.9)
Gross loans and advances to customers	38,874.6	38,049.5
Impairment	(43.9)	(30.2)
Fair value credit adjustment	(32.1)	(34.9)
ECL	(76.0)	(65.1)
<b>Loans and advances to customers</b>	<b>38,798.6</b>	<b>37,984.4</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### EXPECTED CREDIT LOSSES (ECL)

ECL are calculated using models that take historical default and loss experience and apply predictions of future economic conditions (e.g. unemployment and house prices) and customer behaviour (e.g. default rates). In certain circumstances, the core models may not accurately reflect factors that have resulted in an increased credit risk. When this happens, post model adjustments (PMA) are overlaid to reflect the impact on ECL. The economic scenarios and the PMAs applied at 31 December 2020 are described below.

#### Economic Scenarios

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

Over the course of 2020, the Group's focus switched from the economic risks posed by Brexit to those from the COVID-19 pandemic. The Group continue to use four scenarios: an **upside** scenario that assumes minimal disruption; our **core** or central scenario; a more negative **downturn** scenario; and a worst-case **stress** scenario.

#### Core

The core scenario is the Group's best estimate of how the COVID-19 pandemic will evolve and is aligned with the central scenario used in the Group's financial planning processes. It assumes lockdowns across the UK nations last until the end of March 2021, with the economic consequences of this smaller than the initial 2020 lockdown because the manufacturing and construction sectors will largely stay open and many more employees in the services sector are able to work from home.

It further assumes that the vaccines continue to be rolled out successfully through the year with the majority of the population vaccinated by the end of 2021. Whilst restrictions for some tier 3 and 4 areas remain in place into Q2, the decline in the infection rate and hospital numbers allows the gradual reopening of previously closed sectors.

In this scenario gross domestic product (GDP) recovers rapidly in 2021 and 2022, with annual growth rates significantly above those seen since the financial crisis. The UK economy returns to near its pre-pandemic level in Q3 2022 but is structurally marginally smaller due to lost investment, business closure and labour market scarring (i.e. the longer a person is unemployed the more difficult they find it to re-enter the jobs market.) In 2022 to 2025 GDP growth then slows to similar rates seen in the past decade. The impact of Brexit is to leave GDP around 4% lower than pre-virus level in 2025 due to lower inward investment and productivity.

Unemployment is expected to rise when the UK Government's job retention scheme (JRS) ends in April 2021, reaching a peak of 7.9% in Q4 2021. But as uncertainty fades and demand continues to grow, we anticipate a recovery in business investment and therefore job creation. We still expect unemployment to remain high compared to recent years, in line with previous recessions.

The house price index (HPI) is predicted to decline from April 2021 due to the withdrawal of the JRS, the end of the Help-to-Buy scheme and the end of the temporary stamp duty/land tax threshold increases. The core scenario assumes HPI falls by 4% over 2021, stays largely flat in 2022 and then starts rising in line with inflation (2.0% per annum) from 2023.

#### Downturn

The downturn scenario assumes a reduced efficacy of the current vaccines against the new COVID-19 variants resulting in a series of extended lockdowns and tiered restrictions through 2021. This continues to have an impact on trading for sectors deemed non-essential and, over time, this pushes up unemployment.

This scenario assumes a GDP contraction of 5.5% in 2021, just over half the reduction recorded in 2020, and a continued contraction of 2.0% over 2022 as the economy starts to gradually reopen. However, with weakness in the labour markets, declining real earnings and low demand/business investment, downturn forecasts flat GDP for 2023 and growth rates of 1.5% and 2.0% for 2024 and 2025.

In terms of unemployment, there is a rapid increase from 6.3% in Q1 2021 to 8.8% in Q4 2021, peaking at 9.5% in Q1 2022. As recovery sets in, unemployment gradually starts to fall, although it is still high by recent standards.

HPI declines from April 2021 due to the end of the Help-to-Buy scheme and the temporary stamp duty/land tax threshold increases. Falling real earnings due to unemployment and lenders restricting high LTV mortgages all drive housing demand and prices down sharply by 17% in 2021. Low confidence and weak labour markets continue to add pressure on prices in 2022, with a gradual improvement thereafter in line with GDP and employment.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### ECL (CONTINUED)

#### Economic Scenarios (continued)

##### Stress

In the stress scenario there are further challenges with current vaccine's ability to cope with new strains of COVID-19. This leads to increasing challenges for the economy, with high unemployment, low inflation and low rates. A contracting economy and a large public sector deficit put pressure on sterling, giving rise to inflation and a decline in real wage growth.

Extended consumer uncertainty results in depressed consumption, whilst extended business uncertainty holds back investment, hiring and growth. Unemployment stays high for longer as the long-term unemployed find it difficult to re-enter the jobs market. We also assume that overall Brexit impact leaves GDP at least 4% smaller by 2025 due to the decline of inward investment, fall in labour supply and fall in productivity.

Unemployment assumptions are based on the experience of the early 1980s with unemployment continuing to rise even after the recession had finished and not peaking until 1984. The stress scenario has unemployment peaking in Q4 2022 and then slowly falling but remaining high compared to pre-virus levels due to a high degree of labour market scarring.

For HPI, unemployment, the contraction in real earnings, lack of high LTV mortgages and lack of available houses for sale are key drivers of low demand over the 5 year forecast horizon with property falling less sharply than downturn but over a longer period.

##### Upside

This assumes the vaccination rollout is fast and highly effective. The removal of social distancing allows households and businesses to quickly return to normality over Q2 2021. GDP growth starts off strong as the economy bounces back faster in 2021 than in the core scenario, in line with core for 2022 and reverts to pre-pandemic levels from 2023. Unemployment falls back to multi-decade lows and house prices grow at over 3% per annum.

	2020 Scenario					2019 Scenario				
	2021	2022	2023	2024	2025	2020	2021	2022	2023	2024
<b>HPI</b>										
Upside	3.2	3.4	3.4	3.6	3.5	2.9	6.8	8.9	7.3	6.3
Core	(4.0)	-	2.0	2.0	2.0	1.1	3.3	3.0	3.4	3.5
Downturn	(17.0)	(4.0)	-	1.5	2.0	(4.9)	(10.4)	(6.5)	(2.0)	2.3
Stress	(12.0)	(10.0)	(5.0)	(2.0)	-	(10.8)	(16.4)	(8.9)	5.5	5.7
<b>GDP</b>										
Upside	6.5	2.5	2.0	2.0	2.0	3.2	2.6	2.0	2.0	2.0
Core	5.7	2.5	1.8	1.6	1.6	1.4	1.8	1.9	2.0	2.0
Downturn	(5.5)	1.3	1.5	1.7	1.8	(2.0)	2.0	2.0	2.0	2.0
Stress	(5.5)	(2.0)	(0.8)	(0.5)	-	(2.6)	(1.6)	1.2	1.0	1.0
<b>Unemployment</b>										
Upside	5.0	4.0	3.9	3.8	3.8	3.2	2.4	2.2	2.3	2.3
Core	7.9	7.5	6.5	5.5	4.5	4.0	4.0	3.8	3.8	3.8
Downturn	9.5	8.5	7.5	7.0	6.0	5.4	7.0	7.0	6.7	6.3
Stress	8.8	11.9	10.8	9.0	8.0	6.4	9.2	8.8	8.2	7.5

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### ECL (CONTINUED)

##### Economic Scenarios (continued)

The following table shows the average values of the key economic variables used by each economic scenario for the period until December 2025. The table includes the three key parameters used to predict probability of default (PD) – unemployment, HPI and UK Bank of England base rate. GDP is also presented as it is the key input for determining the economic parameters used and provides context to the nature of the overall scenario. The values in the table are calculated as either a simple average of the rate across the five-year forecasting window (unemployment and bank rate) or as peak to trough (HPI and GDP).

	Upside		Core		Downturn		Stress	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>5 year Average</b>								
GDP	<b>2.3</b>	2.4	<b>2.0</b>	1.8	<b>(0.5)</b>	1.2	<b>(2.4)</b>	(0.2)
HPI	<b>3.4</b>	6.4	<b>0.4</b>	2.9	<b>(3.8)</b>	(4.4)	<b>(5.9)</b>	(5.4)
Unemployment	<b>4.4</b>	2.4	<b>6.5</b>	3.9	<b>7.8</b>	6.6	<b>9.5</b>	8.2
Bank Rate	<b>0.7</b>	4.4	<b>0.2</b>	0.3	<b>0.1</b>	–	–	3.7
<b>Peak</b>								
GDP	–	–	<b>(8.8)</b>	–	<b>(7.8)</b>	(3.2)	<b>(4.9)</b>	(5.0)
HPI	–	–	<b>(5.8)</b>	–	<b>(16.8)</b>	(22.0)	<b>(24.0)</b>	(32.8)
Unemployment	<b>7.0</b>	3.3	<b>7.9</b>	4.0	<b>9.5</b>	7.1	<b>11.9</b>	9.2

#### 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.

Group	2020		2019	
	Weighting	ECL	Weighting	ECL
<b>Scenario</b>	<b>%</b>	<b>£m</b>	<b>%</b>	<b>£m</b>
Upside	<b>5</b>	<b>28.3</b>	20	28.4
Core	<b>45</b>	<b>33.6</b>	40	30.7
Downturn	<b>35</b>	<b>99.2</b>	25	104.4
Stress	<b>15</b>	<b>120.7</b>	15	139.9
<b>Weighted scenario</b>	<b>100</b>	<b>69.5</b>	100	65.1
PMA		<b>6.5</b>		–
<b>ECL</b>		<b>76.0</b>		65.1

The relative weighting of the scenarios was assessed in conjunction with the review of underlying assumptions in each scenario in response to the COVID-19 pandemic. The main impact of this is a reduction in our weighting towards upside, which has moved from 20% in 2019 to 5% for 2020. This reflects the reduced likelihood of there being a smooth and seamless return to pre-pandemic levels of employment and economic output.

At the other end of the spectrum, the stress scenario is an operational measure used to stress test the rigour of the Group's balance sheet and applying a 15% weight to this scenario is still considered appropriate.

The overall impact is a move of 15 percentage points from upside, allocated 5 to core and 10 to downside. If the 2019 weightings had been applied to the 2020 balances the ECL would be £7.5 million lower.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### ECL (CONTINUED)

##### Post Model Adjustments

Post model adjustments (PMA) are applied when an increase in credit risk is identified that is not effectively captured in the core expected credit loss models. The PMA applied at 31 December 2020 are:

Group	2020
	£m
Payment Deferrals	3.5
Credit Bureau Data	2.0
Buy-to-Let	1.0
<b>Total PMA</b>	<b>6.5</b>

##### Payment Deferrals

In response to the COVID-19 outbreak UK mortgage lenders were encouraged to offer financial support to customers in the form of deferrals of their mortgage payments. During 2020 we granted payment deferrals to 15.3% of our mortgage customers and at 31 December 2020 1.6% of our customers were still deferring payments.

Consistent with Prudential Regulation Authority (PRA) guidance, payment deferrals are not being treated as a forbearance measure and have not impacted the credit reports of customers. In addition, payment deferrals, in and of themselves, are not being treated as a significant increase in credit risk for assessing the ECL at 31 December 2020.

To ensure that the levels of increased risk in the book potentially masked by payment deferrals are adequately reflected, a post model adjustment was developed to reflect the risk and uncertainty surrounding customer behaviour when coming out of the deferral period.

The PMA has been calculated using internal assessments of credit risk. For residential customers, we have considered the customer's employment status at the point of applying for a payment deferral and how close they were to naturally triggering stage transfer rules. For commercial customers we have segmented by industry and maintained close contact with customers to understand the ongoing levels of risk. Where we consider the risk of default to be elevated, the customer's probability of default (PD) has been stressed and calculated on a lifetime basis.

##### Credit Bureau Data

The payment deferral PMA focuses solely on Group customers that either have, or have had, a COVID-19 related payment deferral on their mortgage with the Group. This PMA does not cover the scenario where a Group mortgage customer has been granted a payment deferral on another product with another provider and where there is a delay in this information flowing through credit reference agency data used to generate PD estimates.

To address this, a representative sample of data on products such as personal loans and credit cards was sourced from a credit agency. This enabled analysis to be performed to both supplement our understanding of the risk profile of accounts that have received a payment holiday from the Group and also identify a population of accounts that had not received a payment holiday from the Group but had exhibited signs of financial difficulty on other products.

##### Buy-to-Let (BTL)

BTL has so far remained resilient in response to the COVID-19 pandemic with minimal arrears and low level usage of the payment deferral mechanism. However, some additional risks not currently forming part of the current approach to modelling credit risk have been identified and so an additional PMA has been applied. Some of these risks include the BTL book's exposure to renters from the student population and those working in the most hard hit industries such as hospitality, tourism, accommodation and retail. The repossession moratorium includes rental property and so a number of landlords have tenants in situ who are behind on their rent that they are unable to serve notice to in the way they usually would.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### ECL (CONTINUED)

##### Staging and POCI

The tables below shows the staging of loans and advances plus assets considered to be purchased or originated credit impaired (POCI) recognised as part of the acquisitions of Norwich & Peterborough Building Society (N&P) and Chelsea Building Society (CBS). The discount on acquisition is recognised as the *fair value credit adjustment*.

The Group has £515.4 million of POCI loans. Of these, 87% are now considered performing loans but are not permitted to be reclassified to stage 1 or 2. In the table below, the 'problem loans' represent the total of the Group's stage 3 balances and the non-performing portion of our POCI loans. More information on the Group's POCI loans can be found below.

31 December 2020	Balances	% Balance	PMA	Total ECL	Coverage	Average LTV	2019 Balance	2019 Coverage
Stage	£m	%	£m	£m	%	%	%	%
Stage 1	34,488.3	89.3	–	4.0	–	50.9	90.4	–
Stage 2	3,297.2	8.6	3.4	27.2	0.8	46.4	7.3	0.7
Stage 3	308.7	0.8	–	15.4	5.0	47.9	0.8	4.8
POCI	515.4	1.3	0.1	26.4	5.1	50.9	1.5	5.0
Unstaged PMA*	–	–	3.0	3.0	–	–	–	–
<b>Total</b>	<b>38,609.6</b>	<b>100.0</b>	<b>6.5</b>	<b>76.0</b>	<b>0.2</b>	<b>49.8</b>	<b>100.0</b>	<b>0.2</b>

\* Credit Bureau Data and BTL PMAs are not currently calculated at account level and therefore do not impact staging. The payment deferral PMA is assessed at this level so is reflected in the staging.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## ECL (CONTINUED)

**Staging and POCI (continued)**

The cost of risk measure has been calculated using the impairment charge for the year divided by the average balance over the period. This has increased substantially since the prior period due to the significant charge in the year, following the onset of COVID-19.

Group		31 December 2020		31 December 2019	
		£m	%	£m	%
<b>Gross exposures</b>					
Stage 1	(Balance/proportion)	<b>35,228.9</b>	<b>91.2</b>	34,405.2	90.6
Stage 2	(Balance/proportion)	<b>2,556.6</b>	<b>6.7</b>	2,710.4	7.1
Stage 3	(Balance/proportion)	<b>308.7</b>	<b>0.8</b>	307.0	0.8
POCI	(Balance/proportion)	<b>515.4</b>	<b>1.3</b>	563.6	1.5
<b>Total gross exposures</b>		<b>38,609.6</b>	<b>100.0</b>	37,986.2	100.0
Problem loans	(Balance/proportion)	<b>375.0</b>	<b>1.0</b>	378.8	1.0
Cost of risk			<b>0.1</b>		–
<b>Total expected losses</b>					
Stage 1	(Balance/coverage)	<b>4.0</b>	–	3.3	–
Stage 2	(Balance/coverage)	<b>27.2</b>	<b>1.1</b>	19.0	0.7
Stage 3	(Balance/coverage)	<b>15.4</b>	<b>5.0</b>	14.6	4.8
POCI	(Balance/coverage)	<b>26.4</b>	<b>5.1</b>	28.2	5.0
Unstaged PMA	(Balance)	<b>3.0</b>		–	
<b>Total expected losses</b>	<b>(Balance/coverage)</b>	<b>76.0</b>	<b>0.2</b>	65.1	0.2
Of which impairment	(Balance/proportion)	<b>43.9</b>	<b>57.8</b>	30.2	46.4
Of which fair value credit adjustment	(Balance/proportion)	<b>32.1</b>	<b>42.2</b>	34.9	53.6

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### ECL (CONTINUED)

#### Staging and POCI (continued)

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

Group as at 31 December	Gross exposure		Impairment		Fair Value Credit Adjustment	
	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	£m	£m
<b>Stage 1</b>	<b>35,228.9</b>	34,405.2	<b>4.0</b>	3.2	–	0.1
<b>Stage 2</b>	<b>2,556.6</b>	2,710.4	<b>26.1</b>	17.3	<b>1.1</b>	1.7
Less than 30 days past due	2,435.1	2,569.0	22.3	14.8	1.0	1.5
More than 30 days past due	121.5	141.4	3.8	2.5	0.1	0.2
<b>Stage 3</b>	<b>308.7</b>	307.0	<b>10.5</b>	9.5	<b>4.9</b>	5.1
Less than 30 days past due	110.2	102.4	1.3	1.1	1.0	0.9
30-90 days past due	67.4	74.7	1.2	1.4	0.4	0.6
More than 90 days past due	131.1	129.9	8.0	7.0	3.5	3.6
<b>POCI</b>	<b>515.4</b>	563.6	<b>0.3</b>	0.2	<b>26.1</b>	28.0
Less than 30 days past due	461.6	491.5	(0.8)	(0.7)	22.0	22.9
30-90 days past due	30.7	49.6	0.6	0.5	1.3	2.4
More than 90 days past due	23.1	22.5	0.5	0.4	2.8	2.7
<b>Unstaged PMA</b>	–	–	<b>3.0</b>	–	–	–
<b>Total</b>	<b>38,609.6</b>	37,986.2	<b>43.9</b>	30.2	<b>32.1</b>	34.9

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## ECL (CONTINUED)

## Staging and POCI (continued)

Society as at 31 December	Gross exposure		Impairment		Fair Value Credit Adjustment	
	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	£m	£m
<b>Stage 1</b>	<b>10,675.4</b>	11,777.7	<b>1.4</b>	1.3	–	0.1
<b>Stage 2</b>	<b>1,682.6</b>	1,860.8	<b>17.1</b>	11.3	<b>1.1</b>	1.7
Less than 30 days past due	1,631.9	1,794.7	15.7	10.1	1.0	1.5
More than 30 days past due	50.7	66.1	1.4	1.2	0.1	0.2
<b>Stage 3</b>	<b>133.8</b>	136.0	<b>1.2</b>	1.2	<b>4.9</b>	5.1
Less than 30 days past due	51.9	51.9	0.2	0.2	0.9	0.9
30-90 days past due	28.7	33.3	0.1	0.1	0.4	0.6
More than 90 days past due	53.2	50.8	0.9	0.9	3.6	3.6
<b>POCI</b>	<b>514.8</b>	559.4	<b>0.2</b>	0.2	<b>26.1</b>	28.0
Less than 30 days past due	461.0	490.9	(0.9)	(0.7)	22.0	22.9
30-90 days past due	30.7	46.0	0.6	0.5	1.3	2.4
More than 90 days past due	23.1	22.5	0.5	0.4	2.8	2.7
<b>Unstaged PMA</b>	–	–	<b>2.0</b>	–	–	–
<b>Total</b>	<b>13,006.6</b>	14,333.9	<b>21.9</b>	14.0	<b>32.1</b>	34.9

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

## LENDING BY TYPE

	31 December 2020	31 December 2019
	%	%
Residential Prime	<b>85.3</b>	85.3
Residential Sub-Prime/Self-Cert	<b>0.8</b>	0.9
Retail Buy-To-Let	<b>11.1</b>	10.7
Social Housing	<b>0.8</b>	0.8
Commercial lending (exc. Social Housing)	<b>2.0</b>	2.3
	<b>100.0</b>	100.0

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### 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 closely by the Credit and Conduct Risk team. Reporting on risk exposures is provided regularly to the Group's risk committees and includes analysis of mortgages in arrears as well as monitoring of the characteristics of the loan portfolios (e.g. geographic location and loan-to-value).

Group Arrears Status	2020		2019	
	Retail	Commercial	Retail	Commercial
	%	%	%	%
No arrears	97.9	98.1	97.8	98.6
Less than three months	1.7	1.5	1.9	1.2
Equal to or more than three months, less than six months	0.2	0.3	0.2	0.1
Equal to or more than six months, less than twelve months	0.1	0.1	0.1	–
Twelve months or more	0.1	–	–	–
In possession/collections	–	–	–	0.1
<b>Total gross exposure (contractual amounts)</b>	<b>100.0</b>	<b>100.0</b>	100.0	100.0
Number of properties in possession at the year end	26	–	63	4

The percentage of retail mortgages with arrears of three months or more (as a % of outstanding balances, including possessions) has risen during 2020 from 0.3% to 0.4%.

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 0.59% (2019: 0.56%) is below the comparable UK Finance ratio of 0.84% (Q4 2020) (Q4 2019: 0.75%). Arrears on more recent lending are minimal, reflecting the Group's credit risk appetite. The arrears are also lower for the buy-to-let portfolio within retail with an arrears ratio of 0.24% (2019: 0.21%).

Society Retail Arrears Status	2020	2019
	%	%
No arrears	97.7	97.3
Less than three months	1.6	2.2
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	0.2	–
Property in possession	–	0.1
<b>Total</b>	<b>100.0</b>	100.0
Number of properties in possession at the year end	24	52

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## RETAIL MORTGAGE LENDING

The Group's retail mortgage exposure can be broken down by customer type and geographical region as follows:

Retail Mortgage Customer Type	Book		New Lending	
	2020	2019	2020	2019
	%	%	%	%
First time buyer	20.8	18.6	31.0	19.3
Other buyers e.g. movers	37.1	37.2	35.0	33.9
Remortgage	30.4	33.0	23.4	36.0
Buy-to-let	11.6	11.1	9.8	10.7
Other	0.1	0.1	0.8	0.1
	100.0	100.0	100.0	100.0

Note: The customer type distribution for new lending is based on year end balances.

Retail Mortgage Geographical Distribution	Book	
	2020	2019
	%	%
Scotland	6.7	6.7
North East	3.3	3.1
Yorkshire & Humberside	9.0	8.9
North West	10.5	10.2
Midlands	13.1	12.8
East	10.6	10.8
South West	7.2	7.2
Greater London	18.2	19.0
South East	17.4	17.4
Wales & Northern Ireland	3.9	3.8
Non-UK	0.1	0.1
	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 ONS regional property price indices which comprise relative house price movements across the UK. These indexed valuations provide senior management with a view of the value and risk of the properties on which retail mortgages are secured.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### RETAIL MORTGAGE LENDING (CONTINUED)

Loan-to-value distribution of retail mortgages (including split for new lending)	Book		New Lending	
	2020	2019	2020	2019
	%	%	%	%
100% or greater	0.1	0.1	–	–
95 to 100%	–	0.2	–	–
90 to 95%	1.4	2.3	4.8	7.3
85 to 90%	5.8	5.7	20.0	17.2
80 to 85%	9.6	8.7	27.2	19.0
75 to 80%	9.5	8.4	10.6	10.0
70 to 75%	10.5	10.2	13.2	14.4
60 to 70%	17.9	17.6	10.4	12.9
Less than 60%	45.2	46.8	13.8	19.2
	100.0	100.0	100.0	100.0
Average LTV (all retail)	50.8	50.4	74.2	71.4
Average LTV (buy-to-let)	57.2	57.8	66.6	65.2

Loan-to-value distribution of retail mortgages (including split for whether impaired)	2020		2019	
	Not impaired	Impaired	Not impaired	Impaired
	%	%	%	%
100% or greater	–	–	0.1	–
95 to 100%	–	–	0.1	–
90 to 95%	1.0	–	2.1	–
85 to 90%	5.0	–	6.0	0.1
80 to 85%	9.3	0.1	9.3	0.1
75 to 80%	9.3	0.1	8.8	0.2
70 to 75%	10.2	0.2	9.5	0.2
60 to 70%	17.7	0.5	15.8	0.5
Less than 60%	45.4	1.2	45.9	1.3
	97.9	2.1	97.6	2.4

The definition of default includes accounts that are 90 days past due, interest only accounts past term end, certain forbearance measures and other unlikeliness to pay indicators. Full alignment has been achieved between the credit risk and IFRS 9 definitions of default. IFRS 9 requires that, for accounts considered to be credit impaired at the time of business combinations, these loans will continue to be classed as impaired until de-recognition.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### COMMERCIAL LENDING

In 2019 the Group relaunched commercial lending through 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.

	2020	2019
Average Loan to Value (%)	<b>52.8</b>	49.7
Average loan size (£m)	<b>0.3</b>	0.3
Value of Security held (£m)	<b>1,863</b>	1,901
Balance of loans >100% LTV (£m)	<b>21.8</b>	3.8
Largest exposure to a single counterparty (£m)	<b>17.9</b>	11.2

Only 0.4% of commercial accounts were more than three months in arrears (as a % of outstanding balances, including repossessions) as at the year-end (2019: 0.1%).

Loans monitored on the 'watch list' 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 £65.3m in 2020 (2019: £44.3m) as a result of the increased controls implemented on the watch list. Our appetite and approach to the provision of commercial lending is to provide amortising term loans, typically over 10 – 25 years. We do not provide short-term, interest only facilities which require repayment on expiry through refinance. Where a period of interest only is agreed, it will be for a short period following which the loan will be structured to amortise over the remaining term. Corporate buy-to-let loans are mainly interest only (£382m, 2019: £339m). These loans are continuously monitored to ensure that full repayment is made on the expiry of the loan term.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### COMMERCIAL LENDING (CONTINUED)

Group Commercial mortgage balances by geographical region	Book	
	2020	2019
	%	%
Scotland	–	–
North East	0.7	0.8
Yorkshire & Humberside	3.4	4.0
North West	4.7	4.6
Midlands	7.4	7.5
East	4.3	4.9
South West	4.9	5.2
Greater London	48.2	45.5
South East	25.3	26.3
Wales & Northern Ireland	1.1	1.2
	100.0	100.0

Group Commercial mortgage balances by lending type	2020	2019
	%	%
Commercial owner occupied	8.2	8.1
Commercial investment property	32.5	32.3
Corporate Buy-To-Let	33.0	32.9
Social Housing	26.3	26.7
	100.0	100.0

In addition to the commercial lending book, the Group has an active business lending to housing associations, in England and Wales, via the Yorkshire Building Society brand, properly known as 'Registered Providers'. This sector has particularly robust credit characteristics and the lending is low risk albeit at low margins. We have an opportunistic approach to attracting new business, within the constraints of the Board's wider risk appetite, and do so when returns and capital efficiency contribute to financial sustainability. At 31 December 2020 the loan book was £312.6m (2019: £304.6m). The Group has written further undrawn Term Loan/Revolving Credit facilities in the region of £438.2m (2019: £411.6m) and these are expected to draw down over the next five years.

#### 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 ranges 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 BTL, Registered Social Landlords (RSL), Commercial lending and POCI accounts. These portfolios are shown within the 'Other' line of the tables. The Accord BTL population currently has very strict underwriting criteria and limited behavioural history, with only a single possession to date. Commercial lending has highly different behavioural characteristics to the retail mortgages.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## RISK ASSESSMENT (CONTINUED)

## Lending by Risk Grade

Group	Stage 1	Stage 2	Stage 3	POCI	Total	Impairment	Credit Fair Value Adjustment
31 December 2020	£m	£m	£m	£m	£m	£m	£m
<b>PD Band</b>							
0.00%-<0.15%	26,423.4	1,020.4	–	–	27,443.8	1.0	–
0.15%-<0.25%	2,757.7	212.7	–	–	2,970.4	0.6	–
0.25%-<0.50%	650.6	102.1	–	–	752.7	0.5	–
0.50%-<0.75%	293.6	204.4	–	–	498.0	0.4	–
0.75%-<1.00%	275.9	187.9	–	–	463.8	0.8	–
1.00%-<2.50%	347.6	318.3	–	–	665.9	4.2	0.2
2.50%-<10.0%	181.7	250.9	–	–	432.6	7.0	0.4
10.0%-<100%	26.3	157.8	–	–	184.1	7.8	0.3
Default	–	–	308.7	66.3	375.0	10.5	9.4
Other	4,272.1	102.1	–	449.1	4,823.3	11.1	21.8
<b>Total</b>	<b>35,228.9</b>	<b>2,556.6</b>	<b>308.7</b>	<b>515.4</b>	<b>38,609.6</b>	<b>43.9</b>	<b>32.1</b>

Society	Stage 1	Stage 2	Stage 3	POCI	Total	Impairment	Credit Fair Value Adjustment
31 December 2020	£m	£m	£m	£m	£m	£m	£m
<b>PD Band</b>							
0.00%-<0.15%	8,649.5	641.0	–	–	9,290.5	0.3	–
0.15%-<0.25%	549.4	149.6	–	–	699.0	0.2	–
0.25%-<0.50%	191.1	69.0	–	–	260.1	0.2	–
0.50%-<0.75%	143.6	145.5	–	–	289.1	0.3	–
0.75%-<1.00%	116.1	132.8	–	–	248.9	0.6	–
1.00%-<2.50%	152.3	214.6	–	–	366.9	2.7	0.2
2.50%-<10.0%	72.3	155.2	–	–	227.5	4.4	0.4
10.0%-<100%	9.1	73.8	–	–	82.9	3.2	0.3
Default	–	–	133.8	66.3	200.1	1.2	9.3
Other	792.0	101.1	–	448.5	1,341.6	8.8	21.9
<b>Total</b>	<b>10,675.4</b>	<b>1,682.6</b>	<b>133.8</b>	<b>514.8</b>	<b>13,006.6</b>	<b>21.9</b>	<b>32.1</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### RISK ASSESSMENT (CONTINUED)

##### Lending by origination year

The table below shows balances 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.

	2020 Stage 1	2020 Stage 2	2020 Stage 3	2020 POCI	2020 Balance	2020 ECL	2019 Balance	2019 ECL
Origination year	%	%	%	%	£m	£m	£m	£m
2020	16.7	–	–	–	6,438.9	1.0	–	–
2019	18.1	–	–	–	6,999.2	1.5	7,477.7	0.7
2018	16.6	–	–	–	6,405.9	2.9	7,936.3	1.1
2017	11.3	0.1	–	–	4,426.4	1.8	5,367.9	1.9
2013 – 2016	18.7	1.5	0.1	–	7,801.2	3.2	9,744.1	2.3
2009 – 2012	3.4	0.7	–	–	1,594.9	0.3	1,848.4	0.2
Pre-2009	3.2	2.4	0.4	–	2,301.7	15.9	2,628.9	15.1
Acquired loans	3.5	1.8	0.2	1.3	2,641.4	42.9	2,982.9	43.8
PMA	–	–	–	–	–	6.5	–	–
<b>Total gross carrying amount</b>	<b>91.5</b>	<b>6.5</b>	<b>0.7</b>	<b>1.3</b>	<b>38,609.6</b>	<b>76.0</b>	<b>37,986.2</b>	<b>65.1</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### MOVEMENT ANALYSIS

The following tables detail the movement in the gross exposures and impairment from the beginning to the end of the reporting period split by stage.

Group	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
<b>Gross exposure at 31 December 2019</b>	34,405.2	2,710.4	307.0	563.6	37,986.2
Transfers from stage 1 to 2	(609.2)	609.2	–	–	–
Transfers from stage 1 to 3	(46.7)	–	46.7	–	–
Transfers from stage 2 to 1	412.7	(412.7)	–	–	–
Transfers from stage 2 to 3	–	(47.9)	47.9	–	–
Transfers from stage 3 to 1	18.4	–	(18.4)	–	–
Transfers from stage 3 to 2	–	40.0	(40.0)	–	–
Changes to carrying value	(1,265.0)	(109.1)	(11.8)	(10.0)	(1,395.9)
New financial assets originated or purchased	6,756.2	–	–	–	6,756.2
Financial assets derecognised during the period	(4,442.7)	(233.3)	(13.4)	(37.6)	(4,727.0)
Write-offs	–	–	(9.3)	(0.6)	(9.9)
<b>Gross exposure at 31 December 2020</b>	<b>35,228.9</b>	<b>2,556.6</b>	<b>308.7</b>	<b>515.4</b>	<b>38,609.6</b>

Group	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
<b>Impairment at 31 December 2019</b>	3.2	17.3	9.5	0.2	30.2
Transfers from stage 1 to 2	–	5.4	–	–	5.4
Transfers from stage 1 to 3	–	–	1.7	–	1.7
Transfers from stage 2 to 1	0.1	–	–	–	0.1
Transfers from stage 2 to 3	–	–	1.0	–	1.0
Transfers from stage 3 to 1	0.1	–	–	–	0.1
Transfers from stage 3 to 2	–	0.9	–	–	0.9
Changes in PDs/LGDs/EADs	(3.2)	(3.7)	(1.9)	(2.7)	(11.5)
New financial assets originated or purchased	1.2	–	–	–	1.2
Changes to model assumptions and methodologies	2.8	7.3	1.8	1.9	13.8
Unwind of discount	–	–	0.6	1.0	1.6
Financial assets derecognised during the period	(0.2)	(1.1)	(0.8)	–	(2.1)
Write-offs	–	–	(1.4)	(0.1)	(1.5)
Unstaged PMA	–	–	–	–	3.0
<b>Impairment at 31 December 2020</b>	<b>4.0</b>	<b>26.1</b>	<b>10.5</b>	<b>0.3</b>	<b>43.9</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### MOVEMENT ANALYSIS (CONTINUED)

Society	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
<b>Gross exposure at 31 December 2019</b>	11,777.7	1,860.8	136.0	559.4	14,333.9
Transfers from stage 1 to 2	(330.8)	330.8	–	–	–
Transfers from stage 1 to 3	(18.0)	–	18.0	–	–
Transfers from stage 2 to 1	262.2	(262.2)	–	–	–
Transfers from stage 2 to 3	–	(48.3)	48.3	–	–
Transfers from stage 3 to 1	9.4	–	(9.4)	–	–
Transfers from stage 3 to 2	–	22.3	(22.3)	–	–
Changes to carrying value	(571.3)	(61.2)	(11.2)	(6.4)	(650.1)
New financial assets originated or purchased	927.1	–	–	–	927.1
Financial assets derecognised during the period	(1,380.9)	(159.6)	(20.2)	(37.6)	(1,598.3)
Write-offs	–	–	(5.4)	(0.6)	(6.0)
<b>Gross exposure at 31 December 2020</b>	<b>10,675.4</b>	<b>1,682.6</b>	<b>133.8</b>	<b>514.8</b>	<b>13,006.6</b>

Society	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
<b>Impairment at 31 December 2019</b>	1.3	11.3	1.2	0.2	14.0
Transfers from stage 1 to 2	–	3.6	–	–	3.6
Transfers from stage 1 to 3	–	–	0.3	–	0.3
Transfers from stage 2 to 1	0.1	–	–	–	0.1
Transfers from stage 2 to 3	–	–	0.2	–	0.2
Transfers from stage 3 to 1	0.1	–	–	–	0.1
Transfers from stage 3 to 2	–	0.4	–	–	0.4
Changes in PDs/LGDs/EADs	(1.4)	(1.8)	(1.0)	(1.8)	(6.0)
New financial assets originated or purchased	0.1	–	–	–	0.1
Changes to model assumptions and methodologies	1.3	4.2	0.9	0.9	7.3
Unwind of discount	–	–	0.2	1.0	1.2
Financial assets derecognised during the period	(0.1)	(0.6)	(0.2)	–	(0.9)
Write-offs	–	–	(0.4)	(0.1)	(0.5)
Unstaged PMA	–	–	–	–	2.0
<b>Impairment at 31 December 2020</b>	<b>1.4</b>	<b>17.1</b>	<b>1.2</b>	<b>0.2</b>	<b>21.9</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### FORBEARANCE

The Group uses forbearance tools where they are deemed appropriate for an individual customer's circumstances, in line with industry guidance. Forbearance tools, which the Group may offer, include capitalisation, interest only concessions, arrears arrangements and term extensions. The use of account management tools are either fully recognised within ECLs or are low in materiality.

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

The table below shows the accounts that are forborne (excluding commercial loans). These accounts have been further classified as non-performing forbearance, 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. Accounts are captured as probationary for 2 years after reclassification from non-performing. The Group has fully aligned its definition of non-performing and Stage 3 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 into stage 2 or 1.

	Arrangements		Other Concessions		Term extension		Interest Only	
	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL
<b>2020</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Probation</b>	<b>76.0</b>	<b>1.3</b>	<b>2.3</b>	<b>0.1</b>	<b>3.2</b>	<b>–</b>	<b>0.1</b>	<b>–</b>
Stage 1	23.1	0.1	0.7	–	0.2	–	–	–
Stage 2	52.9	1.2	1.6	0.1	3.0	–	0.1	–
<b>Non-performing</b>	<b>180.6</b>	<b>10.5</b>	<b>11.7</b>	<b>1.1</b>	<b>6.8</b>	<b>0.2</b>	<b>0.2</b>	<b>–</b>
Stage 3	137.8	7.6	8.1	0.6	2.4	–	0.2	–
POCI	42.8	2.9	3.6	0.5	4.4	0.2	–	–
<b>Total</b>	<b>256.6</b>	<b>11.8</b>	<b>14.0</b>	<b>1.2</b>	<b>10.0</b>	<b>0.2</b>	<b>0.3</b>	<b>–</b>

	Arrangements		Other Concessions		Term extension		Interest Only	
	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL
<b>2019</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Probation</b>	<b>97.1</b>	<b>1.5</b>	<b>2.4</b>	<b>–</b>	<b>4.1</b>	<b>–</b>	<b>0.2</b>	<b>–</b>
Stage 1	32.1	0.1	0.2	–	0.9	–	–	–
Stage 2	65.0	1.4	2.2	–	3.2	–	0.2	–
<b>Non-performing</b>	<b>226.3</b>	<b>11.4</b>	<b>10.8</b>	<b>0.8</b>	<b>8.4</b>	<b>0.2</b>	<b>–</b>	<b>–</b>
Stage 3	170.5	7.9	7.1	0.3	3.9	–	–	–
POCI	55.8	3.5	3.7	0.5	4.5	0.2	–	–
<b>Total</b>	<b>323.4</b>	<b>12.9</b>	<b>13.2</b>	<b>0.8</b>	<b>12.5</b>	<b>0.2</b>	<b>0.2</b>	<b>–</b>

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 a trading or rent receipts, or 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 2020 there were 21 accounts in the commercial loans portfolio subject to forbearance (2019: 21), with a total balance of £5.9m. There has been no underlying increase in the risk of the portfolio.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### LOANS PURCHASED CREDIT IMPAIRED

Given the size of the Group's POCI population, further information has been provided below showing current performance of these loans and how they are currently distributed across loan-to-value (LTV) bands. A substantial proportion of POCI balances, were they not classified as POCI, would transfer to other stages. The table shows that 71.3% (2019: 71.8%) of balances have been fully up to date for the last 24 months and only 12.9% (2019: 12.7%) of balances would be classified as in default.

	Up-to-date for the last 24 months	Some arrears in the last 24 months	Meets definition of default	Total
	£m	£m	£m	£m
<b>31 December 2020</b>				
Gross Exposure	367.3	81.9	66.2	515.4
Impairment	(0.7)	0.6	0.4	0.3
Credit Fair Value Adjustment	15.8	6.0	4.3	26.1
<b>31 December 2019</b>				
Gross Exposure	404.9	86.9	71.8	563.6
Impairment	0.2	0.3	(0.3)	0.2
Credit Fair Value Adjustment	17.2	6.1	4.7	28.0
<b>31 December 2020 LTV Split</b>				
Less than 60%	236.8	47.1	25.7	309.6
From 60 to 70%	71.3	18.4	18.0	107.7
From 70 to 80%	36.3	9.8	14.8	60.9
From 80 to 90%	13.0	2.7	6.2	21.9
90% or greater	9.9	3.9	1.5	15.3
<b>Total</b>	<b>367.3</b>	<b>81.9</b>	<b>66.2</b>	<b>515.4</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 33. FAIR VALUES

Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where external market prices are available they have been used to determine fair value. Otherwise, internal pricing models using external market data have been used. The Group measures fair value using the following fair value hierarchy:

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below summarises the carrying value and fair value of financial assets and liabilities measured at amortised cost as at the Statement of Financial Position date.

Group	Carrying Value	Fair Values			Total Fair Value
		Level 1	Level 2	Level 3	
<b>At 31 December 2020</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Assets</b>					
Loans and advances to credit institutions	1,087.4	–	1,087.4	–	1,087.4
Loans and advances to customers	38,798.6	–	–	38,695.3	38,695.3
Debt securities – amortised cost	389.1	396.0	–	–	396.0
<b>Liabilities</b>					
Shares	33,368.3	–	33,413.8	–	33,413.8
Amounts due to credit institutions	3,836.9	–	3,836.9	–	3,836.9
Other deposits	535.7	–	535.7	–	535.7
Debt securities in issue	6,128.3	5,520.7	706.9	–	6,227.6
Subordinated liabilities	645.0	627.1	42.7	–	669.8

Society	Carrying Value	Fair Values			Total Fair Value
		Level 1	Level 2	Level 3	
<b>At 31 December 2020</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Assets</b>					
Loans and advances to credit institutions	964.8	–	964.8	–	964.8
Loans and advances to customers	13,154.5	–	–	12,974.1	12,974.1
Debt securities – amortised cost	6,980.8	7,021.1	–	–	7,021.1
<b>Liabilities</b>					
Shares	33,368.3	–	33,413.8	–	33,413.8
Amounts due to credit institutions	3,836.9	–	3,836.9	–	3,836.9
Other deposits	11,394.5	–	11,394.5	–	11,394.5
Debt securities in issue	5,379.6	5,520.7	–	–	5,520.7
Subordinated liabilities	645.0	627.1	42.7	–	669.9



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 33. FAIR VALUES (CONTINUED)

Group	Carrying Value	Fair Values			Total Fair Value
		Level 1	Level 2	Level 3	
<b>At 31 December 2019</b>	£m	£m	£m	£m	£m
<b>Assets</b>					
Loans and advances to credit institutions	526.0	–	526.0	–	526.0
Loans and advances to customers	37,984.4	–	–	38,278.4	38,278.4
<b>Liabilities</b>					
Shares	30,677.3	–	30,691.2	–	30,691.2
Amounts due to credit institutions	3,305.0	–	3,305.1	–	3,305.1
Other deposits	584.6	–	584.6	–	584.6
Debt securities in issue	6,034.8	5,094.5	1,008.1	–	6,102.5
Subordinated liabilities	626.4	596.8	40.9	–	637.7

Society	Carrying Value	Fair Values			Total Fair Value
		Level 1	Level 2	Level 3	
<b>At 31 December 2019</b>	£m	£m	£m	£m	£m
<b>Assets</b>					
Loans and advances to credit institutions	385.0	–	385.0	–	385.0
Loans and advances to customers	14,288.4	–	–	14,380.5	14,380.5
<b>Liabilities</b>					
Shares	30,677.3	–	30,691.2	–	30,691.2
Amounts due to credit institutions	3,305.1	–	3,305.1	–	3,305.1
Other deposits	10,423.1	–	10,423.1	–	10,423.1
Debt securities in issue	4,988.7	5,094.5	–	–	5,094.5
Subordinated liabilities	626.4	596.8	40.9	–	637.7

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 33. FAIR VALUES (CONTINUED)

The fair values of all cash in hand, balances with the Bank of England and loans and advances to credit institutions have been measured at par as they are all due in under one year.

The fair value of loans and advances to customers uses a Level 3 method and 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. Prudent assumptions are applied regarding expected levels of customer prepayments and the risk of defaults. The resulting expected future cash flows are discounted at current market rates to determine fair value.

For SVR 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 £103.3m (2019: £294.0m higher), which arises primarily due to the fair value losses being calculated on a lifetime basis for all mortgage accounts.

All of the Group's non-derivative financial liabilities are initially recorded at fair value less directly attributable costs and are subsequently measured at amortised cost, except where an adjustment is made to certain fixed rate shares balances that are in hedging relationships. The fair value of shares and deposits that are available on demand approximates to the carrying value. The fair value of fixed term shares and deposits is determined from the projected future cash flows from those deposits, discounted at the current market rates. In 2020, the estimated fair value of share balances, using a Level 2 method remains higher than the carrying value by £45.5m (2019: £13.9m).

Society accounts include debt securities and subordinated liabilities classified as level 2. These instruments are calculated using a Level 2 method based on observable market prices. The fair value of subordinated liabilities is higher than carrying value by £24.9m (2019: £11.3m) and debt securities in issue saw a similar rise of £99.3m (2019: £67.8m). These movements have arisen primarily due to the significant movement in market rates over the course of the year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 33. FAIR VALUES (CONTINUED)

The table below classifies all financial instruments held at fair value on the face of the Group's Statement of Financial Position according to the method used to establish the fair value.

Group	Fair Values			Total Fair Value
	Level 1	Level 2	Level 3	
<b>At 31 December 2020</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Assets</b>				
Debt securities – fair value through OCI	2,471.0	–	–	2,471.0
Derivative financial instruments	–	416.1	0.1	416.2
Investments	8.1	–	5.5	13.6
<b>Liabilities</b>				
Derivative financial instruments	–	473.8	17.1	490.9
<b>At 31 December 2019</b>				
<b>Assets</b>				
Debt securities – fair value through OCI	2,548.2	–	–	2,548.2
Derivative financial instruments	–	365.2	2.4	367.6
Investments	–	–	9.2	9.2
<b>Liabilities</b>				
Derivative financial instruments	–	214.1	16.7	230.8

The Group's Level 1 portfolio of available for sale debt securities comprises liquid securities for which traded prices are readily available.

Derivative financial instruments are also included and derivative assets and liabilities within level 2 are valued 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 by subsidiaries Tombac No.2 PLC and Brass No.8 PLC. These are valued by present value calculations using non-market observable interest rate curves.

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. Fair values of derivative financial instruments are disaggregated further in note 27.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 33. FAIR VALUES (CONTINUED)

#### LEVEL 3 INSTRUMENTS (CONTINUED)

The following table analyses movements in Level 3 portfolio.

	As at 31 December 2019	Items recognised in the income statement	Net repayments in the period	Transfers into/ (out of) Level 3 portfolio	As at 31 December 2020
	£m	£m	£m	£m	£m
<b>Assets</b>					
Derivative financial instruments	2.4	–	(2.3)	–	0.1
Investments	9.2	4.4	–	(8.1)	5.5
<b>Liabilities</b>					
Derivative financial instruments	16.7	0.4	–	–	17.1

#### Transfers between fair value hierarchies

A preference share conversion occurred during the period which moved a tranche of illiquid preference shares into tradeable securities. The fair value of the new shares does not have a discount applied so has moved into level 1.

#### Fair value through comprehensive income and hedging reserve

Amounts within the fair value through comprehensive income reserve are transferred to the income statement upon the disposal of debt securities. During the year a gain of £29.8m (2019: £10.2m) was recognised in net realised gains.

### 34. RELATED PARTIES

#### IDENTITY OF RELATED PARTIES

The Group and Society have related party relationships with their subsidiaries, joint venture, the pension schemes and key management personnel. The Group considers its key management personnel to be its directors.

#### CONTRIBUTIONS TO THE PENSION SCHEME

The Society paid contributions of £14.1m to the pension scheme (2019: £14.4m).

#### 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* on pages 90 to 107. In addition, past directors' pensions in respect of services as directors (closed scheme) amounted to £21,598 (2019: £20,961).

None of the directors had any interest in the shareholdings or debentures of any connected undertaking of the Society at any time during the financial year.

A register is maintained at the head office of the Society containing details of loans, transactions and arrangements between the Society and its Directors and connected persons. A statement containing the details for 2020 will be available for inspection at the principal office by members for a period of 15 days up to and including the Annual General Meeting.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 34. RELATED PARTIES (CONTINUED)

#### KEY MANAGEMENT COMPENSATION

The executive directors, together with the non-executive 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:

	2020		2019	
	No. of key management personnel	Compensation	No. of key management personnel	Compensation
		£000		£000
Short-term employee benefits		2,654		2,761
Post-employment benefits		220		219
<b>Total key management personnel compensation</b>	<b>12</b>	<b>2,874</b>	10	2,980

Key management compensation in 2020 includes amounts paid to key management personnel who both retired and joined the Society during 2020. The number of key management personnel at 31 December 2020 totalled 12.

#### 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.

	2020		2019	
	No. of key management personnel	Amounts in respect of key management personnel and their close family members	No. of key management personnel	Amounts in respect of key management personnel and their close family members
		£000		£000
<b>Mortgage loans</b>				
At 1 January		234		446
Net movements in the year		(225)		(212)
<b>At 31 December</b>	<b>1</b>	<b>9</b>	2	234
<b>Deposit accounts and investments</b>				
At 1 January		986		821
Net movements in the year		439		165
<b>At 31 December</b>	<b>11</b>	<b>1,425</b>	10	986

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 £233,957 (2019: £445,532).

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 £1,150 (2019: £7,499), received interest totalling £8,231 (2019: £11,999), and paid no fees and commissions during the year. Interest paid includes amounts relating to 'offset' mortgages where savings balances are used to reduce the interest-bearing balance of mortgage loans.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 34. RELATED PARTIES (CONTINUED)

#### TRANSACTIONS WITH SUBSIDIARIES

The Society enters into a number of transactions with its subsidiaries in the normal course of business. These include loans and shares. The value of related party transactions, outstanding balances at the year end and related income and expense for the financial year are as follows:

	2020	2019
	£m	£m
<b>Shares in subsidiaries</b>		
At 1 January	104.9	104.9
<b>At 31 December</b>	<b>104.9</b>	104.9
<b>Loans to subsidiaries</b>		
At 1 January	27,037.4	23,483.0
Net movements	2,067.9	3,554.4
<b>At 31 December</b>	<b>29,105.3</b>	27,037.4
<b>Deposits from subsidiaries</b>		
At 1 January	10,180.8	8,667.7
Net movements	1,049.0	1,513.1
<b>At 31 December</b>	<b>11,229.8</b>	10,180.8
Interest receivable on loans	426.7	423.0
Interest payable on deposits	(96.5)	(115.4)
Fees and expenses receivable	56.0	55.6
Fees and expenses payable	(0.2)	(0.2)

#### OTHER

The Society has an investment in Arkose Funding Limited. In 2014, a loan of £4.0m to Arkose funding Limited was fully impaired.

The Society has no further related party matters to report.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 35. NOTES TO THE CASH FLOW STATEMENTS

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
Working capital adjustments:				
Depreciation and amortisation	25.8	25.3	25.8	25.3
Loss/(profit) on sale of assets	(2.9)	3.4	(2.9)	3.4
Interest on subordinated liabilities	22.5	27.8	22.5	27.7
Impairment (charge)/release on financial instruments	12.2	0.2	6.7	(2.5)
Movement in provisions	4.7	0.4	4.7	0.4
Fair value of subordinated liabilities and subscribed capital	18.6	11.9	18.6	11.9
(Gain)/loss on realisation of debt securities	(12.9)	(6.3)	(12.9)	(5.5)
Increase in other assets	(8.6)	(17.3)	(13.0)	(23.0)
Decrease in other liabilities	(16.0)	(20.5)	(13.0)	(20.5)
<b>Working capital adjustments</b>	<b>43.4</b>	<b>24.9</b>	<b>36.5</b>	<b>17.2</b>
(Increase)/decrease in operating assets:				
Loans and advances to customers	(826.3)	(1,282.2)	1,127.2	1,128.7
Investments	(4.4)	(2.4)	(2,072.4)	(3,555.9)
Derivative financial instruments	(48.0)	198.5	3.7	220.0
<b>Net increase in operating assets</b>	<b>(878.7)</b>	<b>(1,086.1)</b>	<b>(941.5)</b>	<b>(2,207.2)</b>
Increase/(decrease) in operating liabilities:				
Shares	2,691.0	1,118.7	2,691.0	1,118.7
Amounts owed to credit institutions	531.9	(1,180.0)	531.8	(1,180.0)
Non cash movements on debt securities	173.0	(182.4)	172.8	(209.1)
Other deposits	(48.9)	76.0	971.4	1,560.0
Derivative financial instruments	260.1	132.9	232.7	108.4
<b>Net increase in operating liabilities</b>	<b>3,607.1</b>	<b>(34.8)</b>	<b>4,599.7</b>	<b>1,398.0</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 35. NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

The following table reconciles liabilities arising from financing activities.

Group	2019	Cash flows		Non-cash changes caused by:			2020
		Redemption	Issue	Foreign exchange movement	Accrued interest	Fair value adjustments and other movements	
	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	6,034.8	(1,129.5)	1,050.0	169.4	(6.2)	9.9	6,128.3
Subordinated liabilities	626.4	-	-	-	-	18.6	645.0
<b>Total liabilities from financing activities</b>	<b>6,661.2</b>	<b>(1,129.5)</b>	<b>1,050.0</b>	<b>169.4</b>	<b>(6.2)</b>	<b>28.5</b>	<b>6,773.3</b>

Group	2018	Cash flows		Non-cash changes caused by:			2019
		Redemption	Issue	Foreign exchange movement	Accrued interest	Fair value adjustments and other movements	
	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	5,145.9	(913.0)	1,984.3	(192.0)	(5.8)	15.4	6,034.8
Subordinated liabilities	585.1	(250.0)	275.0	-	4.6	11.7	626.4
Subscribed capital	6.1	(6.1)	-	-	-	-	-
<b>Total liabilities from financing activities</b>	<b>5,737.1</b>	<b>(1,169.1)</b>	<b>2,259.3</b>	<b>(192.0)</b>	<b>(1.2)</b>	<b>27.1</b>	<b>6,661.2</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 35. NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

Society	2019	Cash flows		Non-cash changes caused by:			2020
		Redemption	Issue	Foreign exchange movement	Accrued interest	Fair value adjustments and other movements	
	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	4,988.7	(831.9)	1,050.0	173.2	(3.1)	2.7	5,379.6
Subordinated liabilities	626.4	–	–	–	–	18.5	645.0
<b>Total liabilities from financing activities</b>	<b>5,615.1</b>	<b>(831.9)</b>	<b>1,050.0</b>	<b>173.2</b>	<b>(3.1)</b>	<b>21.2</b>	<b>6,024.6</b>

Society	2018	Cash flows		Non-cash changes caused by:			2019
		Redemption	Issue	Foreign exchange movement	Accrued interest	Fair value adjustments and other movements	
	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	4,398.4	(691.4)	1,490.9	(175.8)	(8.0)	(25.4)	4,988.7
Subordinated liabilities	585.1	(250.0)	275.0	–	4.6	11.7	626.4
Subscribed capital	6.1	(6.1)	–	–	–	–	–
<b>Total liabilities from financing activities</b>	<b>4,989.6</b>	<b>(947.5)</b>	<b>1,765.9</b>	<b>(175.8)</b>	<b>(3.4)</b>	<b>(13.7)</b>	<b>5,615.1</b>

## ANNUAL BUSINESS STATEMENT

### 1. STATUTORY PERCENTAGES

	2020	2019	Statutory limit
	%	%	%
Lending limit	<b>2.6</b>	2.6	25.0
Funding limit	<b>23.9</b>	24.4	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 1986 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

	2020	2019
	%	%
As a percentage of shares and borrowings:		
Gross capital	<b>7.85</b>	8.11
Free capital	<b>7.44</b>	7.64
Liquid assets	<b>19.16</b>	13.80
Profit after taxation for the financial year as a percentage of mean total assets	<b>0.27</b>	0.30
Management expenses as a percentage of mean total assets	<b>0.60</b>	0.66

The above percentages have been prepared from the Group accounts and further details on the above percentages can be found in the glossary on pages 220 to 229.

## ANNUAL BUSINESS STATEMENT (CONTINUED)

### 3. INFORMATION RELATING TO THE DIRECTORS AT 31 DECEMBER 2020

Director name and date of birth	Business occupation	Date of appointment to the Board	Other Directorships
J R Heaps, LLB 8 July 1953	Chairman	20 November 2014	TheCityUK Limited
N A K Atkar, MBE, BSc 11 November 1965	Non Executive Director	25 April 2017	British Business Bank plc British Business Finance Ltd British Business Financial Services Ltd National Financial Services Skills Academy Nomura Bank International plc Nomura Europe Holdings plc Nomura Financial Products Europe Nomura International plc
G L T Bainbridge, MA (Cantab), ACA 13 September 1960	Non Executive Director	1 January 2019	ICE Clear Europe Ltd Manulife Financial Corporation The Manufacturers Life Insurance Company
A E Hutchinson, CBE, BSc 5 February 1967	Charity Chief Executive	4 February 2015	DFS Furniture plc Liverpool Victoria Friendly Society Ltd Your Penny Ltd
G R Ireland, BSc, FCA 17 May 1953	Non Executive Director	1 September 2015	Aspen Insurance Holdings Ltd Aspen Insurance UK Ltd
A B Lenman, MA, ACMA 25 December 1969	Chief Finance Officer and Executive Director	4 December 2017	YBS Pension Trustees Ltd
G P C Parsons, BA 31 July 1963	Non Executive Director	1 May 2013	None
M Parsons, BA, FCMA 24 October 1961	Non Executive Director	20 October 2020	None
M C Regnier, MEng, MBA 30 September 1971	Chief Executive and Executive Director	3 June 2014	BCS Loans and Mortgages Ltd
S C White, BComm 4 April 1971	Chief Operating Officer and Executive Director	24 February 2016	Accord Mortgages Ltd YBS Properties (Edinburgh) Ltd Yorkshire Key Services Ltd

Mr MC Regnier entered into a contract when he was appointed to the Board as Chief Commercial Officer and Executive Director on 3 June 2014. He entered into a new contract on 25 November 2016 and became Chief Executive on 1 January 2017. Mr SC White entered into a contract on 1 February 2016 and was appointed to the Board on 24 February 2016. The mutual contractual notice period for Mr MC Regnier and Mr SC White is one year. The mutual contractual notice period for Mr AB Lenman is six months and he entered into a contract on 28 September 2017 and was appointed to the Board on 4 December 2017.

Documents may be served on the above named directors: Ref. 'Yorkshire Building Society' c/o PricewaterhouseCoopers LLP at the following address: Central Square, 29 Wellington Street, Leeds, LS1 4DL.

### 4. REGISTERED OFFICE

Yorkshire Building Society is a building society incorporated and domiciled in the United Kingdom. The address of the principal office is Yorkshire House, Yorkshire Drive, Bradford, BD5 8LJ.

## COUNTRY-BY-COUNTRY REPORT

### DISCLOSURE REQUIREMENTS UNDER CRD IV COUNTRY-BY-COUNTRY REPORTING

We are required to disclose the following information in our Annual Report and Accounts to comply with the Regulations of Article 89 of the Capital Requirements Directive IV (CRD IV) country-by-country reporting (CBCR). This regulation requires us to disclose financial information by country. Yorkshire Building Society has a number of subsidiaries; these can be found in note 8 to the financial statements.

All Group companies operate in the United Kingdom except Yorkshire Guernsey Ltd which is registered in Guernsey and is in the process of liquidation. Therefore, total income and profit before tax shown in the income statement and corporation tax paid shown in the Statement of Cash Flows, as well as the average number of employees disclosed in note 6 to the financial statements, are related to the United Kingdom. No public subsidies were received in 2020.

### 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 2020 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 2020 in the Country-by-Country Report.

#### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the Society in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### EMPHASIS OF MATTER – BASIS OF PREPARATION

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the fact that the country-by-country information is prepared by the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

#### CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- We critically assessed the directors' conclusions on their going concern assessment, including consideration of the impact of COVID-19 on the country-by-country information.
- We reviewed the impact of management's stress test scenarios and considered the likelihood of successful implementation of management actions to mitigate the impacts. We considered whether the Society would continue to operate above required regulatory capital and liquidity minima during times of stress.

- We challenged the reasonableness of the scenarios used by the directors in their going concern assessment and checked the appropriateness of the assumptions used within their forecasting.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Society's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## COUNTRY-BY-COUNTRY REPORT (CONTINUED)

### INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF YORKSHIRE BUILDING SOCIETY (CONTINUED)

#### REPORT ON THE AUDIT OF THE COUNTRY-BY-COUNTRY INFORMATION (CONTINUED)

##### RESPONSIBILITIES FOR THE COUNTRY-BY-COUNTRY INFORMATION AND THE AUDIT

##### Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the directors are responsible for assessing the Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

##### Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this country-by-country information.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Society and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates. Audit procedures performed included:

- Review of correspondence with and reports to the regulators;
- Testing significant accounting estimates;

- Testing of journal entries which contained unusual account combinations back to corroborating evidence;
- Discussions with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud; and
- Review of internal audit reports in so far as they related to the country-by-country information.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

##### Use of this report

This report, including the opinion, has been prepared for and only for the Society's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

##### PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors  
Leeds

23 February 2021

## GLOSSARY

## The following glossary defines terminology used within the Annual Report and Accounts:

<b>Additional Tier 1 (AT1) capital</b>	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; or grandfathered instruments such as Permanent Interest Bearing Shares (PIBS).
<b>Arrears</b>	Amounts unpaid at their contractual date. A customer is in arrears when they fall behind in meeting their obligations to pay their mortgage.
<b>Buy-to-let (BTL) mortgages</b>	Lending on property that is rented out to individuals.
<b>Capital Requirements Directive (CRD) &amp; Capital Requirements Regulation</b>	European legislation that defines the regulatory capital framework in the UK. The latest legislation – the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) (together commonly referred to as CRD IV) came in to effect from 1 January 2014.
<b>Collateral (for loans and advances to customers)</b>	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.
<b>Commercial lending</b>	Secured loans to a commercial borrower.
<b>Common Equity Tier 1 (CET1) capital</b>	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.
<b>Contractual maturity</b>	The final payment date of a loan or financial instrument, at which all the outstanding loan and interest is repayable.
<b>Council of Mortgage Lenders (CML)</b>	A not-for-profit organisation and trade association for the mortgage lending industry.
<b>Covered bonds</b>	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.
<b>Credit Valuation Adjustment (CVA)</b>	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.
<b>Cross currency interest rate swap</b>	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.

## GLOSSARY (CONTINUED)

<b>Currency risk</b>	The exposure to risk from assets and liabilities denominated in currencies other than Sterling.
<b>Debt securities In issue</b>	Transferable certificates of indebtedness including certificates of deposits and fixed and floating rate notes.
<b>Debit Valuation Adjustment (DVA)</b>	These are adjustments applied to the fair values of derivatives to reflect the entity's own credit risk.
<b>Defined Benefit Obligation</b>	The present value of expected future benefit payments resulting from past service of employees in the defined benefit pension plan.
<b>Derivative financial instruments</b>	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.
<b>Effective interest rate</b>	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.
<b>Encumbered assets</b>	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.
<b>Expected loss</b>	An estimate of the potential losses on current exposures due to potential defaults.
<b>Exposure</b>	The maximum loss that a financial institution might suffer if a borrower or counterparty fails to meet its obligations to the Group.
<b>Exposure at default (EAD)</b>	An estimation of the amount of exposure that will be outstanding at the time of default.
<b>Fair value</b>	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.
<b>Financial Conduct Authority (FCA)</b>	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.
<b>Financial Ombudsman Service (FOS)</b>	An independent service which provides a service for settling disputes between financial services providers and their customers.

## GLOSSARY (CONTINUED)

<b>Financial Services Compensation Scheme (FSCS)</b>	A protection fund for depositors of failed institutions. This is funded by the financial services industry and each firm, including the Society, is obliged to pay an annual levy.
<b>Forbearance</b>	The Group grants concessions to assist borrowers who experience difficulties in meeting their obligations to pay their mortgage. Examples of forbearance tools are described in note 32.
<b>Free capital</b>	The aggregate of gross capital and collective impairment provision less property, plant and equipment, intangible assets and investment properties.
<b>Gross capital</b>	The aggregate of general reserve, hedging reserve, available for sale reserve, subordinated liabilities and subscribed capital.
<b>Impaired loans</b>	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 statement of financial position date.
<b>Individual Liquidity Adequacy Assessment Process (ILAAP)</b>	The Group's internal assessment of the levels of liquidity that need to be held by the Society to meet its regulatory liquidity requirements.
<b>Interest rate swap</b>	An arrangement under which two counterparties agree to exchange periodic interest payments based on a predetermined notional principal amount.
<b>Internal Capital Adequacy Assessment Process (ICAAP)</b>	The Group's internal assessment of the levels of capital that need to be held by the Society to meet its regulatory capital requirements.
<b>International Financial Reporting Standards (IFRS)</b>	International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).
<b>Level 1 High Quality Liquid Assets (HQLA)</b>	Assets which can be easily and immediately converted into cash at little or no loss of value.
<b>Liquidity Coverage Ratio (LCR)</b>	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.
<b>LIBOR (London Interbank Offered Rate)</b>	A benchmark interest rate which banks can borrow funds from other banks in the London interbank market. Currently in the process of being phased out to be replaced by other measures such as SONIA.
<b>Liquid assets</b>	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.



## GLOSSARY (CONTINUED)

<b>Liquidity risk</b>	The risk that the Group does not hold sufficient liquidity, in terms of quantity and quality, to meet its liabilities as they fall due.
<b>Loan loss provisions</b>	A provision which is held against loans and advances to customers, representing management's best estimate of losses in the loan portfolio at the reporting date.
<b>Loan-to-value (LTV)</b>	A ratio showing outstanding loan balance as a percentage of the value of the security.
<b>Loss given default (LGD)</b>	An estimate of the difference between exposure at default (EAD) and the net amount of the expected recovery expressed as a percentage of EAD.
<b>Loss given possession</b>	The loss that is expected to crystallise when a repossessed property is sold.
<b>Management expenses</b>	The aggregate of administrative expenses, depreciation and amortisation.
<b>Market Risk</b>	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.
<b>Mean total assets</b>	The amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
<b>Medium-term notes (MTN)</b>	Corporate notes continuously offered by a company to investors through a dealer. Investors can choose from differing maturities.
<b>Member</b>	A person who has a share account or a mortgage loan with the Society.
<b>Minimum Requirement for Eligible Liabilities (MREL)</b>	The minimum requirements a financial institution must hold to meet the loss absorption and recapitalisation components if an institution were to fail.
<b>Net interest income</b>	The difference between the interest received on assets and the interest paid on liabilities.
<b>Net interest margin</b>	The ratio of net interest income as a percentage of mean total assets.
<b>Operational risk</b>	The risk of direct and indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.
<b>Other income</b>	The income received from selling non-mortgage and savings products (e.g. home and contents insurance, investment products and other insurances).

## GLOSSARY (CONTINUED)

<b>Permanent Interest Bearing Shares (PIBS)</b>	Unsecured, Sterling denominated Tier 1 capital instruments repayable at the option of the Society.
<b>PRA Remuneration Code</b>	Guidance provided by the PRA on directors' remuneration.
<b>Probability of default (PD)</b>	An estimate of the probability that a borrower will default on their credit obligations.
<b>Probability of possession</b>	The likelihood of an account moving into possession. This is used when calculating loan loss provisions.
<b>Prudential Regulation Authority (PRA)</b>	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.
<b>Repossessions</b>	Property taken into ownership by the Society as a result of the borrower's failure to make contractual loan repayments.
<b>Residential Mortgage Backed Securities (RMBS)</b>	An asset backed security that represents a claim on the cash flows from residential mortgage loans through a process known as securitisation.
<b>Risk appetite</b>	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.
<b>Risk weighted assets</b>	A regulatory measure that adjusts the value of assets to reflect their level of risk when calculating capital requirements.
<b>Securitisation</b>	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.
<b>Shares</b>	Money deposited by members in a retail savings account with the Society and held as a liability in the balance sheet.
<b>Shares and borrowings</b>	The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.
<b>SONIA (Sterling Overnight Interbank Average)</b>	An index that tracks actual market overnight funding rates calculated as a weighted average overnight deposit rate for each business day.
<b>Subordinated liabilities</b>	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).

## GLOSSARY (CONTINUED)

<b>Term Funding Scheme with additional incentives for small and medium sized entities (TFSME)</b>	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.
<b>Tier 1 (T1) capital</b>	The sum total of Common Equity Tier 1 and Additional Tier 1 capital.
<b>Tier 1 capital ratio</b>	The ratio of Tier 1 capital to risk weighted assets.
<b>Tier 2 (T2) capital</b>	A measure of regulatory capital that includes subordinated liabilities and provisions for collective impairment, less regulatory adjustments.
<b>Total capital</b>	The total capital resources, including retained earnings, PIBS and subordinated liabilities, less regulatory adjustments.
<b>Total capital ratio</b>	The ratio of total capital to risk weighted assets.
<b>UK Corporate Governance Code</b>	The UK code on corporate governance, published by the Financial Reporting Council in October 2012 and revised in July 2018, which sets out standards of good practice in relation to Board leadership and effectiveness, accountability and remuneration.
<b>Value at Risk (VaR)</b>	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.
<b>Watch list</b>	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.
<b>Wholesale funding</b>	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	Closest equivalent statutory measure/ Calculation of measure	Reconciling items to statutory measure	Definition and purpose
<b>Income Statement measures</b>			
<b>Core operating profit</b>	Profit before tax.	A full reconciliation between profit before tax as shown in the income statement and core operating profit is shown in the Strategic Report.	Profit before tax excluding the impact of non-core items, both positive and negative, such as timing differences that reverse over time (e.g. fair value gains and losses) or items of a one-off nature (e.g. asset sales, material or strategic restructuring costs). The Group considers this to be an important measure of underlying financial sustainability, and provides readers with helpful additional information on the underlying performance of the business across periods. It is consistent with how business performance is reported to and assessed by the Board.
<b>Cost to income ratio</b>	Management expenses (the aggregate of administrative expenses, depreciation and amortisation) as a percentage of total income.	Administrative expenses and depreciation and amortisation (management expenses) and total income are as shown in the income statements.	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.
<b>Management expense ratio</b>	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.
<b>Net interest margin</b>	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.
<b>Balance Sheet items</b>			
<b>Asset growth</b>	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.
<b>Average savings rate differential</b>	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), covering 86% of retail savings market (based on stock value). This is used to assess how much the Group is paying out in interest in comparison to peers. Given the time lag in CACI providing this data, the disclosure in the 31 December ratios represents January to November figures.

## GLOSSARY (CONTINUED)

APM	Closest equivalent statutory measure/ Calculation of measure	Reconciling items to statutory measure	Definition and purpose
<b>Gross lending</b>	None	Not applicable	The total value of mortgage loans advanced by the Group in the period, including loans for house purchase, further advances, remortgages etc.
<b>Lending to first time buyers</b>	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.
<b>Liquidity ratio</b>	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.
<b>Mortgages funded by retail savings and retained profits</b>	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.
<b>Mortgage balance growth</b>	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.
<b>Net lending</b>	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.
<b>Number of accounts more than three months in arrears</b>	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.
<b>Percentage of outstanding retail mortgage balances in arrears by three months or more</b>	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.

## GLOSSARY (CONTINUED)

APM	Closest equivalent statutory measure/ Calculation of measure	Reconciling items to statutory measure	Definition and purpose
<b>Retail Savings balance growth</b>	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.
<b>Savings inflow/outflow</b>	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.
<b>Share of the gross mortgage market</b>	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.
<b>Regulatory Measures</b>			
<b>Common Equity Tier 1 (CET1) capital ratio</b>	None	Common equity tier 1 capital 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.
<b>Leverage ratio</b>	Reserves as a percentage of total assets.	Tier 1 capital is defined as a percentage of total assets adjusted for certain off-balance sheet exposures.	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.
<b>Total capital ratio</b>	None	Total capital 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.
<b>Non-financial measures</b>			
<b>Absenteeism</b>	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.
<b>Peakon survey result</b>	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.

## GLOSSARY (CONTINUED)

APM	Closest equivalent statutory measure/ Calculation of measure	Reconciling items to statutory measure	Definition and purpose
<b>Net Promoter Score (NPS)</b>	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.
<b>Colleague engagement score</b>	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.





References to 'YBS Group' or 'Yorkshire Group' refer to Yorkshire Building Society, the trading names under which it operates (Chelsea Building Society, the Chelsea, Norwich & Peterborough Building Society, N&P and Egg) and its subsidiary companies and where appropriate, its controlled entities. Egg is a registered trademark of Yorkshire Building Society.

Accord Mortgages Limited is authorised and regulated by the Financial Conduct Authority. Accord Mortgages Limited is entered in the Financial Services Register under registration number 305936. Buy to Let mortgages for business purposes are not regulated by the Financial Conduct Authority. Accord Mortgages Limited is registered In England No: 2139881. Registered Office: Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ. Accord Mortgages is a registered Trade Mark of Accord Mortgages Limited.

YBS Share Plans is part of Yorkshire Building Society. Yorkshire Building Society provides share plan trustee and administration services, including deposit taking, all of which are subject to English law, with deposit taking being regulated by the Financial Conduct Authority. The provision of share plan trustee and administration services is not regulated by the Financial Conduct Authority. We are not responsible for share plan deposits held by local savings carriers outside the UK.

Head Office: YBS Share Plans, Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ. [ybsshareplans.co.uk](http://ybsshareplans.co.uk)

Yorkshire Building Society Charitable Foundation is a Registered Charity (No: 1069082) and a Registered Company (No:03545437). Registered Office: Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ.

End Youth Homelessness (EYH) is a national movement of local charities working together to end youth homelessness in the UK. EYH trades through its designated Administrator, Centrepoint (charity number 292411).

Age UK is a charitable company limited by guarantee and registered in England and Wales (registered charity number 1128267). Registered address: Tavis House, 1-6 Tavistock Square, London WC1H 9NA.

Yorkshire Building Society is a member of the Building Societies Association and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Yorkshire Building Society is entered in the Financial Services Register and its registration number is 106085. Head Office: Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ. [ybs.co.uk](http://ybs.co.uk)