

**YORKSHIRE BUILDING SOCIETY**  
Annual Report and Accounts 2021

**HELPING  
TOGETHER  
WE MAKE A  
GREAT TEAM  
HAPPEN**



**YORKSHIRE  
BUILDING SOCIETY**

Helping real life happen



Our purpose is to provide *Real Help with Real Life* by helping people to find a place to call home, helping people toward greater financial wellbeing, and creating long-term value for our members.



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# Performance at a Glance

## Member value

Statutory Profit Before Tax

**€320.0m**  
£161.3m in 2020

Core Operating Profit<sup>1</sup>

**€297.3m**  
£170.5m in 2020

Cost to Core Income Ratio<sup>1</sup>

**50%**  
59% in 2020

Common Equity Tier 1 ratio

**16.8%**  
16.7% in 2020

Leverage Ratio

**5.9%**  
5.9% in 2020

Liquidity Ratio

**20.7%**  
19.2% in 2020

Average Savings Rate Paid

**0.60% over 2021**  
0.78% over 2020

Net Promoter Score (NPS®)<sup>2</sup>

**+54**  
+53 in 2020

<sup>1</sup> See the *Summary Income Statement* in the *Our Financial Review* section of the *Strategic Report* for the calculation of core profit and core income. See the *Glossary* for definitions of core operating profit and cost to core income ratio.

<sup>2</sup> *Net Promoter Score* and *NPS* are trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc. Data period January – December 2021, based on 24,305 responses.

## Place to call home

Gross Lending

**£10.3bn**

£7.1bn in 2020

Gross Mortgage Lending  
Market Share<sup>3</sup>

**3.2%**

2.8% in 2020

Growth in Mortgage Balances

**8.1%**

2.1% in 2020

New Mortgage Accounts

**49,000**

39,000 in 2020

## Financial wellbeing

Savings Accounts Opened

**203,000**

227,000 in 2020

Savings Balance  
Market Share<sup>4</sup>

**1.92%**

1.88% in 2020

Retail Savings Balances

**£35.5bn**

£33.4bn in 2020

Average Savings Rate Differential  
above Market Average<sup>5</sup>

**0.32%**

0.17% in 2020

## Climate Related Financial Disclosures

Carbon Footprint

**-5%**

+3% in 2020

Landfill Diversion

**99.5% of waste**

99.0% in 2020

<sup>3</sup> Based on Bank of England total industry gross lending. Data period January – December 2021.

<sup>4</sup> Source: YBS analysis of BSA Household savings. Data period January – November 2021.

<sup>5</sup> YBS Group average savings rate compared to rest of market average rates. Source: CACI's Current Account and Savings Database (CSDB), Stock. Data period January – December 2021.



# Welcome from the Chair of the Board

## Delivering *Real Help with Real Life*

I am pleased to present our 2021 Annual Report and Accounts. I am able to report a strong set of financial results as well as clear progress in delivering our long-term strategic plans as set against the context of the challenging economic and market environment in which we operate.

Since the Yorkshire Building Society was founded over 150 years ago we have been strongly committed to our mutual business model and to our social purpose, both of which remain at the very centre of our culture and operations to this day.

Our purpose is to help people to find a **place to call home**, support people toward greater **financial wellbeing** and deliver long-term **value for our**

**members.** Pursuing these ambitions is how we believe we can make the greatest positive impact on real life and society as a whole. We recognise that we can help to drive positive outcomes for not only our membership but also our broader range of stakeholders, which includes the impact we have on the environment. We are committed to playing our part in building a greener society and, this year, our Board was pleased to approve

our climate change strategy, details of which are disclosed later in this report.

Our members and customers entrust us with their savings and mortgages, and it is our duty to them to operate a strong, financially secure and resilient business. The strategic investments we have made over recent years positioned us well for the opportunities that were presented in our core markets of mortgages

and savings. We were able to deliver strong mortgage lending by returning to a number of market segments where many customers experienced a shortage of suitable products. This meant we were able to help even more customers this year in securing a mortgage, and we are proud to have supported a greater number of people than ever before through our first-time buyer mortgages. The strength of our overall financial performance enabled us to launch our member loyalty programme which saw us returning an additional £41 million of value to our loyal savings members through a combination of targeted products and increased rates on our instant access savings products.

This year we have continued to be there for our customers who, like many in society, have found themselves facing a number of challenges during this difficult period. We ensured that our branches and office sites were COVID-secure, in line with the latest Government guidelines, and we facilitated the deferral of mortgage payments for those customers who needed this support.

The physical and mental wellbeing of our colleagues is a matter of significant importance to us. Alongside ensuring effective social distancing measures were in place, we have refreshed and expanded our colleague wellbeing programmes to provide additional resources.

We have also made progress on our inclusion and diversity agenda, redefining our strategy to foster a culture where these essential values are embedded within everything that we do, and each and every colleague is able to pursue their career goals free from barriers. During the year, the number of women who hold senior management positions has increased, and we were also delighted to receive the award for *Large Business of the Year 2021* from the National Centre for Diversity. This shows the good progress we have made in this area, though we recognise that there is always more that we can do.

## Changes to the Board

As previously announced, Mike Regnier left the Society at the end of 2021. I would like to thank Mike

for his outstanding contribution to the Society over the last seven years, including the last five as our Chief Executive. Mike led the Society superbly through a period of significant change, both as an organisation and in wider society, most recently helping us navigate the challenges of the COVID-19 pandemic.

I am pleased to welcome Stephen White as our Interim Chief Executive. Stephen has been our Chief Operating Officer and Executive Director since 2016 and has extensive financial services experience. I am confident in his ability to lead the Society until we formally appoint Mike's successor.

I would like to take this opportunity to express my gratitude to both Gordon Ireland and Guy Parsons on their departure from the Board. Gordon, who stepped down from the Board in April 2021, and Guy, who is due to retire from the Board at the conclusion of the 2022 Annual General Meeting, made excellent contributions to the Society during their time here. I wish them both well for the future.

Finally, I would like to extend a warm welcome to our new Board members, Dina Matta and Jennelle Tilling, who joined us as Non-Executive Directors in 2021, and to David Morris, our Chief Commercial Officer who was appointed as Executive Director in January 2022 having been with the Society since 2018. The skills and experience brought by each of our new Board members will be highly valuable as we continue to pursue our purpose of delivering *Real Help with Real Life*.

## Our Long-term Sustainability

Key responsibilities of mine as Chair of the Board are to ensure that the Society is a well-run organisation, has the right skills and experience at Board level and that the Board is operating effectively.

We work to the highest standards of corporate governance and are committed to maintaining this approach and to supporting the long-term success and sustainability of the Society. We ensure that the Society is secure in its financial position and

has robust controls in place to enable us to continue serving our members and customers for years to come. The member loyalty programme we launched this year demonstrated our commitment to returning value to our members, and we will continue to pursue opportunities to deliver value through similar programmes in the future, balancing this with the need to ensure our long-term sustainability.

We are also committed to making a positive difference to the communities within which we operate. Our range of community investment programmes operate on three levels: local, regional and national. The programmes themselves cover various topics, with focus placed on key areas including financial wellbeing and literacy, employability skills and digital inclusion. Our Money Minds and Career Minds sessions focus on supporting local school children; we have launched a targeted range of initiatives in our home city of Bradford; and through our partnership with Age UK and the Building Better Lives programme we are funding specialist advice in eight regions across the UK.

It is important that we consider the broader, long-term impacts of our operations alongside the needs of our more immediate stakeholder groups. In wider society, the topic of climate change has been brought into increasingly sharp focus in recent years. The Society is proud to have been carbon neutral for the last five years and, this year, we have also embedded specific environmental standards into our operations and governance, as well as having included new Environmental, Social and Governance (ESG) disclosures in this report.

Having deepened our understanding of the risks posed by climate change over the course of 2021, this report announces our climate strategy and the commitments we have made in moving toward a future low-carbon economy. We are clear that our disclosures and commitments form part of our broader risk management, and the Board has set our intended direction of travel as our approach to climate change management evolves over time. Our climate commitments are designed to complement our

purpose and not affect our intention of helping customers into homes. Moving to a low-carbon economy could have unintended consequences, with one key area concerning us being the costs relating to improving the energy efficiency of the UK's housing stock. Many customers will struggle to meet the cost of this transition, and so our purpose remains critically important as we focus on helping our customers to have a place to call home and to build their financial resilience.

In 2021 we also re-evaluated our approach to ESG issues following stakeholder research. Alongside our three purpose ambitions, we have identified three additional ESG priorities. These were identified through our materiality research and are: our environmental impact, investing in our people and operating responsibly. In 2022 we will publish an ESG report to show the progress we are making against our ESG strategy and share our ambitions for the future.

## Regulatory Factors

Updates from the regulatory environment this year include:

- **Support for customers impacted by the COVID-19 pandemic** – as the pandemic continues, further regulatory guidance may come into force to alleviate the negative impacts felt by customers. YBS continues to focus on supporting our customers and will do so in line with any subsequent regulatory changes.
- **Climate change risk** – increased regulatory focus is being placed on matters concerning climate change and the risks it poses. The Prudential Regulation Authority's Supervisory Statement SS3/19 became a requirement at the end of 2021 and large businesses will soon be required to disclose climate-related risks in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). Detail on our strategic approach to climate change risks is included later in this report. We have elected to align our disclosures this year with TCFD, ahead of this becoming a mandatory requirement, and given the level of

interest from our key stakeholders we intend to maintain our disclosure with best practice as it continues to evolve.

## External factors

We proactively monitor developments in the external environment which may impact upon the Society and our ability to deliver against our purpose. We ensure that our actions are in the interests of our members, customers and colleagues, and that they are in accordance with maintaining a strong and sustainable organisation over the long term.

In terms of the economic environment, a high degree of uncertainty has been present since the emergence of the COVID-19 pandemic. Successful progress in administering vaccinations to the UK population, as well as the lesser degree of active COVID restrictions, are causes for optimism and drove the economy to broadly recover to the levels seen pre-pandemic by the Autumn. The subsequent emergence of new variants of COVID-19 has stalled this recovery, and in response to inflationary pressures, the Bank of England moved to increase Base Rate in both December 2021 and February 2022. Much uncertainty remains around potential future developments, casting doubt over key macroeconomic outcomes.

We will continue to monitor our environment closely, taking action where necessary, in line with our robust risk management capabilities. The Yorkshire Building Society remains well-capitalised, with good levels of liquidity and access to wholesale funding. Our strong balance sheet and capital generation will ensure that we are well placed to withstand an economic downturn.

## The Challenges That Lie Ahead

Our core markets of mortgages and savings will continue to be highly competitive and overall margins will remain under pressure. Our overall external context is one of heightened uncertainty, through geo-political risks, including the terrible events currently occurring in Ukraine, the impacts of

the UK's exit from the EU and the potential future paths of COVID-19. These will all contribute to disruption and supply and demand imbalances across the economy, and our industry will be at the heart of this. Customer expectations will continue to evolve rapidly, and new competitive models will emerge.

In this context, our digital transformation of customer experience will be central to our ability to compete and to our future prospects. Across the organisation, we are investing in building our digital skills base, increasing our capability and capacity, and investing in our colleagues to support personal growth and development and redefine the nature of the work that we do and the way in which we do it. Our strong foundations, our purpose, and the commitment of our colleagues will enable the Yorkshire Building Society to rise to meet these challenges.



We would not have been able to achieve all that we have, or all that we strive to in the future, without our dedicated colleagues. I would like to extend a sincere thank you to all of our colleagues for once again demonstrating their resilience, professionalism and commitment to providing our members and customers with the valuable services they deserve.

Finally, I would like to end on a note of gratitude to our members for their continued support.

**John Heaps,  
Chair of the Board**

1 March 2022





**We are proud to have supported a greater number of people than ever before through our first-time buyers mortgages.**



**The strength of our overall financial performance enabled us to launch our member loyalty programme which saw us returning an additional £41m of value to our loyal savings members.**





# Chief Executive's Summary

## A Purposeful Year

I am pleased to introduce our Annual Report for 2021, marking a year where we have delivered strongly against our purpose of providing **Real Help with Real Life**. Our existing strategy has served us well in these challenging times, and we are proud to have been here for our members when they needed us.



Taking over as Interim Chief Executive in November 2021, I am proud to be leading an organisation with such a strong mutual heritage, always placing our members and customers at the very centre of everything we do.

Having been with the Society for a number of years as Chief Operating Officer and Executive Director, I very much look forward to building upon the progress we have made as an organisation in recent years as we continue toward our long-term strategy, guided by our **Strategic Blueprint** and **Transformation Roadmap**.

It has been a year since the launch of our Blueprint, which brings together our strategic priorities, culture and behaviours and will guide us in delivering our purpose. This is underpinned by our ambitious programme to transform the experience of our customers and members, develop our digital capability and enhance our risk management capabilities. I am pleased to confirm we have made good progress on our strategic agenda. Key highlights this year include:

### Helping a record 42,000 people into a place to call home through our first-time buyer mortgages – over 15,000 more than last year

The conditions of the mortgage market early in the year made it difficult for many people wanting to secure a **place to call home**. The COVID-19 pandemic caused disruption to the availability of mortgage products at the same time when Government incentives were boosting customer demand. Many of the customers facing difficulties were those with lower deposits, including first-time buyers. At YBS, we resumed lending to these purpose-aligned segments of the market as soon as we could responsibly do so. We were proud to be the first lender to re-enter the segment for those with five percent deposits, on the strength of our own resources and capability.

We plan to do more on our **place to call home** ambition. As part of our **Strategic Blueprint** we are developing our mortgage product propositions,

and enhancing our capabilities around risk management, in order to improve the range of products we can offer to those borrowers less well served by the wider market.

### Expanding our savings product and channel offering

**Financial wellbeing** is a critically important issue in wider society, with our own research showing that many would have difficulty relying on their savings alone to cover unexpected events. The ongoing pandemic has only made the issues many face more acute, as it affects employment statuses, disrupts markets and causes inflationary pressures.

Our savings range offers different products targeted toward different needs, including easily accessible variable rates, fixed rate bonds and habit-building regular savings products. With the launch of our new Christmas regular saver, our customers now have the ability to set up a savings account online in as little as five minutes. Our members opened over 203,000 savings accounts with us in 2021 (2020: 227,000), and we delivered rates which consistently beat the rest of the market, on average by 0.32% (2020: 0.17% higher than the average) which equates to £107 million additional interest for our savers. This year, we have begun to deliver customer journey improvements for both our branch and online channels. Our **Transformation Roadmap** will deliver further enhancements, allowing our customers to access our savings range using the channel most suited to their

needs, and continually expanding the functionality of our mobile app.

Alongside our product offerings, our community investment programmes support our ambition to improve people's **financial wellbeing**. We have invested in new initiatives, designed to support people who are facing a wide variety of challenges. Our **Money Minds** and **Career Minds** sessions have now restarted in schools which is great to see. These successful programmes focus on providing valuable financial and employment skills to help young people establish healthy habits early in life. Additionally, our charity partnership with Age UK will help us to support those of an older generation, and a range of other programmes will be targeted toward the age groups in between.

### The launch of our member loyalty programme

Returning **member value** is a fundamental part of our mutual business model. This year, our strong performance in mortgage lending, particularly in the first half of this year, and our financial stability enabled us to launch our member loyalty programme. As part of this, we launched specific loyalty savings products featuring some of our best rates, and also raised the rates we pay our loyal savers twice in the first half of this year. We were very proud to have been able to demonstrate our commitment to rewarding our membership in this way – especially given the context where some of the rates in the wider market were being cut. We will continue to pursue opportunities to deliver similar programmes in the future, balancing

HELPING A RECORD

42,000

PEOPLE THROUGH  
OUR FIRST TIME  
BUYER MORTGAGES -  
OVER 15,000 MORE  
THAN LAST YEAR



this with the need to ensure our long-term sustainability.

## Our Colleagues

**Such meaningful contributions toward our purpose would not have been possible without our colleagues.**

Alongside our members and customers, our colleagues are our highest priority. We are committed to providing our colleagues with a safe, welcoming working environment and supporting them in their personal development journeys. Building an inclusive and diverse workplace plays a key part in our strategy and we were proud to receive external recognition for our work in this area this year, including Leaders in Diversity accreditation and being named a Top 10 Employer by the work-life balance charity Working Families for our flexible and family-friendly policies and practices.

Our colleagues are integral in delivering the standards of service our customers deserve. Our Net Promoter Score for 2021 has increased to +54 (2020: +53), which is a great result. That we are able to continue providing such a high-quality service to our customers, even throughout periods where the challenges are larger in both number and scale, is a testament to the valuable contributions from our hardworking and resilient colleagues. Our teams remain a source of pride for all of our leadership and for me personally.

Our branches were able to remain open all of this year as we continued to

provide key services to our customers in COVID-secure environments. Many of our office-based colleagues continue to work remotely; we have proved that we can be effective operating in this way, and I am very proud of how well our colleagues have adapted. That said, remote working does lead to other challenges – especially around colleague wellbeing. We added to our existing processes to monitor and support wellbeing and, like many other organisations, we have begun the process of evaluating our future ways of working and have been consulting with our colleagues about this. Another challenge presented by the increase in remote and hybrid working is in attracting and retaining talent. As geography has become less of a factor in selecting a job, the pool of potential resource has broadened. We have observed increases in the level of competition for certain skillsets, and the risks associated with this will be monitored closely as they continue to evolve.

## Our Strategy

We have performed strongly in a year characterised by a great deal of economic and market uncertainty and a constantly evolving picture with regard to the COVID-19 pandemic. The dynamics of the mortgage market created an opportunity for us to increase our lending to purposeful segments of the market and service the high levels of demand present. Recent investments in our IT infrastructure and

resourcing capacity meant we were well positioned to provide this service and be there to help our customers. As a consequence, we have grown our mortgage lending at a rate higher than in a typical year, but in a way which strongly aligns to our purpose and strategy.

Our strategy remains unchanged and will be further advanced by our *Strategic Blueprint* and *Transformation Roadmap*. In the first year of this journey we have delivered specific improvements, including the addition of our Accord buy-to-let lending channel to our broker platform and enabling savings accounts to be opened online, whilst other parts of our plans are more of a continuous journey to enhance our capabilities. Whilst we have delivered improvements to our online services, we recognise that we are falling short of customer expectations in some parts of our digital service. It is clear that continued focus on this area is needed to bring us in line with expectations. Overall, we are pleased with the progress we have made on our strategic agenda.

We are placing an increased focus on the means by which we deliver against our strategy, giving due consideration to our broader environmental and social context. Taking action to lessen the negative impact we have on the environment is a journey we were already on as an organisation – we have held carbon neutral status for

That we are able to continue providing such a high-quality service to our customers is a testament to the valuable contributions from our hardworking and resilient colleagues.



the previous five years and actively reduced the volume of paper we use – but this year we have gone further. Over the course of 2021, we completed the first phase of our work on climate risk which enabled us to both understand the risks of climate change and also begin to develop our strategy for how we intend to support the broader transition to a low-carbon economy. We do not lend to sectors of the economy which would be regarded as damaging to the environment, and so it is important for us to link our climate strategy to our broader purpose-led strategy. The main risks of climate change for the Society are related to our customers' homes. These risks can be physical, where changes in the natural environment may cause damage to the integrity of a property, or transitional, which result from changes in policy as the UK moves toward a lower carbon economy.

Our annual report includes new disclosures around our environmental impacts and announces our strategy to help manage climate change risk, as well as announcing the commitments we are making to support positive changes in this journey. These commitments fall into three broad pillars which are: ensuring that the Society continues to manage its operational carbon emissions; promoting and embedding carbon literacy into our working culture; and supporting customers in their transition to a low-carbon economy through understanding the risks and opportunities climate change presents, providing proactive and reactive support.

It is important to the Society that we continue to do the right thing in supporting broader climate change goals, though it is essential that our ambitions in this area remain aligned to our purpose. Being here to help customers into homes, build greater financial resilience and providing value to our members are our core purpose, and we have made sure that our climate ambitions are in harmony with this.

## Financial Sustainability

This year, our financial position has strengthened, and we have shown

# TOP 10 EMPLOYER FOR WORKING FAMILIES



that our operational and resourcing capabilities can be flexed and adapted to periods of heightened demand. In support of our *place to call home* ambitions, we increased our net lending to £3.6bn in 2021, £3.0bn more than last year. This level of growth in mortgages was supported by growth in our savings balances, which increased by £2.1bn. Additionally, our track record of effective cost management has continued; our cost to core income ratio has decreased by 9 percentage points to 50% – an improvement for the fifth consecutive year.

As a result of this successful performance in our core markets, alongside our investment programmes, we have delivered an increased core operating profit of £297m, rising £126m from last year. Our profits contribute to the sustainability of the Society, bolstering our reserves, and enabling us to reinvest in the products and services we provide to our customers and membership.

## Outlook

We expect that a high level of competition will continue to characterise the market for mortgages and much uncertainty looks set to remain in the economic environment, relating to both the ongoing COVID-19 pandemic and the wider consequences of the UK's exit from the EU. As a business we stay alert to the possibility for further disruptions and ensure that our risk management capabilities remain robust. Additionally, we have recently increased our investment

in operational resilience, with a particular focus on continuing to protect ourselves from the evolving threats to cyber security. Our capital and liquidity positions remain strong, and the Yorkshire Building Society is well resourced to support customers through potential economic shocks.

Much has been achieved over the course of 2021, and I am very much looking forward to delivering against the next stages of our *Strategic Blueprint*. We are committed to further improving the range of products on offer to our savings and mortgage customers. Our mortgage propositions will not only continue to help people to have a place to call home, but we are also developing products which will help to improve the energy efficiency of people's properties, in line with our climate change strategy. Further enhancements to our digital servicing capability are also in development, continuing to simplify our infrastructure and processes and also delivering greater functionality for the 130,000 members who are already using our app.

The Society is focused on being an outstanding provider of savings and mortgages; this underpins our strategy and purpose, and will provide real, meaningful benefits to our membership and customers for the years to come.

**Stephen White,**  
Interim Chief Executive

1 March 2022

## Awards

We are always delighted when customers and industry professionals recognise our hard work in delivering our purpose. A list of the accolades awarded to the Society in 2021 is below.

### Mortgages



AWARDS	ACCOLADE
<b>Moneynet Personal Finance Awards</b>	Best Overall Mortgage Provider
<b>Moneynet Personal Finance Awards</b>	Best Offset Mortgage Provider
<b>Moneynet Personal Finance Awards</b>	Best First-Time Buyer Mortgage Provider
<b>L&amp;G Mortgage Club Awards 2021</b>	Best Lender for Service category
<b>L&amp;G Mortgage Club Awards 2021</b>	Best Overall Lender category
<b>Moneyfacts Consumer Awards 2021</b>	High Street Mortgage Provider of the Year
<b>Moneyfacts Consumer Awards 2021</b>	First Time Mortgage Buyers' Choice Award
<b>Financial Adviser Service Awards</b>	5 Stars Mortgage category
<b>Your Mortgage Awards</b>	Best Intermediary Mortgage Lender
<b>Mortgage Finance Gazette Awards</b>	Innovation by Lenders
<b>TMA Club Awards</b>	Best Lender for Intermediary Support 2021

## Savings



### AWARDS

### ACCOLADE

**Moneynet Personal Finance Awards**

Best Easy Access Savings Provider

**Moneyfacts Awards 2021**

Best Building Society Savings Provider

**Moneyfacts Consumer Awards 2021**

High Street Savings Provider of the Year

**MoneyComms Awards 2021**

Best Regular Savings Provider

## Customer Experience



### AWARDS

### ACCOLADE

**Business Moneyfacts Awards 2021**

Best Service from a Commercial Mortgage Provider

**Moneyfacts Awards 2021**

Personal Finance Provider of the Year

**Fairer Finance**

Gold Ribbon for Savings Customer Experience

**Fairer Finance**

Gold Ribbon for Mortgages Customer Experience

**Mortgage Finance Gazette Awards**

Customer Service & Treating Customers Fairly - Lenders

## Culture



### AWARDS

### ACCOLADE

**National Centre for Diversity FREDIE Awards 2021**

Large Business of the Year 2021

**National Centre for Diversity FREDIE Awards 2021**

Financial Services Company of the Year 2021

## Corporate Business



### AWARDS

### ACCOLADE

**Corporate Engagement Awards**

Most Innovative Collaboration – Gold

**Best Business Awards**

Best Corporate Social Responsibility

# The External Environment

The environment in which we operate influences our ability to deliver sustainable, long-term value to our members. To inform our strategy and to understand how we can best prepare for, and adapt to, emerging risks and opportunities we monitor the external environment closely.



## Economic and Political Overview

For much of 2021, the UK economy showed strong signs of recovery. Among other factors, favourable developments were driven by significant Government intervention to support businesses and the markets for labour and housing, alongside the success of the UK vaccination programme and the phased loosening of COVID-19 restrictions.

However, since late summer some of this momentum has slowed due in part to the emergence of new variants of COVID-19. The Delta variant resulted in almost a million workers self-isolating and shortages in the products and labour markets. The later emergence of the Omicron variant has also had significant negative impacts, and has been particularly hard on the hospitality and retail sectors as consumers exercise

caution. The risk remains that the COVID-19 pandemic will require further restrictions to be introduced to manage the impact of existing or new variants.

Monthly gross domestic product (GDP) in the UK as at December 2021 was equal to the level seen before the COVID-19 pandemic (February 2020). Outputs by sector vary, with services and construction both above pre-pandemic levels and production remaining below<sup>1</sup>.

Since the start of 2021 unemployment in the UK has been falling, with the estimated rate at 4.1% in December<sup>2</sup>. This is a level higher than that seen before the pandemic, but has decreased compared to the preceding three months. The Coronavirus Job

Retention Scheme (CJRS), which was designed to support the market for labour was also withdrawn at the end of September 2021.

As social restrictions lifted and the demand for goods and services increased, certain sectors experienced recruitment difficulties. This was noted both in the hospitality sector as well as in the scarcity of heavy goods vehicle drivers, which were also impacted by the UK's exit from the EU.

These supply and demand conditions precipitated marked increases in global goods prices, with the UK experiencing rising fuel and energy prices and global supply issues for the first time since the 1970s. In combination with the reversal of the VAT cut for the hospitality sector and

<sup>1</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/december2021>

<sup>2</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/february2022>



a 12% rise in the energy price cap, this environment has added upward pressure on inflation. Consumer Price Index (CPI) inflation has risen by 5.4% in the twelve months to December 2021<sup>3</sup>, significantly above the Bank of England's target of 2%.

In response to the rising levels of inflation, the Bank of England's Monetary Policy Committee (MPC) voted by a majority to increase Bank Base Rate to 0.25%<sup>4</sup> in December 2021, and further increased this to 0.50% in February 2022. A good deal of uncertainty remains around future path of inflation as well as the responsive action to be taken by the Bank of England.

The short to medium-term economic outlook remains uncertain. Whilst the threat of the Omicron variant appears to have receded, the economy faces strengthening headwinds from high consumer price inflation as well as the continuing imbalances between disrupted global supply chains and high demand. The emergence of new variants remains a significant risk, with concerns around their potential ease of transmission and the possible need to reintroduce social restrictions.

## UK Mortgage Market

The mortgage market remains relatively buoyant and, although activity has declined from the highs experienced earlier in the year, demand remains ahead of the supply of housing stock. The drivers of the high demand observed, in particular over the first half of the year, included:

- The introduction of Government stimulus packages in 2020, namely Stamp Duty Land Tax relief, which provided an incentive to those buying a new home, and later the Mortgage Guarantee Scheme which supported lending to customers with lower deposits.
- In the opening months of the year some lenders remained retrenched from certain lending segments, with the reduced availability of products serving to elevate pricing.
- Incentives for lenders included the low cost of funding, as a result of the previous reductions to the Bank Base Rate, as well as having liquidity positions supported by access to TFSME funding and increased retail deposits.

- As a result of lockdowns and remote working, many homeowners have spent more time in their properties and so may have reassessed their needs in the context of a different style of living and working.

As the financial incentives for home movers and first-time buyers were withdrawn, and lenders returned to the market, competition intensified and customer rates began to fall. Additionally, the proportion of lending generated by re-mortgages increased markedly in the latter half of the year.

We expect upward pressure on house prices to persist, at least in the short term, which may pose a barrier to first-time buyers in getting onto the property ladder. Average UK house prices increased by 10.2% over the year to October 2021, according to the Office of National Statistics (ONS)<sup>5</sup>.

## UK Savings Market

As a result of the low interest rate environment, the rates paid to savers have been subject to downward pressure for a number of years. This situation was further exacerbated by



<sup>3</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/december2021>

<sup>4</sup> <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/february-2022>

<sup>5</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/october2021>



the pandemic, as Bank Base Rate was cut to historic lows and many banks and building societies responded by lowering variable rates.

The availability of low-cost liquidity from the Government's TFSME scheme, coupled with high levels of retail deposit growth given the reduced opportunities to spend, reduced the need for banks and building societies to attract new funding and continued to place downward pressure on the customer rates for savers.

Following the lifting of the majority of the social distancing measures in the second half of the year, household spend increased as retailers reopened, international travel became possible and some returned to their physical workplaces. Combined with inflated energy and food prices, this resulted in slower retail deposit growth than seen earlier in the year.

The pandemic has also continued to influence customer priorities and preferences; easily accessible, variable rate products remained more popular than fixed alternatives. Also, the use of online channels to manage savings accounts has increased, as COVID-19 continues to accelerate digital adoption.

In the latter months of 2021, and in anticipation of an increase to Bank Base Rate, some providers increased their savings rates, with most of the uplift seen in fixed rate products. The outlook for the savings market is uncertain, though appears likely to be relatively subdued. Much hinges on the decisions concerning Bank Base Rate and the extent to which increased consumer spending will influence the abundance of retail deposits.

## Regulatory Overview

### Support for customers impacted by COVID-19

Since the beginning of the pandemic, a key focus for the Society has been supporting the wellbeing of our customers. Regulatory guidance during this period allowed lenders to grant payment deferrals and applied restrictions on eviction proceedings to support those borrowers impacted by the pandemic. Whilst most customers who were granted deferrals have now resumed their mortgage payments, lenders cannot afford to become complacent and we remain alert to the possibility of further action being required in the future. Our continued focus will be to support our customers

in line with any subsequent regulatory activities.

### FCA Consumer Duty

The Financial Conduct Authority (FCA) has proposed a new Consumer Duty for financial services firms. The FCA are currently consulting on this Duty, with new regulation proposed to be in place by 31 July 2022 and a provisional deadline for firms to be compliant with that regulation of April 2023. The aim of the Duty is to raise the standard of consumer protection and to drive a healthy and successful financial services system in which firms can thrive and consumers can make informed choices about financial products and services.

The new rules include a Consumer Principle, alongside cross-cutting rules which will require firms to act in good faith; avoid foreseeable harm; and enable and support retail customers in their pursuit of their financial objectives. The focus of the rules is to drive good outcomes for consumers across the full lifecycle including the level of customer service provided as well as the governance, price and value of the products or services themselves.



### FCA Consumer Investments Strategy

The FCA published a new consumer investment strategy aimed at encouraging consumers to invest in suitable products, supported by high-quality advice. The FCA has set itself a target to halve the number of customers investing in unsuitable, high-risk products, reduce the number of customers who are missing out on investment income, and reduce the amount of money lost to investment scams. The package of measures set out by the FCA includes exploring regulatory changes to make it easier for firms to provide more help for consumers who want to invest in relatively straight-forward products. This will be supported by the launch of a new campaign to help consumers make better-informed investment decisions. The actions proposed by the strategy will take place over a three-year period.

### Diversity and Inclusion in the Financial Sector

The Bank of England, Prudential Regulation Authority (PRA) and FCA have highlighted a need to improve diversity and inclusion in the financial sector. The aim is for this to result in firms which have better governance and risk management, and lead to a more innovative industry with financial products and services which meet the diverse needs of consumers. The Regulators expect meaningful steps to be taken to achieve better representation of all strands of diversity, at all levels of a business and in particular at Board and senior manager level. Diverse and inclusive environments align to the Regulators' wider desire for a speak-up culture where potential wrongdoing can be called out freely and without fear.

### Climate change

Climate change creates financial risks and economic consequences, both of which are areas of ongoing focus for our regulators. PRA Supervisory Statement 3/19 (SS3/19) – *Enhancing banks' and insurers' approaches to managing the financial risks from climate change* became a requirement for financial firms at the end of 2021. The PRA now expects firms to be able to demonstrate that the expectations set out in SS3/19 have

been implemented and embedded throughout their organisations as fully as possible. The expectations cover four key areas:

- Governance
- Risk Management
- Scenario analysis
- Disclosures

Later in this document we have set out the work completed in order for the Society to meet the requirements of SS3/19. We do anticipate expectations to continue to develop over time and so have an ongoing series of deliverables and commitments to support our climate agenda.

Following publication of the UK's Net Zero Strategy the Government has committed to making the UK financial system one of the greenest in the world. As part of this, the UK is making it mandatory for large businesses to disclose their climate-related risks and opportunities in line with Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. This year, the Society has elected to align our disclosures with TCFD requirements ahead of this mandatory requirement, and we intend to maintain our disclosures with reference to best practice as it continues to evolve.

### Future Regulatory Framework Review

The Government has published a document entitled 'A new chapter for financial services' which sets out the UK Government's vision for the future of the sector. This vision is centred on four broad themes: 'an open and global financial hub'; 'a sector at the forefront of technology and innovation'; 'a world-leader in green finance' and 'a competitive marketplace promoting effective use of capital'.

In addition to this, the Treasury Select Committee has separately published a report which considers the future of financial services following the Brexit transition period and examines how financial regulations should be set and scrutinised by Parliament. This report covers matters such as the ownership of financial regulation; regulatory independence; activity-based principles; the Financial Ombudsman Service, and Parliamentary scrutiny.

Both of these are likely to lead to further regulatory developments.

### Data: a new direction

The UK Government launched a consultation in September 2021 proposing significant changes to the UK's data protection framework including reform of the Information Commissioner's Office. The aim is to create an agile and adaptable regime which enables growth and innovation, underpinned by the responsible use of data. This consultation is the first step in the process of reforming the UK's regime for the protection of personal data.

### Review of the UK's Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) Regime

HM Treasury launched a call for evidence regarding the structure and effectiveness of supervision and the effectiveness of the AML/CTF regime, which will include assessment of whether key elements of current regulations are operating as intended. This is timely considering the recent package of measures published by the European Banking Authority, and was launched alongside a consultation to amend secondary legislation. The former may have more fundamental implications for the regulatory and supervisory regimes, with the latter having more immediate implications. HM Treasury will also consider key factors impacting the adoption of new technologies which may be important not only in improving the efficiency and consistency, but also the effectiveness of financial crime arrangements. This work is expected to lead to regulatory change.

# Our Business Model

The Society operates a simple business model – one which is centred around our purpose of providing *Real Help with Real Life*. As a member-owned mutual we exist to provide our savers with a safe place to keep their money and build their financial resilience. These savings balances are then used to fund mortgage lending, enabling our customers to secure a home of their own. This year, we decided to further simplify our business model by exiting the SharePlans market. The impact of this decision is not material with respect to our financial performance and will enable us to strengthen our focus on our core areas of mortgages and savings.

Although our primary concern as a building society is not in the maximisation of profits, a drive to deliver improved efficiency helps us to return more value to our members. We always act in the interests of our membership whilst ensuring our sustainability over the long term. It is therefore important that our level of profitability is such that it ensures our stability and security, generates sufficient capital to support our growth, and allows us to continue developing and delivering products which fulfil the needs of our members and customers.

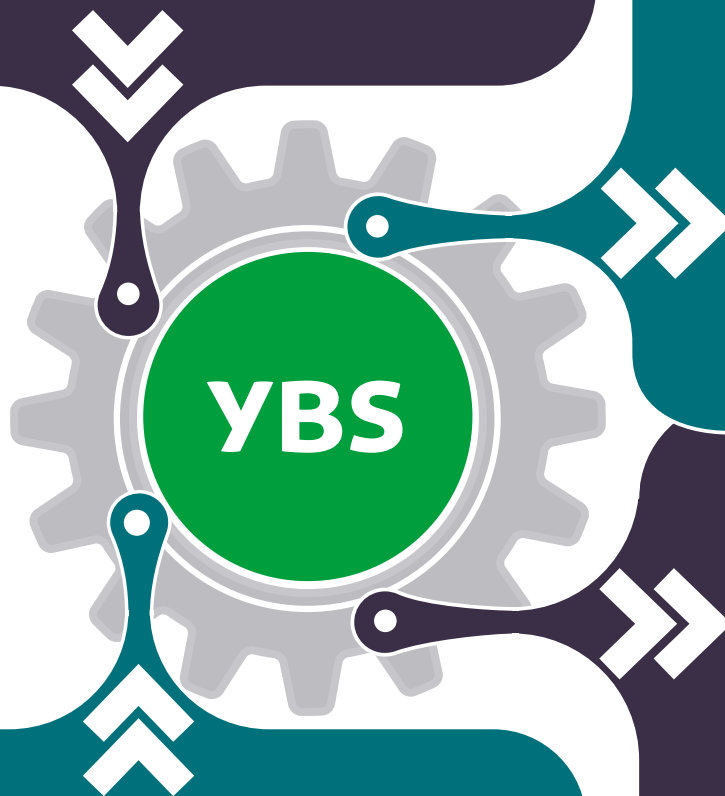


## How we fund our business:

- **Members Savings**  
Holding savings deposits from our members, through both branch and online channels (c.68%).
- **Wholesale markets and Government funding schemes**  
Additional funding is raised from the wholesale markets through the issuances of bonds or debt securities (c.16%) as well as Government funding schemes (c.11%). This provides diversification to our funding sources to ensure we are not overly reliant on any one source.
- **Reserves**  
Our reserves, generated by the profits from prior years (c.5%).

## How this funding is used:

- **Residential Mortgages**  
Providing residential mortgages (c.79%) to our owner-occupier and buy-to-let customers.
- **Commercial Mortgages**  
Providing commercial mortgages through our Commercial Lending channel (c.2%).
- **Segments**  
Our lending strategy is to actively seek out segments which are aligned to our purpose and currently underserved by the wider market. Being selective about the segments in which we choose to compete in can be source of value generation, which can then be sustainably returned to our members.
- **Liquid Assets**  
A proportion of our funding is held as liquid assets (c.19%). We ensure the liquidity we hold comfortably exceeds regulatory minimums.



## How we earn income:

- Income is received from our mortgage customers, as well as from the liquid asset investments we hold.
- The interest received is offset by the interest payable to our sources of funding to arrive at our net interest income.
- A small proportion of our income is generated from secondary lines of business such as insurance products.

## How we spend and invest:

- We reward our members with fair interest rates on their savings, aiming to offer higher than the market average in circumstances that allow.
- We pay interest to providers of wholesale funding.
- Our reward and remuneration policies are designed to attract and retain colleagues with the skillsets required.
- To be competitive in the long term, we must keep our costs under control. Over the long term we aim to reduce our overall costs to improve our efficiency, though additional investments will be made in the pursuit of our strategic objectives.

## How we manage our long-term stability and sustainability:

- We have robust systems and frameworks for the monitoring of risks. We ensure that our liquidity and capital positions are sufficient and above regulatory requirements.
- We invest in our strategically important capabilities; our *Transformation Roadmap* will significantly improve our digital customer experience. This ensures that we evolve alongside the expectations of the market and its customers.
- High standards of Corporate Governance and compliance with regulations and taxes.
- Adequate provisioning in the event of credit losses.
- Engaging with our wider stakeholders and embracing our social and environmental responsibilities.



# Our Purpose, Strategy and Stakeholders

As a mutually owned building society, we are clear on our purpose – to provide *Real Help with Real Life*. There are three core areas where we are focusing our ambitions: helping people to find a **place to call home**, supporting **financial wellbeing** and delivering **long-term member value**. Everything we do as an organisation is aligned to these ambitions, helping us to make a positive difference to our members, colleagues, communities and wider stakeholders.

What we have delivered for our stakeholders this year includes: the programme of member loyalty initiatives; customer journey improvements in both branch and online channels; engagement with an increasingly diversified range of investors and issuance of our first Social Bond; improved our overall Net Promoter Score; and strengthened colleague engagement.

We have also conducted in-depth research to determine the

Environmental, Social and Governance (ESG) issues most material to our stakeholders in order to better articulate our ESG priorities and ambitions; we will publish an ESG report later this year. Alongside our ESG priorities, we have completed the first phase of work on understanding the risks of climate change and have set out our strategic direction on how our climate ambitions align to our purpose.

## Member Value

We exist to deliver value for our members in the form of flexible, well-priced financial products and friendly, practical customer service. Our mutual business model means that we are accountable to our members, rather than external shareholders, and our membership is at the centre of our decisions.

In a particularly buoyant mortgage market, which was supported by the

stamp duty relief incentive, we focused our lending on areas aligned to our purpose. We achieved a level of growth higher than that in a typical year, expanding our share of these market segments. This, in addition to the elevated margins on our new mortgage lending, provided us with an opportunity to return additional value to our members through the launch of our member value programme.

This programme rewarded our loyal members with our best interest rates, with the products on offer including a regular saver and an ISA. These accounts were available for a limited period and over 80,000 of these accounts were opened as our members took advantage of them. As part of our loyalty programme, we also increased the rates we paid many of our existing savers – raising them in January and once again in June. At a time when many market rates are at historic lows, we were proud to be in the position to demonstrate our commitment to our purpose so clearly to our members.

As a result, our instant access savings rate differential over 2021 stands at an average of 0.35% above the market average. At half year this was 0.26%, and at the previous year end this was 0.05%<sup>1</sup>. Future decisions around how we can best return value to our members will, as ever, be carefully weighed up alongside the long-term financial sustainability of the Society.

Our overall Net Promoter Score (NPS), a measure of how willing our customers are to recommend us to their friends and family, stands at +54 compared to +53 in 2020. Our customers tell us they especially value the friendly and practical help provided by our frontline colleagues, and appreciate how easy and straightforward it is to interact with us. We have also received positive customer feedback about our mobile app which has good ratings from app stores, and NPS score of +48. In a recent NPS survey many praised its ease of use, safety and the ability to complete tasks easily. To maintain an overall NPS score at this level, despite the challenging environment, demonstrates our commitment to delivering a high standard of service to our customers and members.

Our levels of capital and liquidity have remained strong throughout 2021, indicating that we are secure in our financial position, well equipped to respond to the challenging market conditions and can continue to support our members.

### Place to Call Home

Against the backdrop of a housing market which has seen record levels of demand from buyers, we are proud to have meaningfully delivered against this ambition this year. In the wake of the disruptions to the national mortgage market due to the COVID-19

**HELPED LANDLORDS  
PROVIDE RENTAL  
ACCOMMODATION  
TO ALMOST**

**5,000**

**PEOPLE**

**HELPED**

**42,000**

**PEOPLE INTO A  
PLACE CALLED HOME  
THROUGH OUR  
FIRST-TIME BUYER  
MORTGAGES**

pandemic, we were eager to resume supporting our customers as soon as possible. The shortage of low-deposit mortgages in the market provided an opportunity for us to support underserved segments of the market which align to our purpose.



**In 2021, we have been able to help 85,000 people to have a place to call home, whether this is their first step onto the housing ladder, moving home or renting a property. 30,000 more than in 2020.**



<sup>1</sup> YBS Group average savings rate compared to rest of market average rates. Data source: CACI's Current Account and Savings Database (CSDB), Stock. Data period January – December 2021.

## HELPING WE'RE FINALLY HOMEOWNERS HAPPEN

We get so much pride from owning our home. Once you're a homeowner, you feel like you've got a foundation for life. It's a really big step towards independence.

We found the mortgage journey very easy and Yorkshire Building Society were super helpful, everyone we spoke to was caring and guided us through the whole process.

**Member case study – Shawn and Lauren**



Our operational and analytical capabilities provided us with the ability to quickly respond to the conditions in the market, and we re-entered underserved markets with segments as soon as we were safely able. We were the first lender to re-

enter the 95% LTV market, and later the 90% new build market, increasing customer choice and enabling those with lower deposits to secure a home. We did this without utilising the government-backed Mortgage Guarantee scheme as we were

confident that we had the experience, capability and financial strength to re-enter the market with our own resources. As the year progressed, we made changes to our lending criteria to broaden the range of customers we were able to help.

**THROUGH OUR SAVINGS  
PRODUCTS AND LOCAL  
COMMUNITY INITIATIVES TO  
SUPPORT PEOPLE IN OUR LOCAL  
COMMUNITIES,  
WE HAVE SUPPORTED**

**124,000**

**PEOPLE TOWARD GREATER  
FINANCIAL WELLBEING THIS  
YEAR, COMPARED TO 107,000  
IN 2020.**

Our flexible and principle-led approach to underwriting means we are more able than some lenders to support borrowers whose financial standings have been affected by the pandemic – whilst ensuring their borrowing is sustainable – and brokers we are working with through Accord Mortgages are praising this personalised approach.

Over 2021 we were proud to help 42,000 people into a place to call home through our first-time buyer mortgages, far exceeding the previous year (2020: 26,000). Lending to this segment of customers is core to our purpose as it gives us the opportunity to help people reach the first rung of the property ladder.

### **Financial Wellbeing**

Financial wellbeing, which was already a priority of ours before the COVID-19 pandemic, has been brought sharply into focus as events unfolded over the last couple of years. The pandemic



has impacted the personal finances of many, in many different ways. Some have found themselves able to save more than ever before due to a lack of opportunity to spend their disposable income, whilst others experienced difficulties in making ends meet, potentially placing additional reliance on various forms of debt.

The primary ways that we aim to meet our ambition of supporting greater financial wellbeing include offering a range of savings products with above market average rates in conditions that allow, and investing in improving the ease with which customers can transact with us via the channel of their choice.

Our savings range has products targeted toward different needs – including easy access accounts, fixed rate bonds, cash ISAs and children’s savers. Our regular saver accounts help to reinforce a healthy savings habit, giving our members access to some of our best savings rates when regular deposits are made. This includes our Christmas Saver, launched in October 2021, which is designed to help people save today and improve their financial resilience come Christmas 2022 – a time of year which can be one of the most demanding on personal finances. More information on our current savings range can be found on our website, or in our branches and agencies.

We also have a range of community programmes aimed at helping to support the financial wellbeing of groups that need it most; the initiatives include our charity partnership with Age UK, our Career Minds and Money Minds sessions delivered to schools, and new investment to support our founding city of Bradford.

**More information on our community activities can be found in the *Communities* section of *Our Customers, Colleagues and Communities*.**

## HELPING MY FAMILY'S FUTURE HAPPEN

I’m a saver not a spender, it’s how I was brought up. So when we were expecting twin boys, I opened an account up for them as babies and opened another account to save up. I love going into Yorkshire Building Society, they’re very friendly and supportive.

I passed on the value of saving to my sons. Now they’re saving with Yorkshire Building Society too.

**Member case study – Gillian**



### Our Strategic Blueprint

Our commitment to our long-term strategic ambitions of helping people to find a place to call home, supporting people with their financial resilience and delivering value for our membership is unchanged. To ensure that we are making progress toward these ambitions, in 2020 we developed our **Strategic Blueprint** which will ensure that we remain strategically aligned as we navigate the short to medium term.



Our Blueprint outlines four, clear, underpinning priorities along with four behaviours that will allow us to develop our culture and deliver against our purpose. Alongside this, we set out our ambitious programme of change in the form of our **Transformation Roadmap**, which will enable us to fundamentally change how we acquire, service, engage with and retain our customers.

### FOUR STRATEGIC PRIORITIES

#### Savings Rebooted

We will optimise the savings area of our business by redefining our range, offering better products with benefits more than in price alone.

SR

#### Properly Personal Experience

We will build a service proposition that offers our customers an efficient experience which is able to accommodate a wide range of individual needs.

PPE

#### Purposeful Analytics

We will build upon our existing analytical capabilities, including enhanced behavioural and pricing tools, helping us to switch our focus from volume to value.

PA

#### Unbelievably Easy and Efficient

We want to make the lives of our customers easier by making our processes as straightforward as we can, whilst ensuring that we are fit for the future through our digital capabilities.

UE

## Progress against our Transformation Roadmap

The roadmap set out a programme of investment spanning four years, of which we are now in the second. We have made great progress against our priorities in 2021, including:

### Streamline and enhance our savings product proposition

Building on the progress made in 2020, we have continued to streamline and enhance our savings product proposition, including and especially through digital channels. Our customers are now able to open a savings account with us online in five minutes. This was enabled by implementing a new digital platform and provides a direct benefit to customers in the time saved.

UE

SR

### Continuous improvements to our mobile app

It has been over a year since the successful launch of our mobile app, which now has over 170,000 downloads and over 130,000 registered users. Our app has high ratings, with 4.7 and 4.6 out of 5 stars in iOS and Google Play app stores respectively, and an NPS score of +48. Customers have praised its ease of use, safety, and ability to complete tasks easily. We recognise that a feature-rich, efficient app is a key customer expectation for a banking services provider, and we are making continuous improvements to develop more functionality and further enhance the overall experience.

UE

SR

### Enhancement of our analytical capability

The enhancement of our analytical capability is a continuous process, and we have developed tools to deepen our understanding around the key dynamics of our mortgage lending, with a focus on risk profiles and behavioural drivers for both new lending and retained customers. This will help us to tailor our product offerings and pricing toward underserved customers and market segments, and will be managed within our established Risk Management Framework.

PA

PPE

### Aligning our services to customer demand

By better aligning our services to customer demand, we will improve the efficiency and sustainability of our retail network. In line with this, we made some changes to branch opening times, with some returning to operating the same hours as pre-pandemic and others having been adapted. We also continued to optimise the mix of our branch and agency network. As previously announced, we closed twelve of our branch locations due to their no longer being viable and nine branches were also transferred to agencies, ensuring that a valuable face-to-face service remained available.

PPE

### Adding functionality to our Mortgage Sales and Originations (MSO) platform

In 2021 we added functionality to our Mortgage Sales and Originations (MSO) platform to now include our Accord buy-to-let mortgages; our Accord residential lending business has been successfully operating on MSO since 2019. All new Accord buy-to-let mortgages now use this more efficient platform. We have received positive feedback from brokers as MSO provides a better customer experience by reducing the time spent inputting information, providing automated updates on how the underwriting process is progressing and increasing the speed of cases going from application to offer stage. MSO also gives us the flexibility to enter different sections of this market and launch new products much more quickly.

UE

PPE

### Paper reduction

We have continued our paper reduction efforts. All items of post received at our head office site, Yorkshire Drive, are now digitised upon receipt, and overall we have 42% less paper in the business than in 2019 as a result of our process improvement efforts.

UE

### Payments

Payments simplification is also underway. The removal of outbound Direct Debits, Standing Orders and ATM withdrawals on our savings accounts will allow us to operate with a simpler architecture and focus on our core product offerings.

UE

## The achievement of our *Strategic Blueprint* is a journey that will take us into 2024.

The activities next on our agenda include:

- Expanding on the savings account opening improvements already made, and extending these to all channels. Through their channel of choice, customers will be able to open an account easily and have immediate access to view and transact.
- Preparing to leverage our improved risk capabilities by launching products targeted toward under-represented customers.
- Completing the simplification of our payments processes and infrastructure.
- Further improving the online experience for our customers, including removing the key pain points as identified through customer feedback.
- Continuing to develop our savings app by expanding the range of functions our customers can perform.
- Building a digital solution to equip our customer-facing colleagues with greater knowledge and tools to improve first point of contact resolution.



## OUR BEHAVIOURS

Our strategically aligned behaviours were launched in 2021 and have been embraced by our colleagues. Behavioural and cultural changes are by their nature more difficult to track than tangible goals and require more time to become established.

### To help us in directing and tracking this process we have:

- Begun to monitor their adoption through our regular colleague engagement surveys and the scores are currently above target in this area;
- Incorporated them into our colleague recognition strategy, where awards are given to celebrate exemplary colleagues;
- Asked our Colleague Forum representatives to gather evidence of behaviours in action and to help to identify any barriers;
- Offered 'Behaviour Boost' development sessions to all colleagues.

We plan to accelerate the embedding activity for our behaviours next year, monitoring and adapting our approach as required.



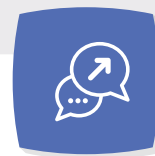
**WE CARE  
ABOUT PEOPLE**



**WE REACH  
FOR BETTER**



**WE MAKE IT  
HAPPEN**



**WE SAY IT  
STRAIGHT**

## Our Stakeholders

We regularly engage with our stakeholders in a variety of ways, to ensure that we continue to meet their changing expectations. In order to shape our Environmental, Social and Governance (ESG) strategy, we also conducted an in-depth materiality analysis, to identify the ESG topics most material to our stakeholders.



Key stakeholder	Who they are	How we listen and engage	What they expect from YBS	Material ESG topics identified
MEMBERS AND CUSTOMERS	<ul style="list-style-type: none"> <li>Members</li> <li>Mortgages and savings customers</li> <li>Commercial lending clients</li> <li>Registered Providers of Social Housing</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> <li>Provide adapted support to customers in vulnerable situations</li> <li>Invest in transforming our digital offering</li> </ul>	<ul style="list-style-type: none"> <li>Affordable housing and home ownership</li> <li>Attractive products</li> <li>Business continuity and performance</li> <li>Campaigning on issues that matter to stakeholders</li> <li>Climate change, including carbon footprint reduction and Net Zero emissions</li> <li>Data privacy and security</li> <li>Digital transformation</li> <li>Executive remuneration</li> <li>Financial inclusion</li> <li>Financial resilience</li> <li>Local community support</li> <li>Responsible customer relations</li> <li>Vulnerable member support</li> </ul>
COLLEAGUES	<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> <li>Colleague listening groups</li> <li>Colleague networks</li> </ul>	<ul style="list-style-type: none"> <li>Provide a forum where 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>Provide fair reward and remuneration policies</li> <li>Support a good work-life balance</li> <li>Care about their physical, mental and financial wellbeing</li> <li>Provide an inclusive culture where diversity is valued and celebrated</li> </ul>	<ul style="list-style-type: none"> <li>Business continuity &amp; performance</li> <li>Climate change, including carbon footprint reduction and Net Zero emissions</li> <li>Diversity &amp; Inclusion</li> <li>Fair reward and benefits</li> <li>Health &amp; wellbeing</li> <li>Local community support</li> <li>Talent attraction, training and retention</li> </ul>



Key stakeholder	Who they are	How we listen and engage	What they expect from YBS	Material ESG topics identified
<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>Information Commissioner's Office</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>Operational resilience</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>	<ul style="list-style-type: none"> <li>Business continuity &amp; performance</li> <li>Climate change, including carbon footprint reduction and Net Zero emissions</li> <li>Diversity &amp; Inclusion</li> <li>Ethics and accountability</li> <li>Financial crime and whistleblowing</li> <li>Sustainable finance</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 level of risk</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 securities being issued</li> <li>Demonstrate good Environment, Social and Governance (ESG) practices, validated by Non-Financial Ratings Agencies</li> </ul>	<ul style="list-style-type: none"> <li>Affordable housing and home ownership</li> <li>Business continuity &amp; performance</li> <li>Climate change, including carbon footprint reduction and Net Zero emissions</li> <li>Diversity &amp; Inclusion</li> <li>Ethics and accountability</li> <li>Financial inclusion</li> <li>Financial resilience</li> <li>Sustainable finance</li> </ul>

Key stakeholder	Who they are	How we listen and engage	What they expect from YBS	Material ESG topics identified
PARTNERS	<ul style="list-style-type: none"> <li>Brokers</li> <li>Agency proprietors</li> <li>Suppliers</li> <li>Trade unions</li> <li>Industry bodies</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> </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>	<ul style="list-style-type: none"> <li>Business continuity &amp; performance</li> <li>Responsible supply chain</li> </ul>

OUR COMMUNITIES	<ul style="list-style-type: none"> <li>The local, regional, and national communities in which we operate</li> <li>Charities and community groups</li> </ul>	<ul style="list-style-type: none"> <li>Charitable partnership and sponsorship agreements</li> <li>A range of initiatives to support the Bradford community at a local level</li> <li>Community education initiatives including Money Minds and Career Minds</li> </ul>	<ul style="list-style-type: none"> <li>Invest resources in support of the social economic welfare of communities</li> <li>Demonstrate action to support a wider societal purpose</li> <li>Provide an inclusive culture where diversity is valued and celebrated</li> </ul>	<ul style="list-style-type: none"> <li>Affordable housing and home ownership</li> <li>Campaigning on issues that matter to stakeholders</li> <li>Climate change, including carbon footprint reduction and Net Zero emissions</li> <li>Financial inclusion</li> <li>Financial resilience</li> <li>Local community support</li> </ul>
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### Our ESG Priorities

Our materiality analysis confirmed that our purpose ambitions – *member value, place to call home* and *financial wellbeing* – remain crucial to our stakeholders. As we deliver on our *Strategic Blueprint* in service of these ambitions, we have the opportunity to maximise our societal impact and make a tangible difference to our members, colleagues and local communities.

We have identified three additional ESG priorities from our materiality research: investing in our people, reducing our environmental impact and operating responsibly.

In mid-2022, we will publish an ESG report to show the progress we are making against this strategy and share our ambition for the future.

Non-financial ratings agencies consistently rate our ESG performance

amongst top performers in our industry, and we have made significant progress in 2021.

**Our ratings are available on page 62.**

### Climate Change Strategy

We are a purpose-led building society focused on providing *Real Help with Real Life*. We understand that this also means driving positive social and environmental outcomes through clear strategy and robust governance over our impact. We have developed our environmental policy and reinforced our commitment to not finance carbon-intensive activity, and we will align to the United Nations’ sustainable development goals.

#### Our environmental strategy is built around the following pillars:

- Ensuring that YBS continues to manage its operational carbon emissions;

- Promoting and embedding carbon literacy into our working culture;
- Supporting customers in their transition to a low-carbon economy through understanding the risks and opportunities climate change presents, and providing both proactive and reactive support.

The Society has a strategic commitment to align to the UK’s Net Zero target. Our plans and commitments will support this goal, but we also understand that we are only a part of that wider goal, which will only be achievable with significant progress across a range of areas and industries, as well as through support from the general public.



# Our Customers, Colleagues and Communities

Along with our wider stakeholders we are here to serve our customers, colleagues and communities. These groups are central to our decision-making processes and this section highlights the key themes over the course of 2021.

## Customers

Our customers are at the forefront of our decision-making processes, and we have prioritised their needs, along with those of our colleagues, throughout the pandemic. We ensured that health and safety measures in our branches adhered to social distancing guidance, and remained open all year to provide our customers with the key services they need.

In the early months of 2021, due to many lenders being retrenched from the mortgage market, the availability of mortgage products

was significantly reduced – this issue was especially felt by those customers with lower deposits. It was important to us that we resume serving our customers as soon as we could safely and sustainably do so. We mobilised quickly, and re-entered segments of the market which align to our purpose, including first-time buyers, to support these customers in finding a place to call home. Our mutual business model then allowed us to leverage the success we had in our mortgage lending to make improvements to our savings product ranges by launching our member loyalty programme.

As part of this programme, we implemented two increases to the rates that we pay our existing savers. We were proud to be able to share our successes with our membership in this way, rewarding their loyalty at a time where savings rates in the wider market remained suppressed. Alongside this, we launched specific member loyalty savings products, offering some of our best rates. The combination of these initiatives has seen us return a further £41m in member value in 2021.

The rates we paid our savers over 2021 were on average 0.32% above the market average, which



is an improvement on last year (2020: 0.17%)<sup>1</sup> and equates to an additional £107 million interest paid to our savers over the course of 2021. We were also among the first savings providers to pass on a benefit following the increase to Bank Base Rate in December 2021. We passed the majority of the rate change on to our savers in February 2022 and, at the same time, we held the rates our mortgage customers pay on our standard variable rate constant. Though of course, customer expectations of a savings provider encompass more than rewarding rates alone and this is why we set ourselves high standards for customer service.

The honest feedback our customers give us is highly valued. One of the ways we track the satisfaction of our customers is our Net Promoter Score (NPS). This measures how willing our customers are to recommend us to their friends and family based on their experiences with us. In 2021, our overall NPS score has increased yet again, from +53 in 2020 to +54.

Our customers have praised our helpful, knowledgeable colleagues, and have found their interactions with us easy and straightforward. Brokers interacting with our Accord Mortgages business highlighted the ease of interactions, smoothness of the application process and the efficiency of our knowledgeable support teams including Business Development Managers, underwriters and customer

services. In April this year, our Mortgage Sales and Originations (MSO) platform was expanded to include new business for Accord's buy-to-let channel, meaning our brokers have seen similar benefits to the residential lending channel, praising the easy and simple-to-use systems.

We always try to give our customers the best possible service, but we recognise that sometimes we fall short of the standard our customers expect and deserve. We encourage any customer who is unhappy with the service they have received to let us know. We try to resolve any issues as soon as we are made aware of them; should we be unable to do this for any reason, our Customer Solutions Team steps in to make sure that problems are resolved both fairly and expediently.

We aim to resolve any payment issues within 15 days and all complaints within 28 days, or sooner when this is possible. Any customers who are unhappy with our final response can escalate their complaint to the Financial Ombudsman Service. In the second half of 2021, we received complaints from 4.68 out of every 1,000 mortgage customers (2020 H2: 6.65) and 0.39 out of every 1,000 savings customers (2020 H2: 0.65).

Ensuring that our customers are able to interact with us in a way

**THE RATES WE PAID OUR SAVERS OVER 2021 WERE ON AVERAGE**

**0.32%**

**ABOVE THE MARKET AVERAGE**

which suits their individual needs is important to us. Our customers tell us that they value our face-to-face service channel highly, and this remains a core part of our business. This year we have continued to review and optimise our national distribution network, both in terms of the services available in our sites – including a recent pilot with Citizens Advice – as well as the geographic spread and cost-effectiveness of the network itself.

The use of online channels to interact with financial services providers has been increasing in popularity for a number of years – and has only been accelerated by the COVID-19 pandemic. Our investments in digital capabilities will see our products and services evolving alongside this trend, bringing our proposition more

**INCREASE  
IN OVERALL  
NPS TO**

**+54**



<sup>1</sup> Source: CACI's Current Account and Savings Database (CSDB), Stock. Data period January – December 2021

into line with mainstream customer expectations.

Despite our good performance in many of the areas which contribute to our overall NPS, we acknowledge that further improvements are needed with respect to our online services. Through our *Transformation Roadmap* we aim to deliver a step change in our online customer experience. We have already had some successes this year; our mobile application, launched over a year ago, has continued to be developed upon, with additional features and functionality having been rolled out on a regular basis. New features in 2021 include the ability for users to search and apply for savings products and update their contact e-mail address in the app, with much more to come.

Enhancing our online channel in this way will increase the options our customers have in interacting with us; they will be able to receive the same high-quality service whether they engage with us in person, by telephone, through the website or by using our mobile app. More information on our *Transformation Roadmap* and strategic priorities can be found in the *Our Strategic Blueprint* section of *Our Purpose, Strategy and Stakeholders*.

## Colleagues

We want each of our colleagues to feel

properly valued for their contributions, supported in their wellbeing and be given the opportunity to flourish. The COVID-19 pandemic impacted the lives and working patterns of our colleagues significantly; the majority of our head-office-based staff transitioned to working from home as social distancing measures were introduced in 2020. We also ensured that our branches and office sites were equipped with the necessary health and safety precautions in line with the latest guidance.

In 2021, there have been fewer disruptions to our operational teams and our branches and agencies have remained open to customers. Most of our head office staff continue to work remotely and our teams have adapted to this hybrid working arrangement. At the onset of the pandemic many may have thought the new working arrangements would be solely temporary measures, however remote working now appears likely to be maintained on a more permanent basis. Accordingly, the ways by which we can sustain the connectivity between our teams and support our colleagues over the long term have been a high priority for us.


We have a number of accessible resources and active processes to support the wellbeing of our colleagues should they be required. The resources cover critical areas including the importance of a good

work-life balance, proper nutrition and exercise, and stress management. For our front-line colleagues we also held bespoke training sessions to help build a greater understanding of emotional resilience, helping them with their own self-care as well as providing a resource to draw upon during their interactions with our customers and the public as a whole.

The importance of clear, two-way communication has also been heightened over the last couple of years. Colleagues were kept up to date with the latest developments in the pandemic through updates to our intranet and e-mails to all colleagues, and they were given opportunities to express any challenges they were facing to ensure an effective dialogue.

Our people managers were equipped with the tools and guidance they needed to conduct regular check-ins with their direct reports, providing an avenue to discuss the quality of their working home arrangements and whether any benefit could be had from additional support. This guidance was updated regularly, in line with COVID-19 and company policy, to ensure that the questions and topics discussed remained relevant.

We monitor the levels of sickness and absence closely as part of our commitment to supporting our colleagues and their wellbeing. Over the course of the year, the pattern of



**Joining the colleague networks have had a great impact on my working life. I feel a real sense of community and allyship that hasn't been present at previous places of work. Having support and a safe place to be able to discuss issues and experiences with similar individuals is essential, and the colleague networks are playing a major part in making positive changes happen**

Feedback received on the new Colleague Networks

absence we observed was significantly influenced by the pandemic. We end the year with a sickness rate of 5.0%, which compares to 7.5% seen in 2020, and the proportion which relates to mental health is broadly similar. We will continue to monitor these trends in order to ensure that our colleagues are provided with the right level of support.

## Engagement

We are committed to building on the level of engagement felt by our colleagues; one of the ways we measure this is through our annual survey, with regular temperature check surveys held in the intervening periods. In 2021, the Society remained in the top quartile for engagement and our overall score increased by 0.2 to 8.5, which is considered to be a significant increase. Our employee NPS (eNPS) has also improved, increasing by 10 points compared to October 2020, placing us in the top 5% of financial organisations.

Among other factors, the level of engagement our colleagues feel depends on effective communication and dialogue, as well as their being able to see and appreciate how their individual role fits in with the wider purpose of our organisation. 2021 marks the first anniversary of our redefined strategy and the launch of our *Strategic Blueprint*. To keep all of our colleagues up to date with our progress as an organisation, we held dedicated sessions where everyone was invited to take a step back from their day-to-day roles, reflect on the achievements over this first year, and gain clarity about the year ahead.

## Inclusion and Diversity (I&D)

Inclusion and diversity are important values to the Society; the ambition of our redefined I&D strategy is to foster a culture where all of our colleagues are supported in their personal development and are seen and heard, irrespective of their gender or background. A broad diversity of thought and experience also supports greater creativity and innovation for the Society as a whole, helping us to develop products and services that genuinely deliver *Real Help with Real Life*.

## 9.1 OUT OF 10 – 'MY MANAGER ENCOURAGES AND SUPPORTS MY DEVELOPMENT'

## 8.6 OUT OF 10 – 'MY WORK ENABLES ME TO LEARN AND DEVELOP NEW SKILLS'

## 8.3 OUT OF 10 – 'I FEEL THAT I'M GROWING PROFESSIONALLY AT YBS'

Results of our 2021 annual colleague engagement survey

Our Senior Leadership Team and Executive Committee members actively engage with matters relating to I&D, participating in colleague listening groups and this year have undertaken allyship sessions on the topics of race and minority ethnic groups to advance the interests of these groups.

Our colleagues provide us with feedback through surveys and listening groups and, as a result of this feedback, this year we introduced five new 'Colleague Networks'. These are regular meetings intended to provide a safe setting to have open, honest discussions about relevant topics or issues. Currently there is a network for topics relating to women; disability; ethnicity; parents and carers; and LGBTQIA+. Each has a sponsor from our Senior Leadership Team and a feedback structure which will amplify the voices of these groups and provide a formal route for any issues to be escalated and translated into real actions where needed. We have become members of the Business Disability Forum to support us in our 2022 plans.

The Society is proud to have its commitment to the principles of diversity acknowledged externally; this year we received the Leaders in Diversity accreditation and a series of awards, including Top 10 Employer for Working Families, 11th in the National Centre of Diversity Top 100 Most Inclusive Workplace; National Centre for Diversity's Financial Services Company and Large Business of the

Year; and Disability Confident Level 2. We have moved from 35th place in 2020 to 16th place in UK's Top 50 Most Inclusive Employers.

In support of our Women in Finance Charter commitment, we reported an increase in female representation at senior management level, from 46% last year to 50% by the end of this year. Female representation on the Board has increased from 20% to 36% reaching the target set by Board Governance and Nominations Committee as part of the Hampton-Alexander Review.

We have published our fifth annual gender pay gap report detailing the difference between the average pay of men and women regardless of seniority. In April our mean gender pay gap was 28.1%, which is 4.8% lower than in 2020 and our lowest level since this reporting was introduced. 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 women occupying less senior roles. A shift in dynamic has resulted in the closing of the gap in 2021.

However, there is still more to do to further improve gender representation; if YBS were to have a 50:50 gender split across the organisation it would have a gender pay gap of 4.2% (3.5% in 2020). A driver of the increase in this measure is the internal promotion of women into more senior roles. Recently promoted colleagues initially occupy

the lower end of the salary range, we therefore expect this gap to narrow.

## Learning and Development

With the prevalence of remote working, in 2021 we have adapted our methods of delivering training, converting much of our classroom-based training into a blend of online learning and virtual workshops. For the areas which are most critical to YBS, including Customer Services, Retail Distribution and Financial Crime, we have implemented a learning model using multiple mediums, where online learning is complemented in person by dedicated learning partners.

To give our colleagues the freedom to learn about the topics they are interested in at a time which suits them, we introduced a self-directed learning resource, provided through LinkedIn. Over one thousand colleagues have activated their license for this resource since its introduction in July, and over 1,500 hours of learning has been completed.

At YBS, we encourage our colleagues to pursue professional and technical training to enhance their skills and reach their career goals. Our apprenticeship schemes provide support toward achieving a professional qualification whilst also learning on the job. We are proud that six colleagues have completed their apprenticeships this year, one of whom was the first student to complete the full three levels of a bachelor's degree as a degree apprentice. A further 55 colleagues are either at the beginning or part way through this journey.

This year we have also supported two colleagues to build upon their management and leadership capability by studying for the Building Societies Association (BSA) Master's in Strategic Leadership programme at Loughborough University. Four colleagues completed their Master's in 2021 and a further four are continuing with their studies.

## Reward and Recognition

It is important to us that our colleagues feel recognised, valued and fairly rewarded for the contributions

they make to providing essential services to our customers and the effective running of our operations.

In 2021, we maintained our commitment to pay all colleagues and contingent workers at or above the Real Living Wage, proceeded with our annual pay review in May, and paid the 2020 annual bonus in March. Additionally, and as was the case last year, no YBS colleague was furloughed under government schemes, and there were no pay reductions or forced unpaid leave as a result of any COVID-19 related absence.

Our colleagues have access to a range of benefits, including critical illness cover, private medical insurance and health cash plan, which can be flexed depending on their individual circumstances. For the second consecutive year, we have also given our colleagues an additional day off on Christmas Eve, as a thank you for their hard work over the course of the year.

We were delighted to be able to host our annual Raising the Roof awards in person in November 2021, in a COVID-secure environment, to celebrate our colleagues' achievements. Over 400 nominations were received for colleagues across the business, with 75 chosen to attend the event by a judging panel of their colleagues and senior leaders.

## Community

### Community Programmes

As a building society, we are committed to supporting the communities in which we operate, in line with our purpose. We have committed to invest more than £1.8 million over 2021 and 2022, with programmes tailored to the needs of people in different stages of life. This section includes some highlights of our community programmes, with more information available on our website.

### Young People

As soon as we were safely able to do so, our colleagues restarted our Money Minds and Career Minds sessions in schools, delivering financial and employability education to local children aged 5-19. As well as face-to-

face delivery, we piloted the running of virtual sessions, which garnered great feedback from students and teachers. In 2021 we delivered 102 sessions to over 2,000 children.

Building on the success of these educational programmes, and to expand their reach, we worked with students and teachers to create a new online platform which provides interactive, flexible learning suitable for inside and outside the classroom.

2021 saw us launch a range of initiatives focused in our home city of Bradford, to provide much-needed support to students in their journey through secondary school and into further education and working life. We have partnered with three schools, one college and two universities and aim to help just under 3,000 young people a year through a structured programme of financial literacy, employability skills and meaningful workplace experiences. To complement this work, we have also partnered with the charity MyBnk, to deliver financial education sessions for vulnerable young people who are not in education, employment or training.

### Working Age People

In Bradford, we have partnered with social change charity, Good Things Foundation, whose mission it is to help everyone access the benefits available from being digitally enabled. With our support, they have designed a programme to improve the digital skills of socially excluded ethnic minority communities, working jointly with local community partners. Programme delivery started at the end of 2021 and has engaged over 130 people so far. It will continue into 2022 after which point we will explore opportunities for its expansion.

At YBS we actively seek new ways that we can benefit our communities. In May 2021, we launched a pilot programme with Citizens Advice to fund advisers in six of our branches to provide free, face-to-face independent advice and support to members of the public across a wide range of issues, including financial wellbeing. The programme has supported nearly 500 people in the first six months. We are expanding this partnership into a further 12 branches in 2022.

## Older Age People

Now more than ever, older people need a trusted place they can turn to for impartial advice and support. Whether they are facing the loss of a partner, a health diagnosis, or a change in care needs, significant life events as we age can lead to financial difficulties.

Our current charity partner is Age UK, and since the start of our partnership, our colleagues and members have raised over £154,000, while YBS have donated nearly £346,000, bringing the combined total to just over £500,000. This funding has enabled Age UK to launch their Building Better Lives programme, which is providing one-to-one support sessions, local workshops, and tailored expert advice to older people in eight regions across the UK.

So far, Age UK have supported 1,400 older people, and have unlocked over £2.5m worth of benefits to which they were entitled, an average of around £1,800 additional income for each older person per year. This support could make a life-changing difference to the lives of these older people.

In addition to fundraising, YBS colleagues have also taken part in Age UK's Digital Buddies initiative, which has helped YBS colleagues to learn how best to support older people to improve their digital skills.

To support people who are in later stages of life we created Money Movement, an online hub designed to help people make informed decisions about retirement planning. So far nearly 49,000 people have used this service to get straight-talking guidance on the products and services available.

## Yorkshire Building Society Charitable Foundation's Opportunity & Resilience Fund

In 2021, YBS donated an additional £70,000 to the Yorkshire Building Society Charitable Foundation (the Foundation), together with the existing £30,000 annual donation, to create the 'Opportunity & Resilience Fund' to support digital skills and employability in the UK.

Four charities benefited from the £100,000 fund to launch projects

supporting vulnerable young people and people from minority ethnic communities in 2021 and 2022:

- Refugee Action – providing an employability skills course for refugees.
- Smart Works – helping people to prepare for job interviews (including provision of suitable clothing).
- Groundwork North East – supporting vulnerable young people with digital inclusion.
- Canopy Housing – helping homeless and vulnerable individuals move toward employment in construction, including accreditation, work experience and job opportunities.

Alongside the new fund, the Foundation, which is an independent registered charity governed by a board of external and internal trustees, continued to make donations every quarter of up to £2,000 to charities nominated by members and colleagues.

- In 2021, the Foundation donated over £320,000 to 224 charities focused on improving health, alleviating poverty and saving lives 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 enhance our disclosures in 2021, we have updated the methodology we use to calculate our total community contribution, using three distinct categories:

- YBS donations – includes cash contributions (the monetary amount donated to charities and good causes and the money spent to fund community projects with partners), employee time (the cost of the time that an employee spends on volunteering) and in-kind giving (contributions of products, equipment and services and other non-cash items to charities and good causes) directly paid by YBS.

- Customer and colleague donations (leverage) – includes cash contributions (the monetary amount donated to charities and good causes) and in-kind giving (contributions of products, equipment and services and other non-cash items to charities and good causes) from colleagues and customers, facilitated by YBS.
- YBS costs – includes the costs incurred by the Society to facilitate our community programmes, including staff costs and other management overheads.

Community Contributions	2021					2020			
	YBS Donations		Customer Colleague	YBS Costs	Total	YBS Donations		Customer Colleague	Total
	Charitable	Community				Charitable	Community		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Age UK	344	-	134	14	492	10	-	21	31
End Youth Homelessness	-	-	-	-	-	272	-	47	319
The Foundation	100	-	297	4	401	130	-	307	437
Other charity	10	-	19	-	29	2	-	15	17
Financial resilience*	94	176	-	21	291	-	-	-	-
In kind donations	-	92	10	-	102	-	99	5	104
Bradford employability/digital skills**	67	7	-	2	76	-	-	-	-
Volunteering time	-	50	-	4	54	-	40	-	40
Other	-	-	-	429	429	-	-	-	-
<b>TOTAL</b>	<b>615</b>	<b>325</b>	<b>460</b>	<b>474</b>	<b>1,874</b>	<b>414</b>	<b>139</b>	<b>395</b>	<b>948</b>

\* charitable donations paid to Citizens Advice

\*\* charitable donations paid to MyBnk and Good Things Foundation

## Climate Change

Climate change is a major issue we face in wider society, and YBS acknowledges the part we can play in tackling this issue on local, national and international levels.

The Society is pleased to announce it has joined the Yorkshire and Humber Climate Commission during 2021, as well as maintaining its support for the Leeds Climate Commission.

The Yorkshire and Humber Climate Commission aims to help the region reduce its carbon emissions as quickly as possible, and ensure that people in Yorkshire are prepared to cope with the growing physical and transitional risks related to climate change. The Commission published its action plan in November 2021 which calls for meaningful climate leadership from the Government and larger institutions in the public and private sectors to deliver "significant, tangible contributions" to help tackle the climate and ecological emergency. Fostering shared responsibility, moving from targets and planning to action, and putting climate and

nature at the heart of all areas of decision making are three of the key recommendations from the Yorkshire and Humber Climate Commission.

## 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.



# Our Financial Review

## Commercial Performance

In the first half of the year, the external environmental conditions, alongside the investments we made in our operational and resourcing capabilities, allowed us to achieve strong performance in the mortgage market. The low rate environment and lack of spending opportunities also supported deposit growth. As the year progressed, the dynamics began to resemble those seen before the pandemic as strong liquidity and capital positions contributed to intensifying competition and renewed margin pressures.

Our established strategy of focusing on the value of lending over the volume, and lending to purpose-aligned segments, has served us well. In the early part of the year we adapted to the high demand for lower deposit segments, including first-time buyers. In the latter part of the year, we chose not to compete on price in an unsustainable manner and managed our acquisition savings flows in line with our balance sheet strategy. The growth in our mortgage book was funded largely by a corresponding growth in deposits and supplemented by our active presence in wholesale funding markets and TFSME drawings.

Mortgages	2021	2020
Gross lending	<b>£10.3bn</b>	£7.1bn
Net lending	<b>£3.6bn</b>	£0.6bn
Mortgage balance growth	<b>8.1%</b>	2.1%
Market share of gross lending	<b>3.2%</b>	2.8%
Savings	2021	2020
Retail savings balance growth	<b>6.4%</b>	8.8%
Retail savings balance growth	<b>£2.1bn</b>	£2.7bn
Average savings rate differential vs. market average	<b>0.32%</b>	0.17%
Market share of balances	<b>1.92%</b>	1.88%

## Mortgage Performance

For more on the external context of the mortgage market please see *The External Environment* section.

Despite the fast-changing nature of the external environment, our lending strategy has remained constant: lending to underserved, purposeful segments and focusing on lending value over lending volume. By leveraging the investments made in our servicing capabilities in both 2020 and 2021, and investing in further resource, we were able to meet a higher than typical level of customer demand, increasing our lending to some of our key customers, like first-time buyers, and at the same time generating value.

In the early months of 2021, the mortgage market was characterised by high levels of buyer demand and wide-scale lender retrenchment, resulting in a market which offered only a restricted range of mortgage products, at attractive margins. Returning to serving customers in our core lending segments was high on our list of priorities and we did so as soon as we were safely able. In March, we became the first lender to re-introduce products at 95% LTV, and later 90% new build. Though the Government's Mortgage Guarantee Scheme, incentivising lower deposit lending, launched at a similar time, we trusted our experience, capability and the security of our financial position to re-enter on the strength of our own resources. Our expedient re-entry into these segments, alongside demand-driving factors such as the Stamp Duty Land Tax waiver tapering from July 2021, allowed us to achieve strong lending growth in the first half of the year.

Toward the latter part of the year, the market dynamics began to change. House prices increased, incentives were withdrawn, and capital and liquidity positions of lenders were strengthened. As a result, customer rates began to reduce, product ranges expanded, and lending criteria were loosened across the market. Customer rates were observed falling to record lows, beginning in the lower LTV bands where rates fell below one percent, and

impacting the higher LTV bands shortly thereafter.

In line with our strategy, during this period we refocused our lending to reflect the shift in value available, moving away from high volumes of lower LTV, mass market mortgage business and into underserved, purposeful segments. Accordingly, lower growth was achieved over this period.

We expect the mortgage market to remain challenging. We will be further developing and leveraging our trading, analytical, and distribution capabilities to identify and selectively compete in areas which offer sustainable business value. Our business model ensured that our savings members benefited from the value created over the course of this year, as we were able to return £41m additional value in a sustainable, meaningful way through the launch of our member loyalty programme, and increasing our savings rates.

## Savings Performance

For more on the external context of the savings market please see *The External Environment* section.

Savings rates in the wider market have been low for a number of years, owing to the low interest rate environment coupled with the abundance of liquidity across the banking sector. The pandemic and its effects further compounded these issues as the Bank Base Rate was initially reduced and disposable income was unable to find an outlet.

Our strong retail funding performance, both over 2020 and the first half of 2021, supported our liquidity position and reduced the requirement for us to attract new funds. Instead, we directed our focus toward how we could best reward our loyal savers in light of the value created from our mortgage lending.

This year marked the launch of our member loyalty programme, implementing two back-book rate increases in the first half of the year as well as launching specific loyalty products. These products included

an instant access account, a cash ISA and a regular saver and over 80,000 accounts were opened before the range came to an end.

Our loyalty programme was well received by our membership and we have observed a number of benefits as a result. Through the increases we made to our rates, we narrowed the gap between the rates we pay our existing, loyal savers and those new to the Society. This has had a positive impact on our savings differential to market; on average, in 2021 our savings rates were 0.32% above the rest of market average of 0.28% (2020: 0.17% above the average)\*. The loyalty programme has also driven favourable customer behaviours, with a higher proportion of customers being retained and lower levels of movement between our front and back book products.

The proportion of variable products opened with us this year exceeded the fixed rate alternatives, and this became more pronounced toward the end of the year as the future path of the Bank Base Rate became a consideration. In addition, we have acquired a greater proportion of our new customers through digital channels this year, and our online balances continue to grow. We expect customer preference to continue in its shift toward online channels and elements of our *Transformation Roadmap* are dedicated toward improving upon the digital customer experience and providing our customers with flexibility in how they wish to interact with us.

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



## Our Financial Performance

Our profitability and levels of growth in 2021 have been particularly strong, largely driven by the characteristics of our mortgage trading in the first half of the year. As the year unfolded, the macroeconomic and market context improved, requiring us to hold a lower level of expected credit losses than planned.

Our financial performance in 2021 represents a marked improvement on the previous year where the pandemic resulted in disruption to the housing market and significantly increased provisioning requirements.

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

	2021	2020
Statutory profit before tax	<b>£320.0m</b>	£161.3m
Core operating profit	<b>£297.3m</b>	£170.5m
Net interest margin	<b>1.07%</b>	0.95%
Cost to core income ratio	<b>50%</b>	59%
Management expense ratio	<b>0.55%</b>	0.60%
Liquidity ratio	<b>20.7%</b>	19.2%
Common equity tier 1 capital	<b>16.8%</b>	16.7%
Leverage ratio	<b>5.9%</b>	5.9%

## Summary Income Statement

	2021	2020
	£m	£m
Net interest income	<b>537.4</b>	438.0
Net realised gains	<b>0.8</b>	12.9
Other income	<b>12.7</b>	13.8
<b>Core income</b>	<b>550.9</b>	<b>464.7</b>
Fair value gains and losses	<b>26.7</b>	(10.7)
Management expenses	<b>(274.5)</b>	(275.8)
Impairment of financial assets	<b>19.2</b>	(12.2)
Movement in provisions	<b>(2.3)</b>	(4.7)
<b>Statutory profit before tax</b>	<b>320.0</b>	<b>161.3</b>

## Core operating profit

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 volatility and material one-time charges that do not reflect the Group's day-to-day activities. Our Board considers core operating profit to be a more appropriate measure of the underlying performance of the business.

In 2021, statutory profit before tax was £320.0m (2020: £161.3m) and core operating profit was £297.3m (2020: £170.5m). The main difference between statutory profit before tax and core operating profit is the £19.1m fair value volatility gain (2020: £10.7 loss), the majority of which relates to interest rate swaps purchased against our mortgage pipeline. These swaps only qualify for hedge accounting when the mortgage is advanced so we are exposed to their fair value movements during the pipeline period.

	2021	2020
	£m	£m
<b>Statutory profit before tax</b>	<b>320.0</b>	<b>161.3</b>
Reverse out:		
Fair value volatility*	(19.1)	10.7
Historical fair value credit adjustments on acquired loans	(3.2)	(1.2)
Non-core elements of restructuring provision	2.1	2.8
Other non-core items	(2.5)	(3.1)
<b>Core operating profit</b>	<b>297.3</b>	<b>170.5</b>

\* This year, we have reviewed our definition of fair value gains and losses in light of the increasing complexity of our treasury strategy, and have determined that items which are not demonstrably volatility should no longer be excluded from core operating profit, in order to reflect the true economic consequences of the transactions. In the context of the 2021 results this relates to the inclusion in core operating profit of: fair value gains on the Group's liability management exercises; and payment of the bond premium, offset within fair value on par/par asset swap government securities. With reference to the prior year, this change has no material impact.

## Net interest income

Net interest income for 2021 was £537.4m, an increase of £99.4m from last year (2020: £438.0m), representing a net interest margin of 1.07% (2020: 0.95%). The increase is a result of the strong new lending margins during the first half of the year and the growth in our mortgage book.

Interest payable includes the impacts of our savings member pass back activity, improving the rates that we have paid to our existing loyal savings members, however this has been partly offset by positive behavioural impacts in terms of customer retention and a relatively benign rate environment.

## Fair value gains and losses

A fair value gain of £26.7m was recorded in 2021 (2020: £10.7m 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.

Following the partial buy back of two of our existing Medium Term Note issuances, a fair value gain of £6.5m was recorded. This liability management exercise took place in July 2021.

## Other income

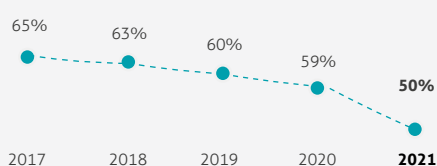
Other income received in the year was £12.7m (2020: £13.8m) and includes income from our secondary lines of

business which are less material in nature including insurance and Share Plans. A gain of £2.5m was recorded on the sale of properties (2020: £2.9m) including our sites at Filey Street and Lynchwood.

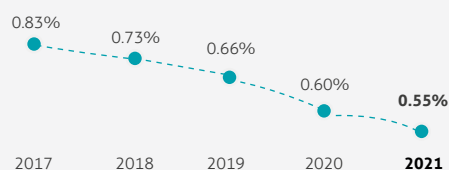
## Management expenses

Overall management expenses remain at a similar level to last year at £274.5m (2020: £275.8m) despite increased investment in both our operational risk agenda and our *Transformation Roadmap*. Alongside our improved income performance, this results in a cost to core income ratio of 50%, a decrease from 59% in 2020.

### Cost to Core Income Ratio %



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



## Impairment of loans and advances to customers/ expected credit losses

A net release of £19.2m (2020: £12.2m charge) has been recognised in respect of expected credit losses (ECL) as the economic assumptions supporting the estimates, particularly those in respect of house prices, are much more favourable than those applied at the end of 2020.

The modelling of climate related

financial risk in the mortgage portfolio is still evolving and has yet to be integrated into the core ECL models. Many of the climate financial risks identified as part of the Bank of England's Climate Biennial Exploratory Scenario (CBES) process, see *Building a Greener Society* below, do not impact our current ECL as they are expected to occur in a timescale in excess of the average term of our loan portfolio. We have, however, recognised an amount to reflect the risk to those properties subject to significant flood risk. See

note 32 to the financial statements for more details.

## Provisions

A charge of £2.3m was recognised relating to other provisions which include customer redress, restructuring and other specific items (2020: £4.7m charge). Restructuring, unrelated to branch closures or agency conversions are excluded from core operating profit, £2.1m (2020: £2.8m), due to their one-off nature.

## Summary Balance Sheet

In addition to improving our net interest income, strong mortgage trading performance in the first half of 2021 helped to grow our mortgage book by 8.1% in the year (2020: 2.1%). This was largely funded by a 6.4% (2020: 8.8%) growth in retail deposits in addition to increased drawings from the TFSME scheme. Overall balance sheet growth was 10.0% (2020: 8.2%).

	2021	2020
	£bn	£bn
Liquid assets	10.0	8.4
Loans and advances to customers	41.9	38.8
Other assets	0.8	0.7
<b>Total assets</b>	<b>52.7</b>	<b>47.9</b>
Shares – retail savings	35.5	33.4
Wholesale funding and other deposits	12.9	10.5
Subordinated liabilities	0.9	0.6
Other liabilities	0.3	0.6
<b>Total liabilities</b>	<b>49.6</b>	<b>45.1</b>
Members' interest and equity	3.1	2.8
<b>Total members' interest, equity and liabilities</b>	<b>52.7</b>	<b>47.9</b>

## Liquidity

Our liquidity levels remain robust at 20.7% (2020: 19.2%) largely supported by higher levels of retention within our savings book as well as increased balances in the wider market as a result of the

COVID-19 pandemic. In addition, liquidity has also been supported by inflows from wholesale funding including TFSME drawings.

Sufficient headroom to regulatory requirements 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

In 2021, we have remained active in the wholesale funding markets in which we usually participate; issuing covered bonds, medium-term notes (MTN), senior non-preferred (SNP) and residential mortgage backed securities (RMBS).

Earlier in the year we issued the latest in our RMBS programme, Brass 10, which not only marked our first issuance of a Social Bond, but the first issuance of a Social Bond by any building society. The issuance was verified as being compliant with the International Capital Markets Association (ICMA) Social Bond Principles, given the clear alignment between these and our purpose and strategy.

In order to manage our overall cost of wholesale funding and our liquidity position, we conducted a liability management exercise in July. A proportion of two existing MTN issuances was bought back from bondholders, with a new MTN issued in replacement.

In addition to our drawdown of TFSME funding, we repaid our existing TFS drawings in the year

## Arrears

The credit quality of our mortgage book is monitored using a number of indicators on a regular monthly basis. An important indicator is the percentage of outstanding retail mortgage balances in arrears by three months or more (including possessions).

The quality of our loan book has remained strong; the value of loans meeting these criteria now stands at 0.36% (2020: 0.43%). The industry average for mortgage arrears is measured as the number of accounts which are more than three months in arrears (including possessions). At 0.50% (2020: 0.59%) our performance continues to remain

better than the industry average of 0.79% (2020: 0.85%).

**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 2021, we had 50 retail mortgage properties in possession (2020: 26), however, these figures should be noted within the context of the repossession moratorium introduced by the Financial Conduct Authority in response to the COVID-19 pandemic which was in place between March 2020 and April 2021. The amount written off our loans and advances to customers in the period was £1.1m (2020: £2.7m).

**More information on write offs relating to arrears can be found in note 12 to the financial statements.**

Mortgage payment deferrals were introduced in 2020; the deferrals came to an end in July 2021. We have observed that only 4% of total deferrals have resulted in deterioration of credit quality versus their previous position, with the remainder having resumed their regular payments.



## Capital

The Group is subject to regulatory capital requirements regulated in the United Kingdom (UK) by the Prudential Regulation Authority (PRA). Our capital position remains strong, as demonstrated by our key capital ratios. Our Common Equity Tier 1 ratio is 16.8% in 2021 (2020: 16.7%), which represents the relationship between the strongest form of capital (largely accumulated reserves) and risk weighted assets. Our UK leverage ratio, which compares Tier 1 capital with total assets, is also stable at 5.9% (2020: 5.9%). 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 2021 Pillar 3 Disclosures for 2021 on our website ybs.co.uk.

Tier 1	2021	2020
<b>Common Equity Tier 1 (CET1)</b>	£m	£m
General reserve	3,051.3	2,779.1
Fair value through other comprehensive income reserve	21.1	12.3
Cash flow hedge reserve	10.4	(0.1)
<b>Common Equity Tier 1 prior to regulatory adjustments</b>	<b>3,082.8</b>	<b>2,791.3</b>
<b>Common Equity Tier 1 regulatory adjustments</b>	<b>21.0</b>	
IFRS 9 transitional arrangements	-	1.7
Pension fund adjustments	(80.9)	(66.4)
Intangible fixed assets	(16.5)	(14.8)
Prudent valuation adjustment	(4.8)	(3.8)
Cash flow hedge reserve	(10.4)	0.1
<b>Total Common Equity Tier 1 capital</b>	<b>2,970.2</b>	<b>2,708.1</b>
<b>Tier 2</b>		
Subordinated liabilities	324.7	350.7
Collective provisions for impairment	-	3.5
<b>Total Tier 2 Capital</b>	<b>324.7</b>	<b>354.2</b>
<b>Total capital (audited)</b>	<b>3,294.9</b>	<b>3,062.3</b>
<b>MREL Resources</b>		
Secondary Non-Preferential Liabilities	522.5	289.6
Tier 2 MREL Eligible	10.6	4.7
<b>Total MREL Resources (unaudited)</b>	<b>3,828.0</b>	<b>3,356.6</b>
<b>Risk weighted assets (unaudited)</b>	<b>17,631.0</b>	<b>16,175.6</b>
Common Equity Tier 1 capital ratio	16.8%	16.7%
Tier 1 ratio	16.8%	16.7%
Total capital ratio	18.7%	18.9%
Total MREL Resources ratio	21.7%	20.8%
CRR Leverage ratio	5.3%	5.4%
UK Leverage ratio (excluding claims on central banks)	5.9%	5.9%

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



# Principal Risks and Uncertainties

The environment within which we operate is continuously evolving – as is the nature of the threats we face. The economic and social implications of the ongoing COVID-19 pandemic, along with those relating to the UK's exit from the EU, continue to be a significant source of uncertainty both nationally and internationally.

A description of the principal risks and uncertainties to which we are exposed is included in the table below, and further commentary on how these risks have evolved is included after the table.

We have performed stress tests to assess the impact of a range of potential economic downturn scenarios linked to the COVID-19 pandemic along with other operational

and prudential risk scenarios. Whilst each bring their individual challenges, we believe that 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 monitored closely, and that timely and appropriate action is taken to protect the interests of Yorkshire Building Society and its controlled entities (the Group), its members 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; we remain confident in the financial resilience and the sustainability of the Group.

Risk	Description	Principal Mitigation
<b>Strategic Risk</b>	The risk to the Society's earnings or sustainability which arises from changes in the business environment (Political, Economic, Social and Technological), or from the effectiveness of decisions and actions relating to our strategic response to those changes.	The Group mitigates risks relating to the business environment and its strategic choices through its horizon scanning, corporate planning, scenario analysis and stress testing, and ongoing monitoring and reporting activity.
<b>Retail &amp; 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 from derivative instruments used to manage interest rate and foreign exchange risk.	The Group sets a risk appetite for treasury risk and monitors adherence to this. It adopts a low risk approach to its treasury activities, investing most of its liquidity in the highest quality assets.
<b>Funding &amp; 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>	The risk to the Group's earnings or the value of its assets and liabilities due to changes in external market rates.	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 Maturity 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 &amp; 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.

## Evolution of Principal Risk Exposures

The principal risks and uncertainties continue to evolve but the main driver of change during 2021 has been the impact of the COVID-19 pandemic on the economy, which has had a range of implications for the Group, along with the additional risks that we continue to address. This is unlikely to change in the short to medium term, despite a significant proportion of the UK population now being vaccinated.

## 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 as well as the adaptation of existing processes to continue to meet customer needs under circumstances which were both unprecedented and challenging.

We successfully implemented our operational response in line with Government guidelines and continue to monitor its effectiveness

and implement changes resulting from updates to this guidance. Our approach centred around ensuring the availability of critical services for our customers alongside protecting the health and wellbeing of our customers and colleagues. Our key customer-facing processes and services continued to be managed effectively during 2021, in order to minimise service issues.

In particular, we have a number of strategies in place to support our colleagues through this period of uncertainty, recognising the length of time that colleague work patterns and environments have been subject

to disruption. These have included: refining our people policies and practices; ensuring that our workplaces remain in line with the Government's guidance; and we have commenced the development of a longer-term Future Ways of Working strategy.

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

The impacts of the COVID-19 pandemic have dominated the economic landscape since March 2020. The lockdown measures taken to manage the scale of the pandemic, and the longer-term repercussions of these following their removal, have posed risk to the economy. Whilst lockdown restrictions and Government support have since ended, there remains a degree of latent risk relating to the potential emergence of arrears as the impacts of changes in unemployment and affordability may take time to crystallise.

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

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

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

Whilst the UK has now officially left the EU with a trade deal in place, the ongoing economic impacts remain uncertain. These aspects of uncertainty are incorporated into our economic scenario modelling. These scenarios cover a range of impacts that reflect different levels of productivity and output of the UK and the subsequent effects 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 with the EU rather than any specific risks to any particular business sector.

### Increased risk of inflation and rising interest rates (Retail & Commercial Credit Risk)

The current combination of macro-economic factors and associated events in the UK and overseas have resulted in an increased risk relating to rising inflation and the likelihood of further Bank Base Rate over the short term. We recognise that although there is the potential for an adverse impact on affordability, interest rates and unemployment are expected to remain low by historical standards. Having reviewed the risks to the Group through our stress testing approach, including the sensitivity of our mortgage books and associated impairment models to increasing interest rates, we have concluded that the key sensitivities to our expected credit losses are principally related to HPI and unemployment. As a result, we consider our economic scenarios and weightings to be fit for purpose as they are focused on material changes in these, most sensitive, macro-economic metrics.

### Retaining and attracting skills and talent in areas of high demand (Operational Risk)

The Group is increasingly recognising that social changes brought about by the COVID-19 pandemic are resulting in increased competition in the recruitment and retention of key colleagues. We continue to review our value proposition in relation to talent acquisition and retention.

### Model Risk (Model Risk)

We continue to monitor and address the risks associated with the use of models and specifically, with regard to the impact of the COVID-19 pandemic, the use of models that rely on historical data being applied to

less predictable future scenarios. We continue to adapt and develop our approach to Model Risk Management and the underlying models themselves in line with industry good practice and regulatory guidance.

### Regulation and Fair Outcomes (Compliance & Conduct Risk)

Compliance and conduct are central to our values and behaviours, with an internal control framework which operates in line with the Board risk appetite and monitors adherence. Ongoing focus and robust challenge will be required to keep pace with the rapidly changing legal and regulatory environment. This will also be vitally important as we move forward with our ambitious programme of transformation, exploring new initiatives and new ways of working.

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

Dialogue with our regulators continues to be open and constructive, and we continue to work with regulators and industry bodies to contribute to the developing regulatory agenda. This includes matters such as the FCA's proposal to introduce a new Consumer Duty which would set higher expectations for the standard of care that firms provide to consumers. As a mutual organisation, fair customer treatment is already a key part of our purpose and intrinsic to everything we do.

### Climate change risk

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





and any exposure to sectors most affected by this change.

The risks posed by climate change have been reviewed through 2021 and have been incorporated into the risk taxonomy, with implications relating to several principal risk types. Key principal risks where climate change impacts have been considered include:

- Strategic risk
- Retail & Commercial Credit risk;
- Operational risk; and
- Compliance & Conduct risk.

The *Risk Management Report* provides more detail on how climate change risk is incorporated into our risk management framework. Climate change risks have been incorporated into our risk appetite process and we have completed climate scenario analysis on our mortgage book. We have developed a strategy to manage the ongoing risks as they present themselves.

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

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

We have embedded an approach to managing and mitigating our legacy IT risks, including those relating to third parties, and progress is reported to the Board at least annually. We continue to invest in operational resilience and legacy IT risk mitigation as part of a Group-wide Security Improvement Programme.

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

Our digitalisation programme continues to address increasing

customer expectations of being able to access products and services through expanded digital channels. The digital transformation of direct competitors, as well as challenger banks and FinTech firms, continues to emphasise the need to remain competitive in these areas. This acceleration could provide additional challenges in the increased competition for appropriately qualified and experienced Information Technology resource.

There is, however, a residual risk that the cost of delivering the level of change necessary for some customer groups, aimed at keeping pace with rapidly changing technology, may also prove unsustainable. This will require investment choices which may not fully meet customer expectations.

### Financial crime threats (Compliance & Conduct Risk and Operational Risk)

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

The Group has not seen a meaningful increase in financial crime incidents during this period, however the business remains on high alert. The Group's focus on its financial crime risk management capability remains paramount in order to keep these evolving financial crime exposures within risk appetite. Investment continues to be made in this area, with particular focus on anti-money laundering controls, customer due diligence and Open Banking compliance. We constantly assess and appropriately upgrade our business standards, due diligence processes, IT and people capability.

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

The pace of technological change exposes the UK financial services sector to increasingly sophisticated

cyber security threats – including ransomware, data breaches and weaknesses in the supply chain. Resilience to such threats, and an ability to effectively respond in the event of an attack, remains essential in order to protect the Group, maintain the trust of customers and the confidence of regulators. Investment continues to be made in this area to ensure that key controls are appropriately maintained.

### Continued risk management effectiveness

Good progress has been made through 2021; we have continued to embed our risk management framework across the business to enable us to adapt and respond to rapid change in our operating environment. This includes development of our approach to managing climate risk, continuing to embed accountability for risk management reporting into the first line of defence and providing an increased level of second-line oversight of key risk management activities including those relating to the Group's transformation agenda.

The Society is focused on our *Strategic Blueprint* and the related programme of transformation. Our risk management teams are supporting the safe delivery of the Blueprint through ensuring that current risk management initiatives are appropriately embedded, with customer experience and outcomes prioritised as part of any risk management interventions.



# Building a Greener Society

This section contains our 2021 Taskforce on Climate-related Financial Disclosures (TCFD) report and an introduction to our future climate transition plan: ***Building a Greener Society***.

It is acknowledged and accepted that the financial services industry needs to act now to help to mitigate, and support the management of, the physical and transitional risks posed by present and future climate change. The risks posed by climate change are wide reaching and will affect all areas of society. As such, we have been enhancing our capabilities and embedding processes to monitor and manage climate change risk. We have worked to meet the requirements of the Prudential Regulation Authority's (PRA's) Supervisory Statement 3/19 (SS3/19) – *Enhancing banks' and insurers' approaches to managing the financial risks from climate change*. This report outlines our approach to climate, aligned to the recommended guidance of the TCFD initiative. As the Society is not considered to have immediate significant transition or physical risk, the option within the TCFD guidance to disclose a qualitative summary of our climate scenario modelling methodology and outputs has been applied. We will aim to introduce more quantitative disclosures as our modelling evolves over time.

The Society's Audit Committee has confirmed that our disclosures are consistent with the TCFD regulatory guidance. These disclosures have been integrated throughout the Annual Report and Accounts as follows:

Disclosure Category	Reference
Our climate risk appetite	See the <i>Risk Management Report</i>
Enterprise Risk Management Framework	See the <i>Risk Management Report</i>
Climate Governance	See below
Streamlined energy and carbon reporting	See the <i>Directors' Report</i>

The remaining TCFD disclosures and metrics can be found within this 'Building a Greener Society' report.

## Climate Governance

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

The Board has ultimate accountability for all climate change risks and opportunities. The Board meets regularly and is supported through the existing governance structure which manages climate change risk on a day-to-day basis. See the *Corporate Governance Report* for more details.

### The Board

The Board sets our purpose-led strategy. In 2020, we launched our *Strategic Blueprint* which focuses on four key priorities (more information can be found in the *Our Strategic Blueprint* section of *Our Purpose, Strategy and Stakeholders*). Although climate change and environment are not directly referenced in the *Blueprint*, they play an important role in supporting our overarching purpose of providing *Real Help with Real Life*. During 2021, the Board received a number of updates on climate risk in addition to two sessions providing climate strategy and risk management training which were delivered by in-house and third-party experts. The Board will continue to be provided with regular updates on our external climate commitments and regulatory requirements, as well as our progress toward achieving them. In December 2021, the Board approved our *Building a Greener Society* climate action plan and will receive regular updates against the climate key performance indicators (KPIs).

### Group Risk Committee

Our Group Risk Committee (GRC) discusses overall climate risk and how it fits within our risk management framework. Updates have focused on overarching climate risk-related matters, they deal with the approval of the Society's scenario analysis, stress testing and risk appetite with respect to climate. The Committee approves the Society's Enterprise Risk Management Framework (ERMF) which now includes climate as a risk which cuts across multiple traditional risk categories, details of which can be found in our *Risk Management Report*.

## Executive Committee

The Executive Committee (ExCo) is chaired by the Chief Executive and receives regular updates on climate change progress. This committee also oversees, and is updated on, the day-to-day environmental strategy. All climate risk matters are approved here before proceeding to the Board.

### Executive Risk Committee

The Executive Risk Committee (ERC) is responsible for the governance framework surrounding the climate risk agenda. The updates provided to the committee primarily focus on risk appetite and policy setting, which is subsequently approved by the Group Risk Committee. ERC also approves the Environmental Policy, into which climate change risk and our climate action plan have been integrated. Overall, the Committee helps to steer our leadership teams in the day-to-day governance of the climate change agenda and ensures we have an effective risk management framework.

### Asset and Liability Committee

The Asset and Liability Committee (ALCO) is responsible for day-to-day management of climate risk and stress testing. Updates provided to the Committee primarily focus on the financial risks (physical and transitional) arising from climate change, and consider the resulting challenge posed by stress testing and its impacts. ALCO also receives regular updates on the Society's non-financial ratings agency (NFRA) performance.

### Audit Committee

The Audit Committee considers non-financial disclosures related to the broader environmental, social and governance agenda as being linked to the broader set of disclosures made by the Group in the Annual Report and Accounts and the Half-Yearly Financial Report. The Audit Committee approve all key public disclosures and review the assurance surrounding environmental disclosures before publication. Furthermore, the Audit Committee consider the impact of climate change on accounting estimates such as *expected credit losses on loans and advances to customers*.

## Assigning senior management accountability

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

The CFO is responsible for managing the physical and transitional financial risks stemming from climate change. This includes accountability for leading the development and implementation of:

- Identification, measurement, monitoring and reporting of the financial risks of climate change, in line with our risk appetite including our risk exposure limits and thresholds.
- Scenario analysis (including a catastrophe modelling approach) to determine long-term financial risks and assess the impacts on our balance sheet.
- Disclosing the financial risks of climate change to the PRA.
- The climate related inputs into the wider ESG reporting owned by the Chief People Officer.

The CRO has accountability for ensuring the development and implementation of:

- A governance framework to ensure that the Board understand and assess the financial risks from climate change which affect the Society, and address and oversee these risks within our overall business strategy and risk appetite.

## Embedding climate into our policies

As part of our commitment to protecting the environment and reducing the impact our business activities have upon the natural world, we have developed a rigorous environmental policy and environmental management manual. These documents are reviewed annually at our Executive Risk Committee and explain the approach the Society takes to environmental and climate change risk, compliance and protection issues. They further

describe the management framework behind the broader climate strategy. Our environmental policy can be viewed on our website. The Society has further enhanced our Enterprise Risk Management Framework to include climate change risk, more detail can be found in the *Risk Management Report*.

## Our climate change operating model

The Environmental Working Group meets once every three weeks and comprises mid-management

colleagues working to deliver our climate strategy. This working group provides regular updates to the Climate Change Steering Group (a senior-level forum). Oversight is provided by the Chief Financial Officer and Chief Risk Officer, and the steering group reports directly into ALCO. You can also view our climate governance structure chart in our *Corporate Governance Report*. The structure chart outlines how climate governance operates at Board, Board Committee, Executive and Management Committee levels.

## Our Climate Strategy

### Identifying the Risks

Climate change is expected to impact financial institutions and the related risks can be broadly categorised as either physical or transitional. Physical risks are described as changes to the natural environment that may damage the integrity of a property. Transitional risks are described as resulting from changes in policy as the UK moves toward a lower carbon economy.

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

#### Flood Risk

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

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

#### Subsidence

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

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

#### Coastal erosion

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

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

As a member of the FCA's and PRA's Climate Financial Risk Forum, we have worked with peers and regulators to develop a sector-wide framework to identify climate risk categories. The table below displays the risks which we have been, or will be, considering as our disclosures advance in line with regulatory and non-financial ratings agency (NFRA) expectations. Our scenario analysis sought to quantify financial losses as a result of climate change and, in the years ahead, we plan to mature and extend our analysis to further improve our thinking across all of the categories and questions listed below. Our *Building a Greener Society* plan supports this agenda.

The Group's Principal Risk Exposure	Example Key Risk Considerations
<p><b>Strategic Risk</b> (Focused on the future viability of the business model)</p>	<ul style="list-style-type: none"> <li>■ Adapting the Group's strategy to meet customers' green expectations.</li> <li>■ The policies and processes that will be required to ensure that green products are robust.</li> </ul>
<p><b>Retail &amp; Commercial Credit Risk</b> (Focused on the credit worthiness of the customer, the underlying value of the asset and probability of default)</p>	<ul style="list-style-type: none"> <li>■ How the Group's mortgage book would respond to stricter energy efficiency policies.</li> <li>■ The proportion of the mortgage book which is geographically located in areas which will be exposed to the impact of more frequent and severe weather events.</li> <li>■ How lending criteria, focussed on energy efficiency and economic sector, could be deployed.</li> </ul>
<p><b>Compliance &amp; Conduct Risk</b> (Focused on the action/inaction of the Society causing detriment to customers, to the market and to the competition)</p>	<ul style="list-style-type: none"> <li>■ The proportion of customers that would be adversely affected by the industry standard moving toward stricter lending criteria based on physical risk metrics such as the probability of flood risk.</li> <li>■ The proportion of customers that would be adversely affected by the industry standard moving toward stricter lending criteria based on energy efficiency.</li> </ul>
<p><b>Operational Risk</b> (Focused on the resilience of the Society's infrastructure, systems, procedures and policies, to events that could affect business continuity)</p>	<ul style="list-style-type: none"> <li>■ The level of energy efficiency of the Group's property estate and its exposure to physical climate risk.</li> <li>■ The extent of exposure of critical suppliers to more frequent and severe weather events under climate change.</li> <li>■ The geographical location of critical suppliers and their exposure to physical climate risk.</li> <li>■ The adaptations that will be required to be made to ensure the health and safety of customers and employees.</li> </ul>

See the *Our approach to Climate Risk* section of the *Risk Management Report* for more details.

## Identifying the Impacts

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

	Overview	Economics	Transition risks	Physical risks
Early Policy Action	The transition to a carbon-neutral economy starts early and is gradual and moderate. Carbon prices and other policies are introduced slowly and the increase in global warming stays below 2°C, in line with the Paris Agreement	<ul style="list-style-type: none"> <li>GDP growth slows down in 2025-2027 to 1.3% before returning to trend growth of 1.6%</li> <li>Post covid, unemployment drops to 5% by 2025 and stays at that level for the rest of the scenario</li> <li>Property prices grow at 3.4% throughout the scenario</li> </ul>	<ul style="list-style-type: none"> <li>Properties are upgraded to potential EPC grade (spread out evenly through 2021-2050)</li> <li>65% of properties require a heat pump at a cost of £5,000</li> <li>Properties with a potential EPC grade below E are reduced to the value of the land only</li> </ul>	<ul style="list-style-type: none"> <li>Some increase in the overall level of physical risk, but it will remain subdued</li> <li>Assumed Met Office RCP 2.6 projections</li> </ul>
Late Policy Action	The global climate goal is met but the transition is delayed until 2030 and is more sudden and substantial. This results in a material short-term macro disruption, with an economic recession, falls in property and equity prices and changes in interest rates	<ul style="list-style-type: none"> <li>GDP growth is negative between 2031-2033 with a trough of -2.7% in 2032. Following this recession, the economy bounces back</li> <li>Unemployment peaks at 8.5% in 2033</li> <li>Property prices fall by about 20% during the 2031-2033 recession</li> </ul>	<ul style="list-style-type: none"> <li>Properties are upgraded to the potential EPC grade (spread out evenly through 2031-2050)</li> <li>65% of properties require a heat pump at a cost of £5,000</li> <li>Properties with a potential EPC grade below E are reduced to the value of the land only</li> </ul>	<ul style="list-style-type: none"> <li>Some increase in the overall level of physical risk, but it will remain subdued</li> <li>Assumed Met Office RCP 2.6 projections</li> </ul>
No Policy Action	No policy action beyond that which has already been enacted is delivered. The transition is insufficient for the world to meet its climate goal, leading to severe physical risks, materially lower trend growth rates and impact on asset prices	<ul style="list-style-type: none"> <li>GDP grows at a sub trend rate over the years of the scenario (1.3% growth), but does not turn negative</li> <li>Unemployment stays at 5% throughout the scenario</li> <li>Property prices grow at a sub trend level of 2.7%</li> </ul>	<ul style="list-style-type: none"> <li>No actions to upgrade the energy efficiency of properties</li> </ul>	<ul style="list-style-type: none"> <li>Severe increase in physical risks with the most material shocks crystallising 2050-80</li> <li>Assumed Met Office RCP 8.5 projections</li> </ul>

The Society further considered the utilisation of science-based targets and other opportunities to increase understanding of climate risk on the Society's mortgage book and owned assets. The colleague pension scheme is not under the Society's direct control and as such is having its climate risk and opportunities reviewed through a separate external workstream. You can view our qualitative analysis of the CBES and temperature alignment exercises in the *Metrics and Targets* section below.

## Identifying the Opportunities

The Environmental Working Group is responsible for identifying new opportunities arising from climate change and refers these to the Climate Steering Group and the Executive Committee for further review on a regular basis.

The Working Group used the outputs of CBES, combined with qualitative studies, to evaluate the opportunities climate change brings to our social purpose, ESG and commercial agendas. Our identified opportunities are designed around three pillars:

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

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

## Ensuring that YBS manages its operational carbon emissions year on year

### The road to operational Net-Zero

We are committed to taking purposeful action on climate change. The Society believes that in order to drive change it must lead by example. We have committed to reducing our direct operational carbon footprint to Net Zero by 2025. The residual elements, which we cannot presently reduce due to critical risk, will be offset into programmes driving carbon reduction projects elsewhere in the world.

As a result of this commitment, we have decided to replace our carbon neutrality pledge with a pledge to achieve a Net Zero position across our scope 1 and scope 2 emissions by 2025. This will enable the Society to drive action and take direct ownership for the reduction of our carbon emissions. For the past five years, the Society has been accredited with carbon neutral status. We achieved this through procuring carbon offsets through third party verifiers and complying with the Carbon Neutral Protocol. The Society will still commit to offsetting the operational elements of Scope 3 which it can directly influence, and is currently working through plans for aligning to Net Zero on scope 3 emissions.

The Society will achieve its goal through a 100% green energy (gas and electricity) pledge. In 2021 we signed a green gas supply contract, derived from feedstock, to get the business started on the journey. We do however understand that feedstock gas is not the best viable alternative to natural gas, which is why we are committed to procuring our next green gas contract from landfill sources. YBS has also conducted a review of our property estate and, whilst air or geothermal heat pumps are not practical in many cases for a number of reasons, we will upgrade to heat pumps where feasible. We believe that moving to green gas and 100% renewable energy represents a proportionate step toward reducing our operational emissions. Additionally, in 2021 we converted our emergency back-up generator from diesel to biodiesel to ensure our residual scope 1 emissions reduce further over time.

## Supply chain

At the beginning of 2021, an in-depth review of the environmental credentials of our supply chain was conducted. The outputs of this review allowed the business to focus on the top 100 critical suppliers and create an input and output model to measure the emissions accrued from the outsourcing of systems, people and purchases. The Society is presently analysing the results of this analysis and understanding how best to use the results to inform future procurement practice. We are further developing our understanding of the environmental impacts of our 'cloud' outsourcing strategy.

### Providing opportunities to colleagues

Our colleagues also understand that they too have an important role to play in reducing the effects of climate change. The Society has actively worked to improve colleague engagement in this area. We launched an internal climate awareness strategy and tool pack, providing information as to how our colleagues can reduce their environmental impact whether they are working at home or within the office.

We are further pleased to announce that we are moving to a low emissions vehicle fleet. We will move to a fully electric fleet as soon as it is operationally practical and will ensure that from 2025, all new vehicles acquired onto our fleet are hybrid or fully electric. To ensure we are reducing our impacts in line with our target, last year we introduced an emission cap on our fossil-fuelled company vehicles of 160g CO<sub>2</sub>/km. Other examples of our commitment to colleagues include a cycle-to-work scheme, 0% interest season ticket transport loans and electric vehicle (EV) leasing opportunities for those colleagues who do not drive a company car.

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

### United Nations principles for responsible banking

The The Principles for Responsible Banking are a unique framework for ensuring that a signatory's strategy and practice align with the Sustainable Development Goals (see below) and the Paris Climate Agreement.



Yorkshire Building Society intends to become a signatory and commit to fulfilling the following six principles:

 <p><b>PRINCIPLE 1: ALIGNMENT</b></p> <p>We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.</p>	 <p><b>PRINCIPLE 2: IMPACT &amp; TARGET SETTING</b></p> <p>We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.</p>	 <p><b>PRINCIPLE 3: CLIENTS &amp; CUSTOMERS</b></p> <p>We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.</p>
 <p><b>PRINCIPLE 4: STAKEHOLDERS</b></p> <p>We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.</p>	 <p><b>PRINCIPLE 5: GOVERNANCE &amp; CULTURE</b></p> <p>We will implement our commitment to these Principles through effective governance and a culture of responsible banking.</p>	 <p><b>PRINCIPLE 6: TRANSPARENCY &amp; ACCOUNTABILITY</b></p> <p>We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.</p>

Over the next 18 months, the Society will undertake a thorough impact analysis against these Sustainable Development Goals and set a target to reduce societal and climate impact.



### Improving tenant welfare

We are implementing, where financially viable and subject to listed-property restrictions, the Department for Business, Energy and Industrial Strategy's (BEIS) recommendation to upgrade all Society-owned properties which are let out across England and Wales to EPC grade C or above by 2027 (all new tenancies from 1 April 2025 and all existing tenancies by 1 April 2027). After which it is the Society's intention to work towards the proposed the minimum energy efficiency standard requirement for rented non-domestic property to a B or above by 2030.

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

#### Operational climate risk

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

#### Strategic risk

The Society is committed to reducing its lending exposure to heightened climate risk sectors of the UK and Global economy, and has developed a risk statement which can be viewed in our *Risk Management Report*. Following a review, the Society can confirm that it does not directly lend to the Oil and Gas sector or other heightened climate risk sectors.

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

#### Credit risk

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

#### Conduct risk

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

#### Financial planning

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

#### Helping our customers transition to Net-Zero

The Society believes the transition to a Net-Zero economy should be fair for all customers. The recent pace at which climate financial risk regulation is progressing in the UK, to meet the Government's target of Net-Zero by 2050, has the potential to outpace our customers' ability to improve the energy efficiency of their homes to meet proposed new lending requirements. The Society anticipates a situation

where our customers, through no fault of their own, may not be able to afford the necessary improvements which would be required in order to re-mortgage their home, creating a new set of mortgage prisoners similar to the current cladding crisis that some flat owners are facing.

To understand the impacts and opportunities of moving towards a Net-Zero economy on our customers, a 1.5C° temperature alignment exercise was performed. The Society used the IPCC climate scenarios in combination with guidance provided by the Science Based Target initiative. The Science Based Target feasibility study demonstrated that the mortgage portfolio is expected to perform well from an environmental perspective over the coming decades if proactively managed through the launching of socially minded green lending propositions.

However, the exercise also demonstrated that the immediate placement of severe emission reduction targets on our mortgaged properties would present our customers with significant social and financial consequences on top of the inflationary pressures they are presently facing. The exercise concluded that while a Science Based Target may represent well in overall ESG ratings, the business does not think this initiative is well suited for the provision of *Real Help with Real Life*. The Society exists to support our customers and to help them all find a place to call home. The business will not implement activities that could possibly harm our customers social and financial wellbeing. Over time however, as the social and financial consequences of customer-based emission reduction targets are resolved at the regulatory level, it is conceivable the Society may commit to targets but this is not anticipated before at least 2025.

The Society is therefore pleased to stress that it is committed to helping all our customers transition to Net-Zero and improve the energy efficiency of their homes. To do this, YBS will work to create a customer Net-Zero transition plan that aligns to our ambition to *Help Real Life Happen*. YBS will aim to support those with the highest transitional risk exposure. To get started on this journey, YBS will launch our first green mortgage proposition in 2022.

## Supporting our communities

We will take direct action on climate change and seek to reduce our environmental impacts on wider society wherever it is viable to do so. A cornerstone of this commitment is our engaging proactively with our local communities and policy makers; we are pleased to announce that the Society has joined the Yorkshire and Humber Climate Commission, as well as maintaining our support for the Leeds Climate Commission.

The recently launched Yorkshire and Humber Climate Commission is the largest of its kind in the UK and brings together a team of climate leaders from across the public, private and third sectors. It aims to help the region reduce its carbon emissions as quickly as possible and ensure that people in Yorkshire are prepared to cope with the growing physical and transitional risks of climate change.

## The Journey so Far

The Society has always been focused on operating a financially sustainable business and, in recent years, we have applied this concept of sustainability more broadly to include our impact on the environment. Since first publishing our carbon footprint in 2012, we have successfully reduced our emissions by 78%. The below summary shows the progress the Society has made since our first environmental disclosure in 2012:

2012	2014	2016	2018	2019	2020	2021
<p>First disclosed our environmental impact (scopes 1 and 2).</p> <p>Prior to 2012, we always recycled and donated old furnishings resulting from branch and head office refit projects to local charities and schools.</p>	<p>Procured 100% renewable electricity to power our operations.</p>	<p>Installed solar panels at our head office sites.</p> <p>Achieved 100% carbon neutral status for the first time (including scope 3 emissions).</p> <p>Achieved ISO 14064-1 accreditation for our carbon footprint calculations.</p>	<p>We committed to reducing energy consumption and heat output across our IT function.</p> <p>Began anaerobically digesting our food waste.</p> <p>Installed two sustainable, sedum green roofs.</p> <p>We agreed a target to remove all single-use plastic items from our head office sites. In the first year, we removed 700,000 single use plastic items.</p> <p>Reduced water consumption by installing 19 PropelAir toilet systems.</p>	<p>Developed a new carbon emission calculator to begin capturing the environmental impacts of our capital works projects, allowing the business to better assess our estate improvements.</p> <p>Removed a further 132,000 single-use plastic items from our canteen.</p> <p>Launched the Environmental Working Group to devise our future environmental and climate strategy.</p> <p>Our first scope 3 disclosure.</p>	<p>Launched the beginnings of our environmental strategy <i>Building a Greener Society</i>.</p> <p>Achieved 5 years of carbon neutrality.</p> <p>Introduced a target to reduce paper usage and consumption by 15%.</p> <p>Committed to understanding the impacts of our supply chain.</p> <p>YBS joined the Leeds Climate Commission.</p> <p>We achieved our first success on the IT energy consumption reduction journey, reducing the number of hard drives and replacing with solid state drives.</p>	<p>We joined the Yorkshire and the Humber climate commission. We are working help build up the climate resilience of the region over the coming years.</p> <p>Committed to moving towards 100% renewable energy consumption. The Society secured a renewable gas contract.</p> <p>YBS voluntarily participated in the Bank of England's Climate Biennial Scenario in accordance with PRA SS 3/19 regulations.</p> <p>Since 2012, we have achieved an overall 78% operational carbon reduction.</p> <p>Supply chain emissions are now internally fully understood.</p> <p>We have introduced new rules that restricts lending to environmentally harming sectors of the economy.</p>

## Metrics and Commitments

Climate change metrics and future commitments are anchored to our ambition to build a greener society. We have an expectation that our metrics will develop over time as our climate plan is delivered. Therefore, this year's metrics focus on operational aspects and non-financial ratings agency measures, alongside a qualitative review of the CBES climate scenario analysis.

You can view the Society's carbon intensity ratios per colleagues and per £m income, in the Streamlined Energy Carbon Report (SECR) in the *Directors' Report*.

### SS3/19 CBES outputs

The analysis we have completed across all three CBES scenarios has shown that our risks are aligned closely to the average of the UK mortgage market,

and that we are able to deal with the potential stresses arising from climate risk. The proportion of our book that has a level of physical or transitional risk is broadly aligned to the average of the market – we have confirmed this through broad benchmarking of physical risks and EPC ratings comparing our book to the average of the UK market.

## Objectives for further improvement

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

<b>Static balance sheet approach</b>	This approach does not allow for changes to product/portfolio mix. The intention is to address this in generation 2 of the model.
<b>Accumulating defaults</b>	Credit losses are calculated in line with CBES guidance with no accounts leaving the portfolio and default accounts accumulating over time.  This approach leads to additional conservatism in the results.
<b>Model complexity and infrastructure constraints</b>	The climate model is complex, relying on new climate data and additional climate algorithms. Due to the resource limitations of the model machinery, expected losses have been calculated on residential portfolios and extrapolated to the remaining accounts.
<b>Climate data</b>	Climate data, including EPC ratings, is new and evolving and may not fully capture all the underlying physical and transition risks.  The climate data feeding into the model is based on a defended position for flood risk, diverging from CBES guidance requiring a reducing flood defence protection. Reducing flood defence data was not available in time for the generation 1 climate model.
<b>IFRS 9 expected credit losses</b>	Losses are estimated from the proportion of each account that is placed within the repossession risk grade at the end of 30 years of transition matrices, rather than using staging and 12-month or lifetime losses per IFRS9. Losses are therefore those crystallised over time rather than IFRS9 expected credit losses.  This is a known limitation in the existing stress testing infrastructure and is being addressed through a process improvement project.
<b>Vulnerable industry sectors or regions</b>	Physical and transition risks to employers in vulnerable industry sectors or geographic regions that would have translated into variations across regions in probability of default were not in scope of the generation 1 model.  The approach for climate modelling is aligned to the current approach for economic stress testing, however the intention is to enhance this analysis as more data around sector of employment is captured.
<b>Stress Testing</b>	The current ICAAP cycle has not allowed for us to specifically include climate risks in our stress testing. We will look to incorporate this as part of the next cycle.

## Carbon reduction targets

The Society has conducted a review of the viability of placing Science Based Targets on the financial and operational elements of the business model. Whilst not being in a position to sign the Science Based Targets commitment, the Society wishes to align our operational emissions to the latest and best scientific guidance and take the appropriate steps to reach operational Net-Zero on Scopes 1 & 2 by 2025. Proportional steps will then be taken to look at our Scope 3 impacts and consider ways to align emission reductions to the UK's 2050 Net-Zero goal.

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

As discussed in the *Our Climate Strategy* section above, a temperature alignment review of residential mortgages was performed, and it was concluded the book is expected to perform well if managed correctly through the creation of and take up of green mortgage propositions. The business further reaffirmed its commitment to helping our customers find a place to call home and cannot presently lend support to an initiative that may place additional financial and social anxieties on customers. However, the Society still understands it is important to reduce its scope 3

financed emissions. The Society has committed to launching a Net-Zero customer transition plan and will report progress on product uptake, amount of customer homes improved and financed emission reductions attributed to the plan. However, in the short term it is likely financed emissions will grow as the business continues to grow its mortgage book to deliver the *Strategic Blueprint*.

## Commercial lending climate risk exposure

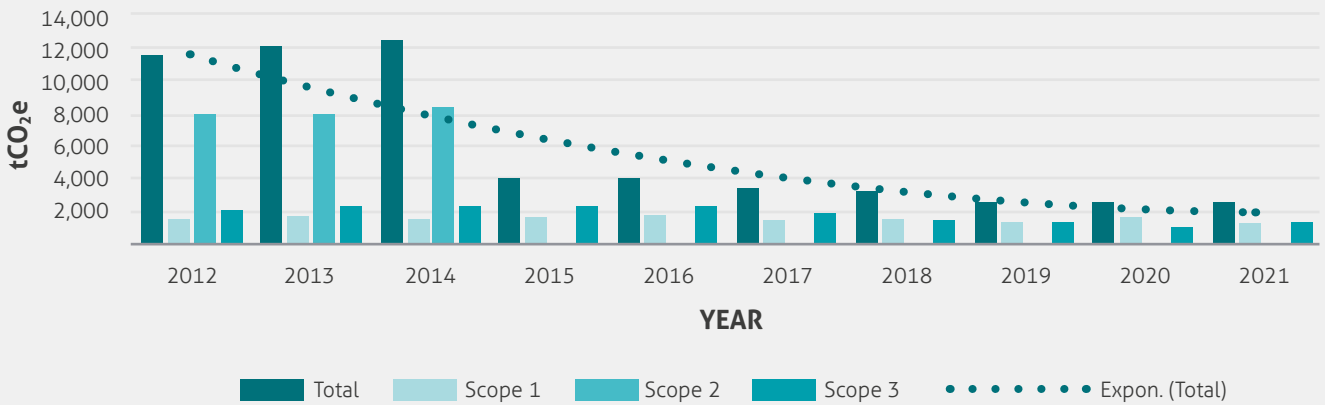
The Society's commercial arm does not engage in project finance but instead lends on commercial property via mortgages residential property via buy-to-let landlords. Whilst the Society cannot completely rule out having exposure to heightened risk climate risk sectors, exposure to the most environmentally damaging sectors is minimal. In 2022 the Society will conduct a further review of commercial lending policies and climate risk appetite statements.

## Our carbon footprint and further disclosure

The Society's 2021 carbon footprint is 2,565 tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e), this represents a 5% reduction on that in 2020. Overall, since our first disclosure in 2012 we have delivered an overall 78% reduction through proactive action across our operations. This is a great achievement; however, we understand there is still more that we can do to transform our carbon reporting into a meaningful metric in managing the effects of climate change. Over the next 12 months, the Society will be working to comply with the voluntary Partnership for Carbon Accounting Financials (PCAF) financed emission reporting standard, and we look forward to making a disclosure in our 2023 TCFD report. In 2023, we will also disclose our first progress report on our climate commitments.

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

## OPERATIONAL CARBON FOOTPRINT



Our Operational Footprint <sup>1</sup>	2012 <sup>2</sup>	2013	2014	2015	2016	2017	2018	2019	2020 <sup>3</sup>	2021
	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e
Scope 1	1,662	1,480	1,315	1,290	1,233	1,133	1,235	1,029	1,613 <sup>4</sup>	<b>1,309</b>
Scope 2	7,868	8,076	8,439	-	-	-	-	-	-	-
Scope 3 <sup>5</sup>	2,264	2,877	3,009	2,811	2,318	2,367	1,932	1,598	1,094	<b>1,256</b>
<b>Total</b>	<b>11,794</b>	<b>12,433</b>	<b>12,763</b>	<b>4,101</b>	<b>3,551</b>	<b>3,500</b>	<b>3,167</b>	<b>2,627</b>	<b>2,707</b>	<b>2,565</b>

<sup>1</sup> The Society uses the market-based methodology to report its carbon emissions however you can find our location based carbon footprint within the SECR section of the *Directors' Report*

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

<sup>3</sup> 2020's carbon footprint has been updated to include actuals figures rather than the estimates for final month/quarter amounts included in the 2020 disclosures.

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

<sup>5</sup> You can find a full breakdown of scope 3 emissions within the within the SECR section of the *Directors' Report*. See below for the Society's progress on modelling scope 3 emissions.

### Updating our carbon footprint disclosures

Changes in best practice, and enhancements in our understanding and ability to collect data, occasionally result in us reassessing our previously disclosed carbon footprint metrics. All such updates are verified by the Society's carbon footprint consultancy provider, Ricardo plc, and assessed against the requirements of ISO 14064-3 (specification with guidance

for the validation of greenhouse gas emissions) and the GHG Protocol Corporate Standard. The main drivers of such changes have been:

- As there was limited Scope 3 data available between 2012 and 2014, the Society assumed 2015 as the benchmark and replicated scope 3 emissions back across 2012-2014 for a number of emissions categories, primarily business travel.

- The Society has leased its company vehicle fleet from a 3rd party since 2013 and previously attributed those emissions to scope 1. However, it is now our policy to allocate company car emissions to scope 3. As such, historic figures have been restated to reflect this change – with the only exception being for 2012 as the business owned the company car fleet throughout that reporting year.

The historically reported figures for the market based carbon footprint shown above are:

Market-based as previously reported	2012	2013	2014	2015	2016	2017	2018	2019	2020
	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e
Scope 1	1,662	1,703	1,660	1,731	1,755	1,577	1,638	1,290	1,630
Scope 2	7,868	8,076	8,439	-	-	-	-	-	-
Scope 3	650	730	777	941	1,011	788	655	653	738
<b>Total</b>	<b>10,180</b>	<b>10,509</b>	<b>10,876</b>	<b>2,672</b>	<b>2,766</b>	<b>2,365</b>	<b>2,293</b>	<b>1,943</b>	<b>2,368</b>

### Progress on Scope 3 disclosures

The Society is committed to producing high quality information that has integrity and proves useful to our stakeholders. We are pleased to share our scope 3 disclosure gaps and pathway towards as full a scope 3 disclosure as possible by 2025.

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

It is understood that there are significant challenges in data collection and verification for scope 3 disclosures, particularly when there is a heavy reliance on third party suppliers. However, the Society has put in place a plan to address these challenges and consider ways in which to reduce scope 3 emissions is as follows:

2023: financed emissions, WFH emissions and capital project waste (property)

2024: supply chain

2025: capital project waste (IT).

## Managing our waste

In 2021, the Society generated 325.5 tonnes of waste, representing an annual reduction of 51.0 tonnes. Only 0.5% of our business-generated waste was sent to landfill meaning 99.5% was either recycled or recovered. Our next steps, as discussed above, are to begin reporting our waste derived from capital works projects.

Waste Totals – Head Office and Branch	Weight	Landfill diversion
	Tonnes	%
Landfill	1.5	0.5%
Recycling	129.0	39.6%
Recovery	183.8	56.5%
Food*	11.2	3.4%
<b>Total</b>	<b>325.5</b>	<b>100.0%</b>

\* The Society anaerobically digests its food waste.

## Going paperless


In 2019 the Society set a target to reduce paper consumption by 15% across the organisation and we are pleased to report that paper use has declined by 42.4%. Emissions resulting from paper usages have also declined by 30 tCO<sub>2</sub>e. The Society is committed to reducing material usages where possible and placing many of business activities on our internal information systems that consume 100% renewable energy.

Year	Pages Used	Change	Change	Emissions	Change
	Total	Total	%	tCO <sub>2</sub> e	%
2021	9,412,871	(2,217,216)	(19.1)	38	(19.1)
2020**	11,630,087	(4,706,390)	(28.8)	47	(30.9)
2019**	16,336,477			68	

\*\* Previously disclosed figures have been updated to reflect full year actuals. The 2020 Annual Report and Accounts reported like for like year comparisons as a full data set was not available at the time of issue.

## Non-Financial Reporting

Non-financial ratings agencies consistently rate our ESG performance amongst top performers in our industry, and we have made significant progress in 2021. Our ratings are available below.

Company	Scale	Rating	Trend versus 2020
Sustainalytics*	Low Risk 0 to 50 High Risk	15.2	Lower risk
S&P Global	0 to 100	50	First disclosure
ISS	D- to A+	C	This is the 2020 rating as we were not reviewed in 2021. Our next review is due July 2022.
MSCI**	CCC to AAA		Our rating has improved
Carbon Disclosure Project (CDP)	F to A	B -	First disclosure

\* Score date: May 2021. Copyright ©2022 Sustainalytics. All rights reserved. This report contains information developed by Sustainalytics ([www.sustainalytics.com](http://www.sustainalytics.com)). Such information and data are proprietary of Sustainalytics and/or its third-party suppliers (Third Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at <https://www.sustainalytics.com/legal-disclaimers>.

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## Our Commitments

### Plan on a page

We are committed to embedding high environmental standards into all business and financial operations to support our purpose. Further metrics will be developed, and progress will be reported against them.

Our missions	2021	2022	2023	2025	2025 and beyond
<b>Ensuring that YBS continues to manage its operational carbon emissions</b>	YBS committed to maintaining a 100% operational energy supply and aligning to the principles of the 'RE 100' initiative of the CDP and the Climate Group.	YBS will target a minimum annual landfill diversion rate of 97% and will select a Net-Zero framework to align on scope 1 and 2 emissions.	Fully understand operational scope 3 emissions and devise a plan to reduce them.  Work toward developing quantitative emission targets for operational scope 3 categories.	Achieve Net-Zero emissions alignment on scope 1 and 2 in our 2025 benchmark year.  YBS will ensure that all new vehicles acquired onto its vehicle fleet will be hybrid or fully electric from 2025.	YBS will align to the UK Government goal of Net-Zero on operational scope 3 emissions by 2050.
<b>Promoting and embedding Carbon Literacy into the YBS working culture</b>	Introduced additional controls within lending policy to enable quantitative confirmation that the Society does not lend or invest in heightened climate risk and environmentally damaging sectors.	Disclose financed emissions baseline in the 2022 Annual Report and Accounts.  YBS will join the Principles for Responsible Banking and measure progress against the UN's SDGs.	KPIs will need to be defined to fully incorporate sustainability objectives within executive remuneration.  Embed climate risk into our commercial decision making.	Continue to evolve and mature and develop internal capability.	YBS will further improve climate change resilience across all operational areas.  As we progress, we will update with further commitments to improve our scope 3 position.
<b>Supporting customers in their transition to a low-carbon economy through understanding the risks and opportunities climate change presents, and providing proactive and reactive support</b>	YBS commits to ensuring our disclosures are aligned to the requirements of TCFD from 2021.	Engaging customers around the climate transition.  The Society will launch our customer net-zero transition plan and green product initiatives.  We will help people buy energy efficient homes and we will help people improve their homes to make them more efficient.	We will extend our proposition range in 2023.  YBS will help customers make better choices about the environment through proactive and reactive communications.	Continue to evolve and mature.	A consideration that our purpose to provide Real Help with Real Life should remain the priority and our climate commitments should not affect our intention of helping customers into homes.

### Our top 10 climate commitments

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

# 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*.

At the date of this report, the Board is made up of eleven Directors: eight Non-Executive Directors, including our Chair John Heaps, who are independent and not employed by the Society and three Executive Directors who work for the Society full time, including our interim Chief Executive, Stephen White. 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:

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

## Chair of the Board



**John Heaps LLB**  
CHAIR OF THE BOARD



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

### Background and career

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

### Skills and experience

John has extensive commercial and legal experience in his leadership role in shaping Eversheds' long-term strategy as it grew into a major international law firm. In the last few years, he has contributed to the development and success of both the Society 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 and Governance Committee of the International Bar Association.  
Member of the Advisory Board of the International Business and Diplomatic Exchange.

## Non-Executive Directors



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



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

### Background and career

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

### Skills and experience

Alison has a strong background in 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 MBE BSc (Joint Hons)**  
INDEPENDENT NON-EXECUTIVE DIRECTOR



Joined our 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), ACA  
INDEPENDENT  
NON-EXECUTIVE DIRECTOR



Joined our Board in 2019.

### Background and career

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

### Skills and experience

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

### Other roles

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



**Dina Matta** BSc, BA (Hons)  
INDEPENDENT  
NON-EXECUTIVE DIRECTOR



Joined our Board in April 2021.

### Background and career

Dina began her career in strategy and technology consulting prior to joining HSBC/Midland Bank in London. She subsequently worked with UBS, British Telecom and ING Bank in a transformation capacity across their retail, corporate and wholesale segments. More recently, Dina joined the European Bank for Reconstruction and Development in October 2021 as the Vice President and Chief Transformation Officer overseeing the Bank's digital transformation and its planned move to a new London Headquarters in the autumn of 2022.

### Skills and experience

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

### Other roles

Director of Cambridge Digital Health Ltd.



**Guy Parsons** BA  
INDEPENDENT  
NON-EXECUTIVE DIRECTOR



Joined our Board in 2013.

### 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

Chair of Snug Shack and Non-Executive Director of nuUnlimited Ltd.

Guy is due to stand down as a Non-Executive Director at the Annual General Meeting in April 2022.

### Non-Executive Directors



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



Joined our Board in 2020.

#### Background and career

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

#### Skills and experience

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

#### Other roles

Non-Executive Director of Fairstone Capital Group Ltd.



**Jennelle Tilling** B.Bus, BA  
INDEPENDENT  
NON-EXECUTIVE DIRECTOR



Joined our Board in November 2021.

#### Background and career

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

#### Skills and experience

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

#### Other roles

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

### Executive Directors



**Stephen White** BComm  
INTERIM CHIEF EXECUTIVE

Joined our Board in 2016 and appointed Interim Chief Executive in November 2021.

#### 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.

#### Skills and experience

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

## Executive Directors



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

Joined our Board in 2017.

### Background and career

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

### Skills and experience

Alasdair has 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.



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

Joined the Society in 2018 and was appointed to the Board in January 2022.

### Background and career

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

### Skills and experience

David has over 15 years' 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.

## Chief Officers



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

Joined the Society in 2019.

### Background and career

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

### Skills and experience

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



**Richard Wells** FCIB  
CHIEF RISK OFFICER

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Joined the Society in 2010.

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### **Background and career**

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

### **Skills and experience**

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



# Corporate Governance Report

## A WORD FROM THE CHAIR OF OUR BOARD

I am pleased to present our Corporate Governance Report for 2021, which sets out the role of the Board and its Committees, along with their key activities.

This year has once again been one of uncertainty as a result of the impact of the ongoing COVID-19 pandemic. We have continued to ensure we have a robust governance framework in place to manage the challenges created by the pandemic as well as support the needs of our key stakeholders and delivery of our strategy and our purpose of providing *Real Help with Real Life*.





## Our approach to Corporate Governance

Corporate governance is the framework of rules, practices and processes used to direct and 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 2021.

For the 2021 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 shareholdings in relation to remuneration (Provision 36) do not apply. We do, however, seek to apply the provisions of the Code that reference shareholders as appropriate to our members and in accordance with the BSA's guidance.

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.

## Environment, Social and Governance

We are a purpose-led building society focused on providing *Real Help with Real Life*. This also means driving positive social and environmental outcomes through our strategy supported by a robust governance framework.

Throughout 2021 the Board has been overseeing a programme of work to address climate risk, which has included sessions provided by external facilitators to ensure a wide perspective has been gained as we continue to develop and build on our knowledge base in this area. Strong, Board-level sponsorship and oversight

of our management of climate risk will continue in 2022.

In December 2021 the Board also agreed the key priorities for its Environment Social Governance (ESG) Strategy going forward which will enable it to monitor progress and support effective and efficient engagement with our stakeholders.

Further details in relation to our approach and commitments can be found in the *Our Stakeholders* section of *Our Purpose, Strategy and Stakeholders* in the *Strategic Report*.

## Our Stakeholders

The global nature of the COVID-19 pandemic has meant that all stakeholders have been impacted either directly or indirectly in some way and we have remained consistent throughout in our commitment to protecting the wellbeing of our colleagues and customers, whilst supporting our key stakeholders by providing the very best service we can.

We are committed to ensuring strong engagement with colleagues remains in place and, despite the impact of the pandemic, during 2021 we have continued to operate our Colleague Forum through a virtual based approach to ensure that we have access to feedback from our colleagues to inform decision making around key issues such as the future of work, the future of retail strategy and of course our ongoing response to the pandemic.

Further details of the Board's engagement with our colleagues is provided on the *Colleagues* section of *Our Customers, Colleagues and Communities* in the *Strategic Report*.

We recognise the importance of ensuring that the views of our members and customers are part of Board decision making and have worked to ensure this has continued to be the case during 2021 despite the impact of the pandemic limiting the options for face to face contact. All Board members have a duty to act in best interests of our members and, as part of our commitment to this, we have appointed a Non-Executive Director, Mark Parsons, as a Member Champion to support the continued prominence of our members' voice in discussions.

## Changes to the Board in 2021

In November 2021 we announced that our Chief Executive, Mike Regnier, would be leaving the Society to take up a new role and I was pleased to confirm that Stephen White who was our Chief Operating Officer was appointed as Interim Chief Executive Officer with effect from 29 November 2021. I would like to thank Mike for his outstanding contribution to the Society over the last seven years, leading the Society superbly through a period of significant challenge as we addressed both the transformation to a more digitised world and the complexities of the COVID-19 pandemic.

I am pleased that Stephen White has taken over as Interim Chief Executive Officer, pending a decision on the permanent Chief Executive appointment, and will ensure ongoing stability as we continue to help real life happen for our members and build on the Society's success of over 155 years. Following a review of Board composition by the Board Governance and Nominations Committee, the Board agreed to appoint a new Executive Director to strengthen the skills and experience on the Board. David Morris, who is the Society's Chief Commercial Officer, was appointed with effect from 1 January 2022, subject to regulatory approval, and brings his experience in retail banking, in particular in the mutual sector, to the Board.

There has continued to be a significant focus on Non-Executive Director succession planning for our Board during 2021 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:

- Gordon Ireland stepped down from the Board at the Annual General Meeting ('AGM') on 27 April 2021. I would like to thank Gordon for his outstanding contribution to the Society's success and wish him well for the future.
- Dina Matta joined the Society on 27 April 2021 as a Non-Executive Director and member of our Remuneration Committee. Dina's depth and breadth of experience in relation to transformation and

technological innovation across a range of industries, alongside her wider skillset, will further strengthen our Board.

- Jennelle Tilling joined the Society on 1 November 2021 as a Non-Executive Director and has also become a member of our Remuneration Committee. Jennelle brings a range of skills to the Board including remuneration committee experience, marketing, communications, innovation, digital and reputation from across a range of lead brands and will further strengthen our Board as part of our ongoing succession planning.
- Non-Executive Director Guy Parsons is due to retire from the Board at the conclusion of the 2022 AGM. I would like to take this opportunity to thank Guy for his support and for his outstanding contribution to the Board and as the Chair of the Remuneration Committee.

### External Board Evaluation

As we reported in last year's Annual Report and Accounts, an external effectiveness review of the Board and its Committees was completed by Halex Consulting in late 2020. As a result, during 2021 the Board has worked to develop and implement an action plan taking into account the outcomes of the review and other key activities.

Further details can be found on page 83, together with an update on the Board and Committee effectiveness review process completed in 2021.

### What are the Board's priorities for 2022?

During 2022 as well as ensuring an ongoing focus and commitment to delivering our Strategy, we will be working to appoint a permanent successor to the Chief Executive role to lead the Society forward in the next phase of its delivery. We

will also continue to engage with and encourage participation from our stakeholders and focus on key issues including climate as part of our ongoing work in relation to ESG matters.

We will also be working through the outcomes of the Department for Business Energy and Industrial Strategy (BEIS) consultation in relation to Restoring Trust in Audit and Corporate Governance once they are published and will ensure that any requirements or relevant areas of good practice identified are implemented by the Society as appropriate.

#### John Heaps

Chair of the Board

## Board Leadership and Company Purpose

### OUR BOARD AND COMMITTEE STRUCTURE

**BOARD**  
**Chair - John Heaps**

Collectively responsible for the long term success of the Society.

#### BOARD COMMITTEES

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

<b>CHAIR'S COMMITTEE</b> Chair: John Heaps	<b>REMUNERATION COMMITTEE</b> Chair: Guy Parsons	<b>AUDIT COMMITTEE</b> Chair: Guy Bainbridge	<b>GROUP RISK COMMITTEE</b> Chair: Neeta Atkar	<b>BOARD GOVERNANCE AND NOMINATIONS COMMITTEE</b> Chair: John Heaps
Considers ad hoc matters specifically delegated to it by the Board.  Members are the Chair of the Board, Vice Chair and Chief Executive or any other Director appointed by the Board.	Oversees the development and implementation of the Remuneration Policy for all colleagues.  <i>See Directors' Remuneration Report for more details.</i>	Reports to the Board on financial reporting, internal controls and risk management systems, Internal Audit and External Audit.  <i>See Audit Committee Report for more details.</i>	Oversees Prudential Risk, Operational Risk and Conduct Risk Strategy, Appetite and Oversight.  <i>See Risk Management Report for more details.</i>	Oversees Board governance, including composition, succession and appointment processes for the Board.  <i>See Board Governance and Nominations Committee Report for more details.</i>

#### MANAGEMENT COMMITTEES

<b>EXECUTIVE COMMITTEE (EXCO)</b> Chair: Stephen White, Interim Chief Executive	<b>EXECUTIVE RISK COMMITTEE (ERC)</b> Chair: Richard Wells, Chief Risk Officer
Oversees and directs the management of all aspects of the Society with delegated authority from the Board. All Chief Officers are members.	Oversees day to day risk management activity with delegated authority from the Group Risk Committee.  <i>See Risk Management Report for more details.</i>

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

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

### Climate and Environmental Governance

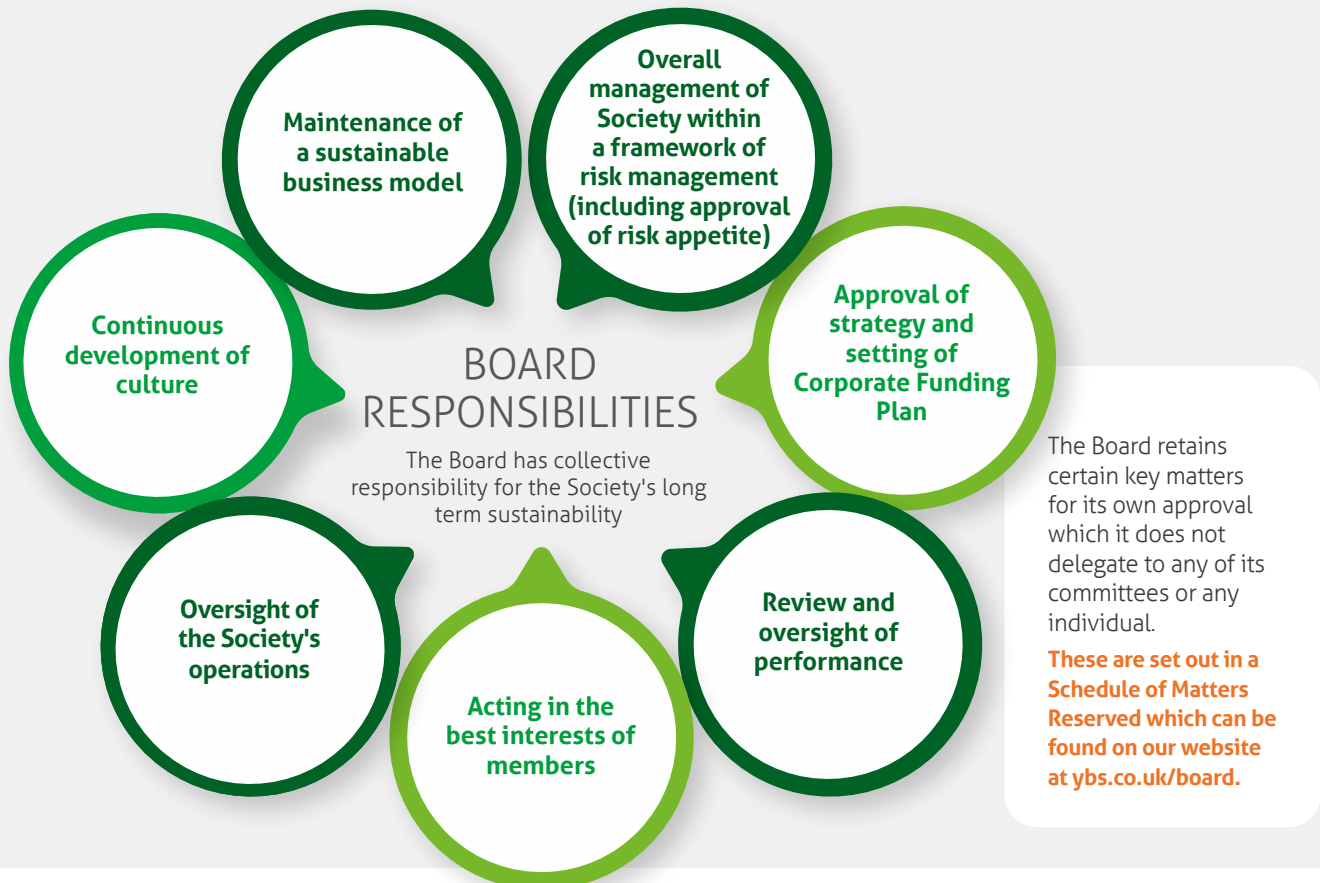
In line with the Prudential Regulation Authority (PRA) expectations (SS3/19) and our commitment to aligning our operations to Task Force on Climate Related Financial Disclosures (TCFD) principles, the Society has created a robust governance process for environment and climate change. The diagram on the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

You can read more about our climate governance in the *Building a Greener Society* section of the *Strategic Report*.



### 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:



## Setting our purpose and generating long term success

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

### It is supported in this through:

#### Relationship with the executive and senior leadership teams

Maintaining ongoing discussions and two-way feedback, including an up to date understanding of industry trends and the internal environment, are key to the Board's ability to ensure the Society's long-term success.

#### Strong and robust governance structure

A strong governance structure supports quicker and more effective decision making which is in line with the Society's purpose and Strategy.

#### Good quality reporting

The quality of information provided to the Board ensures it is able to make informed decisions which can improve value creation and reduce costs, this includes details of any impact on stakeholders, the wider community and the environment.

#### 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

Ensuring continuous identification and review of principal business risks and how those risks could affect the Society's purpose and long-term success, taking into account the agreed risk appetite.



## Board Activities in 2021

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

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

### At each meeting the Board receives:

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

### During 2021 Board agendas have also included the following key topics at scheduled meetings in the year:

- Approval of the Annual Report and Accounts, Half-Yearly Financial Report, and Pillar 3 disclosures
- Approval of key policies, including Conflicts of Interest Policy for Directors and Chief Officers
- Approval of the Board Diversity Statement (on the recommendation of the Board Governance and Nominations Committee)
- Approval and ongoing review of the Board Effectiveness Action Plan
- Climate Change
- Cyber Security
- Data Protection Officer Annual Report
- Environmental Social and Governance, including Community Investment
- Future Ways of Working proposals
- Inside Information and Disclosure Policy
- Internal Capital Adequacy Assessment (ICAAP) Process and Scenarios
- Internal Liquidity Adequacy Assessment Process (ILAAP)
- IT Strategy
- Member engagement, including member value, customer insight and representation of member/customer voice in the Boardroom
- Minutes of Accord Board meetings and bi-annual governance update
- Modern Slavery Act Statement
- Money Laundering Report Officer's Annual Report
- Operating Plan
- Operational Resilience
- Quarterly Change Portfolio
- Quarterly Chief Risk Officer Report, approval of Risk Appetite and ongoing monitoring of adherence
- Regulatory matters, including Senior Managers and Certification Regime and the annual Prudential Regulation Authority letter
- Strategy including retail network, market developments, digital and marketing
- Whistleblowing Annual Report (including Policy)
- Workforce engagement

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

- Strategy and Economic Model
- People Plan
- Transformation Plan and Change Programme
- Customer Services Strategy
- Lending Initiative
- Future growth



## 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 where appropriate details of any consultation undertaken with stakeholders together with details of the impact or potential impact of a decision on these stakeholders.

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

<div style="background-color: #008000; color: white; padding: 5px; text-align: center; font-weight: bold;">Members / Customers</div> <div style="background-color: #008000; color: white; padding: 5px; text-align: center; font-size: small;">For further details see the Our Member section below</div> <ul style="list-style-type: none"> <li>■ 'Member Voice' Champion</li> <li>■ My Voice Online Member Forum</li> <li>■ Board Performance Information</li> <li>■ Annual General Meeting*</li> <li>■ Customer Voice Programme and NPS tracking</li> <li>■ Your Time to Talk Events*</li> <li>■ Branch visits*</li> <li>■ Brand Tracker</li> <li>■ Analysis of profile and behaviour of YBS customer segments</li> <li>■ Ad hoc insight such as commissioned research</li> </ul>	<div style="background-color: #008000; color: white; padding: 5px; text-align: center; font-weight: bold;">Colleagues</div> <div style="background-color: #008000; color: white; padding: 5px; text-align: center; font-size: small;">For further details see the Colleagues section of the Strategic Report</div> <ul style="list-style-type: none"> <li>■ Designated Non-Executive Director for Workforce Engagement</li> <li>■ Regular Board updates in relation to colleague engagement</li> <li>■ Colleague Forum</li> <li>■ Colleague Listening Groups</li> <li>■ Board Performance Information</li> <li>■ Engagement surveys</li> <li>■ Operational site visits, including branches*</li> </ul>	<div style="background-color: #008000; color: white; padding: 5px; text-align: center; font-weight: bold;">Others</div> <div style="background-color: #008000; color: white; padding: 5px; text-align: center; font-size: small;">Including Investors, Regulators, Partners (such as brokers, agency proprietors, trade unions, industry bodies) and communities</div> <ul style="list-style-type: none"> <li>■ All Board papers set out any impacts or areas to consider in relation to the Society’s stakeholders</li> <li>■ Updates in relation to regulatory matters</li> <li>■ Responses to consultations</li> <li>■ Membership of industry bodies and involvement in industry conferences and forums</li> <li>■ Regular updates in relation to key stakeholder activities, such as in relation to our community interest strategy and resilience of key suppliers</li> <li>■ Feedback from trade unions (through the Remuneration Committee)</li> <li>■ Board Performance Information</li> </ul>
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\* subject to COVID-19 restrictions

**For more details on how the wider Society engages with its key stakeholders see the *Our Stakeholders* section of *Our Purpose, Strategy and Stakeholders in the Strategic Report*.**

### Our members and customers

As a mutual we have no external shareholders – we are owned by our members and we are committed to ensuring the Society is run effectively on their behalf. We encourage feedback from them and our customers on any aspect of our activities and use this feedback to inform the Board’s decisions. In 2021 the Board agreed to establish a Member Champion role on the Board to ensure the continued prominence of our members voice in discussions. It will not, however, be the sole member

voice on the Board as all directors have a duty to act in the best interests of our members. The role will initially be held by Mark Parsons one of our independent Non-Executive Directors.

The Board and Leadership Team has access to a wide range of member insight which is used to support and inform decision making. This includes both routine and tracking activity a summary of which is set out in the Our Board’s engagement with stakeholder’s section above. Where commissioned by YBS, the approach is designed to reflect a cross section

of our customers and the Society’s products, including demographics and geographic locations.

The ability of Board members and particularly Non-Executive Directors to experience day to day interactions with our members and customers has been severely impacted by the COVID-19 pandemic. The Board recognises the contribution these visits make to the continued understanding of what is most important to our customers and is committed to restarting visits to key areas of the Society’s operations as

soon as it is safe to do so in 2022, including YBS branches and our call centre. Further updates will be provided in the Annual Report and Accounts for 2022.

## Our members and the Annual General Meeting

We hold an Annual General Meeting (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.

Due to the ongoing challenges arising from the COVID-19 pandemic during the year, the AGM for 2021 was held at 2.30 pm on 27 April 2021 at the Society's office at Yorkshire House, Yorkshire Drive, Bradford. We are legally obliged to hold an AGM as a building society and we have to start planning this months in advance to ensure we meet the legal requirements to send information well ahead of the meeting. Throughout the pandemic our priority has been to protect the wellbeing and safety of our members and colleagues, therefore, when planning the 2021 AGM, and as a result of the ongoing impact of the pandemic at that time, we made the early, but difficult, decision that members would not be able to attend the meeting.

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 on the minimum number of attendees. Our colleagues and directors followed the latest government guidance in place at the time.

Despite the 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. We also ensured that our members were able to watch the meeting online from the comfort and safety of their own home the following day, with the recording available until the end of May 2021.

The Code expects that if there is a vote of 20 per cent or more against any resolution put forward by our Board at the AGM, we should give details of how we will consult our members to understand the reason why. The Society has a process in place if this happens. There were no votes of 20 per cent or more against any of the resolutions our Board put forward at the 2021 AGM.

## Our colleagues

The Board is committed to ensuring that there is effective engagement with our colleagues and that their views are considered in decision making. Alison Hutchinson has held the role of Non-Executive Director for Workforce Engagement since 2019.

A key part of our engagement framework is the quarterly Colleague Forum that has colleague representation from across the society and the Workforce Engagement NED attends. Colleague Forum is designed to discuss feedback from colleagues on specific Board topics and to enable unstructured discussion to capture other colleague concerns or thoughts. The Non-Executive Director for Workforce Engagement feeds back to the Board after each meeting.

The Colleague Forum has continued to operate throughout the pandemic, successfully moving to a virtual based approach, with colleagues still able to actively participate and share views. By aligning the rolling agenda of the Forum with Executive Committee and Board agendas where possible, this has ensured colleague feedback has been used as input to inform key topics of interest or development for the Society. These include the Future of Work, the Future of Retail Strategy, development of our Leadership Framework, challenging our Inclusion and Diversity ambition and plan, testing how our strategy and behaviours are landing with colleagues, as well as our ongoing response to COVID-19.

Attendees are well prepared for forums, enthusiastic, passionate and bringing substantial amounts of quality feedback from their areas. Colleague feedback continues to be strong and confirms we are creating an open and trusting environment.

A very visible example where colleagues have seen their feedback come to life, that will influence organisation success in the long term is in the development of our Leadership Framework. Three interactive sessions in July saw the CEO jointly lead out the newly developed Leadership Expectations with two of the working group members to c350 leaders. This underpin to the success of our Strategy was developed by leaders, for our leaders and was received very positively.

Following our Colleague Forum discussion on the Inclusion and Diversity agenda the conversation led us to consider the diversity of the Colleague Forum itself. Whilst it was good, we identified an opportunity to reach out and seek engagement from our Colleague Networks (Women, LGBTQ+, Disability, Ethnicity and Parents and Carers). This was successfully piloted for one meeting during the year with an agreed plan going forward for alignment, enabling the maximum diversity of input from colleagues to inform Board thinking and decisions.

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

The Board recognises the importance of colleagues having the opportunity to engage with other Board members in addition to the structure provided by the Non-Executive Director for Workforce Engagement and the Colleague Forum. Board listening sessions were held in January and July 2021 enabling a wider number of our Board to hear directly from the 65 colleagues attending, on these and other topics, including their day-to-day challenges, and what they need to deliver for our customers. As outlined



## Examples of colleague comments include:

"Most recently, we were asked for views around the 'Future Ways of Working' – a very topical subject for many colleagues across the business. The request for feedback focused on reflections from the previous 12 months, and what's important that we keep hold of as the project progresses – all of this has been fed into the 'Future of Work' project."

"the feedback feels like it is gratefully received, listened to and considered by our Board Representative, Alison Hutchinson as well as the Senior Leaders in the room."

"The informal nature of the session allowed for open and honest debate and discussion."

in the Colleague Section, we have also continued to engage with our colleagues through Reward Listening Groups, People Leader calls and through the colleague survey tool with questions tailored to feedback to support during the COVID-19 pandemic and follow up measures.

### Our culture

As part of the Society's *Strategic Blueprint* launched in 2020, we developed a set of behaviours which are an important driver of the Society's culture:

- We care about people
- We say it straight
- We reach for better
- We make it happen

The Blueprint includes our People Ambition for 2024 to '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'.

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

### Whistleblowing

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



## 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.

Details of how the Directors have considered the matters set out in Section 172 in decision making are included in Directors' Report.

## Conflicts of Interest

Our Board has a Conflicts of Interest Policy for Directors and Chief Officers which sets out how we will review and, where appropriate, approve any conflicts or potential conflicts of interest. These are recorded in a

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

## Division of Responsibilities

### Board roles and composition

Director	Responsibilities
<b>Non-Executive Directors</b>	
<b>John Heaps</b> (Chair)	<ul style="list-style-type: none"> <li>• Leadership of the Board</li> <li>• Ensures the Board acts effectively, promoting high standards of corporate governance</li> <li>• Leads annual review of the performance of the Board, its committees and directors</li> <li>• Identifies ongoing development needs of the Board</li> <li>• Leads the Board in the development of the Society's culture</li> </ul>
<b>Alison Hutchinson</b> (Vice Chair and Senior Independent Director)	<ul style="list-style-type: none"> <li>• Deputises for and provides support and guidance to the Chair of the Board</li> <li>• Acts as an intermediary for other directors</li> <li>• Leads the performance evaluation of the Chair of the Board</li> <li>• Acts as the main point of contact for the Society's members should the normal channels of communication fail</li> </ul>
<b>Neeta Atkar</b> <b>Guy Bainbridge</b> <b>Dina Matta</b> <b>Guy Parsons</b> <b>Mark Parsons</b> <b>Jennelle Tilling</b>	<ul style="list-style-type: none"> <li>• Responsible for bringing independent judgement to Board decisions and debate</li> <li>• Uses their own experience and skills to constructively challenge the Executive Team</li> </ul>
<b>Executive Directors*</b>	
<b>Stephen White</b> (Interim Chief Executive)	<ul style="list-style-type: none"> <li>• Overall responsibility for managing the Society</li> <li>• Implements the strategies and policies agreed by the Board, supported by the Executive Team, through a number of management and risk committees</li> </ul>
<b>Alasdair Lenman</b> (Chief Finance Officer)	<ul style="list-style-type: none"> <li>• Responsible for the day-to-day management of specific areas of the business including maintaining the Society's financial strength and sustainability</li> <li>• Brings associated skills and knowledge to the Board</li> </ul>

\* David Morris was appointed to the Board on 1 January 2022 so whilst not a director at 31 December 2021, he is a member of the Board at the date of this report.

The size and composition of the 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 Chair of the Board, 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 2021 (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				
			Chair's	Audit	Board Governance and Nominations	Remuneration	Group Risk
<b>Non-Executive Directors</b>							
John Heaps <sup>1</sup>	9/9	2/2	No meetings required in 2021	–	4/4	3/3	–
Alison Hutchinson	9/9	2/2	No meetings required in 2021	–	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
Gordon Ireland <sup>2</sup>	4/4	–	–	1/1	–	–	2/2
Dina Matta <sup>3</sup>	6/6	2/2	–	–	–	2/3	–
Guy Parsons	9/9	2/2	–	–	4/4	5/5	–
Mark Parsons	9/9	2/2	–	4/4	–	–	4/4
Jennelle Tilling <sup>4</sup>	1/1	–	–	–	–	–	–
<b>Executive Directors</b>							
Mike Regnier <sup>5</sup>	8/8	2/2	No meetings required in 2021	–	–	–	–
Alasdair Lenman	9/9	2/2	–	–	–	–	–
Stephen White <sup>6</sup>	9/9	2/2	No meetings required in 2021	–	–	–	–

<sup>1</sup> Member of the Remuneration Committee until September 2021.

<sup>2</sup> Member of the Board, Group Risk Committee and Audit Committee until 27 April 2021.

<sup>3</sup> Joined the Board and Remuneration Committee on 27 April 2021.

<sup>4</sup> Joined the Board on 1 November 2021 and Remuneration Committee on 14 December 2021.

<sup>5</sup> Resigned from the Board with effect from 30 December 2021.

<sup>6</sup> Member of Chair's Committee from 29 November 2021.

In 2021 five ad hoc meetings of the Board Governance and Nominations Committee were held at short notice in relation to the recruitment of Non-Executive Directors, the resignation of the Chief Executive and the appointment of an Interim Chief Executive. The Remuneration Committee held three ad hoc meetings in 2021 to support the implementation of the Leading for Value bonus scheme and in relation to the resignation of the Chief Executive.

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

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

If an urgent decision is needed when there is not a Board meeting a decision can be taken in writing (known as a written resolution) if there is approval from all directors (or

members in the case of a committee).

Our Rules set out the procedure for written resolutions and this was used during the year:

- Three times by the Board
- Three times by the Remuneration Committee
- Once by the Audit Committee.

### Directors' time commitment and other directorships

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

- Availability and other commitments are reviewed and taken into account when recruiting new Non-Executive Directors.
- Each Non-Executive Director has a letter of appointment which sets out the expected time commitment for the role.

- If a Director is intending to take on an additional external appointment this is reviewed and, if appropriate, approved before it is taken up. Our Board will consider the impact any additional role would have on the time they could commit to their role with the Society.
- A review of time commitment is also included as part of the one-to-one sessions held each year with individual directors.

Prior to appointment, the significant commitments (including the time involved) for Dina Matta and Jennelle Tilling were disclosed and reviewed. During the year, the Board considered and approved the following significant appointments for existing Non-Executive Directors:

Non-Executive Director	External Appointment	Reason for Approval
Alison Hutchinson	Foresight Group Holdings	It was confirmed that there was no conflict arising from the role and consideration had been given to the time commitment it would require which would not impact Alison Hutchinson's position with the Society.
Guy Parsons	Snug Shack and nuUnlimited Ltd	It was confirmed that there was no conflict arising from the roles and that the time commitment required would not impact Guy Parsons' position with the Society.
Mark Parsons	Fairstone Capital Group Limited	It was confirmed that there were no conflicts arising from the appointment or impact in relation to time commitment.

### Group Secretary

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

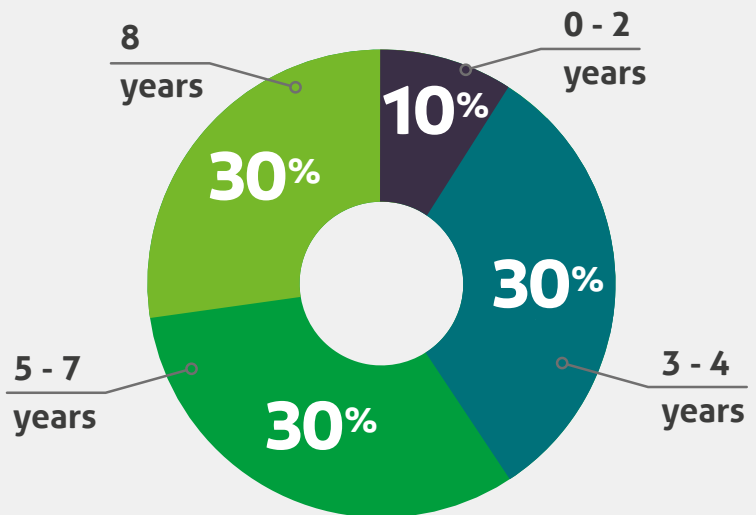
## Composition, Succession and Evaluation

### 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:



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



## Board Evaluation 2021

Each year our Board reviews its performance, as well as that of its principal committees and the individual directors. In 2020 the Board agreed to undertake an external evaluation of its performance and that of its Committees in accordance with the requirement of

the UK Corporate Governance Code to have an externally facilitated evaluation at least every three years. The Board appointed Halex Consulting to facilitate the review (Halex Consulting have no other connection with the Society).

The work carried out by Halex Consulting included a review of key documents,

interviews with Board members and attendance at Board and Committee meetings. The initial outcomes of the review were considered at the Board meeting in February 2021 and it was noted that the Board had developed into an effective Board that provides robust oversight and challenge.

The table below sets out some of the key themes and actions identified by the Board for 2021/2022 taking into account the outcomes of the evaluation:

Key Themes	Actions
<b>Medium to long-term horizon</b>	Ensure that new developing topics in the external environment continue to be brought forward to the Board for debate. In 2022, as in previous years, this will be supported by a schedule of topics aligned with Board meetings.
<b>Governance framework</b>	Continue to address succession, inclusion and diversity issues. For further information see the <i>Board Governance and Nominations Committee Report</i> . Further develop workforce engagement, for further information see the <i>Colleagues</i> section of <i>Our Customers, Colleagues and Communities</i> in the <i>Strategic Report</i> .
<b>Governance developments</b>	Ensure the Board remains up to date and addresses any requirements arising from key governance issues over the next 12 months, including the BEIS consultation on Restoring Trust in Audit and Corporate Governance.
<b>Member Voice</b>	Review existing approach to bringing member voice into Board discussions and consider ways that this could be enhanced taking into account the future impact of digitalisation.

The findings and key themes have been used to develop a Board Effectiveness Review Action Plan the progress of which will be monitored during 2022 by the Board Governance and Nominations Committee and the Board on a quarterly basis.

Following on from the external evaluation completed in late 2020, Board and Committee evaluations for 2021 were completed through an internal online survey. The outcomes of the internal reviews were discussed at the Board meeting in January 2022 with feedback regarding the effectiveness of each Board Committee being discussed by the relevant Committee.

Overall the findings confirmed the view that the Board and its Committees were performing effectively and it was agreed that any additional actions arising would be incorporated into the Board Effectiveness Review Action Plan for 2022. An update on progress against the Action Plan will be provided in the Annual Report and Accounts for 2022.

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

## Board training and development

The Board has 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.

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

## Induction of a Non-Executive Director

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

Both Dina Matta and Jennelle Tilling joined the Board as Non-Executive Directors during 2021 and tailored induction programmes were put into place for each of them based on their existing experience, key areas of the Society and those relating to their areas of expertise.

### NEW NON-EXECUTIVE DIRECTOR DINA MATTA

**Dina Matta joined the Board in April 2021 and has taken part in a tailored induction programme since joining the Society. Due to the ongoing impact of the COVID-19 pandemic sessions were held through video conferencing to ensure no aspect of the induction was delayed as a result of the inability to hold face-to-face meetings.**

The induction took account of Dina's extensive experience in relation to transformation and was tailored to ensure she was provided with a strong understanding of change in a building society context and the extensive work being undertaken by the Society. Specific induction sessions were also arranged in relation to her role as a member of the Remuneration Committee to ensure she was up to date on the current work of the Committee.



**I have been struck by the sense of purpose, the strategic understanding and execution focus of everyone I have met albeit in the virtual reality of Teams due to the impact of the pandemic. Furthermore, the welcoming culture I have experienced highlights the commitment by all stakeholders to the objectives of the Society and their desire to achieve real benefits for our members.**

**Dina Matta,  
Non-Executive  
Director**



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

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

## 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> .
Setting our risk appetite	More information can be found in the <i>Risk Management Report</i> .
Our systems of internal controls	More information about the internal controls framework can be found in the <i>Audit Committee Report</i> .

## Remuneration

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

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

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

### John Heaps

Chair of the Board

1 March 2022



# Board Governance and Nominations Committee Report

A WORD FROM THE CHAIR OF BOARD GOVERNANCE AND NOMINATIONS COMMITTEE

I am pleased to introduce the annual report of the Board Governance and Nominations Committee for 2021 which sets out a summary of the Committee's activities during the year. The Committee has continued its important work in relation to succession planning and recruitment for Non-Executive Directors to ensure our Board remains effective now and in the future. This work will continue to be a focus during 2022 and beyond as the Committee works to balance the ongoing stability of the Board with the need to ensure the Board is refreshed in accordance with its succession plans. The Committee will also be focused on leading a rigorous recruitment process for a new Chief Executive following the resignation of Mike Regnier in November 2021.

**John Heaps**

*Chair of the Board Governance and Nominations Committee*



**John Heaps**  
Committee Chair



**Alison Hutchinson**  
Independent  
Non-Executive Director



**Guy Parsons**  
Independent  
Non-Executive Director

## Board Governance and Nominations Committee members and meetings

The members of the Committee are:

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

The Committee met four times in 2021 and held five additional meetings at short notice in relation to Non-Executive Director recruitment, the resignation of the Chief Executive and appointment of an Interim Chief Executive.

**Details of the number of scheduled Committee meetings attended by each member is available on page 81.**





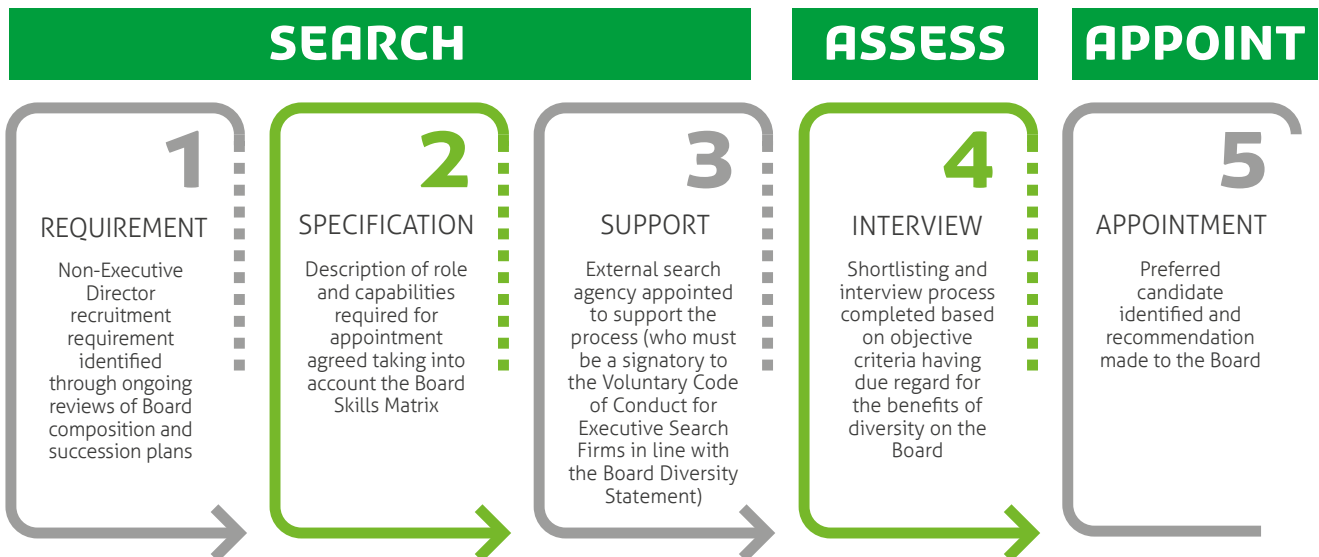
## Corporate Governance

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. During 2021 this has included monitoring the progress of the Department for Business Energy and Industrial Strategy (BEIS) Consultation on Restoring Trust in Audit and Corporate Governance with further work anticipated in 2022 following the publication of the outcomes of the consultation.

## Recruiting Directors

### Non-Executive Directors

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



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

As reported in the 2020 Annual Report and Accounts, the Committee began a new recruitment process in 2020 as part of agreed succession plans and to ensure that the Board has the appropriate mix of skills and experience to oversee the delivery of the Society's Strategy. The external search agency Warren Partners were 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.

Following a robust process, taking into account the Board's commitment to diversity and the future composition requirements, the appointment of Dina Matta as a Non-Executive Director was agreed from 27 April 2021. Dina's appointment has brought to the Board her extensive skills and experience in relation to transformation and technological innovation across a range of industries.

A new recruitment process was commenced in Quarter 2 2021 with a

view to appointing an additional Non-Executive Director to support future succession planning and strengthen skills and experience on the Board. The external recruitment consultancy Egon Zehnder was appointed to support the search. Egon Zehnder, who have previously supported the appointment of John Heaps as Chair of the Board, Alison Hutchinson, Catharine French and Mark Parsons as Non-Executive Directors, assisted in the search for the Chief Operating Officer in 2015 and for the Chief Executive in 2016.

Following a robust process, taking into account the Board's commitment to diversity and the future composition requirements of the Board, the appointment of Jennelle Tilling as a Non-Executive Director was agreed from 1 November 2021. Jennelle's appointment has brought to the Board her range of skills and experience in consumer marketing, digital and innovation across a range of leading brands as well as her experience as a Non-Executive Director and Remuneration Committee member.

The Committee's work in relation to succession and composition remains ongoing and will continue into 2022. A new recruitment process commenced at the end of 2021 and further details in relation to any appointment together with the related succession plans will be included in the Annual Report and Accounts for 2022.

### Executive Directors

The Committee is also responsible for supporting the recruitment of any new

Executive Director.

In November 2021, the Chief Executive Mike Regnier tendered his resignation and as a result, following a review of succession plans, the Committee recommended to the Board that the Chief Operating Officer Stephen White be appointed as the Interim Chief Executive with effect from 29 November 2021.

In 2022 the Committee will lead a rigorous recruitment process to find a permanent successor to the Chief Executive role to recommend to the Board. Further detail on the recruitment process and the outcomes will be provided in the Annual Report and Accounts for 2022.

As a result of the changes to the Executive Team following Mr Regnier's resignation and Stephen White's appointment as Interim Chief Executive the existing responsibilities of the Executive Team have been reviewed. The Committee considered the revised responsibilities together with succession planning for the Executive Directors and recommended to the Board the appointment of David Morris, Chief Commercial Officer, to the Board as an Executive Director. The appointment of David Morris was agreed with effect from 1 January 2022, subject to regulatory approval. As an Executive Director he will bring his significant skills and experience in relation to retail banking and the mutual model.

## Succession Planning for Directors

The Board continually 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. As part of its role and responsibilities the Committee supports the Board in regularly reviewing the structure, size and composition of the Board and ensuring effective succession plans are maintained.

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

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

- **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.

Throughout 2021 the Committee has been working to ensure that short, medium and long-term succession planning takes account of future changes on the Board as a result of Non-Executive Director terms of office coming to an end. The work of the Committee will support the ongoing

stability and effectiveness of the Board now and in the future. This has included the succession of the Chair of the Remuneration Committee, with the Board approving the appointment of a replacement for Guy Parsons upon his retirement at the AGM in April 2022, subject to regulatory approval.

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.

## 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 2021 based on the targets set out in the Diversity Statement:

Diversity Statement Ambitions	Progress 2021
<p><b>Only candidate search and specialist recruitment agencies that have signed up to the Standard Voluntary Code of Conduct for Executive Search Firms will be used for the appointment of Directors, and we prefer to use those signed up to the Enhanced Code.</b></p>	<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>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.</p> <p>Egon Zehnder was appointed to support the search for a new Non-Executive Director which commenced in 2021. 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.</p>
<p><b>On gender diversity the Board is committed to a target of at least 30% female representation on the Board in the medium term.</b></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 Dina Matta on 27 April and the retirement of Gordon Ireland the percentage of women on the Society's Board increased to 30%. The appointment of Jennelle Tilling on 1 November 2021 increased the percentage to 36%.</p> <p>Following the resignation of Mike Regnier, the percentage of women on our Board at 31 December 2021 was 40% (2020: 20%). As such the percentage of women on the Board at the year-end exceeded the target, however, this figure is expected to fluctuate in 2022 and beyond as part of ongoing recruitment exercises.</p>
<p><b>We will continue to work to further increase Board diversity in order to sustain and enrich our effectiveness. We want to embrace the talents of people from all backgrounds including BAME, and with differing characteristics, for example those who identify as LGBTQ+.</b></p>	<p>Our Board seeks to ensure that its composition reflects a wide range of different skills, experience and perspectives. It also believes that all appointments should be based on merit and the skills and experience an individual can bring to our Board as a whole.</p> <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><b>The Board also wishes to nurture high-potential and high-performing candidates to ensure progression occurs at all levels of the organisation. The Board is committed to removing barriers to increase the pipeline of diverse talent within YBS, and to increasing diversity overall by regularly reviewing management succession and talent plans.</b></p>	<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>

\* 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).

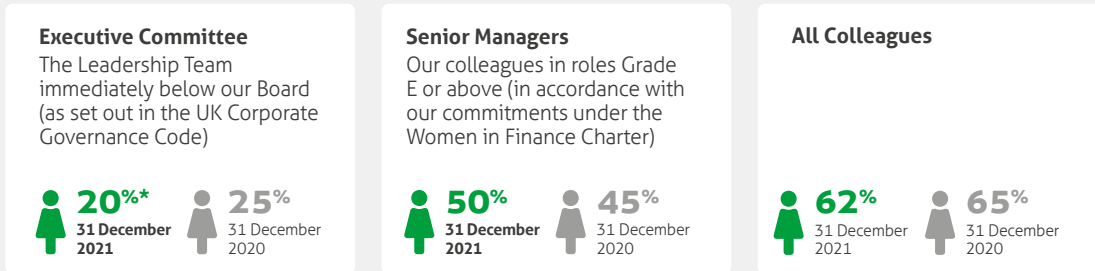
The Committee will continue to monitor progress against the Board Diversity Statement and provide an annual update on progress.

## 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 2021 (and for comparison 2020):**



\* The number of members of the Executive Committee reduced to five as at 31 December 2021 compared to eight in 2020 due to changes in the leadership team. As a result the percentage of women colleagues on the Executive Committee is expected to fluctuate in 2022 pending the completion of ongoing recruitment exercises.

## 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 UK Corporate Governance Code, which recommends the evaluation of the Board be externally facilitated every three years.

**For an update on the outcomes of the external Board evaluation process for 2020 and progress in relation to the 2021 internal review process please see the *Corporate Governance Report*.**



## Evaluation of Board Members

### Chair of the Board

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

The Senior Independent Director, Mrs Hutchinson, conducted the annual review of the performance of the Chair of the Board during 2021 and the outcomes were discussed at the January 2022 Board meeting without the Chair present. It was agreed that he was a respected and valued Chair and his strong commitment to the role and the Society was recognised. As Chair he continues to provide strong and effective leadership to our Board focussing on the right outcomes for the Society in both the short and long term.

### Non-Executive Directors

The Chair of our Board 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 the Chief Executive, (or the Chair of the Board in the case of the Chief Executive), against agreed objectives on an annual basis.

**You can read more in the *Directors' Remuneration Report*.**

## Evaluation of the Board Governance and Nominations Committee

As reported in the Annual Report and Accounts for 2020, 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 the elements specific to each Committee were then considered separately. The Committees were found to provide good support to the Board and in relation to the Board Governance and Nominations Committee the good work of the Committee in relation to Board skills and Non-Executive Director succession planning was noted.

The Board Governance and Nominations Committee completed an evaluation of its own effectiveness in 2021. The outcomes of the review were discussed at the meeting in January 2022 and it was agreed that the Committee continued to be effective. Details and progress of any actions identified will be provided in the Annual Report and Accounts for 2022.

### John Heaps

*Chair of the Board Governance and Nominations Committee*

1 March 2022



# Audit Committee Report

## A WORD FROM THE CHAIR OF THE AUDIT COMMITTEE

I am pleased to present our 2021 Audit Committee Report which sets out the Audit Committee's role and its key activities during the year, including its review of financial reporting matters, oversight of the Group's internal controls, and its internal and external auditors.

During the year working from home, or a hybrid of home and office, has become more embedded but I am nevertheless pleased the Committee has been able to hold its last two meetings of the year in person. Our Finance team, internal and external auditors, the Audit Committee secretary and my fellow Committee members have all worked hard to ensure the Committee remains fully effective. Whilst COVID-19 related risks and consequences have very much still been on our agenda we have also been focused on other legislative, regulatory, business and control environment changes which are impacting us now or will likely do so in the future.

In 2022, 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



**Mark Parsons**  
Independent  
Non-Executive  
Director

\* Gordon Ireland stepped down as a member of the Audit Committee when he left the Board on 27 April 2021.

### Audit Committee membership

The members of the Audit Committee\* are:

Only members of the Audit Committee are entitled to attend its meetings, although others may be asked to attend all or part of a meeting. Our Chair of the Board, Chief Executive, Chief Finance Officer, Chief Internal Audit Officer and the external auditor were invited to attend all meetings in 2021, 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 2021. 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 on the number of meetings attended by each of the Audit Committee members during 2021 are shown in the *Corporate Governance Report*.

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

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

In 2021, 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. Whilst no new members joined the Committee in 2021, we would like to take the opportunity to thank Gordon Ireland for his commitment and service on the Audit Committee. Gordon joined the Audit Committee in April 2017 and retired from the Board in April 2021. The Audit Committee benefits from a diverse range of expertise in the areas of auditing, finance and risk, with particular emphasis on the financial services sector. Altogether, this ensures that the Audit Committee has the required competence in the financial services sector.

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

The roles and responsibilities of the Audit Committee are explained in its Terms of Reference, which set out the areas on which it provides oversight or guidance to the Board. The Audit Committee reviews its Terms of Reference every year to ensure they continue to meet regulatory requirements and good practice and both the Audit Committee and 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://www.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 since the last Annual Report and Accounts

Matters considered	Progress 2021
<p><b>Expected credit losses</b></p>	<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. This continued to have additional significance throughout 2021 in light of the heightened uncertainty, and shifting economic outlook, resulting from the COVID-19 pandemic.</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.</p> <p>Post model adjustments (PMA) are applied when an increase in credit risk is identified that is not effectively captured in the core ECL models. The rapidly changing macro-economic environment over 2021 required management to identify and quantify a number of PMAs to reflect these risks and exposures. Again, as these are material to the ECL balance, the Audit Committee reviewed and challenged the rationale and calculation methodology for each of these PMAs.</p> <p>This challenge was ongoing throughout the period, but particular focus was given to the ECL calculations and disclosures reported in the 30 June 2021 Half-Yearly Financial Report, and those included in this 31 December 2021 Annual Report and Accounts.</p> <p>At the half year, the main points of discussion with the Audit Committee were around updated economic scenarios and the change in relative weightings to move 5% from 'downturn' to 'core'. In addition, the Audit Committee discussed the need for, and reviewed the assumptions feeding into, PMAs in respect of the impacts of methodology changes and model recalibrations, extended time to sale for repossessed properties, cladding, climate change, and the uncertainty around how rapid rises in HPI impacted the ECL. The impact of these changes on financial statement disclosures, particularly those around the staging of credit losses, was also presented and discussed.</p> <p>Over quarter three, and towards year end, the discussions centred on the impact of a levelling off in HPI increases, supply chain issues, rising energy prices and nascent inflation on the underlying economic assumptions feeding into the ECL models. The Audit Committee were also provided with updates on the development of the PMAs recognised at half year.</p> <p>In terms of the input into the final 31 December 2021 ECL balance, the Audit Committee reviewed the impact on economic assumptions arising from the COVID-19 omicron variant, the UK vaccine booster rollout, and future possible affordability pressures deriving from increased inflation and interest rates. The Audit Committee were also provided with an update on the assessment of the financial implications of climate risk on expected credit losses.</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>

## Matters considered

## Progress 2021

**Acquisition fair value adjustment run-off**

The Audit Committee reviewed the run-off profile of the fair value adjustments made on the acquisition of the Chelsea, Norwich & Peterborough and Egg portfolios and approved changes where the actual run-off experience is either quicker or slower than that anticipated on initial recognition. The Audit Committee is comfortable that the carrying amounts reflect the remaining expected life of the acquired loans and savings balances.

**Hedge accounting**

The Audit Committee continued to review the methodology and key assumptions applied to the hedge accounting models over the period, including consideration of new hedge strategies. This allows the Audit Committee to be confident that the amounts set out in the Income Statement are fairly stated and that appropriate disclosures have been made.

**Effective interest rate (EIR)**

The Audit Committee considered the results of management's detailed reviews of the methods and assumptions used in the calculation of interest income under the Effective Interest Rate (EIR) methodology, as required under IFRS, and concluded that the amounts recognised were fairly stated.

**Pensions**

The Group operates one employee benefit scheme (the Scheme) with both defined benefit and defined contribution sections. The defined benefit scheme is accounted for by the Group under IAS 19, with the key assumptions presented to, and approved by, the Audit Committee. During the period the Audit Committee reviewed the assumptions proposed by management and the scheme administrators (Willis Towers Watson) and reviewed how they benchmark against the rest of the industry.

**Provisions**

The Audit Committee reviewed and challenged the provisions for liabilities and charges, being those relating to restructuring, customer redress and property related costs, and agreed with the overall amount held. More information on these provisions can be found in note 24 to the financial statements.

**Tax**

Papers setting out the judgements applied in the recognition of deferred tax balances and the level of transfer pricing adjustments applied between Group entities were presented to the Audit Committee over the period. The Audit Committee is satisfied that the recognised amounts of deferred tax are reasonable given the substantive enactment of scheduled changes in UK corporation tax rates and the transfer pricing assumptions are reasonable.

**IBOR reform**

The Audit Committee continued to monitor the Group's risk exposure arising from IBOR reform and the withdrawal of certain market indices such as LIBOR. The Audit Committee is comfortable that this risk is now largely expired due to the migration of financial instruments held and issued onto other bases.

**Viability and going concern**

The Audit Committee reviewed papers prepared by management and recommended to the Board that the financial statements should be prepared on a going concern basis. The Audit Committee confirmed that, whilst there is no guarantee, there is a reasonable expectation that the Society will be able to continue to be viable, i.e. operate and meet its liabilities as they become due, to 31 December 2024. More information can be found in our Directors' Report.

**Disclosures**

The Audit Committee reviewed papers prepared by management and agreed that the disclosures included within this Annual Report and Accounts met all statutory requirements under the *Building Societies Act 1986*, the disclosure and transparency rules of the FCA and applicable international financial reporting standards. In addition, the Audit Committee reviewed and approved voluntarily applied best practice disclosure requirements, including those in respect of the UK Corporate Governance Code that require a fair, balanced and understandable view of the performance and position of the Group, the non-financial information statement per section 414 of the *Companies Act 2006* and the climate related disclosures of the task force on climate-related financial disclosures (TCFD) and the streamlined energy and carbon reporting (SECR) rules.

The Audit Committee confirmed that disclosures in the Half-Yearly Financial Report met the requirements of the disclosure and transparency rules of the FCA and international financial reporting standards.

The Audit Committee also reviewed and approved the Group's regulatory Pillar 3 disclosures included in full on the Society's website.

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



## Oversight of the external auditor and external audit process

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

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

Throughout the year the Audit Committee assesses the effectiveness of the external audit process, an assessment which is based on guidance from the Financial Reporting Council (FRC). The Audit Committee's assessment includes a survey sent to members of the Audit Committee and senior managers in the Society's Finance Division. This helps the Audit Committee review the quality of the external audit team and process. The Committee also considered the FRC's 2021 Audit Quality Inspection and Supervision Report on PwC, and how findings might manifest themselves in the audit of the Society. During 2021 the Audit Committee continued to monitor the impact of COVID-19 on PwC's working practices, the operational delivery risks to the audit, the extent of audit challenge, and the overall effectiveness of the audit process. The Audit Committee concluded that the overall external audit process in 2021 was effective.

## External auditor independence

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

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

Fees for individual assignments that exceed a set threshold are reviewed by the Audit Committee. Fees for those assignments under the threshold are approved by the Chief Finance Officer under delegated authority. All non-audit services are approved in advance of the work commencing. Our external auditor's fee is reviewed regularly. The Audit Committee is satisfied that the Group has operated in line with the policy during 2021.

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

The Group also has a policy on the employment of employees of the Group's external auditor, and the Audit Committee monitors the implementation of this policy. In summary this restricts the Society from offering employment to named individuals from the external audit firm for key management positions within a two year period from working on the Group statutory audit and ensures any such offers of employment are vetted by the Audit Committee to ensure on-going independence of the external auditor. The Audit Committee also reviewed

the independence position of the Committee members and relevant senior members of the Finance Division, and it remains satisfied there are no conflicts or independence issues.

The Audit Committee takes into account the performance of the external auditor when considering their reappointment as well as their length of tenure and the date of rotation of the audit partner. PwC were appointed as external auditor following a competitive tender process in 2018 and their appointment was approved by members at the 2019 AGM. The Audit Committee was satisfied with the performance of PwC during 2020 and they were therefore reappointed at the 2021 AGM. The Audit Committee remained satisfied with the performance of PwC over 2021 and has recommended to the Board that they be approved for reappointment as external auditor at the 2022 AGM.

## Review of internal controls

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

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

To support the Audit Committee's review of internal controls our

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

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

#### **The main types of information the Audit Committee considered during 2021 were:**

- Internal Audit reports:** The Audit Committee reviewed and approved the Internal Audit plan for the year, the proposed revisions to the plan, and the resources needed to support it. In doing this the Audit Committee considered the ongoing appropriateness of Internal Audit's coverage of the Group's risks, processes, systems and controls. The Audit Committee also considered reports on the plan's progress, including Internal Audit's findings, their root causes and the Leadership Team's responses. Where Internal Audit reports are rated as 'Unsatisfactory' the accountable members of the Leadership Team are asked to attend the Audit Committee and explain why the identified control weaknesses have arisen and what actions are being taken to address them. The Audit Committee also considered reports from the Leadership Team, the Risk Division and Internal Audit assessing the effectiveness of internal controls.
- External auditor reports:** The Audit Committee reviewed reports from our external auditors, PwC, about recommendations in relation to internal controls for key financial reporting processes and systems. No significant weaknesses were noted but points raised were prioritised by management according to impact and areas for improvement are being addressed to agreed timescales.

- 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 2021, 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 reappraised the charter in September 2021 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. Our previous Chief Internal Audit Officer, Suzanne Clark, resigned in March 2021 and the role was ably performed by the Deputy Chief Internal Audit Officer, Chris Brown, on an Acting basis for the remainder of the year. The Chair of the Audit Committee was involved throughout the search for a permanent successor, including interviewing shortlisted candidates. In November the Audit Committee approved the appointment of Kate Ireland as the next Chief Internal Audit Officer who joined the Society in February 2022.

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 2021 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**

As reported in the Annual Report and Accounts for 2020 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 consideration of the final report, each committee reviewed any outcomes and recommendations relevant to its role. The Committees were found to provide good support to the Board and in relation to the Audit Committee there were no significant areas for improvement.

Details on the wider Board and Committee evaluation process for 2021 can be found in the *Board Governance and Nominations Committee Report*. The outcomes of the Audit Committee effectiveness review were discussed by the Committee members in January 2022 and it was agreed that the Committee continued to be effective. Areas identified for consideration, none of which are considered significant, will be progressed in the coming months.

The Audit Committee undertakes a detailed review annually of its Terms of Reference to ensure it meets all its responsibilities and confirmed that in 2021 it had met all of its responsibilities.

Audit Committee members also take part in training and receive briefings on areas that concern not only their roles on the Committee, but also their roles on the Board. In 2021 the Audit Committee set aside additional time to be briefed on Non-Financial Reporting - S172 and S414 Companies Act disclosures and their application to the Society and a review of the anticipated outcomes of the Department for Business Energy and Industrial Strategy's consultation in relation to Restoring Trust in Audit and Governance. The Society as a whole and the Audit Committee will be considering the latter in more detail in 2022 to ensure that any requirements or relevant areas of good practice identified will be implemented by the Society as appropriate. Preparatory work has already begun on a number of topics such as how we might best develop an Audit and Assurance Policy and a "UK Sox" programme from our existing base. The Audit Committee used a combination of external and internal specialists to provide these briefings.

**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*.**

**Guy Bainbridge**  
*Chair of the Audit Committee*

1 March 2022



# Risk Management Report

## A WORD FROM THE CHAIR OF THE GROUP RISK COMMITTEE

As the Chair of the YBS Board's Group Risk Committee (GRC), I am pleased to present our Risk Management Report for 2021 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 2021.

We have also made good progress in developing our approach to climate risk management within the context of our ERMF and a summary of this approach is provided within this report.

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



**Neeta Atkar**  
GRC Chair  
Independent  
Non-Executive Director



**Alison Hutchinson**  
Independent  
Non-Executive Director



**Guy Bainbridge**  
Independent  
Non-Executive Director



**Mark Parsons**  
Independent  
Non-Executive Director

\* Gordon Ireland stepped down as a member of the GRC when he left the Board on 27 April 2021.

### Group Risk Committee Membership

The members of the GRC\* are:

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

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

As you will have read elsewhere in this document, even more so than usual for this sector, 2021 has been a year that has drawn into focus the continued 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 continued to press 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 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 and members.

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

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

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

#### **Neeta Atkar**

*Chair of the Group Risk Committee*

## Matters considered during 2021

The GRC met four times in 2021 and considered all of the matters relating to its responsibilities as summarised in its terms of reference. A wide range of topics were considered throughout the year, 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 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, examples being:

- **Credit Risk:** The GRC has reviewed analysis of higher risk retail mortgage cohorts and received an in-depth deep dive review covering credit risk capabilities and upgrades, governance and credit risk outcomes. There was also a 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.

- **Financial Risks (physical and transition) from Climate Change:** We are committed to addressing the impacts of climate change. This extends to ensuring readiness for regulation in respect of the financial risks from climate change and to this end the GRC has been receiving quarterly updates to enable it to oversee progress in this key area.
  - **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 six-monthly updates to enable it to oversee progress on operational resilience readiness and on the upgrades being made to our operational risk management capabilities and to seek additional assurances where appropriate.
  - **Financial Crime:** We are committed to minimising the risk of YBS being used to facilitate financial crime. To this end, the GRC has overseen enhancements to, and maturity of, the financial crime risk management framework, including an improved operating model and upgrades in capability.
  - **Customer Treatment Risk:** 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 Information Management and Information Security Risks and compliance with 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.
- Monitoring the progress of enhancements to the Group's management and governance of Model Risk. This included ownership of models, ensuring all models remain in governance, reviewing model performance and mitigating risks to models' predictive power emanating from the impact of the COVID-19 pandemic.

## 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 reviewed any outcomes and recommendations relevant to its role.

The GRC adopted the following changes as a result:

- The Chief Commercial Officer became an attendee of the Committee to lead the Executive response on matters concerning credit and conduct risk.
- The GRC work plan was elevated to a decision paper to further facilitate thought around coverage of not only the standard YBS risk categories, but also those that were evolving or where focus needed to be increased.
- The Management Information received by the Committee has also been enhanced and has continued to evolve.

## Future developments

Good progress has been made in 2021 with the continued embedding of our risk management framework across the business, evidenced by our ability to adapt and respond to rapid change in our operating environment. We have

developed our approach to managing climate risk, continued to embed accountability for risk management into the first line of defence and provided an increased level of second-line oversight of key risk management activities including those relating to the Group's transformation agenda. We also continue to develop the maturity of our operational risk control environment, with plans and supporting investment in place across the information management and information security risk categories along with targeted improvements and investment in our financial crime risk management capabilities. This wider programme of investment and strengthening of our ability to manage risk will continue into 2022.

Further areas of focus for 2022 will also include how our risk management teams will continue to support the delivery of our *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. Our ERMF enables robust, yet efficient, risk management, which has an important and integral role in:

- **delivering our *Strategic Blueprint* within an appropriate culture**
- **protecting against unplanned financial outcomes**
- **being resilient to operational risks**
- **protecting customers from unfair outcomes**
- **demonstrating credibility to external stakeholders.**

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

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

**We operate a three lines of defence approach 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 toward 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.

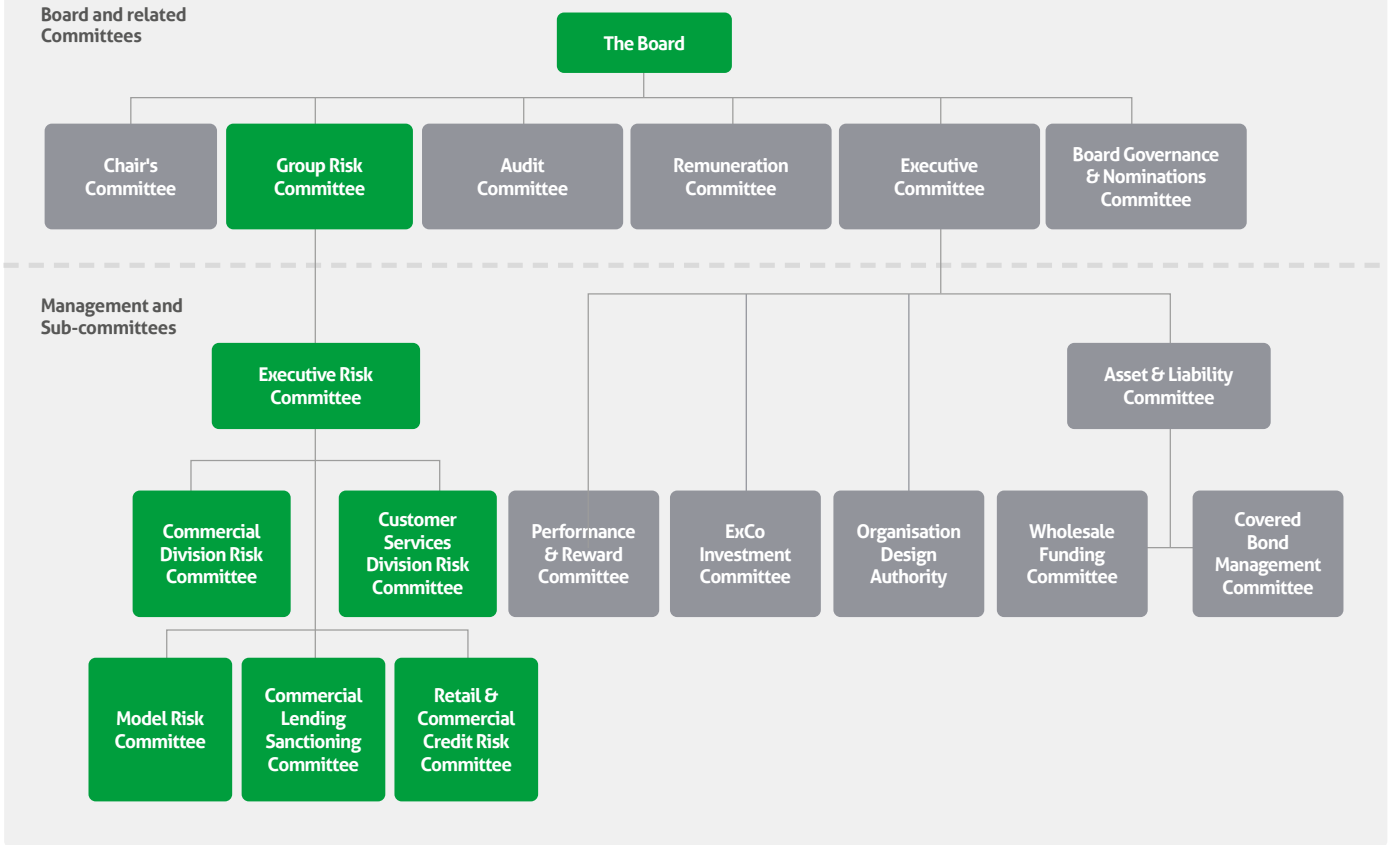
This includes routine reporting, emerging risks, the results of the Risk Division’s independent oversight and additional issues that merit escalation. The Risk Division is responsible for managing our regulatory relationships and for providing independent briefings and insights to the Board.

**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 other Risk Committees. These committees monitor risk management activity across the divisions, acting as a point of escalation

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





## Principal Risks and how we mitigate them

Our principal risks and our risk profile evolve as we move through the economic cycle. The Board has an on-going process for identifying, evaluating and managing the principal risks faced by the Group; these systems have been in place for the whole of 2021; and the systems are regularly reviewed by the Board.

These risks are set out below, along with how we manage and measure the risk, and the progress that has been achieved in 2021:

Strategic Risk		
The risk that the Society's business model or strategy does not create the appropriate value due to changes in the business environment (Political, Economic, Social and Technological); or, from the effectiveness of decisions and actions relating to the Group's response to those changes.		
Risk mitigation	Key risk indicators	Commentary
<ul style="list-style-type: none"> <li>■ The Group mitigates risks relating to the business environment and its strategic choices through its horizon scanning, corporate planning, scenario analysis and stress testing and ongoing monitoring reporting activity.</li> <li>■ The Group's hedging strategy is structured in such a way as to mitigate the risks relating to the Group's focused range of products in a highly competitive marketplace.</li> <li>■ A formal governance process, with Board level oversight, is in place for the Group's Transformation Programme which monitors progress and potential risks.</li> <li>■ The Group has defined its broader attitude to risk in relation to its Purpose, business model and strategy and detailed risk appetite statements, metrics and limits are in place for all other Principal Risks.</li> </ul>	<ul style="list-style-type: none"> <li>■ The Group monitors a wide range of external financial and non-financial indicators relating to actual and potential changes in the environment in which it operates.</li> </ul>	<ul style="list-style-type: none"> <li>■ Whilst the UK economy has recently shown signs of recovery and COVID-19 public health measures are gradually being withdrawn, the risk of new variants provides a background level of continuing uncertainty. Potential macro-economic outcomes, including those relating to current inflationary pressures and the likelihood of further base rate rises, continue to be explored through the Group's stress testing linked to its Corporate Planning processes. The Group remains well-capitalised, with good levels of liquidity and access to wholesale funding. A strong balance sheet and capital generation will ensure that the Group is well placed to withstand any potential economic downturn.</li> <li>■ The Group's Transformation Programme is progressing well and continues to deliver both customer and colleague benefits in this challenging business environment. The Programme is designed to ensure that the Group maintains its competitive position in response to changing customer behaviour and expectations.</li> </ul>



### 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 Funding, Liquidity and Capital Risk Policy.</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="571 409 933 638"> <p><b>Leverage Ratio (UK Definition)</b></p> <table border="1"> <tr><th>Year</th><th>Ratio</th></tr> <tr><td>2020</td><td>5.9%</td></tr> <tr><td>2021</td><td>5.9%</td></tr> </table> </div> <div data-bbox="571 667 933 896"> <p><b>CET1 Ratio</b></p> <table border="1"> <tr><th>Year</th><th>Ratio</th></tr> <tr><td>2020</td><td>16.7%</td></tr> <tr><td>2021</td><td>16.8%</td></tr> </table> </div> <div data-bbox="571 925 933 1220"> <p><b>MREL Resources % Risk Weighted Assets</b></p> <table border="1"> <tr><th>Year</th><th>Ratio</th></tr> <tr><td>2020</td><td>20.7%</td></tr> <tr><td>2021</td><td>21.7%</td></tr> </table> </div>	Year	Ratio	2020	5.9%	2021	5.9%	Year	Ratio	2020	16.7%	2021	16.8%	Year	Ratio	2020	20.7%	2021	21.7%	<ul style="list-style-type: none"> <li>The Group maintained strong capital levels throughout 2021, well above regulatory requirements and internal risk appetite, and forecasts that this position will be maintained across its planning horizon.</li> <li>The leverage ratio presented is the UK leverage ratio as determined by the PRA.</li> <li>The Group is progressing its application to use the advanced IRB approach to calculate capital requirements for credit risk. Once the Group 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 Group is subject to end state MREL requirements (double pillar 1 and 2A) and comfortably met these requirements throughout 2021.</li> </ul>
Year	Ratio																			
2020	5.9%																			
2021	5.9%																			
Year	Ratio																			
2020	16.7%																			
2021	16.8%																			
Year	Ratio																			
2020	20.7%																			
2021	21.7%																			

### 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 Funding, Liquidity and Capital 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>	<div data-bbox="571 1541 949 2018"> <p><b>Liquidity Coverage Ratio</b></p> <table border="1"> <tr><th>Year</th><th>Ratio</th></tr> <tr><td>2020</td><td>192%</td></tr> <tr><td>2021</td><td>199%</td></tr> </table> </div>	Year	Ratio	2020	192%	2021	199%	<ul style="list-style-type: none"> <li>Liquidity levels remained strong and materially above regulatory requirements throughout 2021.</li> <li>Liquidity levels are forecast to remain above regulatory and internally derived minimum requirements across 2022.</li> </ul>
Year	Ratio							
2020	192%							
2021	199%							

## Market Risk

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

Risk mitigation	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 Group adopts a risk averse approach to interest rate mismatch although some scope for position taking is allowed, subject to the agreed risk appetite.</li> <li>The Group operates a wide range of measures and scenarios that review this risk in respect of both earnings and value.</li> <li>The Group operates a range of internal stress tests to ensure that market risk is within an acceptable range over a series of rate scenarios including negative rates and non-parallel shifts.</li> <li>The Group's limits for basis risk include limits for sensitivities around isolated movements in underlying rates (SONIA), for overall mismatch ratios and for ensuring the Group has sufficient levels of margin management capability.</li> </ul>	<div data-bbox="635 409 981 750"> <p style="text-align: center;"><b>12 Month Earnings Sensitivity</b></p> <table border="1"> <thead> <tr> <th>2020</th> <th>2021</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">(£14.7m)</td> <td style="text-align: center;">(£36.2m)</td> </tr> </tbody> </table> </div> <div data-bbox="635 801 981 1211"> <p style="text-align: center;"><b>PV100</b></p> <table border="1"> <thead> <tr> <th>2020</th> <th>2021</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">£41.1m</td> <td style="text-align: center;">(£11.3m)</td> </tr> </tbody> </table> </div>	2020	2021	(£14.7m)	(£36.2m)	2020	2021	£41.1m	(£11.3m)	<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) now results in a loss. This positions the Society unfavourably for a rise in rates but favourably should rates fall.</li> <li>The 12-month earnings sensitivity has increased (impact on 1-year net interest income of a 2.5% parallel increase/decrease in rates). The biggest sensitivity last year was £14.7m, due to the down shock. This year it is the up shock at a loss of £36.2m. This is due to a net increase in liabilities repricing within the 12-month window, offset somewhat by interest rate caps. Whilst this has increased, it is still within risk appetite. The down shock this year results in a loss of £0.5m.</li> <li>With respect to IBOR reform risk, the majority of the Group's LIBOR position has fully transferred to other rate drivers.</li> </ul>
2020	2021									
(£14.7m)	(£36.2m)									
2020	2021									
£41.1m	(£11.3m)									

## 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 in governance 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 Group operates an inventory of all models 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 2022 to bring the remaining four models through the governance process with this expected to be completed by May 2022.</li> <li>A Model Risk Management Maturity framework has been developed which sets out the path to evolve and enhance the level of controls required from a Model Risk Management perspective. A final framework was approved at Model Risk Committee with agreement on which maturity state each model/model type should be compliant with. Work is ongoing to establish resource requirements to ensure compliance.</li> </ul>

## 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>2020</td> <td>0.59%</td> </tr> <tr> <td>2021</td> <td>0.50%</td> </tr> </table> </div> <div style="text-align: center; margin-top: 10px;"> <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>2020</td> <td>0.43%</td> </tr> <tr> <td>2021</td> <td>0.36%</td> </tr> </table> </div>	Year	Arrears (%)	2020	0.59%	2021	0.50%	Year	Arrears (%)	2020	0.43%	2021	0.36%	<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 0.79% compared to the Group's rate of 0.50%.</li> <li>Our mortgage book has experienced significant favourable HPI movements over the year.</li> <li>In 2022, the credit risk focus will continue to be on the delivery of strong asset quality aligned to responsible growth of the mortgage book.</li> <li>The asset quality of our loan portfolio remains strong. A large proportion of the expected credit losses held against our mortgages relates to pre-2009 lending, and the portfolios acquired on the N&amp;P and Chelsea mergers, with the Group's more recent lending being of a much higher credit quality.</li> </ul>
Year	Arrears (%)													
2020	0.59%													
2021	0.50%													
Year	Arrears (%)													
2020	0.43%													
2021	0.36%													

## 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>2020</td> <td>94.5%</td> </tr> <tr> <td>2021</td> <td>93.8%</td> </tr> </table> </div>	Year	Wholesale AA- or above (%)	2020	94.5%	2021	93.8%	<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 Group'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 (%)							
2020	94.5%							
2021	93.8%							

## 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><b>Operational Losses (Net of monies recovered)</b></p> <table border="1"> <caption>Operational Losses (Net of monies recovered)</caption> <thead> <tr> <th>Year</th> <th>Losses (£m)</th> </tr> </thead> <tbody> <tr> <td>2020</td> <td>5.5</td> </tr> <tr> <td>2021</td> <td>2.5</td> </tr> </tbody> </table>	Year	Losses (£m)	2020	5.5	2021	2.5	<ul style="list-style-type: none"> <li>There has been a decrease in operational losses in 2021 following the time-bar relating to PPI claims.</li> <li>Second line assurance of the Group's Transformation Programme has been in place throughout 2021, with continuous monitoring activity and periodic reporting to the Group Risk Committee.</li> <li>The Group continues to develop the maturity of its operational risk control environment, with plans and supporting investment in place across its information management and information security risk categories along with targeted improvements and investment in its financial crime risk management capabilities.</li> </ul>
Year	Losses (£m)							
2020	5.5							
2021	2.5							

## 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><b>Complaints per 1,000 accounts - Mortgages (H2)</b></p> <table border="1"> <caption>Complaints per 1,000 accounts - Mortgages (H2)</caption> <thead> <tr> <th>Year</th> <th>Complaints per 1,000</th> </tr> </thead> <tbody> <tr> <td>2020</td> <td>6.65</td> </tr> <tr> <td>2021</td> <td>4.68</td> </tr> </tbody> </table> <p><b>Complaints per 1,000 accounts - Banking, Savings and Loans (H2)</b></p> <table border="1"> <caption>Complaints per 1,000 accounts - Banking, Savings and Loans (H2)</caption> <thead> <tr> <th>Year</th> <th>Complaints per 1,000</th> </tr> </thead> <tbody> <tr> <td>2020</td> <td>0.65</td> </tr> <tr> <td>2021</td> <td>0.39</td> </tr> </tbody> </table>	Year	Complaints per 1,000	2020	6.65	2021	4.68	Year	Complaints per 1,000	2020	0.65	2021	0.39	<ul style="list-style-type: none"> <li>Contributing to the improved complaints performance has been the reduction in savings and mortgage complaints, where purposeful analytics have been used to identify and address a number of complaint hotspots with the Group's processes.</li> <li>A Compliance Monitoring plan, approved by the GRC, has been completed during 2021 allowing robust oversight of the key areas of conduct, financial crime and data protection risk.</li> <li>All oversight findings are the subject of a formal action plan overseen to closure by the GRC.</li> <li>Focus continued on customers impacted by the COVID-19 pandemic with Compliance providing continuous monitoring support to Mortgage Collections &amp; Recoveries and a review focused on the Mortgage Sales and Lending Journeys.</li> <li>The Group is committed to ensuring that it has robust policies and procedures in place to effectively identify and manage financial crime and to support this oversight was provided with a focus on governance &amp; oversight of financial crime risks.</li> <li>Compliance has continued to provide support in the delivery of regulatory changes to support YBS members and customers impacted by the COVID-19 pandemic, which has been a significant piece of work. Support has also been provided in strategic change programmes and new developments including its Digital transformation Programme, Payments Simplification, data/privacy, consumer duty and advising regarding the UK's review of the anti-money laundering &amp; counter-terrorist financing framework.</li> </ul>
Year	Complaints per 1,000													
2020	6.65													
2021	4.68													
Year	Complaints per 1,000													
2020	0.65													
2021	0.39													



## Our approach to Climate Risk

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

The detailed elements of the Group's risk management approach to climate risk in respect of the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations and in the context of the Group's ERMF, are summarised below.

### Identifying Climate Change Risk

Yorkshire Building Society is a member of the Climate Financial Risk Forum (CFRF), co-chaired by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), and recognises the good practice guidance provided by this forum. In identifying the risks to the Group, the table below displays the risks and associated considerations that have been, or will be, forming part of the Group's disclosures as they advance in line with regulatory and non-financial ratings agency expectations. Specifically, the Group has reviewed a wide set of considerations through its review activity and sought third party specialist input, where necessary, in its identification of risks specific to the Group.

The Group's Principal Risk Exposure	Example Key Risk Considerations
<b>Strategic Risk</b> <i>(Focused on the future viability of the business model)</i>	<ul style="list-style-type: none"> <li>Adapting the Group's strategy to meet customers' green expectations.</li> <li>The policies and processes that will be required to ensure that green products are robust.</li> </ul>
<b>Retail &amp; Commercial Credit Risk</b> <i>(Focused on the credit worthiness of the customer, the underlying value of the asset and probability of default)</i>	<ul style="list-style-type: none"> <li>How the Group's mortgage book would respond to stricter energy efficiency policies.</li> <li>The proportion of the mortgage book which is geographically located in areas which will be exposed to the impact of more frequent and severe weather events.</li> <li>How lending criteria, focussed on energy efficiency and economic sector, could be deployed.</li> </ul>
<b>Compliance &amp; Conduct Risk</b> <i>(Focused on the action/inaction of the Society causing detriment to customers, to the market and to the competition)</i>	<ul style="list-style-type: none"> <li>The proportion of customers that would be adversely affected by the industry standard moving toward stricter lending criteria based on physical risk metrics such as the probability of flood risk.</li> <li>The proportion of customers that would be adversely affected by the industry standard moving toward stricter lending criteria based on energy efficiency.</li> </ul>
<b>Operational Risk</b> <i>(Focused on the resilience of the Society's infrastructure, systems, procedures and policies, to events that could affect business continuity)</i>	<ul style="list-style-type: none"> <li>The level of energy efficiency of the Group's property estate and its exposure to physical climate risk.</li> <li>The extent of exposure of critical suppliers to more frequent and severe weather events under climate change.</li> <li>The geographical location of critical suppliers and their exposure to physical climate risk.</li> <li>The adaptations that will be required to be made to ensure the health and safety of customers and employees.</li> </ul>

This review activity has fed into the Group's scenario analysis work, which sought to quantify financial losses as a result of climate change. Analysis will be matured and extended across liquidity and funding risk, model risk, reputational and legal risk in the coming years. The Group's climate change plan '*Building a Greener Society*' supports this agenda.

## Assessing Climate Change Risk

UK financial institutions were required by the PRA to develop the capability to assess their exposure to climate risks by the end of 2021, as outlined in the PRA published supervisory statement in April 2019 (SS3/19), with the additional Climate Financial Risk Forum (CFRF) guide in June 2020 and the 'Dear CEO' letter outlining expectations in July 2020. During 2021, the Group developed a set of models for the assessment of the financial impacts of climate change risks on the residential and commercial mortgage portfolios. This enabled the Group to meet the climate risk requirements of SS3/19 and conduct climate change scenario analysis using the climate scenarios included in the Bank of England's 2021 Climate Biennial Exploratory Scenario (CBES). For more detail please see the *Building a Greener Society* in the *Strategic Report*.

The Climate Change Model calculates losses on an average and climate-stressed basis under each of the three CBES emissions scenarios covering early, late, and no policy action toward reducing carbon emissions. Each emissions scenario contains different assumptions as to the rate of increase of physical and transition risks over time as well as different forward-looking forecasts of macro-economic drivers impacted by climate change and emissions-control policies. The model incorporates physical and transitional climate risks

based on these scenarios, including risk to property due to flooding, subsidence and coastal erosion, and transitional risks from national-level macroeconomic effects and property-level energy efficiency regulations. As physical risks due to climate change play out over longer time horizons than are typically considered in traditional credit risk models, these models incorporate elements that translate the long-term impacts of climate risk into shorter term risks applicable to the current portfolio.

The Climate Change Model is based on the Group's existing stress testing model and uses a modular design to add components specific for estimating additional losses due to climate-related hazards. The Group expects the Bank of England to publish market-wide CBES results in May 2022. This will provide an opportunity for the Group to assess the modelled climate risk relative to the market and allow for further consideration of mitigating actions to manage the ongoing risks.

The Climate Change Model has been used to inform the development of the Group's climate strategy and in setting risk appetite.



## Management of Climate Risk

Climate risk is managed on an ongoing basis through relevant policies, governance arrangements and risk appetite statements that have been set in place to define the levels of acceptable risk to the Group, and to provide monitoring and reporting capability within the wider ERMF.

### Policies

The Group's policy universe has been reviewed and updated in respect of climate risk and policies relating to Retail and Commercial Credit, Compliance & Conduct and Operational Risks have been updated.

### Governance

A Climate Risk Steering Group has been created to oversee the delivery of the project. The governance structure has been reviewed and incorporated climate risk considerations and responsibilities into the existing Committee structure, for example, Group Risk Committee. Senior Managers & Certification Regime prescribed responsibilities have also been allocated to relevant members of the Executive Committee.

### Risk Appetite

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

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

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

\* Oil & Gas, Electric Utilities, Metals & Mining, Chemicals, Quarrying, Landfill, Airlines, Aerospace and Shipping.



## Next Steps

The Group is committed to delivering the 'Building a Greener Society' agenda by developing the approach to climate risk in the context of its existing Enterprise Risk Management Framework.

## 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.

### Neeta Atkar MBE

*Chair of the Group Risk Committee*

1 March 2022

# Directors' Remuneration Report

## 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 2021. Our role as the Remuneration Committee (the Committee) is to ensure that all of our remuneration policies align with the Board-approved, long-term 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 and key decisions made by the 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 V 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 2021

This has been another challenging year for the Society, with the ongoing COVID-19 pandemic having real impact on members and colleagues. Our objectives have remained to protect and support the wellbeing of our colleagues in addition to ensuring our members and customers continue to receive the service needed to help with their lives. This year's *Strategic Report* outlines the strong financial performance of the Society, particularly in the first half of the year when trading conditions were conducive, and with our mortgage business outperforming many competitors in the market. Strong progress has been made against our Strategic Blueprint to ensure we deliver ongoing long-term member value and transform the Society into a fit for the future organisation. By maintaining long-term sustainability for the Society, this will help us navigate through the current economic climate and changes expected over the coming years as the financial impact of the pandemic is realised. We endeavour to be in a strong position for when our customers need us.

Most recently, the Board and the Committee were informed of Mike Regnier's decision to resign as CEO and step away to become the new CEO of Santander UK. Mr Regnier has been CEO for five years and we would like to thank him for his diligence and efforts and wish him well for the future. Fortunately, as we have strong succession plans in place, the Board asked Stephen White (previously Chief Operating Officer) to step into the interim CEO role. The full Board welcomed the news of Stephen's appointment and will support him as he takes up the reins to lead the delivery of our strategy.

During the year, the Committee has maintained its focus on the evolving regulatory expectations and remuneration best practice when overseeing the appropriateness of remuneration structures and outturns to protect the interests of our members and colleagues.

#### Key considerations and decisions made by the Committee includes:

- A 2021 pay settlement of 2.1% to all colleagues to reflect the vital role played by colleagues in delivering critical services to customers and in our financial performance (Mr Regnier asked to not be considered for a pay increase in 2021).
- Our commitment to how we demonstrate the Society is inclusive and diverse in all activities and, particularly, how our remuneration policy remains gender neutral, is ongoing. As at April 2021, our mean Gender Pay Gap stands at 28.1% (a reduction from 32.9% in 2020). 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 4.2% (3.5% in 2020). Details of progress and key achievements (including meeting our 2018 Women in Finance targets) as part of the Society's Inclusion & Diversity strategy is included in the *Colleagues* section of the *Strategic Report*, (including the recognition of external parties in our activities and achievements). The Society continues to work to build a more balanced workforce which is genuinely representative of the views of our customers, colleagues and society as a whole. The 2021

YBS Gender Pay Gap Report can be found on our website.

- The Society actively seeks the views of our colleagues through a number of sources; Our colleague forum, reward listening group and Performance & Reward Committee are examples of where we gain direct colleague input into the design and ongoing development of the Society's remuneration framework. This in turn feeds into the Remuneration Committee of which Alison Hutchinson, our Vice-Chair attends and has formal accountability for the 'Voice of the Employee'.

The remuneration principles within the Capital Requirements Directive (CRD) have been amended and implemented in 2021. CRD V, came into force from 28 December 2020 and changes the minimum deferral period of senior manager bonus awards, from 3 years to 4, and increases the deferral period and how bonuses are paid for a greater proportion of our Material Risk Takers. The purpose of this change is to promote sound and effective risk management by aligning the long-term interests of the Society, customers and colleagues whose activities have a material impact on the risk profile of the business.

The Committee has also seen some recent changes in membership. The Chair of the Board, John Heaps, has decided to stand down as a member and we have two new Non-Executive Director members in Dina Matta and Jennelle Tilling (see the *Our Leadership Team* section for their individual biographies). Both Dina and Jennelle bring a wealth of experience to the Committee and I'm confident they will serve the interests of our members to the highest level.

#### Remuneration Outcomes for 2021

In 2021, we launched the *Leading for Value* bonus scheme to run parallel to the Society's core bonus scheme. The purpose of the *Leading for Value* scheme was to support the retention of the skilled and committed Senior team, the scheme includes stretch performance objectives set against our longer term objectives, serving to protect the Society's financial

strength but primarily focusing on the delivery of long-term member value. The scheme includes a broad set of performance targets linked to enhanced member value, ESG (Environment, Social and Corporate Governance) and Diversity objectives. The Committee is accountable for ensuring there are robust controls in place which support our decision making in determining the maximum bonus opportunity for individuals via our pre-grant assessment process, and approval of bonus outturns based on evidence and validation in the delivery of benefits.

The Committee believes the Executive Directors have continued to deliver real benefits for the Society and helped create value for our members and other stakeholders. This is demonstrated by a strong financial performance, progress in our community and diversity objectives and ensuring significant investment in member value through our savings propositions. It is on this basis that we have awarded bonuses to our Executive Directors in respect of the 2021 performance year. On average, eligible Executive Directors' achieved 90.7% of their maximum opportunity and all other colleagues received an average of 96.9% 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.

#### Looking forward to 2022

Whilst reviewing the Society's plans for continued transformation in 2022 and the current economic pressures for both customer and colleagues, the Remuneration Committee believes the current Remuneration Policy is fit for purpose, and is proposing no changes for 2022. We believe the policy ensures long-term member value and the sustainability of the Society is achieved.

#### In Conclusion

I trust that members will agree that the performance of the Society and its leaders in 2021, warrants your continued approval of the Director's Remuneration Report and support of the Remuneration Policy. On behalf of the committee, I recommend you approve and endorse these items.

One final point to make is to confirm that it is my intention to step down

from the Board and position as Remuneration Committee Chair at this year's AGM, having served as a Non-Executive Director for 9 years. I have thoroughly enjoyed working at YBS and I would like to thank my

colleagues on the Committee for their diligence and commitment and to take this final opportunity to thank our members for their support of our remuneration policy. I will continue to closely follow the Society on its future

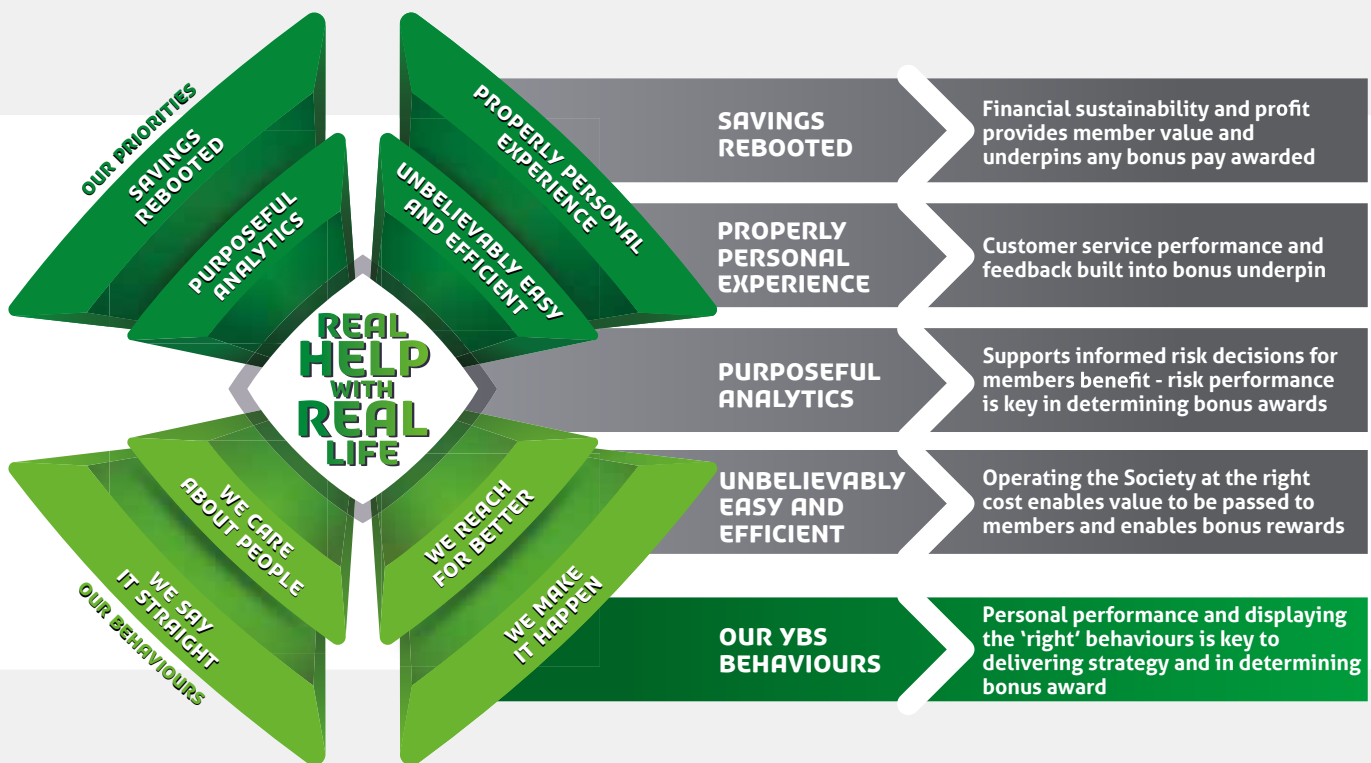
transformation journey, and feel proud to have served on the Board.

**Guy Parsons**

*Chair of the Remuneration Committee*

## Overview of our Directors' remuneration in 2021 (at a glance section)

A summary of how we have rewarded Executive Directors is outlined below. The Society'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 2021 AGM). Unless otherwise stated the report is unaudited.



### How much have our Executive Directors\* earned in 2021?

<b>Mike Regnier***</b>	591	88	679	
<b>Alasdair Lenman</b>	363	76	330	769
<b>Stephen White</b>	437	95	406	938

**Key**

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

\* Note that David Morris was appointed as an Executive Director in January 2022, so he did not receive any remuneration in his capacity as an Executive Director during the year to 31 December 2021.

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

\*\*\* Mike Regnier is the outgoing Chief Executive Officer – Stephen White took over as interim CEO 29 November 2021 and has been awarded an additional responsibility allowance of £110,500. This allowance is used in the calculation for the proportion of his 2021 bonus as interim CEO (29 November to 31 December 2022) and any potential 2022 bonus. A payment of £10,058 was made as part of this allowance from 29 November 2021 to 31 December 2021 – this is included in the table above. The allowance is not used to calculate Mr. White's Pension contributions.

The YBS Remuneration Policy (outlined in full below) 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.

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 and also a scheme linked to the longer term objectives of the Society, based on transformation performance, member value and delivery of ESG commitments (Leading for Value). Full details of the how the schemes operate is outlined in our Remuneration Policy below.

The 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 Directors' Remuneration Policy for 2022

The following table sets out the key elements of the proposed Executive Directors' Remuneration Policy- no changes are proposed for 2022. Full details of the Directors' Remuneration Policy are set out below.

Remuneration element	Summary	Proposed change for 2022	
<b>Fixed remuneration</b>	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	From April 2021, all current Executive Directors receive a contribution (or cash allowance) equal to a maximum of 11% of base salary, aligned to the contribution level for all colleagues.	No change proposed.
<b>Variable remuneration</b>	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	The Leading for Value scheme was approved and implemented for the financial year 2021 and onwards. This scheme focuses on achieving milestones within our strategic plan and the delivery of long-term value to our members plus our commitment to ESG measures (e.g. Inclusion & Diversity, Community, Social and environmental commitments).  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 will be subject to a pre-grant assessment of performance by the Committee which will incorporate both YBS and individual performance.	No change proposed
	Applicable to all variable remuneration	All bonuses will be delivered through a combination of cash and Share Equivalent Instruments (SEI)*.  All bonus payments will also be subject to regulatory underpins including risk adjustment, deferral, malus and clawback.	No change proposed

\* Share Equivalent Instruments are units that act like a company share, £1 is the value of each SEI unit. Over the course of the deferral and retention periods, the SEI can change in value if YBS does not maintain its CET1 capital levels.

## Annual Report on Remuneration

### Executive Directors' Remuneration

All remuneration in the 2021 performance year has been awarded in line with the Society's Remuneration Policy, which was last approved by members at the 2021 AGM.

The table below shows the single total figure table of remuneration for the Executive Directors of the Society for the years ended 31 December 2021 and 2020. This information has been audited by our independent auditors, PricewaterhouseCoopers LLP ('PwC'). Following the resignation of Mr Regnier, exit arrangements have been made in line with the approved remuneration policy. This means that no 2021 bonus award will be paid to him.

Executive Director	Fixed Remuneration								Variable Remuneration				Total Remuneration	
	Base Salary		Taxable Benefits		Pension/ Pension Allowance		Total Fixed Remuneration		Bonus		Total			
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Mike Regnier CEO	591	591	15	15	73	94	679	700	-	226	-	226	679	926
Alasdair Lenman CFO	363	359	31	31	45	57	439	447	330	137	330	137	769	584
Stephen White COO	437	433	41	31	54	69	532	533	406	165	406	165	938	698
<b>Total</b>	<b>1,391</b>	<b>1,383</b>	<b>87</b>	<b>77</b>	<b>172</b>	<b>220</b>	<b>1,650</b>	<b>1,680</b>	<b>736</b>	<b>528</b>	<b>736</b>	<b>528</b>	<b>2,386</b>	<b>2,208</b>

### Base Salary

Our Executive Directors did not receive a pay increase in 2020. Mr. Regnier opted to not take a pay increase in 2021 – awards were made to Mr White (1.6% - £6,924) and Mr Lenman (1.9% - £6,819), as outlined in the table above. Mr White is provided with an additional responsibility allowance (of £110,500 per annum) in his role as interim CEO and this was brought into effect from 29 November 2021. These uplifts are commensurate with those provided to all colleagues and in line with our analysis of market data.

### Bonus

#### Building Together

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 under the scheme is subject to meeting a number of business and personal, financial and non-financial stretching objectives and is awarded at the discretion of the Committee. All measures are set so they seek to drive value for the Society and its members. A risk overlay is undertaken to ensure the Society is not exposed to undue risk and forms part of our sustainability review.

### 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 Committee has scope to make adjustments to the calculation of profit within the bonus plan.

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

- Where an unexpected or unplanned item arises that is not part of the core, business as usual, running of the 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 £297.2 million against a reported figure of £320.0 million. This represents a performance above target, which was £195.7 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 +55. The average NPS achieved throughout 2021 was +54. The PBT achieved in 2021 exceeded both the target set and the bonus cap (the level at which achievement ceases to impact bonus payment). Whilst, the NPS result did not achieve the target set for 2021, it surpassed the 'threshold' set for 2021 (minimum performance required to trigger a bonus payment) of 47. Therefore, a moderator has been applied to reduce awards from 100%.

Contribution from different NPS surveys to the overall combined Society NPS score for Building Together bonus scheme		
Mortgages: 50%		
Broker feedback: <b>20%</b>	Buy-to-let customer feedback: <b>5%</b>	Residential Mortgage customer feedback: <b>25%</b>
Savings: 50%		
Savings customer feedback: <b>45%</b>		Share Plans* customer feedback: <b>5%</b>

\* The YBS Share Plans business was closed to new business during 2021. Service is ongoing for existing clients and this measure remains integral to the 2021 NPS to validate ongoing effective service levels.

### 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 2021 performance year.

### 4. INDIVIDUAL PERFORMANCE FOR SENIOR MANAGERS

The Society'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.

**Leading for Value**

The *Leading for Value* scheme operates in addition to the *Building Together* scheme and is measured by delivery of key strategic milestones, measurable and targeted financial value for members, and ESG performance based on colleague engagement, inclusion and diversity and social impact.

The Executive Team and the Chair of the Board carry out a pre-grant assessment before determining individual eligibility for this scheme and consider both personal (e.g. individual performance and compensation levels compared to the market) and the Society's performance (e.g. Capital, Liquidity

and risk plus financial measures). The outcome of this assessment determines the maximum opportunity that will be available to the individual, subject to the overall maximum level set within the scheme. The Remuneration Committee oversee this process before agreeing to any proposals.

The specific annual metrics are proposed each year by the CEO and Executive Committee and the categories are weighted such that strategic milestones will make up 40% of the bonus, member value 30% and ESG 30%. The Remuneration Committee assesses performance against each metric to determine

the bonus outturn. The 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. The financial underpin will be Core Operating Profit being at a level in line with threshold of the *Building Together* Bonus plan.

For the 2021 performance year, the Remuneration Committee agreed an 84% outturn for the plan, based on maximum achievement in the Member Value and ESG sections, with an on-target (60% of the maximum) performance in relation to the achievement of Transformation measures.

**How Leading for Value Bonus was calculated for Executive Directors**

In line with the PRA and FCA remuneration regulations, all bonuses payable to Executive Directors designated as Senior Managers are subject to deferral, delivery in share like instruments and retention. The Society's Remuneration Policy outlines all of these measures to ensure the Society delivers variable pay for its Senior Managers in a manner which prevents unnecessary risk taking.

Measures		Levels of achievement	
<b>Transformation 40%</b>	<ul style="list-style-type: none"> <li>• Future proofing high-street presence</li> <li>• Aligning account opening times with customer needs</li> <li>• Improving access to mortgage lending</li> <li>• Improved mortgage decisioning</li> <li>• Environmental efficiencies</li> <li>• Simplification of services for Savings accounts</li> </ul>	<b>24%</b>	<b>Total 84%</b>
<b>Member value 30%</b>	<ul style="list-style-type: none"> <li>• Improving savings returns for customers</li> </ul>	<b>30%</b>	
<b>ESG 30%</b>	<ul style="list-style-type: none"> <li>• Improving female representation at Manager level and above</li> <li>• Developing digital, employment skills</li> <li>• Financial education and increase awareness in local communities</li> </ul>	<b>30%</b>	



### 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 the current regulations. Also required by regulation, is that 50% of each bonus payment will be delivered via an SEI and

is subject to a retention period. For the 2021 performance year, an Executive Director whose remuneration exceeds the de-minimis limit will receive 20% of their total bonus in 2022, with a further 20% delivered via a SEI in 2023. The remaining 60% is deferred over seven years, with a one - year retention period applying to the SEIs received.

#### For example:

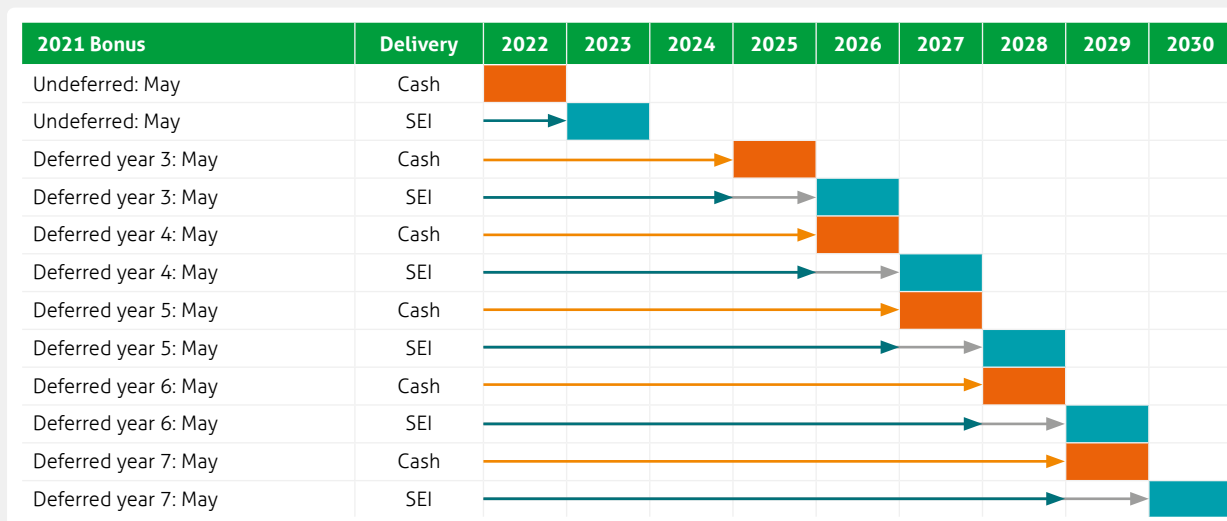
##### Year 1

40% of any bonus earned is paid out in the year following the performance year. Half of this amount is paid in cash (in 2022) and the other half is delivered in a SEI and subject to an additional retention period prior to revaluation and payment (in 2023).

##### 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

Orange arrow: Cash bonus deferral Blue arrow: SEI deferral Grey arrow: SEI holding period

### How bonus is awarded for Executive Directors

Executive Director	Role	Total Award		Deferral schedule								
		% of salary	£000	2022	2023	2024	2025	2026	2027	2028	2029	
Mike Regnier	CEO	-	-	-	-	-	-	-	-	-	-	-
Alasdair Lenman	CFO	90.71%	330	130	-	-	40	40	40	40	40	40
Stephen White	COO	90.71%	406	161	-	-	49	49	49	49	49	49

For the 2021 performance year, 98.9% of eligible colleagues will receive a bonus. On average an eligible Executive Director achieved 90.7% of their maximum bonus opportunity, with all eligible colleagues on average receiving 96.9% 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> As per CRD V a de-minimis limit level is set by regulation, in relation to the level of bonus deferral applied. It impacts colleagues whose total variable remuneration is less than £44,000 and where variable remuneration is less than 33% of their total remuneration.

## Taxable Benefits

The taxable benefits awarded to Executive Directors are in line with those offered 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 changes to the Executive Directors' benefits entitlement are planned for 2022.

## Pensions

From 1 April 2021, all existing Executive Directors received 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 third 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 year's calculation is based on the **fixed** earnings of Mike Regnier (up to and including the 28 November 2021) and the **fixed** and **variable** earnings of Stephen White as he became Interim Chief Executive Officer from 29 November 2021 to 31 December 2021. As Mr Regnier resigned as CEO during the year, no bonus is payable and therefore this is reflected in the lower reported ratios.

**This ratio compares the total remuneration of the Chief Executive against the total remuneration of the median employee and those who sit at the 25<sup>th</sup> and 75<sup>th</sup> percentiles (lower and upper quartiles).**

Year	Defined Method	25th percentile	50th percentile	75th percentile
2021	Option B	29:1	21:1	14:1
2020	Option B	39:1	28:1	20:1
2019	Option B	40:1	35:1	22:1

**The total remuneration values and base salary values for the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentile employees for 2021 are:**

	25th percentile	50th percentile	75th percentile
Total remuneration	£24,661	£34,240	£49,060
Salary	£20,193	£28,312	£40,113

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. Two 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 these colleagues.

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 consider a colleague's performance and contribution. The Committee oversee this process, with a specific focus on the remuneration of the Society's Material Risk Takers.

We are committed to paying all of 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 2021.

## Payments to past directors

There were no payments to past Directors in 2021 that had not already been disclosed in previous reports.

## Chair and Non-Executive Directors

The Chair of the Board and Non-Executive Director fees are reviewed annually. Fees were reviewed and increased in 2021 by 2.1% following analysis of the market data available

(and commensurate with the average award provided to all colleagues), which suggests that fees for these roles continue to be broadly well positioned within the market.

The Committee review the fees payable to the Society's Chair. Whilst being

a former member of the Committee, the Chair of the Board 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 as at 1 July 2021	Fees as at 1 July 2020
	£000	£000
Chair basic fees	201.0	196.9
Vice Chair basic fees	75.1	73.6
Non-Executive Director basic fees	52.7	51.7
<b>Additional fee for:</b>		
Audit Committee – Chair	21.8	21.5
Audit Committee – Member	9.0	8.8
Remuneration Committee – Chair	17.8	17.5
Remuneration Committee – Member	6.5	6.4
Group Risk Committee – Chair	21.8	21.5
Group Risk Committee – Member	9.0	8.8
Board Governance and Nominations Committee	6.5	6.4

## Single total figure of Remuneration for each Non-Executive Director

The Non-Executive Directors' basic and committee fees earned in 2021 are outlined below. Non-Executive Directors do not receive any benefits, but are reimbursed for any expenses incurred, such as travel and subsistence. Any tax due is the responsibility of individual Non-Executive Directors. This information has been audited by our independent auditors, PwC.

Non-Executive Director	Basic Fees 2021	Committee Fees 2021	Total 2021	Basic Fees 2020	Committee Fees 2020	Total 2020
<b>Audited</b>	£000	£000	£000	£000	£000	£000
John Heaps (Chair of the Board)	199	-	199	197	-	197
Neeta Atkar	52	31	83	52	30	82
Alison Hutchinson (Vice Chair from 01/10/2020)	74	16	90	57	20	77
Gordon Ireland (retired 27 April 2021)	16	6	22	52	18	70
Guy Bainbridge	52	31	83	52	30	82
Guy Parsons	52	24	76	52	19	71
Mark Parsons (joined 20/10/2020)	52	18	70	10	4	14
Dina Matta (joined 27/04/2021)	36	4	40	-	-	-
Jennelle Tilling (joined 01/11/2021)	9	1	10	-	-	-

The remainder of this remuneration report has not been externally audited.

## 2022 Remuneration Policy

### Our Reward Aims

Our aim is to build a working environment where colleagues feel engaged and committed to the Society's journey, ensuring they feel valued and respected to give their best. Our reward offering is integral to that, with an approach founded in our mutuality and values.

Our Remuneration Policy is in place to support our colleagues in working together for the benefit of the Society and our members and customers. No changes to the policy are proposed for the year 2022.

### 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 Remuneration 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 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 & 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 & 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 Society. 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 2021 AGM.

### Fixed Remuneration – Base Salary

#### Purpose and link to strategy

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

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

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

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.

#### In Practice

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

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

A consistent set of principles are applied when considering both Executive Directors' base salaries and those of the wider organisation.

#### Opportunity

There is no 'maximum' base salary opportunity.

We seek to target a median external market position in relation to 'total remuneration'. To ensure that this is achieved base salary ranges are developed with reference to the total package including variable pay.

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.

The Remuneration Committee may award increases above this level in certain circumstances, for example taking on additional responsibilities.



### 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.

	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 company 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 Promoter 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, protecting and creating sustainable and long-term member value and colleague interests in line with our company 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 milestones linked to our strategic blueprint.</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>	

**Deferral and Share Equivalent Instrument (SEI)**

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 to be subject to an element of deferral. Bonus deferral ensures that the Society delivers variable pay over a multi-year period, in a manner that prevents unnecessary risk taking, whilst achieving a level of sustainable performance.

In a performance year where Executive Directors' total remuneration falls below the de-minimis<sup>6</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 one-year retention period. For the 2022 performance year, an Executive Director whose remuneration exceeds the de-minimis limit will receive 40% of their bonus in 2023 with the remaining 60% deferred over a period of up to seven years.

Bonuses for Executive Directors are disclosed annually in this document, the Annual Report and Accounts.

**Building Together Scheme****Leading for Value Scheme****Opportunity**

'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.

Failure to meet organisational or individual performance thresholds can reduce bonus awards to zero.

All Executive Directors are subject to deferral.

All of the Society's bonus schemes are underpinned by the same metrics.

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.

Failure to meet performance thresholds can reduce bonus awards to zero.

All Executive Directors are subject to deferral.

All of the bonus payments made under the Leading for Value Scheme are underpinned by the same metrics.

**Taxable Benefits****Purpose and link to strategy**

To provide a total reward package that is in line with market practice and enables the attraction and retention of Executive Directors of the required calibre.

**In Practice**

Executive Directors are eligible to receive a number of benefits, principally consisting of:

- Private medical insurance;
- Life assurance (6x salary);
- Concessionary mortgage account;
- Insured sick pay; and
- Provision of a company car, or cash equivalent.

**Opportunity**

There is no 'maximum' level of benefits – the overall value of benefits to the Society's Executive Directors is determined by the nature of its benefit offering which is subject to change throughout a given year.

**Pension****Purpose and link to strategy**

The Society's pension arrangements support the recruitment and retention of Executive Directors through the provision of competitive retirement benefits.

**In Practice**

The Society operates a single defined contribution pension scheme and all colleagues have the opportunity to participate. Where contributions exceed the annual or lifetime allowance, or participation in the scheme is tax inefficient, colleagues may be permitted to take a cash supplement instead of contributions to the plan.

**Opportunity**

All Executive Directors to receive a maximum pension contribution (or cash allowance) of 11% of base salary, the same as the contribution levels for all colleagues.\*\*

<sup>6</sup> A de-minimis limit level is set by regulation, in relation to the level of bonus deferral applied. It impacts colleagues whose total variable remuneration is less than £44,000 and where variable remuneration is less than 33% of total remuneration.

\*\* From April 2021, the Society's pension contributions for all Executive Directors were capped at 11%.



## 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 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

The Remuneration Committee shall apply the policy in relation to leavers, considering performance, conduct and commercial justifications, as summarised below:

<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>	Typically, termination payments will consist of basic pay and other contractual benefits for the notice period, the emphasis being to not reward failure.
<b>Annual Bonus – Leaver Provisions</b>	<p>On termination of office, the leaver provisions as set out below will apply. These are also outlined in the Society's bonus plan rules:</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 Chair's fees are determined by the Remuneration Committee.</li> <li>■ Both the Chair's and Non-Executive Directors' fees are reviewed periodically, at least annually.</li> <li>■ The Chair'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 Chair 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 follows 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 is also sought from management, while ensuring that conflicts of interests were suitably mitigated. An external market perspective is provided by our independent advisers. The

Remuneration Committee also assesses 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 2022 Remuneration Policy**

The chart below shows an illustration of the potential split of remuneration between fixed pay (base salary, benefits and pension) and **total** variable pay for the CEO and Chief Officer Executive Director 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 2022.
- **Maximum** –the maximum bonus (125% of base salary for the Chief Executive Officer and 100% for the remaining Chief Officer Executive Directors) that could be paid assuming Society and personal performance measures are fully realised.



## 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 2021; they are available on the Society's website.**

The Remuneration Committee met five times during the year and covered the following activities (please note additional meetings were held in 2021 to support the implementation of the *Leading for Value* bonus scheme and the resignation of the CEO).

- 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
- Agreeing the approach for Executive Director base salary increases in 2021
- Reviewing the remuneration and exit arrangements relevant to changes to the Executive Management Team

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 2021 were £45,000 (including irrecoverable VAT).

### Guy Parsons

*Chair of the Remuneration Committee*

1 March 2022



## Remuneration Committee Membership

The members of the Remuneration Committee\* consist of Non-Executive Directors and include a member of the Group's Risk Committee:



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



**Alison Hutchinson**  
Independent  
Non-Executive Director



**Dina Matta**  
Independent  
Non-Executive Director



**Jennelle Tilling**  
Independent  
Non-Executive Director

\* John Heaps stepped down from the Remuneration Committee in September 2021

The Remuneration Committee is supported by the Chief People Officer and the Director of Colleague Experience.

Where it is felt to be appropriate, the Chief Executive Officer is invited to attend to provide further background and context to assist the Committee in discharging its duties.

## 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.

	2017	2018	2019	2020	2021
To approve the Directors' Remuneration Report	89.67%	90.29%	91.86%	91.32%	92.45%
To approve the Directors' Remuneration Policy	n/a	n/a	90.95%	n/a	91.58%

## 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	Other MRTs	Total
	£000	£000	£000
<b>Aggregate remuneration data</b>			
Fixed pay	6,621	499	7,120
2021 Variable Pay (undeferred)	1,661	31	1,692
2021 Variable pay (deferred)	1,368	-	1,368
<i>2021 Variable Pay of which is due via SEI</i>	1,466	-	1,466
Deferred variable which vested in 2021	700	19	719
Deferred variable unvested as at the end of 2021	2,723	26	2,749
<b>Total</b>	<b>13,073</b>	<b>575</b>	<b>13,648</b>
<b>Aggregate bonus buyout and severance payments</b>			
Bonus Buyout Payments - 2021	-	-	-
Severance Payments - 2021	327	-	327
<b>Total</b>	<b>327</b>	<b>-</b>	<b>327</b>
	Senior Management	Other MRT	Total
Number of MRT colleagues at 1.1.21	28	6	34
Number of MRT colleagues at 31.12.21	24	6	30

\* Senior managers and colleagues whose actions have a material impact on the risk profile (including Executive Directors).

## Ratios between fixed and variable pay

The fixed to variable pay ratio was approved by members at the 2021 AGM to move 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.

# Directors' Report

This report contains the statutory disclosures required under the *Building Societies Act 1986* (the Act) and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (the DTR). It also includes details of voluntarily applied disclosure requirements, including those in respect of the UK Corporate Governance Code (the Code), the *Companies Act 2006* and the streamlined energy and carbon reporting (SECR) rules.

## Our Directors

The names of the directors of Yorkshire Building Society (the Society) who served during the year and up to the date of this report, their roles, previous experience and membership of board committees are described in the *Our Leadership Team* area of the *Governance* section. None of the directors had an interest in, or share of, any associated body of the Society at any time during the financial year. At our 2022 Annual General Meeting (AGM) our directors will all retire and stand for re-election, with the exception of Guy Parsons who plans to retire at the conclusion of the AGM.

## Our Strategy, Future Developments and Key Performance Indicators (KPIs)

Information on the strategy of Yorkshire Building Society and its controlled entities (the Group) can be found in the *Our Purpose, Strategy and Stakeholders* section of the *Strategic Report*.

Details of future developments are included in the Outlook section of the *Chief Executive's Summary* and KPIs are set out in the *Performance at a Glance* section. Details of our corporate governance practices are included in our *Corporate Governance Report*.

## How We Manage Risks

Our business activity exposes the Group to a variety of risks, including retail and commercial credit, treasury, funding and liquidity, market, operational, model, capital, and compliance and conduct risk. We seek to manage all the risks that arise from our business activities and we have a number of committees and policies in place to do so.

Details of these risks are included in the *Principal Risks and Uncertainties* section of the *Strategic Report* and the *Risk Management Report*.

## Our Mortgage Arrears

Details of the mortgage accounts that were 12 months or more in arrears at 31 December are as follows:

	2021	2020	2021	2020
	% of mortgage account/balances			
Number of accounts	301	278	0.11%	0.11%
Balances outstanding on accounts	£36.4m	£34.0m	0.09%	0.09%
Amount of arrears included in balances	£4.4m	£3.8m	0.01%	0.01%

Further details of the arrears position are set out in the *Our Financial Review* section of the *Strategic Report*.

Note 32 to the financial statements also details the various forms of support offered to borrowers experiencing difficulties in meeting their repayments.

## Our Charitable and Political Donations

Charitable donations made by the Group during the year were £0.6 million (2020: £0.4 million), more details and further information on fundraising by our colleagues, members and customers, including the value of volunteering time of YBS staff can be found in the *Communities* section of *Our Customers, Colleagues and Communities* in the *Strategic Report*. No political donations were made in the year (2020: nil).

## Our Colleagues

We continue to listen and respond to our colleagues' needs. It is important that all our colleagues feel connected to the Society and can contribute to our success. To achieve this, we communicate business information to our colleagues across our organisation in an appropriate and timely way. We recognise that employing people from different backgrounds and with a range of experience enhances the way in which we work. We are building a diverse workforce and we make workplace adjustments wherever we possibly can to provide an inclusive working environment for all colleagues. See the *Colleagues* section of the *Strategic Report* for more details.

## Our responsibilities in respect of Accounting Records and Internal Control

We are responsible for ensuring that the Society:

- keeps accounting records in accordance with the *Building Societies Act 1986* (the Act); and
- takes reasonable care to establish, maintain, document and review such systems and control as are appropriate to its business in accordance with the rules made by the Prudential Regulation Authority under the *Financial Services Act 2012*.

We have a general responsibility for the safeguarding of the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Directors' responsibilities in respect of the preparation of the Annual Report and Accounts

The following statement, which should be read in conjunction with the *Auditors' responsibilities for the audit of the financial statements* in the *Independent auditors' report to the members of Yorkshire Building Society*, is made by the directors to explain their responsibilities in relation to the preparation of the financial statements.

We are required by the Act to prepare financial statements, for both the Society and the Group, that give a true and fair view of the income and expenditure for the financial year, and the state of affairs at the end of the financial year. We are also required to provide details of directors' remuneration in accordance with part VIII of the Act and regulations made under it.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable;
- state whether the financial statements have been prepared in accordance with International Accounting Standards; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The disclosure and transparency rules of the Financial Conduct Authority (the DTR) require an annual financial report to include:

- audited financial statements for both the Society and Group;
- a management report that includes a fair review of the business and a description of the principal risks and uncertainties (see the *Strategic Report* and the *Risk Management Report*); and
- responsibility statements (see *Responsibility Statements* below).

We are responsible for the maintenance and integrity of statutory and audited information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Laws in the United Kingdom governing the preparation and communication of financial statements may be different from laws in other jurisdictions.

## Annual Business Statement

The Act also requires the directors to prepare, for each financial year, an annual business statement containing prescribed information relating to the business of the Group. See pages 241 to 242 for the 2021 Annual Business Statement.

### Non-Financial Information Statement

The Society aims to voluntarily apply the requirements of s414CB of the *Companies Act 2006* by including non-financial information intended to help stakeholders understand our position on key non-financial matters.

**Information regarding these matters can be found in the following sections of this document:**

Area	Strategic Report reference
Environment matters	See <i>Building a Greener Society</i> section
Employees	See the <i>Colleagues</i> subsection of the <i>Our Customer, Colleagues and Communities</i> section
Social matters	See the <i>Communities</i> subsection of the <i>Our Customer, Colleagues and Communities</i> section
Respect for human rights	See the <i>Communities</i> subsection of the <i>Our Customer, Colleagues and Communities</i> section
Anti-corruption and anti-bribery	See the <i>Communities</i> subsection of the <i>Our Customer, Colleagues and Communities</i> section
Our business model	See <i>Our Business Model</i> section of the <i>Strategic Report</i>
Principal risks	See the <i>Principal Risks and Uncertainties</i> section
Key performance indicators	See <i>Performance at a Glance</i> section in the <i>Introduction</i> and the <i>Colleagues</i> section of <i>Our Customer, Colleagues and Communities</i> for a description of employee engagement scores



## Directors' Duties

Section 172 of the *Companies Act 2006* (s172) describes the duties of company directors in respect of promoting the business and considering other stakeholders. This does not apply to the Society's Directors as we are a building society not a company, but the Code expects boards to report on how they have considered the matters set out in s172 in decision making. The table below summarises the s172 requirements and cross references to where this consideration is covered in other sections of this document.

Summary of s172 Requirements	Yorkshire Building Society Board	Relevant Disclosure
<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>	As a mutual the Society does not have external shareholders, we are owned by our members. The Board is committed to promoting the long-term success of the Society for the benefit of our current and future members. Building on our purpose to provide <i>Real Help with Real Life</i> our <i>Strategic Blueprint</i> strategy underpins our commitment to the success of the business for our members both now and in the future.	<i>Our Business Model</i> section <i>Our Purpose, Strategy and Stakeholders</i> section
<b>• likely consequences of any decision in the long-term</b>	Our Board recognises the importance of ensuring the likely consequences of decisions in the long term are considered which is reflected in our <i>Strategic Blueprint</i> built around our purpose of providing <i>Real Help with Real Life</i> .	<i>Our Business Model</i> section <i>Our Purpose, Strategy and Stakeholders</i> section
<b>• interests of employees</b>	The Board understands that our people are the foundation of our business and recognises the importance of ensuring that their voice is heard in the board room. Each paper considered by the Board sets out the implications for our employees and, where relevant, how they have been consulted on the proposals.  The Board has also put in place a framework to ensure colleague views inform its decision.	<i>Our Customers, Colleagues and Communities</i> section
<b>• need to foster business relationships with suppliers, customers and others</b>	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 <i>Strategic Blueprint</i> which was supported through detailed stakeholder engagement exercises.	<i>Our Purpose, Strategy and Stakeholders</i> section <i>Our Customers, Colleagues and Communities</i> section
<b>• impact of the business's operations on the community and the environment</b>	The environment, social and governance impact of the Society underpins the <i>Strategic Blueprint</i> and each paper considered by the Board sets out any social or environmental implications of a decision ensuring that the Board has regard to the impact of these as part of its overall approach to promoting the success of the Society.	<i>Our Customers, Colleagues and Communities</i> section <i>Building a Greener Society</i> section.
<b>• desirability of maintaining a reputation for high standards of business conduct</b>	The Board's commitment to maintaining high standards of business conduct helps to ensure the long-term success of the Society for our current and future members, customers, colleagues and all other stakeholders. The Society's behaviours help drive the culture and supports the delivery of the <i>Strategic Blueprint</i> .	<i>Our Business Model</i> section <i>Our Purpose, Strategy and Stakeholders</i> section
<b>• need to act fairly as between members (i.e. the company's shareholders)</b>	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.	<i>Our Customers, Colleagues and Communities</i> section

## Streamlined Energy and Carbon Reporting (SECR)

The Group continues to voluntarily apply the UK's Streamlined Energy and Carbon Reporting (SECR) requirements and the relevant disclosures are included below. A full review of our environmental achievements and commitments can be found within the *Building a Greener Society* section of the *Strategic Report*.

### Methodology

Greenhouse gas emissions and environmental impacts for the Group are calculated in line with the Greenhouse Gas Protocol Corporate Standard (GHG Protocol). Emissions are reported in tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e) and electricity usage

in kilowatt hours (kWh). The Society utilises the Department for Business, Energy and Industrial Strategy emission conversion metrics to ascertain exact emissions totals for all three scopes.

**Scope 1** - emissions cover those generated from burning gas for heating and diesel for emergency generators within Group occupied buildings, UK owned vehicles (e.g. facility management vans) and refrigerant/air conditioning gases.

**Scope 2** - emissions account for all direct electricity usages within the business. Emissions generated from electricity consumption are zero under the 'market' based calculations due to the purchase of certified renewable electricity derived from biomass.

**Scope 3** - emissions cover indirect

business activity. For example, a 'Well-to-Tank' emissions factor is an average of all the GHG emissions released into the atmosphere from the production, processing and delivery of a fuel or energy.

Given the timing of this report, and the availability the underlying data, certain estimates and assumptions are made in calculating the overall emissions and energy usage figures for the current year. In particular, some data is received a quarter in arrears, requiring an estimate of the last 3 months based on historic usage and current year trends. 2020 figures have been updated to adjust for actual usage.

## Energy Use and Emissions Report

Per the GHG Protocol, energy usage and emissions from our business activities are classified as follows:

Internal Energy Usage	2021	2020
	kWh	kWh
Heating and emergency fuel usage	9,654,526	8,718,223
Company owned vehicle transport	6,825	431,187
<b>Scope 1</b>	<b>9,661,351</b>	<b>9,149,410</b>
Electricity consumption	11,199,210	12,092,006
Electric cars	156,060	91
<b>Scope 2</b>	<b>11,355,270</b>	<b>12,092,097</b>
Leased/hired business transport	202,588	-
<b>Scope 3</b>	<b>202,588</b>	<b>-</b>
<b>Total</b>	<b>21,219,209</b>	<b>21,241,507</b>
	tCO <sub>2</sub> e	
<b>Total emissions from internal energy usage (new for 2021)</b>	<b>4,167</b>	

Ricardo plc, our external carbon footprint verifiers, have carried out a limited level assurance review of these figures. This review assessed data collection and calculation methodologies against the applicable requirements. Based on the process and procedures conducted, they have concluded that there is no evidence that the 2021 GHG assertion: is not materially correct; is not a fair representation of greenhouse gas data and information, and has not been prepared in accordance with the ISO 14064-1 *specification with guidance for the validation and verification of greenhouse gas assertions* and the GHG Protocol.

Carbon footprint	2021		2020	
	Location	Market	Market	Market
	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e
<b>Scope 1</b>				
Generation of heat (gas consumption)	1,766	1,286	1,582	1,582
Diesel (back-up generators)	3	3	28	28
Vehicles used on Society business	18	18	72	72
Refrigerant gases	2	2	2	2
<b>Total</b>	<b>1,789</b>	<b>1,309</b>	<b>1,684</b>	<b>1,684</b>
<b>Scope 2</b>				
Electricity consumption	2,378	-	2,819	-
<b>Total</b>	<b>2,378</b>	<b>-</b>	<b>2,819</b>	<b>-</b>
<b>Scope 3</b>				
Well-to-tank – Electricity	675	675	422	422
Well-to-tank – Fuels	303	284	245	245
Transmission and distribution - Electricity consumption	210	210	242	242
Business travel – Transport	65	65	62	62
Business travel – Hotel	2	2	13	13
Water supply and treatment	11	11	29	29
Waste disposal	9	9	9	9
<b>Total</b>	<b>1,275</b>	<b>1,256</b>	<b>1,022</b>	<b>1,022</b>
<b>Total Carbon Footprint</b>	<b>5,442</b>	<b>2,565</b>	<b>5,525</b>	<b>2,706</b>

In addition to the scopes 1-3, the following 'Out of Scope' emissions are from the combustion of renewable energy (new for 2021):

Electricity - Biomass	-	1,197
Gas - Feedstock	-	522
<b>Total 'out of scope'</b>	<b>-</b>	<b>1,719</b>

## Energy Efficiency Actions

Below is a list of the energy savings measures taken over the course of 2021:

- Lighting control and building management system upgrades
- Installation of infrastructure and 4 electric car charging points
- Data Centre power migration
- Sedum roof covering of the west side of the Bradford head office
- Solar film to south and east facing elevations of the Bradford head office
- Air conditioning replacement for the Comms Room
- Minimum Energy Efficiency Standard (MEES) review works across all branches
- Relocation and refurbishment of Manchester branch to a smaller site with more efficient equipment.

Intensity Ratios	2021			2020*		
	Income	GHG Emissions	Intensity ratio	Income	GHG Emissions	Intensity ratio
Income intensity ratio	£m	tCO <sub>2</sub> e	tCO <sub>2</sub> e/£m	£m	tCO <sub>2</sub> e/£m	tCO <sub>2</sub> e/£m
Location	577.6	5,442	9.4	454.0	5,525	12.2
Market		2,565	4.4		2,706	6.0
Colleague intensity ratio	Colleagues	tCO <sub>2</sub> e	tCO <sub>2</sub> e/person	Colleagues	tCO <sub>2</sub> e	tCO <sub>2</sub> e/person
Location	4,534	5,442	1.2	4,623	5,525	1.2
Market		2,565	0.6		2,706	0.6

\* 2020's Intensity Ratio's have been updated to include actuals figures rather than the estimates for final month/quarter amounts included in the 2020 disclosures.

## Going Concern

The directors confirm that they consider that the Group and the Society has adequate resources to continue in existence for at least 12 months from the date of this report. This confirmation is made after having reviewed assumptions about future trading performance, liquidity requirements, capital requirements and organisational sustainability. The directors also considered potential risks and uncertainties in the business, credit, market and liquidity risks, including the availability and repayment profile of funding facilities. Details of how the Board monitor longer term risks are included in the *Risk Management Report* in the *Governance* section.

Based on the above, together with available market information and the directors' knowledge and experience of the business and our markets, the directors continue to adopt the going concern basis in preparing the Annual Report and Accounts for the year ended 31 December 2021.

## Viability

The UK Corporate Governance Code (the Code), which the Society adopts to the extent that it applies to a Building Society, requires the directors to assess the prospects and ongoing viability of the Group over a longer period than the 12 months required for the going concern assessment.

For the purposes of assessing longer term viability, the directors have determined three years to be the most appropriate period as this covers the

typical term of most of our fixed rate products and is the longest period over which the directors consider that they can form a reasonably firm view over the macroeconomic environment and associated key drivers of business performance. The directors have therefore assessed the viability of the Group and the Society over the three years to December 2024, taking account of the current position and the potential impact of the risks documented in the *Strategic Report* and the *Risk Management Report*.

Our financial planning process consists of an operating plan for the next financial year and a corporate plan for the following additional four financial years. The one-year operating plan has a greater level of certainty and is used to set near-term targets. The five-year corporate plan is less certain than the operating plan but provides a longer term outlook against which strategic decisions can be made.

The financial planning process forecasts the Group's profitability, capital position, liquidity and other key financial metrics over the period, including regulatory measures such as MREL (Minimum Requirement for Eligible Liabilities). These metrics are subject to sensitivity analysis through the annual Group ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment) processes. The Group stresses its capital and liquidity plans, under 'severe but plausible' stress test scenarios, in line with PRA requirements.

The ICAAP stress test ensures that

the plan projections for capital requirements and capital generation are resilient to stresses should the environment deteriorate beyond the levels currently envisaged. The Group maintains capital buffers that are sufficient to absorb the level of capital erosion in the stress scenario over and above its minimum capital requirement, ensuring that the Group can continue to meet its minimum capital requirements throughout a 'severe but plausible' stress. The ILAAP stress test ensures that the Group holds adequate liquid assets in terms of both quality and quantity sufficient to meet both its business as usual liquidity needs and increased requirements that could occur as a result of the Group entering into a period of stress. Planned liquidity levels meet the Group's key risk appetite measures over a period of three years.

The Board has undertaken a robust assessment of the principal risks and uncertainties that could threaten the business model, future performance, solvency or liquidity of the Group and the Society. Based on this assessment, the directors have a reasonable expectation that the Group and the Society will be able to continue in operation and meet its liabilities as they fall due over the period to December 2024.

## Responsibility Statements

As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the directors confirm that, to the best of their knowledge:

- the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Society and the Group; and
- The *Strategic Report* includes a fair review of the development and performance of the business and the position of the Society and the Group, and the *Strategic Report* and the *Risk Management Report* contain a description of the principal risks and uncertainties.

## Fair, Balanced and Understandable

As required by the UK Corporate Governance Code, which the Group adopts to the extent that it applies to a Building Society, the directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess our performance, business model and strategy.

## External Auditor

The reappointment of PricewaterhouseCoopers LLP as the Group's external auditor is to be proposed at the AGM. The directors in office at the date of this report confirm that, so far as they are aware, there is no relevant audit information of which the external auditor is unaware. Each director has taken all the steps necessary in order to make themselves aware of any relevant audit information and to establish that the external auditors are also aware of that information.

**John Heaps,**  
*Chair of the Board*

1 March 2022

## INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF YORKSHIRE BUILDING SOCIETY

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### OPINION

In our opinion, Yorkshire Building Society's Group financial statements and Society financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2021 and of the Group's and the Society's income and expenditure and the Group's and the Society's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Society balance sheets as at 31 December 2021; 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 financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

#### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the Group in the period from 1 January 2021 to 31 December 2021.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF YORKSHIRE BUILDING SOCIETY

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

#### OUR AUDIT APPROACH

##### Overview

##### Materiality

###### Group financial statements

- £14.6m (2020: £8.6m)
- 5% of the current year (2020: three year average) profit before tax adjusted to exclude net gains and losses arising from financial instruments held at fair value

###### Society financial statements

- £8.0m (2020: £5.6m)
- 5% of the current year (2020: three year average) profit before tax adjusted to exclude net gains and losses arising from financial instruments held at fair value

##### Scoping

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors.
- We performed audit procedures over components considered financially significant in the context of the Group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances).
- We performed other procedures including evaluating entity level controls, testing information technology general controls and analytical review procedures to mitigate the risk of material misstatement in the residual components.

##### Key audit matters

- The application of key judgements and assumptions in relation to applying expected credit loss provisioning on loans and advances to customers (Group and Society);
- Hedge accounting (Group and Society); and
- Appropriateness of estimates used within the valuation of the defined benefit pension obligation (Group and Society).

##### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF YORKSHIRE BUILDING SOCIETY

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (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 in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and its industry, we identified that the principal risks of non-compliance with laws and regulations related to but are not limited to, the Financial Conduct Authority's ('FCA') regulations, the Prudential Regulation Authority's ('PRA') regulations and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Building Societies Act 1986 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and accounting for any 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;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Review of internal audit reports throughout the year, in so far as these related to the financial statements;
- Review of correspondence with, and reports to, the PRA and FCA;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging estimates and judgements made by management in forming significant accounting estimates in particular those as described under the key audit matters below;
- Identifying and testing higher risk journal entries, in particular any journals posted by senior management, postings to unusual account combinations based on our understanding of business operations and material late adjustments.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF YORKSHIRE BUILDING SOCIETY

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

#### OUR AUDIT APPROACH (CONTINUED)

##### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

COVID-19, which was a key audit matter last year, is no longer included because we deem our consideration of this area in the current year to be adequately captured by our other key audit matters and to not represent an area of increased audit attention in its own right. Otherwise, the key audit matters below are consistent with prior year.

Key audit matter	How our audit addressed the key audit matter
<p><b>The application of key judgements and assumptions in applying expected credit loss ('ECL') provisioning on loans and advances to customers (Group and Society)</b></p> <p>As at 31 December 2021:</p> <ul style="list-style-type: none"> <li>The Group has gross loans and advances to customers of £41,977m, with ECL provisions of £54m held against them.</li> <li>The Society has gross loans and advances to customers of £11,493m, with ECL provisions of £36m held against them.</li> </ul> <p>The determination of ECL provisions is inherently judgemental and involves setting assumptions using forward looking information reflecting the Group's view of potential future economic events. This can give rise to increased estimation uncertainty.</p> <p>There continues to be uncertainty in the determination of ECL provisions driven by socio-economic factors. It is unclear how the 'Omicron' and other variants of COVID-19, inflation, and other economic developments may impact the credit performance of the lending book.</p> <p>We consider the following elements of the determination of modelled ECL for residential mortgages to be significant:</p> <ul style="list-style-type: none"> <li>The application of forward-looking economic assumptions used in the models and the weightings assigned to those scenarios, particularly in respect of assumptions relating to future house prices and unemployment levels since these have the largest impact on the provision, and</li> <li>The completeness and appropriateness of post-model adjustments that are recorded to take into account latent risks and known model limitations.</li> </ul> <p>The relevant disclosures are given in note 32.</p> <p>Management's associated accounting policies are detailed on page 161.</p> <p>Management's judgements in the application of accounting policy and critical estimates are disclosed on pages 165 to 166 and the considerations of the effect of the future economic environment are given on page 212.</p> <p>The Audit Committee's consideration of the matter is described on page 93.</p>	<p>With the support of our credit risk modelling specialists and economics experts, we performed the following procedures.</p> <p>We understood and critically assessed the appropriateness of the ECL accounting policy and model methodologies used by management.</p> <p>We tested model performance by replicating key model components and comparing actual outcomes with those previously predicted by the models.</p> <p>We critically assessed the reasonableness of management's selected economic scenarios and associated scenario weightings, giving specific consideration to current and future economic uncertainty. We assessed their reasonableness against known or likely economic, political and other relevant events including the potential future economic impact of developments in the COVID-19 pandemic, prolonged inflation, and other economic developments.</p> <p>We compared the severity and magnitude of the assumptions used in each economic scenario to external forecasts and historic trends.</p> <p>Based on our knowledge and understanding of the limitations in management's models and emerging industry risks, we evaluated the completeness of the post model adjustments proposed by management. We tested the valuation of in-scope post model adjustments by critically assessing the methodology and testing the underlying assumptions used in the calculation to supporting evidence.</p> <p>We tested the ECL disclosures made by management to assess compliance with accounting standards.</p> <p>From the evidence we obtained we found that the application of forward-looking economic assumptions and the completeness and appropriateness of the post model adjustments as they relate to the ECL provision to be reasonable.</p>

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF YORKSHIRE BUILDING SOCIETY

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

#### OUR AUDIT APPROACH (CONTINUED)

##### Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><b>Hedge accounting (Group and Society)</b></p> <p>The business enters into derivative contracts in order to manage and economically hedge risks such as interest and foreign exchange rate risk. These arrangements create accounting mismatches which are addressed through designating instruments into fair value or cash flow hedge accounting relationships.</p> <p>Certain hedge accounting relationships are maintained in spreadsheets with associated reliance on manual processing, which elevates the risk of operational errors and hence the risk that financial reporting is not compliant with IFRS requirements.</p> <p>During the period, interest rate cap derivatives used to mitigate increases in wholesale funding costs were designated into new cash flow hedging relationships for the first time.</p> <p>The hedging relationships are maintained in spreadsheets and the risk of error is further heightened due to them being new and there being a heightened risk of ineffectiveness due to the one-sided nature of the risk mitigation.</p> <p>The relevant disclosures are given in note 27.</p> <p>Management's associated accounting policies are detailed on page 162.</p> <p>The Audit Committee's consideration of the matter is described on page 94.</p>	<p>We understood the nature of the hedge accounting relationships designated by management in the context of the risk management strategies that they are associated with.</p> <p>For a sample of hedging relationships, we obtained and evaluated the hedge accounting documentation to assess whether each hedge was compliant with the requirements of accounting standards. This included a sample of newly designated hedges in the year.</p> <p>For a sample of hedging relationships which are managed manually, we:</p> <ul style="list-style-type: none"> <li>■ revalued hedging derivatives and underlying hedged items</li> <li>■ re-performed hedge effectiveness calculations, agreeing key terms to underlying support, and</li> <li>■ tested that the hedge accounting was appropriately recorded.</li> </ul> <p>For a sample of interest rate cap hedging relationships, we additionally:</p> <ul style="list-style-type: none"> <li>■ evaluated the construction of the hypothetical derivative used to represent the hedged items when measuring hedge effectiveness</li> <li>■ re-performed the valuation of the hypothetical derivative, using industry-standard modelling, and</li> <li>■ critically evaluated the extent of the downward interest rate stresses applied by management in their prospective hedge effectiveness testing.</li> </ul> <p>Based on the evidence obtained, we determined the application of hedge accounting to be appropriate.</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 defined benefit obligation at 31 December 2021 is £928.2m.</p> <p>The critical assumptions in the measurement of the defined benefit obligation are discount rate, inflation and mortality rates. Changes in these assumptions can have significant impacts on the valuation.</p> <p>The relevant disclosures are given in note 18.</p> <p>Management's accounting policies are detailed on page 164. Management's judgements in application of accounting policy and critical estimates are disclosed on page 165.</p> <p>The Audit Committee's consideration of the matter is described on page 94.</p>	<p>We considered the independence, objectivity and competence of the third-party actuaries engaged by management to perform their valuation.</p> <p>We confirmed our understanding of the actuary's roll-forward methodology used in determining the valuation of the defined benefit obligation. We tested samples of census data of scheme membership data back to source documents and found the data used to be appropriate.</p> <p>We have engaged our actuarial experts to evaluate the judgements and estimates made by management in determining the key financial and mortality assumptions used in calculating the defined benefit obligation.</p> <p>We reviewed the third-party actuaries' report and discussed it with those actuaries to obtain an understanding of how key assumptions are set and the methodologies adopted in calculating the defined benefit obligation. We assessed the reasonableness of the assumptions and methodologies adopted using our knowledge of current market practice, PwC developed benchmark and external market data.</p> <p>Based on the work performed and evidence obtained, we found the methodology to be compliant with accounting standards and key assumptions to be within our independent derived ranges.</p>

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF YORKSHIRE BUILDING SOCIETY

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

#### OUR AUDIT APPROACH (CONTINUED)

##### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, and the Society, the accounting processes and controls, and the industry in which they operate.

The Group comprises the Society, its wholly owned subsidiaries and special purpose vehicles over which, under accounting standards, the Society has control. Each entity is located in the UK and is considered to be a financial reporting component.

In establishing the overall approach to our audit of the financial statements, we determined the type of work that was required to be performed over each component. The Society and Accord Mortgages Limited were considered individually financially significant in the context of the Group's consolidated financial statements and were hence full scope audit components.

We considered the individual financial significance of other components in relation to primary statement account balances. We considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). Any component which was not already included as a full scope audit component but was identified as being individually financially significant in respect of one or more account balances was subject to specific audit procedures over those account balances.

All remaining components were subject to procedures which mitigated the risk of material misstatement including testing of entity level controls and Group level analytical review procedures.

All audit work was performed in the UK and by the same engagement team.

In planning and executing our audit, we have considered the Group's governance framework and preliminary climate change risk assessment processes as outlined in the Strategic Report. This, together with our own risk assessment, has provided us with a good understanding of the potential impact of climate change on the financial statements. We have specifically considered the potential impacts of climate change and assessed that the key financial statement line item and estimates which are more likely to be materially impacted by climate risks are those associated with expected credit losses. We have concluded that there is no material impact at the reporting date. The more notable impacts of climate change on the business are expected to arise in the medium to long term over which period the financial impacts are more uncertain.



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF YORKSHIRE BUILDING SOCIETY

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

#### OUR AUDIT APPROACH (CONTINUED)

##### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	Group financial statements £14.6m (2020: £8.6m)	Society financial statements £8.0m (2020: £5.6m)
<b>How we determined it</b>	5% of the current year (2020: three year average) profit before tax adjusted to exclude net gains and losses arising from financial instruments held at fair value.	
<b>Rationale for benchmark applied</b>	<p>Profit before tax is a primary measure used by stakeholders in assessing the performance of Group's and Society's performance and is a generally accepted benchmark for determining audit materiality.</p> <p>Management assess the performance of the business using the <i>core operating profit</i> measure, which itself excludes net gains and losses on financial instruments held at fair value through the income statement, as these are not considered to reflect the underlying performance of the business. The fair value movement relates predominantly to swaps which are not yet in accounting hedging relationships, rather than underlying business performance.</p>	

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 £6.0m and £13.9m.

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 £11.0m for the Group financial statements and £6.0m for the Society financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £730,000 (2020: £430,000) in respect of the Group and £400,000 (2020: £280,000) in respect of the Society as well as misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF YORKSHIRE BUILDING SOCIETY

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (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 management's going concern assessment;
- Consideration of the Group's Operating plan, ICAAP and ILAAP, regulatory correspondence and reports provided to governance forums, and assessment of the total capital resources; and
- Evaluation of the appropriateness of the relevant disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Society's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and Society's ability to continue as a going concern.

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)

TO THE MEMBERS OF YORKSHIRE BUILDING SOCIETY

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

#### REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

#### **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 2021 is consistent with the accounting records and the financial statements; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

In light of the knowledge and understanding of the Group and Society and their environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF YORKSHIRE BUILDING SOCIETY

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

#### CORPORATE GOVERNANCE STATEMENT

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Society's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;

- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Society's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Society and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Society's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Society's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF YORKSHIRE BUILDING SOCIETY

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

#### RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

##### Responsibilities of the directors for the financial statements

As explained more fully in the statement of *Directors' responsibilities in respect of the preparation of the Annual Report and Accounts*, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and Society or to cease operations, or have no realistic alternative but to do so.

##### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the 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)

TO THE MEMBERS OF YORKSHIRE BUILDING SOCIETY

### 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 MATTER

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether that annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

#### 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 3 years, covering the years ended 31 December 2019 to 31 December 2021.

### OTHER VOLUNTARY REPORTING

#### DIRECTORS' REMUNERATION

The Society voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

**Heather Varley**  
(Senior Statutory Auditor)  
for and on behalf of  
PricewaterhouseCoopers LLP  
Chartered Accountants and  
Statutory Auditors  
Leeds

1 March 2022

## INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Group		Society	
		2021	2020	2021	2020
		£m	£m	£m	£m
Interest revenue calculated using the effective interest method	3	<b>962.7</b>	900.5	<b>756.1</b>	847.2
Other interest revenue	3	<b>30.8</b>	37.5	<b>56.5</b>	56.1
Interest revenue	3	<b>993.5</b>	938.0	<b>812.6</b>	903.3
Interest expense	4	<b>(456.1)</b>	(500.0)	<b>(543.2)</b>	(598.4)
<b>Net interest income</b>		<b>537.4</b>	438.0	<b>269.4</b>	304.9
Fee and commission revenue		<b>24.1</b>	21.8	<b>11.9</b>	12.4
Fee and commission expense		<b>(15.2)</b>	(12.8)	<b>(6.0)</b>	(6.0)
<b>Net fee and commission income</b>		<b>8.9</b>	9.0	<b>5.9</b>	6.4
Gains/(losses) from financial instruments held at fair value	5	<b>26.7</b>	(10.7)	<b>39.3</b>	(1.8)
Income from investments	8	<b>0.1</b>	–	<b>75.1</b>	59.3
Net realised gains on disposal of financial instruments		<b>0.8</b>	12.9	<b>0.8</b>	12.9
Other operating income		<b>3.7</b>	4.8	<b>71.9</b>	67.2
<b>Total income</b>		<b>577.6</b>	454.0	<b>462.4</b>	448.9
Administrative expenses	6	<b>(251.8)</b>	(250.0)	<b>(251.8)</b>	(249.8)
Depreciation and amortisation		<b>(22.7)</b>	(25.8)	<b>(22.7)</b>	(25.8)
Impairment of financial assets	7	<b>19.2</b>	(12.2)	<b>15.4</b>	(6.8)
Movement in provisions	24	<b>(2.3)</b>	(4.7)	<b>(2.3)</b>	(4.7)
<b>Profit before tax</b>		<b>320.0</b>	161.3	<b>201.0</b>	161.8
Tax expense	9	<b>(62.9)</b>	(37.8)	<b>(23.7)</b>	(25.2)
<b>Profit for the year</b>		<b>257.1</b>	123.5	<b>177.3</b>	136.6

All profit for the year arises from continuing operations and is attributable to members.

## STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Group		Society	
		2021	2020	2021	2020
		£m	£m	£m	£m
<b>Profit for the year</b>		<b>257.1</b>	123.5	<b>177.3</b>	136.6
<b>Items that may be subsequently reclassified through profit or loss</b>					
Cash flow hedges:					
Fair value movements taken to equity		<b>15.3</b>	–	<b>15.3</b>	–
Amounts transferred to the income statement		<b>0.4</b>	0.6	<b>0.4</b>	0.6
Tax on amounts recognised in equity		<b>(4.2)</b>	(0.2)	<b>(4.2)</b>	(0.2)
Effect of change in corporation tax rate	9	<b>(0.9)</b>	–	<b>(0.9)</b>	–
Financial assets measured through other comprehensive income:					
Fair value movements taken to equity		<b>18.3</b>	36.6	<b>18.3</b>	36.6
Amounts transferred to the income statement		<b>(3.7)</b>	(29.8)	<b>(3.7)</b>	(29.8)
Tax on amounts recognised in equity		<b>(4.0)</b>	(1.8)	<b>(4.0)</b>	(1.8)
Effect of change in corporation tax rate	9	<b>(1.9)</b>	(0.2)	<b>(1.9)</b>	(0.2)
<b>Items that will not be reclassified through profit or loss</b>					
Remeasurement of retirement benefit obligations	18	<b>30.5</b>	4.3	<b>30.5</b>	4.3
Tax on remeasurement of retirement benefit obligations		<b>(8.0)</b>	(1.4)	<b>(8.0)</b>	(1.4)
Effect of change in corporation tax rate	9	<b>(7.2)</b>	(1.7)	<b>(7.2)</b>	(1.7)
<b>Total other comprehensive income</b>		<b>34.6</b>	6.4	<b>34.6</b>	6.4
<b>Total comprehensive income for the year</b>		<b>291.7</b>	129.9	<b>211.9</b>	143.0

The notes on pages 158 to 240 form part of these financial statements.

## BALANCE SHEETS

AS AT 31 DECEMBER 2021

	Notes	Group		Society	
		2021	2020	2021	2020
		£m	£m	£m	£m
<b>Assets</b>					
Cash and balances with the Bank of England	10	5,539.8	4,455.7	5,539.8	4,455.7
Loans and advances to credit institutions		381.4	1,087.4	295.8	964.8
Debt securities	11	4,075.5	2,860.1	14,940.5	9,451.9
Loans and advances to customers	12	41,922.4	38,798.6	11,456.6	13,154.5
Derivative financial instruments	27	490.9	416.2	419.5	217.5
Investments	8	5.4	13.6	33,136.0	29,223.8
Intangible assets	13	23.5	30.2	23.5	30.2
Investment properties	14	14.5	14.6	14.5	14.6
Property held for sale	15	0.3	7.7	0.3	7.7
Property, plant and equipment	16	122.0	126.6	122.0	126.1
Deferred tax assets	17	–	6.0	–	5.9
Retirement benefit surplus	18	120.8	91.0	120.8	91.0
Other assets	19	27.2	23.1	56.0	42.2
<b>Total assets</b>		<b>52,723.7</b>	47,930.8	<b>66,125.3</b>	57,785.9
<b>Liabilities</b>					
Shares	20	35,506.4	33,368.3	35,506.4	33,368.3
Amounts owed to credit institutions		6,089.8	3,836.9	6,089.8	3,836.9
Other deposits	21	873.5	535.7	15,562.1	11,394.5
Debt securities in issue	22	5,890.9	6,128.3	4,993.7	5,379.6
Derivative financial instruments	27	272.7	490.9	180.9	465.1
Current tax liabilities		4.0	2.9	4.0	2.9
Deferred tax liabilities	17	50.4	34.9	48.4	33.1
Other liabilities	23	83.6	82.4	98.4	86.0
Provisions	24	6.1	8.6	6.1	8.6
Subordinated liabilities	25	857.7	645.0	857.7	645.0
<b>Total liabilities</b>		<b>49,635.1</b>	45,133.9	<b>63,347.5</b>	55,220.0
Members' interests and equity		3,088.6	2,796.9	2,777.8	2,565.9
<b>Total members' interest, equity and liabilities</b>		<b>52,723.7</b>	47,930.8	<b>66,125.3</b>	57,785.9

Approved by the Board of Directors on 1 March 2022 and signed on its behalf by:

**Stephen White**  
Interim Chief Executive Officer

**Alasdair Lenman**  
Chief Finance Officer

**John Heaps**  
Chair of the Board

## STATEMENTS OF CHANGES IN MEMBERS' INTEREST AND EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

Group	General reserve	Cash flow hedge reserve	Fair value through other comprehensive income	Total
	£m	£m	£m	£m
At 1 January 2021	2,784.5	–	12.4	2,796.9
Profit for the year	257.1	–	–	257.1
Net remeasurement of defined benefit obligations	15.3	–	–	15.3
Net movement in cash flow hedge reserve	–	10.6	–	10.6
Net movement in fair value through other comprehensive income	–	–	8.7	8.7
<b>Total comprehensive income</b>	<b>272.4</b>	<b>10.6</b>	<b>8.7</b>	<b>291.7</b>
<b>At 31 December 2021</b>	<b>3,056.9</b>	<b>10.6</b>	<b>21.1</b>	<b>3,088.6</b>
At 1 January 2020	2,659.6	(0.4)	7.6	2,666.8
Transitional tax adjustment	0.2	–	–	0.2
At 1 January 2020 restated	2,659.8	(0.4)	7.6	2,667.0
Profit for the year	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>

## STATEMENTS OF CHANGES IN MEMBERS' INTEREST AND EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

Society	General reserve	Cash flow hedge reserve	Fair value through other comprehensive income	Total
	£m	£m	£m	£m
At 1 January 2021	2,553.5	–	12.4	2,565.9
Profit for the year	177.3	–	–	177.3
Net remeasurement of defined benefit obligations	15.3	–	–	15.3
Net movement in cash flow hedge reserve	–	10.6	–	10.6
Net movement in fair value through other comprehensive income	–	–	8.7	8.7
<b>Total comprehensive income</b>	<b>192.6</b>	<b>10.6</b>	<b>8.7</b>	<b>211.9</b>
<b>At 31 December 2021</b>	<b>2,746.1</b>	<b>10.6</b>	<b>21.1</b>	<b>2,777.8</b>
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
At 1 January 2020 restated	2,415.7	(0.4)	7.6	2,422.9
Profit for the year	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>

\* In the prior 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 158 to 240 form part of these financial statements.

## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Group		Society	
		2021	2020	2021	2020
		£m	£m	£m	£m
<b>Cash flows from operating activities</b>					
Profit before tax		<b>320.0</b>	161.3	<b>201.0</b>	161.8
Non-cash items included in profit before tax	35	<b>(45.5)</b>	43.4	<b>(40.2)</b>	36.5
Net change in operating assets	35	<b>(3,155.4)</b>	(878.7)	<b>(2,385.2)</b>	(941.5)
Net change in operating liabilities	35	<b>4,214.8</b>	3,607.1	<b>8,002.3</b>	4,599.7
Tax paid		<b>(66.5)</b>	(51.3)	<b>(27.7)</b>	(26.8)
<b>Net cash flow from operating activities</b>		<b>1,267.4</b>	2,881.8	<b>5,750.2</b>	3,829.7
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment, and intangible assets		<b>(14.5)</b>	(16.3)	<b>(14.9)</b>	(16.3)
Sale of property, plant and equipment		<b>13.1</b>	5.0	<b>13.1</b>	5.0
Purchase of debt securities		<b>(1,828.8)</b>	(3,569.8)	<b>(7,396.3)</b>	(6,295.3)
Redemption and other movements of debt securities		<b>628.7</b>	3,277.6	<b>1,923.0</b>	4,775.9
<b>Net cash flow from investing activities</b>		<b>(1,201.5)</b>	(303.5)	<b>(5,475.1)</b>	(1,530.7)
<b>Cash flows from financing activities</b>					
Redemption of debt securities in issue	35	<b>(1,365.6)</b>	(1,129.5)	<b>(1,082.2)</b>	(831.9)
Issue of debt securities	35	<b>1,424.0</b>	1,050.0	<b>968.4</b>	1,050.0
Redemption of subordinated liabilities		-	-	-	-
Issue of subordinated liabilities		<b>250.0</b>	-	<b>250.0</b>	-
Redemption of subscribed capital		-	-	-	-
Interest paid on subordinated liabilities and subscribed capital		<b>(23.5)</b>	(22.5)	<b>(23.5)</b>	(22.5)
Interest paid on lease liabilities		<b>(0.9)</b>	(0.9)	<b>(0.9)</b>	(0.9)
Capital repayments on lease liabilities		<b>(5.6)</b>	(4.2)	<b>(5.6)</b>	(4.2)
<b>Net cash flow from financing activities</b>		<b>278.4</b>	(107.1)	<b>106.2</b>	190.5
<b>Net change in cash and cash equivalents</b>		<b>344.3</b>	2,471.2	<b>381.3</b>	2,489.5
Opening balance		<b>5,421.4</b>	2,950.2	<b>5,298.8</b>	2,809.3
<b>Closing cash and liquid cash equivalents</b>		<b>5,765.7</b>	5,421.4	<b>5,680.1</b>	5,298.8
<b>Cash and liquid cash equivalents</b>					
Cash and cash equivalents		<b>5,539.8</b>	4,455.7	<b>5,539.8</b>	4,455.7
Less Bank of England cash ratio deposit		<b>(155.5)</b>	(121.7)	<b>(155.5)</b>	(121.7)
Loans and advances to credit institutions		<b>381.4</b>	1,087.4	<b>295.8</b>	964.8
<b>Closing cash and liquid cash equivalents</b>		<b>5,765.7</b>	5,421.4	<b>5,680.1</b>	5,298.8

The notes on pages 158 to 240 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. STATEMENT OF ACCOUNTING POLICIES

#### BASIS OF PREPARATION

These financial statements present the results of Yorkshire Building Society ('YBS' or 'the Society') and its controlled entities (collectively 'the Group' or 'the YBS Group') for the year ended 31 December 2021.

The Group is required under the *Building Societies Act 1986* to apply 'UK-adopted international accounting standards' as endorsed by the UK Endorsement Board (UKEB). As a result, these financial statements have been prepared in accordance with international accounting standards – being International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the International Accounting Standards Board (IASB) endorsed by the UKEB and effective from 1 January 2021 – and with those parts of the *Building Societies Act 1986* and the *Building Societies (Accounts and Related Provisions) Regulations 1998* applicable to societies reporting under international accounting standards.

The 31 December 2020 financial statements were prepared using international accounting standards endorsed by the European Union but, given the two bases were equivalent to each other at 31 December 2021, no prior year restatement is required.

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial instruments measured at fair value. Pounds sterling is both the functional currency of the YBS Group and the presentation currency applied to these financial statements. Except where otherwise stated, all figures in the financial statements are rounded to the nearest hundreds of thousands of pounds sterling (£0.0m).

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.

Whilst there is still uncertainty around the future direction of the macroeconomic environment, the significant increases in UK house prices over 2021, and the resulting increase in the value of collateral backing the mortgage portfolio, have resulted in the Group requiring lower levels of expected credit losses than at 31 December 2020. 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 any economic volatility. As a result, the directors confirm that, based on the latest formal review undertaken in February 2022, 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. For covered bonds, the Society issues the covered bonds, not the structured entity. The proceeds are then lent to the structured entity on back to back terms. These proceeds are used as consideration for the loans transferred from the Society. Neither the loan to the structured entity nor the consideration for the transfer of mortgage loans is recognised separately as an additional asset and liability in the accounts of the Society.

To manage interest rate risk, the Group enters into derivative transactions with its structured entities, receiving a rate of interest based on the securitised mortgages and paying a rate inherent in the debt issuances. These internal derivatives are treated as part of the deemed loan and not separately measured at fair value because the relevant mortgage loans are not derecognised.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### ACCOUNTING DEVELOPMENTS

##### Changes to Accounting Standards Effective in the Period

##### Interest rate benchmark reform – Amendments to IAS 39, IFRS 9 and IFRS 7

Adoption of Phase 2 of the amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Disclosures* released by the IASB is mandatory from 1 January 2021.

Phase 2 addresses issues that arise once an existing interest rate is replaced with an alternative interest rate.

The YBS Group has transitioned all the relevant instruments from LIBOR to alternative bases, with the exception of two financial instruments within one of the SPV controlled entities, Brass No.8 PLC (Brass 8). Residential mortgage backed securities (RMBS) issued by Brass 8 (and their related interest rate swap derivatives) are linked to USD LIBOR. These financial instruments have not transitioned to an alternative benchmark as the RMBS will be fully repaid by the USD LIBOR cessation date in June 2023.

Transitioning of the LIBOR based swaps has not resulted in any of the hedge relationships failing the effectiveness testing and any gains or losses from the change of benchmarks and discount curves has been recognised in profit and loss.

##### 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 make a decision of the direction of the project is expected in the middle of 2022.

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. Only a small equity release portfolio in run-off falls under the scope of IFRS 17 so the impact of applying this revised standard is not expected to be material.

##### Change in Accounting Policy

There were no changes to accounting policies during the year ended 31 December 2021.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 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.

The table below summarises the Group's financial instruments and the treatment adopted in these financial statements:

Financial instrument	Description	Subsequent measurement
Cash and cash equivalents	Cash balances and statutory deposits	Amortised cost
Loans and advances to credit institutions	Fixed and variable interest rates	Amortised cost
Debt securities	Fixed, variable and indexed linked interest rates	Fair value through other comprehensive income, amortised cost and fair value through profit and loss
Loans and advances to customers	Primarily mortgage products offering a variety of fixed and variable interest rates	Amortised cost
Derivative financial instruments*	Swaps and options to manage interest rate and foreign exchange risk exposures	Fair value through profit and loss (unless designated as a cash flow hedge, see 'Hedging' 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

\* The Society holds intra group derivatives to manage interest rate risk within the special purpose securitisation vehicles and these are measured at amortised cost. These internal derivatives are treated as part of the deemed loan with the SPV.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Financial instruments (continued)

##### 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), based on quantitative risk grade thresholds. Impairment is then based on expected losses over the full lifetime of the contract (lifetime ECL).

The Group assesses a SICR to have occurred when the accounts are more than 30 days past due or there has been a significant relative increase in the lifetime probability of default (PD) compared to that at initial recognition.

For retail accounts, PD is based on the customer's credit quality, including analysis of their behaviour scores and other account characteristics. For non-retail portfolios, the Group assess a significant increase in credit risk using a combination of individual and collective information, including monitoring through the watch list process.

**Stage 3:** financial assets are moved into 'stage 3' when there is objective evidence that the loan is credit impaired, with expected credit losses still calculated on a lifetime basis.

A loan is considered credit impaired when it is 90 days past due, has been renegotiated for credit risk reasons, or otherwise considered to be in default (including possession, insolvency and assets beyond term expiry).

The Group's use of forbearance tools, including arrears arrangements, payment deferrals, term extension, transfers to interest only and interest capitalisation, are factored into the criteria for identifying stage 3 accounts. The impairment provision is determined using the same calculation as stage 2 accounts, but with the PD set to 100%.

Loans that are either purchased or originated credit impaired (POCI) are classified as stage 3 at initial recognition and cannot be transferred to stage 1 or 2 even if the credit quality of these assets improves. The Group has a portfolio of loans acquired as part of the Chelsea and Norwich & Peterborough acquisitions that meet this definition.

**ECL calculations:** these are assessed at individual loan level using three main components.

- PD, being the probability, at the point of assessment, that the customer will default in the future.

- Exposure at default (EAD), being the outstanding value of the loan, taking into account the repayment of principal and interest between the date of assessment and expected default date.
- Loss given default (LGD), is the net impact of the EAD after taking into account the mitigating effect of collateral and the time value of money.

PD is a calculation based on current conditions and adjusted to take into account estimates of future conditions that will impact PD.

EAD is modelled based on expected payments over the term and is not floored at the current balance.

LGD takes into account the expected impact of future economic conditions, such as changes in value of collateral, and does not include any floors. Only costs directly associated with obtaining/selling collateral are included. Discounting of the expected cash flows is performed using the effective interest rate of the loan.

The ECL is calculated using models that build up separate estimates for PD, EAD and LGD for every month that a loan is due to be outstanding.

PD and LGD estimates are then flexed under different scenarios to capture the effects of changes to the forward looking macroeconomic variables (including interest rates, unemployment, house prices and inflation). The final ECL figure takes a probability weighted average of these different scenarios.

Loans are written off against this ECL balance when there is no realistic prospect of recovery. This is generally after receipt of any proceeds from the realisation of the collateral backing the loan.

Other financial assets are considered low credit risk at the reporting date as they are investment grade instruments. As a result, impairment is based on 12-month ECL as per stage 1 above.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Financial instruments (continued)

###### Financial instruments acquired in business combinations

Financial assets and liabilities acquired in a business combination are recognised at fair value upon acquisition. To the extent that this differs from the underlying amortised cost carrying value assumed on the transaction date, a fair value adjustment is recognised on the statement of financial position.

This balance is then amortised through the income statement over the expected life of the acquired portfolio in a manner that reflects the consumption of the economic benefits arising from the underlying assets and liabilities. To the extent that the fair value adjustment relates to estimated credit losses on a portfolio of mortgage assets, the *fair value credit adjustment* is included in the overall ECL balance.

The Group continues to run off balances in relation to the Chelsea Building Society and Norwich & Peterborough acquisitions. In addition to the *fair value credit adjustments*, it also includes *interest rate fair value adjustments* in the *loans and advances to customers* and *shares* balances.

###### Hedging

As discussed above, IFRS 9 *Financial Instruments* included a transitional relief allowing the continued use of the hedge accounting requirements of IAS 39 *Financial Instruments: Recognition and Measurement*, and the Group continue to adopt this approach.

The Group applies hedge accounting when the specific rules and conditions in IAS 39 are fulfilled. The Group has designated the majority of its derivatives as either fair value or cash flow hedges in order to reduce volatility in the income statement.

##### Fair value hedges

Where a derivative financial instrument meets the requirements of a fair value hedge, changes in the fair value of the hedged item are taken to the income statement offsetting the effect of the related movements in the fair value of the derivative.

Where the hedge no longer meets the criteria the adjustment to the hedged item is released to the income statement, over the remaining life of the original hedged relationship.

##### Cash flow hedges

Where a derivative financial instrument is designated as a cash flow hedge, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income and recycled to the income statement 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.

##### 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 was updated during 2020 to better reflect the information reported to the Chief Operating Decision Maker for the purposes of resource allocation and assessment of performance. The Group 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Investment properties

Investment properties comprise freehold properties, and parts of freehold properties, that are not used in the business and held for rental income or capital appreciation. These properties are generally flats and offices ancillary to branch premises. Investment properties are held at cost less accumulated depreciation and impairment.

##### Property, plant and equipment

Freehold properties used in the business, major alterations to office premises, fixtures and fittings, equipment and other tangible fixed assets are stated at cost less accumulated depreciation and impairment. Costs incurred after the initial purchase of fixed assets are expensed unless it directly results in increased future economic benefits that can be reliably measured. Repairs and maintenance are treated as an expense.

Depreciation is a measure that recognises the cost, less estimated residual value, over the estimated useful economic lives as follows:

- Freehold/long leasehold buildings (including investment properties) – 50 years
- Short leasehold property and Right of Use property assets – Life of lease
- Equipment, fixtures, fittings and vehicles – 3 to 20 years
- Freehold land is stated at cost less accumulated impairment losses and is not depreciated.

Property (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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 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 liquid financial instruments maturing within 3 months. The statement of cash flows has been prepared using the indirect method.

## 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 considered the accounting judgements and estimates applied in the financial statements. The Audit Committee have confirmed to the Board that they consider these to be appropriate.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below.

#### RETIREMENT BENEFIT COSTS

The Group's accounting policy states that a net defined benefit pension scheme asset should only be recognised to the extent that the Group has the ability to access the pension scheme surplus in the form of a refund or reduction in future contributions.

The scheme trustees could act unilaterally in order to restrict the ability of the Group to seek a refund or reduce future contributions, hence a judgement on the likelihood of this event is required. The Group has received a legal opinion supporting the judgement that any surplus of the scheme can be recovered in full and that pension scheme trustees are unable to act to amend the scheme rules, and ultimately prevent the Society accessing the surplus, without the Society's support.

In addition, significant estimation uncertainty in respect of areas such as future interest rates and mortality rates have to be applied in estimating the value of the assets and liabilities of the defined benefit scheme. These are outlined in note 18.

The impact of a 0.5% increase in the rate used to discount future liabilities from 1.85% to 2.35% would result in a decrease of liability of 9% (2020: decrease of 9%). The impact of a 0.5% increase in inflation would increase liabilities by 5% (2020: 4%). The impact of a one year increase in life expectancy at age 60 would be to increase liabilities by around 4% (2020: 4%). Note that these sensitivities have been modelled independently as single variable adjustments and have not anticipated any correlation between movements in the 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 to support the estimate of ECL. ALCO applies judgements to arrive at these assumptions while the consensus view on these economic variables is being reached.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

##### Economic scenarios and weightings (continued)

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 economic assumptions applied to the ECL model and determined that applying a combined 45% 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, 50% to Core, 30% to Downside and 15% to Stress scenarios. This reflects a move of 5 percentage points from Downside to Core compared to 31 December 2020.

The Group considered alternative sets of weightings in reaching these results. The most severe applied the same weightings as at 31 December 2020 i.e. 45% Core and 35% Downside – this would result in a £2.2 million increase in ECL. The least severe applied weightings of 55% Core and 10% Stress – this would result in a £3.2 million decrease in ECL. These changes in weightings have been fully modelled and been allowed to impact staging.

In terms of sensitivity to changes in key economic variables within the model, if UK House Price Index (HPI) forecasts were uplifted by 1% a year for the next 5 years, ECL would reduce by £2.9 million. The key in-year impact of changes to economic variables came from applying quarterly Office of National Statistics (ONS) HPI updates, which accounted for £17.0 million of the impairment release over 2021 (2020: £6.3 million release).

The determination, application and calculation of post model adjustments (PMA) also requires judgement to be applied. Further detail on economic assumptions, weightings and PMAs can be found in note 32.

##### Core model assumptions

##### Significant increase in credit risk

A judgement is applied to determine the threshold at which a significant relative increase in credit risk is deemed to have occurred. If 10% of the accounts in stage 1, on a proportional basis, were to be transferred to stage 2 and subject to a calculation of full lifetime expected credit losses, this would result in a £2.3 million increase (2020: £4.0 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 customer for acquired interest-only mortgages.

The existence of an appropriate repayment vehicle has only been substantiated for 27% (2020: 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 8.8% (2020: 8.3%). This results in an ECL of £10.2 million (2020: £16.7 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 £6.7 million (2020: £7.1 million).



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. INTEREST REVENUE

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Calculated using the effective interest rate method:				
Loans secured on residential property	912.3	846.4	279.0	315.2
Loans secured on connected undertakings	–	–	381.0	426.7
Other loans	19.2	19.8	19.2	19.8
Liquid assets	4.8	7.7	4.8	7.5
On debt securities	26.4	26.6	72.1	78.0
<b>Interest revenue calculated using the effective interest rate method</b>	<b>962.7</b>	<b>900.5</b>	<b>756.1</b>	<b>847.2</b>
Other:				
Derivatives in hedge relationships	16.4	16.6	15.1	16.6
Derivatives not included in hedge relationships	14.4	20.9	41.4	39.5
<b>Other interest revenue</b>	<b>30.8</b>	<b>37.5</b>	<b>56.5</b>	<b>56.1</b>
<b>Total interest revenue</b>	<b>993.5</b>	<b>938.0</b>	<b>812.6</b>	<b>903.3</b>

### 4. INTEREST EXPENSE

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Shares held by individuals	218.0	246.3	218.0	246.3
Deposits from banks	4.4	8.0	4.4	8.0
Deposits from connected undertakings	–	–	75.1	96.5
Other deposits	0.2	0.8	0.2	0.8
Debt securities in issue	61.1	68.8	53.6	57.8
Subordinated liabilities	23.5	22.5	23.5	22.5
Derivatives in hedge relationships	134.6	134.6	125.8	125.8
Derivatives not included in hedge relationships	13.4	18.1	41.7	39.8
Interest expense for leasing arrangements	0.9	0.9	0.9	0.9
<b>Total interest expense</b>	<b>456.1</b>	<b>500.0</b>	<b>543.2</b>	<b>598.4</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 5. GAINS/(LOSSES) FROM FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Equity investments held at fair value	0.1	5.0	0.1	5.0
Hedge accounting ineffectiveness	(3.6)	(1.0)	7.6	5.3
Derivatives and debt securities not included in hedge relationships	30.2	(14.7)	31.6	(12.1)
<b>Net gains/(losses) from financial instruments held at fair value</b>	<b>26.7</b>	<b>(10.7)</b>	<b>39.3</b>	<b>(1.8)</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.

## 6. ADMINISTRATIVE EXPENSES

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Staff costs:				
Salaries and wages	119.4	114.7	119.4	114.7
Social security costs	12.4	11.7	12.4	11.7
Pension costs – defined benefit plans	1.6	0.6	1.6	0.6
Pension costs – defined contribution plans	10.2	10.0	10.2	10.0
Contractor staff costs	14.9	13.4	14.9	13.4
Other staff costs	1.1	2.1	1.1	2.1
Professional consultancy costs	12.2	9.5	12.2	9.5
Premises costs	15.9	17.4	15.9	17.6
IT costs	30.0	33.0	30.0	33.0
Marketing	9.8	9.7	9.8	9.7
Other expenses	24.3	27.9	24.3	27.5
<b>Total administrative expenses</b>	<b>251.8</b>	<b>250.0</b>	<b>251.8</b>	<b>249.8</b>

The Society operates a salary sacrifice scheme whereby employees can opt to make contributions from their pre-tax salaries. The amount shown in the table above under salaries and wages includes the headline salary (i.e. before the salary sacrifice deduction) and pension costs exclude the additional contributions made by the Society on employees' behalf as a result of the salary sacrifice scheme. Full details of directors' remuneration, including the number of directors, the total remuneration of directors, including that of the highest paid director, bonuses and pensions are given in the *Directors' Remuneration Report* within the *Governance* section.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 6. ADMINISTRATIVE EXPENSES (CONTINUED)

#### REMUNERATION OF THE AUDITORS

	Group		Society	
	2021	2020	2021	2020
	£000	£000	£000	£000
Audit fees for the Group and Society statutory audit	629.0	664.3	629.0	664.3
Audit fee for the statutory audit of controlled entities	353.5	349.0	–	–
Audit related assurance services required by law or regulation	149.0	8.5	149.0	8.5
<b>Total audit and audit related assurance services</b>	<b>1,131.5</b>	<b>1,021.8</b>	<b>778.0</b>	<b>672.8</b>
Other permitted non-audit services	270.7	252.9	224.7	212.9
<b>Total remuneration of the auditors</b>	<b>1,402.2</b>	<b>1,274.7</b>	<b>1,002.7</b>	<b>885.7</b>

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 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:

	2021		2020	
	Full time	Part time	Full time	Part time
Central administration	1,964	453	1,860	470
Branches	390	442	487	527
<b>Total staff numbers</b>	<b>2,354</b>	<b>895</b>	<b>2,347</b>	<b>997</b>

### 7. IMPAIRMENT OF FINANCIAL ASSETS

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Impairment (release)/charge loans and advances to customers	(18.5)	13.3	(15.0)	7.2
Recoveries relating to loans and advances previously written off	(1.0)	(1.2)	(0.7)	(0.5)
Impairment of other financial assets	0.3	0.1	0.3	0.1
<b>Impairment (release) / charge</b>	<b>(19.2)</b>	<b>12.2</b>	<b>(15.4)</b>	<b>6.8</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 8. INVESTMENTS

## INCOME FROM INVESTMENTS

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Dividend income from subsidiaries	–	–	75.0	59.3
Dividend income from equity investments	0.1	–	0.1	–
<b>Income from investments</b>	<b>0.1</b>	<b>–</b>	<b>75.1</b>	<b>59.3</b>

During 2021, the Society received dividends from Accord Mortgages Limited of £75.0m (2020: £50.0m) and Norwich & Peterborough Insurance Brokers Limited of £nil (2020: £9.3m).

## INVESTMENTS

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Equities	5.4	13.6	5.4	13.6
Controlled entities	–	–	33,130.6	29,210.2
<b>Total investments</b>	<b>5.4</b>	<b>13.6</b>	<b>33,136.0</b>	<b>29,223.8</b>

## Investment in equities

The Group holds equity investments in a banking and credit card service provider due to our historic participation in their card servicing operations. A tranche of these equity shares was sold for £8.5m in August 2021. The investments are held at fair value through profit or loss and the valuation technique is detailed in note 33.

## Controlled entities

Society	Equity	Loans	Total
	£m	£m	£m
At 1 January 2021	104.9	29,105.3	29,210.2
Additions	–	5,142.8	5,142.8
Repayments	–	(1,222.4)	(1,222.4)
<b>At 31 December 2021</b>	<b>104.9</b>	<b>33,025.7</b>	<b>33,130.6</b>
At 1 January 2020	104.9	27,037.3	27,142.2
Additions	–	2,925.5	2,925.5
Repayments	–	(857.5)	(857.5)
<b>Total as at 31 December 2020</b>	<b>104.9</b>	<b>29,105.3</b>	<b>29,210.2</b>

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 equity share capital for each of the following subsidiary entities, all of which are audited and consolidated.

Subsidiary	Principal activity
Accord Mortgages Limited .....	Mortgage lending
Norwich and Peterborough Insurance Brokers Limited .....	Non-trading
Norwich and Peterborough (LBS) Limited.....	Mortgage finance
YBS Properties (Edinburgh) Limited.....	Property holding

The Group has taken advantage of the audit exemptions available for small and dormant subsidiaries under sections 479 and 480 of the *Companies Act 2006* for the following subsidiary entities, all of which are consolidated:

- BCS Loans 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 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 have their registered office as Yorkshire Drive, Bradford, BD5 8LJ.

#### OTHER CONTROLLED ENTITIES

The following entities are deemed to be controlled as, whilst the Group does not have a controlling equity shareholding, it has the right to variable returns from its involvement in the entity. The Society's interests in these entities are, in substance, no different than if they were wholly-owned subsidiary undertakings and, as a result, they are consolidated into the Group. The carrying value of the equity holdings in these entities in the Society is nil (2020: nil).

- Brass No.5 PLC
- Brass No.5 Mortgage Holdings Limited
- Brass No.6 PLC
- Brass No.6 Mortgage Holdings Limited
- Brass No.7 PLC
- Brass No.7 Mortgage Holdings Limited
- Brass No.8 PLC
- Brass No.8 Mortgage Holdings Limited
- Brass No.9 PLC
- Brass No.9 Mortgage Holdings Limited
- Brass No.10 PLC\*\*
- Brass No.10 Mortgage Holdings Limited\*\*
- Tombac No.2 PLC\*
- Tombac No.2 Mortgage Holdings Limited\*
- Tombac No.3 PLC\*\*
- Tombac No.3 Mortgage Holdings Limited\*\*
- Yorkshire Building Society Covered Bonds LLP
- YBS Covered Bonds Finance (Holdings) Limited
- YBS Covered Bonds Finance Limited

All these entities are subject to audit and have a 31 December year end, apart from those entities currently in liquidation or incorporated during the year. Their registered office is Third Floor, 1 King's Arms Yard, London, EC2R 7AF, with the exceptions of *Yorkshire Building Society Covered Bonds LLP* whose registered address is Yorkshire Drive, Bradford, BD5 8LJ.

#### JOINT VENTURES

The Society has a 22.2% joint venture investment in Arkose Funding Limited. The carrying value of the investment at 31 December 2021 is £nil (2020: £nil).

\* in liquidation

\*\* incorporated during the year

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 9. TAX EXPENSE

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
UK Corporation tax at 19%	67.3	39.6	28.3	26.9
Corporation tax – adjustment in respect of prior periods	0.3	(1.6)	0.3	(1.6)
<b>Total current tax</b>	<b>67.6</b>	<b>38.0</b>	<b>28.6</b>	<b>25.3</b>
Deferred tax – current year	(4.1)	(2.1)	(3.9)	(1.8)
Deferred tax – adjustment in respect of prior periods	0.2	1.7	0.2	1.7
Deferred tax – impact of rate change	(0.8)	0.2	(1.2)	–
<b>Total tax expense in the income statement</b>	<b>62.9</b>	<b>37.8</b>	<b>23.7</b>	<b>25.2</b>

The actual tax expense for the year differs from that calculated using the standard rate of UK corporation tax of 19% (2020: 19%), making the effective tax rate 19.7% (2020: 23.4%). A full breakdown of the difference is provided below:

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Profit before tax	320.0	161.3	201.0	161.8
Tax calculated at a tax rate of 19% (2020: 19%)	60.8	30.7	38.2	30.8
Effects of:				
Income not subject to tax	(1.8)	(1.8)	(18.2)	(13.1)
Fair value movements on securitisation	0.3	0.5	–	–
Expenses not deductible for tax purposes	0.5	2.1	1.0	1.4
Banking surcharge	5.8	6.0	5.8	6.0
Adjustment to tax charge in respect of previous periods	0.5	0.1	0.5	0.1
Recognition and utilisation of capital losses	(2.4)	–	(2.4)	–
Change in tax rate	(0.8)	0.2	(1.2)	–
<b>Total tax expense in income statement</b>	<b>62.9</b>	<b>37.8</b>	<b>23.7</b>	<b>25.2</b>
Tax (credit)/expense recognised directly in equity:				
Tax on financial instruments held at fair value through other comprehensive income	4.0	1.8	4.0	1.8
Change in tax rate on financial instruments held at fair value through other comprehensive income	1.9	0.2	1.9	0.2
Tax on remeasurement of net retirement benefit obligations	8.0	1.4	8.0	1.4
Change in tax rate on net retirement benefit obligations	7.2	1.7	7.2	1.7
Deferred tax on cash flow hedges	4.2	0.2	4.2	0.2
Change in tax rate on cash flow hedges	0.9	–	0.9	–
<b>Total tax expense recognised directly in equity</b>	<b>26.2</b>	<b>5.3</b>	<b>26.2</b>	<b>5.3</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9. TAX EXPENSE (CONTINUED)

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was announced in March 2021 and substantively enacted on 24 May 2021. This will increase the future rate at which the Group pays tax. The deferred tax assets and liabilities at 31 December 2021 have been calculated based on the 25% rate, with a blended rate applied where it is known that the associated temporary difference will reverse prior to 1 April 2023.

During the Autumn 2021 Budget, it was announced that the banking surcharge would be reduced from 8% to 3% (on taxable profit above £100 million) from 1 April 2023. This change had not been *substantively enacted* (i.e. the changes to the tax legislation fully approved) at the balance sheet date and as a result, deferred tax balances continue to be measured based on the existing surcharge rate of 8% on taxable profit above £25 million. If the surcharge rate change had been substantively enacted, the impact would have been a £7.4 million reduction in the net deferred tax liability.

### 10. CASH AND BALANCES WITH THE BANK OF ENGLAND

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Cash in hand	8.5	9.2	8.5	9.2
Unencumbered deposits with the Bank of England	5,375.8	4,324.8	5,375.8	4,324.8
<b>Cash in hand and unencumbered deposits</b>	<b>5,384.3</b>	<b>4,334.0</b>	<b>5,384.3</b>	<b>4,334.0</b>
Cash ratio deposit with the Bank of England	155.5	121.7	155.5	121.7
<b>Cash and balances with the Bank of England</b>	<b>5,539.8</b>	<b>4,455.7</b>	<b>5,539.8</b>	<b>4,455.7</b>

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	
	2021	2020	2021	2020
	£m	£m	£m	£m
Debt securities issued by:				
Public bodies	667.7	582.4	667.9	582.4
Other borrowers	3,407.8	2,277.7	3,319.4	2,215.1
Group companies	–	–	10,953.2	6,654.4
<b>Total debt securities</b>	<b>4,075.5</b>	<b>2,860.1</b>	<b>14,940.5</b>	<b>9,451.9</b>

Debt securities issued by Group companies comprise retained investments in the Group's securitisation vehicles.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 11. DEBT SECURITIES (CONTINUED)

Group	Held at fair value	Fair value through Other Comprehensive Income	Amortised cost	Total
	£m	£m	£m	£m
Movements in debt securities during the year were:				
At 1 January 2021	–	2,471.0	389.1	2,860.1
Additions	27.3	1,386.5	415.0	1,828.8
Disposals and repayments	–	(497.0)	(4.6)	(501.6)
Exchange translation	–	(6.7)	(7.0)	(13.7)
Other changes in value	1.3	(98.4)	(1.0)	(98.1)
<b>At 31 December 2021</b>	<b>28.6</b>	<b>3,255.4</b>	<b>791.5</b>	<b>4,075.5</b>
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>–</b>	<b>2,471.0</b>	<b>389.1</b>	<b>2,860.1</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 2021	–	2,471.1	6,980.8	9,451.9
Additions	27.3	1,386.5	5,982.5	7,396.3
Disposals and repayments	–	(497.0)	(1,302.4)	(1,799.4)
Exchange translation	–	(6.7)	(6.7)	(13.4)
Other changes in value	1.3	(98.5)	2.3	(94.9)
<b>At 31 December 2021</b>	<b>28.6</b>	<b>3,255.4</b>	<b>11,656.5</b>	<b>14,940.5</b>
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>–</b>	<b>2,471.1</b>	<b>6,980.8</b>	<b>9,451.9</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 12. LOANS AND ADVANCES TO CUSTOMERS

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Loans secured on residential property:				
Loans fully secured on residential property	40,899.5	37,387.6	10,421.7	11,729.4
Other loans secured on residential property	6.6	7.9	–	–
Loans secured on commercial property	1,309.1	1,204.8	1,309.1	1,204.8
Fair value hedging adjustments	(238.3)	274.3	(238.5)	274.3
Gross loans and advances to customers	41,976.9	38,874.6	11,492.3	13,208.5
Impairment	(26.1)	(43.9)	(7.3)	(21.9)
Fair value credit adjustment	(28.4)	(32.1)	(28.4)	(32.1)
Expected credit losses (ECL)	(54.5)	(76.0)	(35.7)	(54.0)
<b>Total loans and advances to customers</b>	<b>41,922.4</b>	<b>38,798.6</b>	<b>11,456.6</b>	<b>13,154.5</b>

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

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Opening Impairment	43.9	30.2	21.9	13.6
Amounts written off in the period	(0.6)	(1.2)	(0.4)	(0.2)
Discounting recognised in net interest income	1.3	1.6	0.9	1.3
(Release)/charge for the year recognised in the income statement	(18.5)	13.3	(15.1)	7.2
<b>Impairment</b>	<b>26.1</b>	<b>43.9</b>	<b>7.3</b>	<b>21.9</b>

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Opening fair value credit adjustment	32.1	34.9	32.1	34.9
Release recognised in the income statement through net interest	(3.2)	(1.2)	(3.2)	(1.2)
Write-offs	(0.5)	(1.6)	(0.5)	(1.6)
<b>Fair value credit adjustment</b>	<b>28.4</b>	<b>32.1</b>	<b>28.4</b>	<b>32.1</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 13. INTANGIBLE ASSETS

Group and Society	Development costs	Software	Internally generated assets	Other	Total
	£m	£m	£m	£m	£m
Cost:					
At 1 January 2021	2.1	61.3	16.5	7.1	87.0
Additions	–	2.3	–	–	2.3
Disposals	–	(3.4)	(1.4)	–	(4.8)
Transfers	(1.7)	1.7	–	–	–
<b>At 31 December 2021</b>	<b>0.4</b>	<b>61.9</b>	<b>15.1</b>	<b>7.1</b>	<b>84.5</b>
Amortisation:					
At 1 January 2021	–	34.1	15.6	7.1	56.8
Charged in year	–	8.7	0.3	–	9.0
Disposals	–	(3.3)	(1.5)	–	(4.8)
<b>At 31 December 2021</b>	<b>–</b>	<b>39.5</b>	<b>14.4</b>	<b>7.1</b>	<b>61.0</b>
<b>Net book value at 31 December 2021</b>	<b>0.4</b>	<b>22.4</b>	<b>0.7</b>	<b>–</b>	<b>23.5</b>
Cost:					
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)
At 31 December 2020	2.1	61.3	16.5	7.1	87.0
Amortisation:					
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)
At 31 December 2020	–	34.1	15.6	7.1	56.8
<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>

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 software and internally generated assets. The development costs related mainly to the Society's investment in a new mortgage processing system.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 14. INVESTMENT PROPERTY

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Cost:				
At 1 January	19.8	20.3	19.6	20.1
Additions	0.3	0.2	0.3	0.2
Disposals	(0.4)	–	(0.2)	–
Transferred to held for sale	–	(1.5)	–	(1.5)
Transfers	–	0.8	–	0.8
<b>At 31 December</b>	<b>19.7</b>	<b>19.8</b>	<b>19.7</b>	<b>19.6</b>
Depreciation:				
At 1 January	5.2	5.5	5.0	5.3
Charged in year	0.3	0.3	0.3	0.3
Disposals	(0.3)	–	(0.1)	–
Transferred to held for sale	–	(0.8)	–	(0.8)
Transfers	–	0.2	–	0.2
<b>At 31 December</b>	<b>5.2</b>	<b>5.2</b>	<b>5.2</b>	<b>5.0</b>
<b>Net book value</b>	<b>14.5</b>	<b>14.6</b>	<b>14.5</b>	<b>14.6</b>
<b>Fair value</b>	<b>13.5</b>	<b>14.6</b>	<b>13.5</b>	<b>14.2</b>

Investment properties are generally flats and offices ancillary to branch premises and not used by the Group. Rental income of £1.1m on investment properties has been included within other operating income (2020: £1.3m).

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 2021 is based predominantly on external valuations.

During the year, the Group transferred a property from YBS Properties (Edinburgh) Limited to the Society. As a result, there is now no difference between the Group and Society balances.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 15. PROPERTY HELD FOR SALE

Group and Society	2021	2020
	£m	£m
Cost:		
At 1 January	15.3	8.8
Transfer from property, plant and equipment	–	12.1
Disposals	(12.9)	(5.6)
<b>At 31 December</b>	<b>2.4</b>	<b>15.3</b>
Depreciation:		
At 1 January	7.6	5.7
Transfer from property, plant and equipment	–	4.1
Disposals	(5.5)	(3.9)
Impairment	–	1.7
<b>At 31 December</b>	<b>2.1</b>	<b>7.6</b>
<b>Net book value</b>	<b>0.3</b>	<b>7.7</b>

During the year, a number of properties were disposed of from Property held for sale. A gain of £2.5m was recorded on the sale of properties (2020: £2.9m), including our sites at Filey Street and Lynchwood.

## 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 2021	100.5	71.3	42.6	1.2	215.6
Reallocation	(0.7)	–	0.7	–	–
Revised balance at 1 January 2021	99.8	71.3	43.3	1.2	215.6
Additions	3.2	5.8	2.8	0.1	11.9
Disposals	(0.5)	(8.7)	(3.9)	(0.1)	(13.2)
Assets transferred to held for sale	–	–	–	–	–
Transfers	–	–	–	–	–
<b>At 31 December 2021</b>	<b>102.5</b>	<b>68.4</b>	<b>42.2</b>	<b>1.2</b>	<b>214.3</b>
Depreciation:					
At 1 January 2021	29.5	50.6	8.5	0.4	89.0
Charged in year	3.7	5.4	4.0	0.3	13.4
Disposals	(0.3)	(7.9)	(1.9)	–	(10.1)
Assets transferred to held for sale	–	–	–	–	–
Transfers	–	–	–	–	–
<b>At 31 December 2021</b>	<b>32.9</b>	<b>48.1</b>	<b>10.6</b>	<b>0.7</b>	<b>92.3</b>
<b>Net book value at 31 December 2021</b>	<b>69.6</b>	<b>20.3</b>	<b>31.6</b>	<b>0.5</b>	<b>122.0</b>
Cost:					
At 1 January 2020	110.2	69.9	42.5	0.9	223.5
Reallocation	0.3	–	(0.3)	–	–
Revised balance at 1 January 2020	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)
At 31 December 2020	100.5	71.3	42.6	1.2	215.6
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)
At 31 December 2020	29.5	50.6	8.5	0.4	89.0
<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>

## 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 2021	99.8	70.9	42.6	1.2	214.5
Reallocation	(0.7)	–	0.7	–	–
Revised balance at 1 January 2021	99.1	70.9	43.3	1.2	214.5
Additions	3.7	5.7	2.8	0.1	12.3
Disposals	(0.3)	(8.2)	(3.9)	(0.1)	(12.5)
Assets transferred to held for sale	–	–	–	–	–
Transfers	–	–	–	–	–
<b>At 31 December 2021</b>	<b>102.5</b>	<b>68.4</b>	<b>42.2</b>	<b>1.2</b>	<b>214.3</b>
Depreciation:					
At 1 January 2021	29.3	50.1	8.5	0.5	88.4
Charged in year	3.8	5.4	4.0	0.2	13.4
Disposals	(0.2)	(7.4)	(1.9)	–	(9.5)
Assets transferred to held for sale	–	–	–	–	–
Transfers	–	–	–	–	–
<b>At 31 December 2021</b>	<b>32.9</b>	<b>48.1</b>	<b>10.6</b>	<b>0.7</b>	<b>92.3</b>
<b>Net book value at 31 December 2021</b>	<b>69.6</b>	<b>20.3</b>	<b>31.6</b>	<b>0.5</b>	<b>122.0</b>
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)
At 31 December 2020	99.8	70.9	42.6	1.2	214.5
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)
At 31 December 2020	29.3	50.1	8.5	0.5	88.4
<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>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 17. DEFERRED TAX

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
At 1 January as originally presented:	(28.9)	(23.9)	(27.2)	(22.4)
Remeasurement due to change in accounting policy	–	0.2	–	0.5
At 1 January (restated)	(28.9)	(23.7)	(27.2)	(21.9)
Income statement (expense)/credit (note 9)	4.7	0.2	4.9	0.1
Tax (expense)/credit recognised directly in equity	(26.2)	(5.4)	(26.1)	(5.4)
<b>At 31 December</b>	<b>(50.4)</b>	<b>(28.9)</b>	<b>(48.4)</b>	<b>(27.2)</b>
Deferred tax assets and liabilities are attributable to the following items:				
<b>Deferred tax assets</b>				
Other temporary differences	0.1	0.1	0.1	–
Fair value movements on external swap on intercompany loan	4.6	2.9	4.6	2.9
Deferred remuneration	1.7	1.3	1.7	1.3
Restructuring costs	0.4	–	0.4	–
Transitional adjustment arising following implementation of IFRS9	1.2	1.2	1.2	1.2
Transitional adjustment arising following change in accounting treatment	0.6	0.5	0.6	0.5
Capital losses	1.4	–	1.4	–
<b>Total deferred tax assets</b>	<b>10.0</b>	<b>6.0</b>	<b>10.0</b>	<b>5.9</b>
<b>Deferred tax liabilities</b>				
Pensions and other post-retirement benefits	(39.9)	(24.6)	(39.9)	(24.6)
Capital allowances in excess of depreciation	(1.0)	(0.1)	(1.0)	(0.1)
Other temporary differences	(1.3)	(1.1)	(1.2)	(1.0)
Financial instruments held at fair value through profit and loss	(0.8)	(2.9)	(0.8)	(2.9)
Financial instruments held at fair value through other comprehensive income	(10.4)	(4.5)	(10.4)	(4.5)
Cash flow hedging	(5.1)	–	(5.1)	–
Transitional adjustment arising following implementation of IFRS9	(1.5)	(1.4)	–	–
Transitional adjustment arising following change in accounting treatment	(0.4)	(0.3)	–	–
<b>Total deferred tax liabilities</b>	<b>(60.4)</b>	<b>(34.9)</b>	<b>(58.4)</b>	<b>(33.1)</b>
<b>Net deferred tax liabilities</b>	<b>(50.4)</b>	<b>(28.9)</b>	<b>(48.4)</b>	<b>(27.2)</b>

The presentation of the deferred tax assets and liabilities in the Balance Sheet for the current year reflects a reassessment of the requirements of IAS12, with reference to the netting off of deferred tax assets and liabilities. This has resulted in the current year deferred tax assets being fully offset against deferred tax liabilities. The prior year balances have not been restated, as the changes are not material.

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	
	2021	2020	2021	2020
	£m	£m	£m	£m
Pensions and other post-retirement benefits	0.1	(0.2)	0.1	(0.2)
Depreciation in excess of capital allowances	0.9	1.9	0.8	1.9
Other temporary differences	–	0.1	–	0.1
Fair value movements on external swap on intercompany loan	(1.7)	(3.1)	(1.7)	(3.1)
Deferred remuneration	(0.4)	(0.4)	(0.4)	(0.4)
Financial instruments held at fair value through profit and loss	(1.9)	1.3	(1.9)	1.3
Restructuring costs	(0.4)	0.3	(0.4)	0.3
Transitional adjustment arising following implementation of IFRS9	0.1	(0.1)	–	–
Capital losses	(1.4)	–	(1.4)	–
<b>Total deferred tax expense/(credit) in the income statement</b>	<b>(4.7)</b>	<b>(0.2)</b>	<b>(4.9)</b>	<b>(0.1)</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 2021 of the defined benefit obligation in relation to these schemes was £11.9m (2020: £12.3m) and the relevant disclosures have been aggregated with those of the main employee benefits scheme.

#### NET DEFINED BENEFIT ASSET

As at 31 December 2021 the defined benefit asset is £120.8m, an increase of £29.8m from 31 December 2020.

#### PENSIONER BUY-IN

In mid-November 2018 the Scheme entered into a pensioner buy-in with the Pension Insurance Corporation (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 2021, the YBS Scheme insurance contract with PIC has been valued to be equal to the corresponding IAS19 defined benefit obligation in respect of the insured members. The assessed value of £238.4m (2020: £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 (DC) section of the main scheme. This Scheme is used by the Society to fulfil its auto enrolment duties. In 2021, the total Society contribution into the pension scheme in respect of DC benefits was c£9.6m (2020: c£9.2m). In addition to this YBS also paid £0.9m (2020: £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 19 years (2020: 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 in the following table.

	2021	2020
	£m	£m
Deferred in service liability	121.6	128.0
Deferred liability	315.5	335.2
Pensioner liability	491.1	517.9
<b>Total liabilities</b>	<b>928.2</b>	<b>981.1</b>

#### 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 31 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

	2021	2020
	%	%
Equities	3	3
Index-linked bonds	51	50
Corporate and other bonds	9	11
Cash and other	8	7
Swaps	6	5
Pensioner buy-in insurance contract	23	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 the reinsurance '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 2021 the Trustees continued to review 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 how the Scheme's long term funding target deficit would be impacted under a number of stress scenarios.

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. Given the impact that COVID-19 had on mortality rates in 2020, the most recent CMI model has been reflected in the calculation of the DB obligation but no weight has been placed on the 2020 experience as it is too early to tell what long-term implications COVID-19 will have on future mortality.

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 and 2021, 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 continue to actively monitor the Scheme's investments as part of the Investment Sub Committee, which includes analysis on future expected returns for the investments. Further, the Trustees have an Integrated Risk Management Framework in place as to monitor and the challenge the Covenant, Investment and Funding risk linked to the Scheme.

#### SUMMARY OF ASSUMPTIONS

	2021	2020
	% pa	% pa
Retail prices index (RPI) inflation	3.6	3.1
Consumer price index (CPI) inflation	2.9	2.4
Discount rate	1.9	1.3
Salary increases	4.1	3.6
Rate of increase of pensions in payment:*		
In line with RPI, subject to a min of 3% and a max of 5% pa	3.9	3.7
In line with RPI, subject to a min of 0% and a max of 5% pa	3.4	3.0
In line with RPI, subject to a min of 0% and a max of 2.5% pa	2.2	2.1
In line with CPI, subject to a min of 0% and a max of 3% pa	2.3	2.1

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.

	2021	2020
	Years	Years
For a current 60 year old male	28.3	28.3
For a current 60 year old female	30.1	30.0
For a current 45 year old male	29.4	29.4
For a current 45 year old female	31.2	31.1

Defined benefit actual contributions paid wholly relate to contributions made by the Society.

Changes in market conditions generate an actuarial gain (decrease in liabilities) and a return on plan less than discount rate (decrease in assets).

\* Term dependent inflationary increases have been adopted to reflect expected inflation in each future year. Illustrative inflationary assumptions have been provided which have been calculated to reflect the broad profile of the Society's pension obligations.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

#### RECONCILIATION OF FUNDED STATUS

Group and Society	2021	2020
	£m	£m
Present value of defined benefit obligation	(928.2)	(981.1)
Assets at fair value	1,049.0	1,072.1
<b>Funded status/defined benefit asset</b>	<b>120.8</b>	<b>91.0</b>

#### STATEMENT OF COMPREHENSIVE INCOME (SCI)

Group and Society	2021	2020
	£m	£m
Cumulative actuarial gains recognised at 1 January	35.1	30.8
Gain/(loss) due on change in financial assumptions	54.7	(99.4)
Gain due to demographic assumptions	0.9	0.7
(Loss) due to experience	(17.4)	(6.1)
(Loss)/gain due to investment return different from return implied by the discount rate	(7.7)	109.1
<b>Total actuarial (loss)/gain recognised in SCI</b>	<b>30.5</b>	<b>4.3</b>
<b>Cumulative actuarial gains recognised at 31 December</b>	<b>65.6</b>	<b>35.1</b>

#### COMPONENTS OF PENSION EXPENSE AS SHOWN IN THE INCOME STATEMENT

Group and Society	2021	2020
	£m	£m
Administrative expenses	1.8	1.3
Interest on net defined benefit surplus	(1.1)	(1.6)
<b>Total pension expense</b>	<b>0.7</b>	<b>(0.3)</b>

#### RECONCILIATION OF PRESENT VALUE OF DEFINED BENEFIT OBLIGATION

Group and Society	2021	2020
	£m	£m
Present value of defined benefit obligation at 1 January	981.1	897.2
Administrative expenses	1.8	1.3
Interest cost	12.6	16.7
Actuarial (gain)/loss	(38.2)	104.8
Defined benefit actual benefits and costs paid	(29.1)	(38.9)
<b>Present value of defined benefit obligation at 31 December</b>	<b>928.2</b>	<b>981.1</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

## MOVEMENT IN DEFINED BENEFIT FAIR VALUE OF ASSETS

Group and Society	2021	2020
	£m	£m
Fair value of assets at 1 January	1,072.1	983.6
Interest income on scheme asset	13.7	18.3
Return on plan assets (less)/greater than discount rates	(7.7)	109.1
Defined benefit actual Society contributions	-	-
Defined benefit actual benefits and costs paid	(29.1)	(38.9)
<b>Fair value of plan assets at 31 December</b>	<b>1,049.0</b>	<b>1,072.1</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 2021	(928.2)	1,049.0	120.8
Change in defined benefit obligation/assets given the following change in assumption:			
Discount rate:* 1.00% decrease	(197.2)	247.0	49.8
Salary Escalation: 0.75% increase	(5.2)	-	(5.2)
Inflation:** 0.50% increase	(46.2)	55.0	8.8
Life expectancy: 1 year average increase	(41.8)	12.9	(28.9)

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	
	2021	2020	2021	2020
	£m	£m	£m	£m
Prepayments and accrued interest	20.5	16.5	20.5	16.5
Due from subsidiary undertakings	–	–	29.9	20.2
Other assets	6.7	6.6	5.6	5.5
<b>Total other assets</b>	<b>27.2</b>	<b>23.1</b>	<b>56.0</b>	<b>42.2</b>

Included in other assets are finance lease receivables. The Group has entered into agency sublease arrangements as an intermediate lessor on former branch properties that are considered to be finance leases. As substantially all risks and reward are passed over as the subleases match the payment terms and duration of the headline leases they are classified as finance leases. The maturity analysis of lease receivables, including the undiscounted lease payments to be received are as follows:

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Less than 1 year	0.5	0.5	0.5	0.5
1-2 years	0.4	0.2	0.4	0.2
2-3 years	0.4	0.2	0.4	0.2
3-4 years	0.3	0.2	0.3	0.2
4-5 years	0.2	0.1	0.2	0.1
More than 5 years	0.3	–	0.3	–
<b>Total undiscounted lease payments receivable</b>	<b>2.1</b>	<b>1.2</b>	<b>2.1</b>	<b>1.2</b>
Unearned Finance Income	–	–	–	–
<b>Net investment in the lease</b>	<b>2.1</b>	<b>1.2</b>	<b>2.1</b>	<b>1.2</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 20. SHARES

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Shares comprising balances held by individuals	35,506.6	33,375.0	35,506.6	33,375.0
Acquisition fair value adjustments	(0.2)	(6.7)	(0.2)	(6.7)
<b>Total Shares</b>	<b>35,506.4</b>	<b>33,368.3</b>	<b>35,506.4</b>	<b>33,368.3</b>

## 21. OTHER DEPOSITS

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Amounts owed to:				
Subsidiary undertakings	–	–	15,077.0	11,229.9
Other customers	873.5	535.7	485.1	164.6
<b>Total other deposits</b>	<b>873.5</b>	<b>535.7</b>	<b>15,562.1</b>	<b>11,394.5</b>

## 22. DEBT SECURITIES IN ISSUE

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Covered bonds	3,347.3	3,520.4	3,327.0	3,471.8
Medium term notes	1,660.7	1,795.8	1,660.7	1,795.8
Residential mortgage backed securities	876.9	700.1	–	–
Certificate of deposits	6.0	112.0	6.0	112.0
<b>Total debt securities in issue</b>	<b>5,890.9</b>	<b>6,128.3</b>	<b>4,993.7</b>	<b>5,379.6</b>

Debt securities in issue include amounts secured on certain loans and advances to customers in Group £4.2bn (2020: £4.2bn) and Society £3.3bn (2020: £3.5bn).



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 23. OTHER LIABILITIES

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Accruals and deferred income	37.4	32.0	37.4	32.0
Finance lease liabilities	38.5	41.2	38.5	41.2
Other	7.7	9.2	22.5	12.8
<b>Total other liabilities</b>	<b>83.6</b>	<b>82.4</b>	<b>98.4</b>	<b>86.0</b>

The lease liabilities are secured by the related underlying assets. The underlying maturity analysis of lease liabilities at 31 December 2021 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	4.9	(0.8)	4.1	0.3	–	0.3
1-2 years	3.9	(0.7)	3.2	0.2	–	0.2
2-3 years	3.7	(0.6)	3.1	0.1	–	0.1
3-4 years	3.2	(0.6)	2.6	–	–	–
4-5 years	2.9	(0.5)	2.4	–	–	–
5-10 years	11.8	(1.9)	9.9	–	–	–
10-15 years	9.8	(0.9)	8.9	–	–	–
Over 15 years	4.5	(0.8)	3.7	–	–	–
<b>Total at 31 December 2021</b>	<b>44.7</b>	<b>(6.8)</b>	<b>37.9</b>	<b>0.6</b>	<b>–</b>	<b>0.6</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. At 31 December 2021 the Group had no short-term lease commitments (2020: £0.5m).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 24. PROVISIONS

Group and Society	Customer redress	Restructuring	Property related provision	Other	Total
	£m	£m	£m	£m	£m
At 1 January 2021	2.1	3.9	2.3	0.3	8.6
Amounts utilised during the year	(0.8)	(3.7)	(0.3)	–	(4.8)
Provision (release)/charge	0.1	2.0	0.4	(0.2)	2.3
<b>At 31 December 2021</b>	<b>1.4</b>	<b>2.2</b>	<b>2.4</b>	<b>0.1</b>	<b>6.1</b>
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	(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>0.3</b>	<b>8.6</b>

Customer redress provisions of £1.4 million (2020: £2.1 million) have been made in respect of various potential customer claims and represent management's best estimate of the likely costs.

Restructuring provisions of £2.2 million (2020: £3.9 million) are held in relation to business and organisational changes announced during 2021 and earlier periods.

Property related provisions of £2.4 million (2020: £2.3 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	2021	2020
	£m	£m
6¾% Subordinated Bonds 2024	4.1	4.1
13½% Convertible Tier 2 Capital Notes 2025	26.5	26.5
3¾% Subordinated Bonds 2028	301.2	300.9
3% Senior Non-Preferred Bonds 2025	277.7	280.2
1½% Senior Non-Preferred Bonds 2029	251.1	–
Fair value hedging adjustments	(2.9)	33.3
	<b>857.7</b>	645.0

All subordinated liabilities are denominated in sterling. The following notes are repayable at the dates stated or earlier at the option of the Society and with the prior consent of the PRA under the following conditions:

- Redemption of the 3¾% Notes at par on 13 September 2027 after giving thirty to sixty days' notice. In the event the Society does not redeem the notes on this date the fixed rate of interest will become the sum of the six month mid-swap rate plus 2.3175%.
- Redemption of the 13½% Convertible Tier 2 Capital Notes will occur on 1 April 2025 unless the notes are converted to Profit Participating Deferred Shares (PPDS). The 'Conversion Trigger' shall occur if on any Calculation Date the Society's Common Equity Tier 1 Capital Ratio, as confirmed in a report of the auditor to the Society and addressed to the Board of Directors of the Society, is less than 5%. Should the Conversion Trigger occur and these notes convert into PPDS, the PPDS will be perpetual in nature.
- Redemption of the 3% Notes at par on 18 April 2024 after giving thirty to sixty days' notice. In the event the Society does not redeem the notes on this date the fixed rate of interest will become the sum of the yield on the relevant 1-year UK gilt-edged reference bond plus 2.15%.
- Redemption of the 1½% Notes at par on 15 September 2028 after giving thirty to sixty days' notice. In the event the Society does not redeem the notes on 15 September 2028 the fixed rate of interest will become the sum of the yield on the relevant 1-year UK gilt-edged reference bond plus 1.15%.

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	2021	2020
	£m	£m
Committed undrawn standby facilities	242.2	438.2

The above amounts represent undrawn elements on credit facilities with customers. The amount has reduced over the year due to further drawdowns against these facilities and the maturity of a number of agreements.

## 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 used by the Group in accordance with the *Building Societies Act 1986*. This means that such instruments are not used in trading activity or for speculative purposes and are only used to reduce the risk of loss on core assets or liabilities arising from changes in interest rates, currency rates or other factors of a prescribed description.

The principal derivatives used in balance sheet risk management are interest rate swaps, interest rate options, cross currency interest rate swaps and foreign exchange contracts. These are used to hedge Group exposures arising from fixed rate mortgage lending and savings products, funding and investment activities.

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the type of derivatives which are typically used in managing such risks after considering any offsetting risk from other activities.

Activity	Risk	Type of hedge
Management of the investment of reserves and non-interest bearing liabilities	Sensitivity to changes in interest rates	Interest rate swaps
Fixed rate savings products and debt issuance	Sensitivity to changes in interest rates	Interest rate swaps
Fixed rate mortgage lending	Sensitivity to changes in interest rates	Interest rate swaps
Management of the interest basis risk arising from differences in the underlying pricing basis of assets and liabilities	Sensitivity to changes in relationships between interest rate basis	Interest rate swaps
Management of foreign currency risk arising from investment and funding	Sensitivity to changes in foreign exchange rates	Cross currency interest rate swaps and foreign exchange contracts
Floating rate liabilities	Sensitivity to changes in cashflows	Capped interest rate options (caps)

The Group's objective is to manage risk within its risk tolerance, irrespective of the accounting treatment. Whilst all derivatives have been entered into for hedging purposes, only certain arrangements meet the conditions necessary to be designated as such for accounting purposes. In some cases a natural offset can be achieved and applying hedge accounting is not required. The Group only designates accounting hedges where a high degree of effectiveness can be achieved.

### HEDGING

The following table shows the balance sheet categories covered by hedge accounting relationships:

Hedge Relationship	Balance Sheet Line Item
<b>Fair value hedge for interest rate risk</b>	
Fixed rate mortgages	Loans and advances to customers
Fixed rate debt securities held	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 deposits	Amounts owed to credit institutions
Floating rate debt securities issued	Debt securities in issue

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

#### INTEREST RATE RISK ON FIXED RATE MORTGAGES AND PURCHASED DEBT SECURITIES (FAIR VALUE)

The Group holds portfolios of fixed rate mortgages and debt securities which are financed mainly by variable rate savings, exposing the Group to interest rate risk due to re-pricing mismatches. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps and then designating both the securities and the swaps into fair value hedge accounting relationships.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term fixed rate mortgages arising solely from changes in SONIA (the benchmark rate of interest). Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the hedged item attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

Possible sources of ineffectiveness are as follows:

- differences between the expected and actual volume of prepayments for mortgage portfolios, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- difference in timing of cash flows between the mortgage loans and the hedging interest rate swaps;
- difference in the designated coupon rate % of the hedged asset and the hedging derivative; and
- hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument.

The exposure from the mortgage portfolio frequently changes due to new loans being originated, contractual repayments and early prepayments made by customers in each period. As a result, the Group adopts a portfolio hedging strategy to hedge the exposure by closing and entering into new swap agreements. The Group uses the portfolio fair value hedge of interest rate risk to recognise fair value changes related to changes in interest rate risk in the mortgage portfolio, and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone. This hedge relationship is updated on a monthly basis for changes in the portfolio.

#### FOREIGN EXCHANGE AND INTEREST RATE RISK ON FIXED RATE DEBT ISSUANCE (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 LIABILITIES (CASH FLOW HEDGE)

During 2021 the Group purchased some capped interest rate options (caps) to protect from the risk of increases in market interest rates impacting the variable rate savings products. The caps were entered into a cash flow hedge relationship on the basis that the pay outs on the caps will offset the increase in interest payable on these variable savings products.

Possible sources of ineffectiveness are as follows:

- Basis risk: the hypothetical derivative and the caps have different reset dates; and
- Embedded financing: as the caps are off-market and in-the-money at the designation date, any unwind of the designation date intrinsic value may result in ineffectiveness.

#### INEFFECTIVENESS

All ineffectiveness is recorded in the income statement in *Gains/(losses) from financial instruments held at fair value*.

The following table shows the ineffectiveness in relation to the hedging relationships designated by the Group.

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
<b>Fair value hedges</b>				
Fixed rate mortgages	<b>(1.5)</b>	10.5	<b>(1.5)</b>	10.5
Fixed rate debt securities held	<b>2.7</b>	(1.6)	<b>2.7</b>	(1.6)
Fixed rate debt securities issued	<b>(4.4)</b>	(9.3)	<b>6.8</b>	(3.0)
<b>Cash flow hedges</b>				
Floating rate debt securities issued	<b>(0.4)</b>	(0.6)	<b>(0.4)</b>	(0.6)
<b>Total</b>	<b>(3.6)</b>	(1.0)	<b>7.6</b>	5.3

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The following tables summarise the notional and fair value of all derivative financial instruments and the hedging designations in place at that date.

	Contract/ Notional amount	Fair values		Change in fair value used for calculating ineffectiveness
		Assets	Liabilities	
	£m	£m	£m	£m
<b>Group</b>				
<b>At 31 December 2021</b>				
Interest rate swaps designated as fair value hedges	26,437.4	321.0	69.6	544.8
Interest rate caps designated as cash flow hedges	2,310.0	20.5	–	–
Cross currency interest rate swaps designated as fair value hedges	3,580.5	103.5	166.2	(22.0)
Derivatives not designated as hedges:				
Interest rate swaps	10,038.3	37.0	29.2	n/a
Equity linked interest rate swaps	–	–	–	n/a
Foreign exchange	386.6	8.9	7.7	n/a
<b>Total derivative financial instruments</b>	<b>42,752.8</b>	<b>490.9</b>	<b>272.7</b>	<b>522.8</b>
<b>Society</b>				
<b>At 31 December 2021</b>				
Interest rate swaps designated as fair value hedges	26,437.4	321.0	69.6	544.8
Interest rate caps designated as cash flow hedges	2,310.0	20.5	–	–
Cross currency interest rate swaps designated as fair value hedges	1,479.8	35.8	81.9	9.5
Derivatives not designated as hedges:				
Interest rate swaps	34,711.4	37.0	29.2	n/a
Equity linked interest rate swaps	–	–	–	n/a
Foreign exchange	114.6	5.2	0.2	n/a
<b>Total derivative financial instruments</b>	<b>65,053.2</b>	<b>419.5</b>	<b>180.9</b>	<b>554.3</b>

The expected future cash flows have been discounted using the Overnight Indexed Swap (OIS) curve (SONIA) for all derivatives. Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA) are incorporated into the fair value of derivative valuations to reflect the impact of counterparty credit risk and the Group's own credit quality respectively for uncollateralised derivatives.

Credit risk on derivative exposures is significantly mitigated within the Group by the existence of a Credit Support Annex (CSA) with the vast majority of our derivative counterparties. Under a CSA, cash is passed between parties to mitigate the counterparty risk inherent in the outstanding positions. Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within amounts owed to credit institutions. Where cash collateral is given, it is included as an asset in loans and advances to credit institutions. Credit risk is also mitigated by the use of central counterparties (CCPs) for eligible derivatives.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	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 caps 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 caps 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>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The following tables show the maturity profile, by notional amount, of the hedging instruments designated in hedge relationships used in the Group's hedging strategies:

Group and Society	Repayable up to three years	In more than three years but less than five years	Over five years	Total
<b>At 31 December 2021</b>	£m	£m	£m	£m
Interest rate caps	2,310.0	–	–	2,310.0
<b>Total cash flow hedges</b>	<b>2,310.0</b>	<b>–</b>	<b>–</b>	<b>2,310.0</b>
<b>At 31 December 2020</b>	£m	£m	£m	£m
Interest rate caps	–	–	–	–
<b>Total cash flow hedges</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

Group	Repayable up to three years	In more than three years but less than five years	Over five years	Total
<b>At 31 December 2021</b>	£m	£m	£m	£m
Interest rate swaps (pay fixed)	17,462.8	7,021.9	714.5	25,199.2
Interest rate swaps (receive fixed)	282.5	705.6	250.0	1,238.1
Cross currency interest rate swaps	1,593.0	953.4	1,034.1	3,580.5
<b>Total fair value hedges</b>	<b>19,338.3</b>	<b>8,680.9</b>	<b>1,998.6</b>	<b>30,017.8</b>
<b>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>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Society	Repayable up to three years	In more than three years but less than five years	Over five years	Total
<b>At 31 December 2021</b>	£m	£m	£m	£m
Interest rate swaps (pay fixed)	17,462.8	7,021.9	714.5	25,199.2
Interest rate swaps (receive fixed)	282.5	705.6	250.0	1,238.1
Cross currency interest rate swaps	332.6	533.3	613.9	1,479.8
<b>Total Fair value hedges</b>	<b>18,077.9</b>	<b>8,260.8</b>	<b>1,578.4</b>	<b>27,917.1</b>
<b>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	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>

The following table shows the average price/rate of the hedging instruments by maturity used in the Group's hedging strategies:

Group and Society	2021			2020		
	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)	0.59	0.29	0.64	0.68	0.62	0.45
Interest rate swaps (receive fixed)	0.87	2.38	1.50	0.88	0.93	1.52
Cross currency interest rate swaps	0.56	0.28	0.32	0.72	0.38	0.01
<b>Average EUR:GBP FX rate – Fair value hedges</b>						
Cross currency interest rate swaps	1.23	1.09	1.16	1.26	1.12	1.10

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The following tables show the fair value hedge exposures covered by the Group's hedging strategies. The change in fair value of the hedged item for calculating ineffectiveness is based on all hedge relationships designated during the year.

	Carrying amount of hedged item		Accumulated fair value adjustments on the hedged item		Change in fair value of the hedged item for calculating ineffectiveness
	Assets	Liabilities	Assets	Liabilities	
	£m	£m	£m	£m	£m
<b>Group</b>					
<b>At 31 December 2021</b>					
Fixed rate mortgages (interest rate risk)	23,243.0	–	(238.2)	–	(512.6)
Fixed rate debt securities held (interest rate risk)	2,383.3	–	(56.6)	–	(107.8)
Fixed rate debt securities issued (interest rate risk)	–	1,250.5	–	3.6	95.5
Fixed rate debt securities issued (interest rate and FX risk)	–	3,364.3	–	6.8	(1.2)
<b>Society*</b>					
<b>At 31 December 2021</b>					
Fixed rate mortgages (interest rate risk)	23,243.0	–	(238.2)	–	(512.6)
Fixed rate debt securities held (interest rate risk)	2,383.3	–	(56.6)	–	(107.8)
Fixed rate debt securities issued (interest rate risk)	–	1,250.5	–	3.6	95.5
Fixed rate debt securities issued (interest rate and FX risk)	–	1,261.7	–	4.8	(21.5)
<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

\* The amount disclosed for the Society includes £17,421m (2020: £13,164m) of mortgages written by Accord Mortgages Limited (Accord) which are funded by a fixed rate loan from the Society to Accord. The hedged item in the Society hence comprises £5,822m of mortgages and the £17,421m loan to Accord.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The accumulated amount of fair value hedge adjustments remaining on the balance sheet for hedged items that have ceased to be adjusted for hedging gains and losses but where the hedged item remains on the balance sheet is £7.9 million (2020: £37.4 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 2021</b>					
Floating rate debt securities issued	–	1,220.0	(6.6)	(6.2)	(0.4)
Floating rate liabilities	–	1,090.0	(9.1)	(9.1)	–
<b>At 31 December 2020</b>					
Floating rate debt securities issued	–	–	(0.6)	–	0.1
Floating rate loans	–	–	–	–	–

The following table shows the movements in the cash flow hedge reserve during the year:

Group and Society	2021	2020
	£m	£m
<b>At 1 January</b>	<b>(0.1)</b>	(0.5)
Effective portion of changes in fair value of interest rate swaps:		
Floating rate debt securities issued	6.2	–
Floating rate liabilities	9.1	–
Amounts reclassified from reserves to income statement:		
Floating rate debt securities issued	0.4	0.6
Floating rate loans	–	–
Taxation	(5.2)	(0.2)
<b>At 31 December</b>	<b>10.4</b>	(0.1)

## 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 those 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 up to three months in advance. 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, namely the Liquidity Coverage Ratio (LCR) as prescribed under the PRA Rulebook, Liquidity Coverage Ratio (CRR) part. The LCR measures the quantity of High Quality Liquid Assets (HQLA) against net liquidity outflows over a 30 day period. YBS currently reports to the PRA on a monthly basis at a Group and Society-only level, with the lower of the two being reported as 198.93% for December 2021 month end. For comparison, the lowest as at 31 December 2020 was 191.86%.
- 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 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 pools of 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 loans and advances to credit institutions with the liability to repay included within amounts owed to credit institutions.

Assets pledged are as follows:

Group	Carrying amount of encumbered assets	Carrying amount of unencumbered assets	Total
	£m	£m	£m
<b>2021</b>			
Liquid assets	1,616.2	8,380.5	9,996.7
Loans and advances to customers	15,025.3	26,897.1	41,922.4
Other assets	–	804.6	804.6
<b>Total assets</b>	<b>16,641.5</b>	<b>36,082.2</b>	<b>52,723.7</b>
<b>2020</b>			
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>

All of the assets pledged as security are shown in the Balance Sheet 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 2021 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 structures, Brass No.10 PLC and Tombac 3 PLC were established with £1,480m and £4,300m of listed debt securities secured against specific loans of Accord Mortgages Limited issued in March 2021 and November 2021 respectively. Of these securities, £456m were issued externally, with the remainder being retained by the Society to be used as collateral for use in sale and repurchase agreements or central bank operations. The Group plans to issue further public notes in 2022. As at 31 December 2021, the Group had £10,835m of securitisation notes in issue, of which £9,953m were retained by the Society.

Whole mortgage loan pools are placed at the Bank of England under their latest Term Funding Scheme (TFSME). The whole loan pool is pledged and drawings are made directly against the eligible collateral.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 28. LIQUIDITY RISK (CONTINUED)

The tables below provide an analysis of gross contractual cashflows. The sum of the balances depicted in the analysis do not reconcile with the carrying value of the liabilities as disclosed in the Group balance sheet as 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 2021</b>	£m	£m	£m	£m	£m
Shares	24,707.3	7,370.1	3,426.8	–	35,504.2
Amounts owed to credit institutions	377.8	24.7	5,739.6	–	6,142.1
Other deposits:					
Society	320.3	165.9	–	–	486.2
Subsidiaries	388.4	–	–	–	388.4
Debt securities in issue	203.2	704.8	3,785.2	1,349.6	6,042.8
Subordinated liabilities	–	25.8	385.6	577.8	989.2
Operating lease payments	–	0.1	–	–	0.1
Derivative financial liabilities	30.0	63.4	202.8	78.9	375.1
<b>Total</b>	<b>26,027.0</b>	<b>8,354.8</b>	<b>13,540.0</b>	<b>2,006.3</b>	<b>49,928.1</b>
<b>As at 31 December 2020</b>	£m	£m	£m	£m	£m
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)

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings, based on the remaining period between the balance sheet date and the contractual maturity date.

Group	Repayable on demand	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 2021	£m	£m	£m	£m	£m	£m
<b>Financial Assets</b>						
Cash in hand and balances with the Bank of England	5,539.8	–	–	–	–	5,539.8
Loans and advances to credit institutions	381.4	–	–	–	–	381.4
Debt securities	–	110.5	203.7	2,343.1	1,418.2	4,075.5
Loans and advances to customers	–	330.0	102.1	1,487.9	40,002.4	41,922.4
Derivatives financial instruments	–	29.6	80.8	325.3	55.2	490.9
<b>Total financial assets</b>	<b>5,921.2</b>	<b>470.1</b>	<b>386.6</b>	<b>4,156.3</b>	<b>41,475.8</b>	<b>52,410.0</b>
<b>Financial liabilities</b>						
Shares	22,662.9	2,046.7	7,370.0	3,426.8	–	35,506.4
Amounts owed to credit institutions	49.4	326.9	12.0	5,701.5	–	6,089.8
Other deposits	396.9	306.0	170.6	–	–	873.5
Debt securities in issue	–	195.8	671.3	3,687.1	1,336.7	5,890.9
Derivative financial instruments	–	7.6	9.9	139.3	115.9	272.7
Subordinated liabilities	–	–	–	308.2	549.5	857.7
<b>Total financial liabilities</b>	<b>23,109.2</b>	<b>2,883.0</b>	<b>8,233.8</b>	<b>13,262.9</b>	<b>2,002.1</b>	<b>49,491.0</b>
<b>As at 31 December 2020</b>						
	£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 liabilities	–	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)

### 29. MARKET RISK

Market risk is the risk to earnings and capital arising from changes in interest rates, foreign currency exchange rates, structural mismatches within the balance sheet and the price of financial instruments.

#### VALUE AT RISK (VaR)

VaR is a risk management tool which evaluates the potential losses that may be incurred as a result of movements in market conditions over a specified holding period and to a given level of confidence. The model used is based on a 10 day holding period and a 99% confidence level.

The VaR model calculates potential movements in market prices by reference to market data from the last 252 days and incorporates underlying risk factors based on historic interest rate volatilities and correlations.

VaR for individual portfolios is calculated and reported on a daily basis with the Group position reported 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 reliable 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.

#### 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. This is calculated and reported on a daily basis separately for each currency and at the full Group 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)

	Year end	Average	Maximum	Minimum
<b>2021</b>	£m	£m	£m	£m
LIBOR basis	0.1	0.1	0.2	–
SONIA basis	1.8	1.7	1.9	1.4
PV01 sensitivity	(0.1)	0.1	0.5	(0.3)
PV100 sensitivity	(11.3)	10.4	46.6	(23.7)
VaR	14.3	5.3	15.5	1.2
<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
VaR	1.2	1.4	2.7	0.6

	Greater than one year	Greater than five years	Greater than ten years
<b>2021</b>	£m	£m	£m
Repricing gap	1,144.0	155.0	–
<b>2020</b>	£m	£m	£m
Repricing gap	(549.0)	83.0	2.0

## 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 0.02% of total assets (2020: less than 0.01%).

Actual exposures were:

Group and Society	2021	2020
	£m	£m
Year end	1.2	1.6
Maximum	9.0	1.9

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 31. WHOLESALE CREDIT RISK

The Group's wholesale credit risk arises principally from assets held for liquidity purposes. The risk is that counterparties with whom the Group invests liquid assets fail to repay those investments when they fall due. The Group, through the Treasury function, undertakes its own internal rating of all its counterparties and sets individual limits accordingly. These limits are regularly reviewed internally and against the external rating agencies, with revocation or suspension taking place where considered appropriate.

Limits are in place governing the types of instrument in which the Group will invest, as well as geographic limits designed to prevent over-exposure to a given country. The Group uses an internal credit ratings process to identify potential risks and wholesale related credit risks are reported and discussed monthly at the Asset and Liability Committee.

Whilst recognising that exposures will be maintained across a spectrum of counterparties the Board has maintained a low risk appetite for wholesale credit risk resulting in our inter-bank exposures being limited to operational requirements.

A diversified range of counterparties is in place to meet business and regulatory requirements 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 credit rating of the issuer.

	Aaa-Aa3	A1-A3	Baa1-Baa3	Ba1-B3	Caa1-C3	Unrated	Total
	£m	£m	£m	£m	£m	£m	£m
<b>2021</b>							
Central Bank and Sovereigns	6,347.0	-	-	-	-	-	6,347.0
Financial Institutions	2,485.3	911.2	92.1	-	-	-	3,488.6
Supranational bonds	652.0	-	-	-	-	-	652.0
Other	-	-	-	-	-	-	-
<b>Total</b>	<b>9,484.3</b>	<b>911.2</b>	<b>92.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,487.6</b>
<b>2020</b>							
Central Bank and Sovereigns	5,028.9	-	-	-	-	-	5,028.9
Financial Institutions	1,566.0	1,602.2	58.5	-	-	-	3,226.7
Supranational bonds	563.8	-	-	-	-	-	563.8
Other	-	-	-	-	-	-	-
<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>

## 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	Supranational bonds	Total
<b>2021</b>	£m	£m	£m	£m
United Kingdom	6,207.5	2,099.2	–	8,306.7
Australia	–	38.6	–	38.6
Canada	–	385.0	–	385.0
France	47.8	184.9	–	232.7
Germany	–	427.0	–	427.0
Japan	91.7	2.4	–	94.1
Netherlands	–	111.4	–	111.4
Norway	–	82.8	–	82.8
Spain	–	20.7	–	20.7
Sweden	–	31.8	–	31.8
United States	–	104.8	–	104.8
International	–	–	652.0	652.0
<b>Total</b>	<b>6,347.0</b>	<b>3,488.6</b>	<b>652.0</b>	<b>10,487.6</b>
<b>2020</b>	£m	£m	£m	£m
United Kingdom	5,028.9	2,530.1	–	7,559.0
Canada	–	20.0	–	20.0
France	–	196.7	–	196.7
Germany	–	330.7	–	330.7
Netherlands	–	120.6	–	120.6
United States	–	28.6	–	28.6
International	–	–	563.8	563.8
<b>Total</b>	<b>5,028.9</b>	<b>3,226.7</b>	<b>563.8</b>	<b>8,819.4</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 £5,539.8m (2020: £4,446.5m) to the Bank of England and £667.7m (2020: £582.4m) in UK Government bonds. There has been a further geographical diversification of assets over the year but these exposures are with well rated institutions in mature markets so are within risk appetite. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 31. WHOLESALE CREDIT RISK (CONTINUED)

Wholesale credit exposure per the balance sheet is as below:

Group	2021	2020
	£m	£m
Cash in hand and balances with the Bank of England	5,539.8	4,455.7
Loans and advances to credit institutions	381.4	1,087.4
Debt securities	4,075.5	2,860.1
Derivative financial instruments	490.9	416.2
<b>Total wholesale credit risk</b>	<b>10,487.6</b>	<b>8,819.4</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 expected credit loss (ECL) model. *Effective Interest Rate* (EIR) and *hedging adjustments* have been excluded from the ECL model as these do not form part of the contractual cash flows from the assets.

EIR is the measurement method used for financial assets held at amortised cost, including *loans and advances to customers*, which spreads income and fees over the life of the asset. See note 1 for more details. *Hedging* is described in more detail in note 27. The *fair value rate adjustment* reflects the market value adjustment on acquired portfolios of mortgage assets in respect of interest rates on the underlying products. This is amortised over the expected life of the acquired portfolio. *Impairment* represents the difference between the total ECL and the *fair value rate adjustment*.

Group	2021	2020
	£m	£m
Gross contractual exposures	42,211.5	38,609.6
EIR	52.8	52.0
Hedging	(238.2)	274.4
Fair value rate adjustment	(49.2)	(61.4)
Gross loans and advances to customers	41,976.9	38,874.6
Impairment	(26.1)	(43.9)
Fair value credit adjustment	(28.4)	(32.1)
ECL	(54.5)	(76.0)
<b>Loans and advances to customers</b>	<b>41,922.4</b>	<b>38,798.6</b>

#### 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 2021 are described below.

#### Economic Scenarios

The Group continues 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. These four scenario's are 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### ECL (CONTINUED)

#### Economic Scenarios (continued)

##### Current Macroeconomic Conditions

The phased reopening of the economy from mid-April 2021 resulted in a strong rebound in activity, aided by a combination of government support measures and the progress of the UK vaccination programme. However, over the second half of the year this momentum slowed due to the emergence of the Delta and Omicron COVID-19 variants. At the height of the 'pingdemic' almost a million workers were self-isolating, leading to shortages in the labour markets. This, coupled with greater consumer caution going into December in light of the unknown impact of Omicron at that time, meant the year ended with the economy on a downward trend, particularly for the hospitality and retail sectors.

Whilst the surge in Omicron cases did not lead to a spike in hospitalisation and fatalities as many feared, and more severe lockdown measures in early 2022 were avoided, the pace of a return to any semblance of 'normality' is still not clear. The risk of further COVID-19 surges remains, especially if new variants of the virus continue to develop and supplies of boosters are not available or as effective.

The spectre of inflation has also emerged over the last few months with the UK experiencing rapidly rising fuel and energy prices and global supply issues for the first time since the 1970s. Unemployment continues to fall and job vacancies continue to rise, resulting in wage growth pressures. The conflict in Ukraine is also adding to volatility in energy prices and global markets.

The Bank of England has responded with back to back rate rises for the first time since 2004, the 15 basis point rise in December 2021 being quickly followed by the 25 basis point rise to 0.5% in February 2022.

As such, the economic assumptions applied within our scenarios are showing improvement since December 2020, but our outlook continues to reflect significant downside risks.

##### Upside

This assumes the continued availability of effective boosters and new vaccines successfully negate the impact of new COVID-19 variants. The removal of all social distancing restrictions allows businesses to return to full normality by mid-2022. After the strong performance in 2021, GDP continues to grow in 2022 and reverts to pre-pandemic levels from 2023. Unemployment falls back to multi-decade lows and house prices grow at 3% per annum over 2023 and 2024.

##### Core

The core scenario is the Group's best estimate of how the UK economy will evolve and is aligned with the central scenario used in the Group's financial planning processes. It assumes a steady return to post-pandemic normality over 2022 with no further restrictions or lockdowns.

The economic environment is more favourable than the 2020 lockdown easing as the level of uncertainty has greatly reduced, and households and businesses more quickly resume spending and investment plans. Having paid down bank debt and accumulated 'excess' cash holdings during the pandemic, large companies report robust investment intentions in response to strengthening demand. The 'super deduction' tax incentive further encourages firms to make use of this cash and bring forward capital spending.

Successive base rate rises successfully bring the rising inflation seen in early 2022 back to the Bank of England's 2% target.

##### House Price Index (HPI)

The core scenario expects both the supply of, and demand for housing stock to normalise in 2022 and for some of the 2021 gains to unwind. HPI increases by 1.2% in 2022 and rises to 2.0% per annum from 2023.

##### Gross Domestic Product

In this scenario gross domestic product (GDP) growth for 2022 is expected to be 5.9%. This reflects increased capital spending of stockpiled cash of large companies, albeit partially offset with growing labour costs and component shortages. The UK economy returns to near its pre-pandemic level in Q3 2022 but is structurally marginally smaller due to lost investment, business closures and labour market scarring (i.e. the longer a person is unemployed the more difficult they find it to re-enter the jobs market even with rising job vacancies). In 2022 to 2025 GDP growth then slows to similar rates seen in the past decade. Brexit is assumed to leave GDP around 4% lower than the pre-virus level by 2025 due to lower inward investment and productivity.

##### Unemployment

As uncertainty fades and demand continues to grow, we anticipate a recovery in business investment and therefore job creation, as a result we expect unemployment to fall.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### ECL (CONTINUED)

##### Economic Scenarios (continued)

##### Downturn

The downturn scenario assumes the emergence of new COVID-19 variants that current vaccines are ineffective against, resulting in spikes in cases but with hospitalisations and fatalities following suit. In the absence of effective boosters and new vaccines taking longer to roll out due to longer clinical trial periods and production constraints, the UK Government imposes a further national lockdown to combat the pressure on the healthcare system. Non-essential sectors are restricted from trading, with the economy continuing to take a hit as there is no further government support for jobs and businesses. Although bank base rate is reduced to zero, unemployment accelerates and earnings growth falls behind inflation, reducing spending power.

##### HPI

A combination of a rapid rise in unemployment, falling real earnings and a collapse in consumer confidence drives house prices down sharply in 2022 by 12.7% and a further 5% in 2023, with no recovery in values until 2025. A rise in repossessions further drives down valuations.

##### GDP

Lockdowns and restrictions result in a GDP contraction of 5.6% in 2022 and a contraction of 5.0% in 2023 but it starts to grow slowly in Q3 2023 as the economy is gradually reopened. However, with weakness in the labour markets, declining real earnings and low demand/business investment, downturn forecasts growth rates of 1.3% for 2024 and 1.5% for 2025 and 2026.

##### Unemployment

With no government backed job retention or income support schemes, unemployment starts to accelerate to a peak of 8.8%. As recovery sets in, unemployment gradually starts to fall, although it is still high by recent standards.

##### Stress

In the stress scenario there are further challenges with the current vaccines' ability to cope with new strains of COVID-19, requiring the UK government to reimpose strict public health measures with a national lockdown in mid-2022 and wider local restrictions for the remainder of the year.

An updated vaccine emerges in late 2022 but supply chain and production issues mean it is not widely available until late 2023. In addition, the supply chain shortages cause further disruption as economies attempt to reopen and demand outstrips supply. The extended stress incorporates a risk that UK supply chains are also impacted by climate catastrophes on a global scale over the 5-year scenario horizon, further undermining recovery. Increased tensions between the EU and the UK put into doubt the workability of the 2020 trade agreement, increasing uncertainty in the business sector, reducing investment, hiring and growth.

There is no financial support for workers in non-essential sectors and affected businesses as the UK government cannot continue the level of support given during the 2020 first wave. Although the Bank Rate is reduced to zero, unemployment accelerates and earnings growth falls behind inflation, reducing spending power. A contracting economy and a large public sector deficit put pressure on sterling, giving rise to inflation and a decline in real wage growth.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## ECL (CONTINUED)

## Economic Scenarios (continued)

	2021 Scenario					2020 Scenario				
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
<b>HPI</b>										
Upside	4.0	3.0	3.0	2.0	2.0	3.2	3.4	3.4	3.6	3.5
Core	1.2	2.0	2.0	2.0	2.0	(4.0)	–	2.0	2.0	2.0
Downturn	(12.7)	(5.0)	–	1.5	2.0	(17.0)	(4.0)	–	1.5	2.0
Stress	(13.0)	(10.5)	(5.0)	–	1.0	(12.0)	(10.0)	(5.0)	(2.0)	–
<b>GDP</b>										
Upside	6.3	2.1	2.0	2.0	2.0	6.5	2.5	2.0	2.0	2.0
Core	5.9	1.8	1.6	1.6	1.6	5.7	2.5	1.8	1.6	1.6
Downturn	(5.6)	(5.0)	1.3	1.5	1.5	(5.5)	1.3	1.5	1.7	1.8
Stress	(5.1)	(2.0)	(0.7)	–	–	(5.5)	(2.0)	(0.8)	(0.5)	–
<b>Unemployment</b>										
Upside	4.3	4.3	4.2	4.1	4.1	5.0	4.0	3.9	3.8	3.8
Core	4.7	4.7	4.5	4.4	4.4	7.9	7.5	6.5	5.5	4.5
Downturn	7.0	8.8	7.8	7.5	7.0	9.5	8.5	7.5	7.0	6.0
Stress	10.0	11.9	9.0	8.0	7.0	8.8	11.9	10.8	9.0	8.0
<b>Bank base rate</b>										
Upside	0.5	0.8	0.8	0.8	0.8	0.5	0.8	0.8	0.8	0.8
Core	0.5	0.8	0.8	0.8	0.8	0.1	0.3	0.3	0.3	0.3
Downturn	–	–	–	–	–	0.1	0.1	0.1	0.1	0.1
Stress	–	–	–	–	–	–	–	–	–	–

The following table shows the average values of the key economic variables used by each economic scenario for the period until December 2026. 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 period or as peak to trough.

	Upside		Core		Downturn		Stress	
	2021	2020	2021	2020	2021	2020	2021	2020
<b>5 year average</b>								
GDP	2.1	2.3	1.8	2.0	(1.6)	(0.5)	(2.2)	(2.4)
HPI	2.8	3.4	1.8	0.4	(3.0)	(3.8)	(5.7)	(5.9)
Unemployment	4.2	4.4	4.6	6.5	7.5	7.8	9.1	9.5
Bank base rate	0.7	0.7	0.6	0.2	–	0.1	–	–
<b>Peak to trough</b>								
GDP	–	–	(7.8)	(8.8)	(8.8)	(7.8)	(4.3)	(4.9)
HPI	–	–	(8.3)	(5.8)	(14.3)	(16.8)	(23.5)	(24.0)
Unemployment	4.5	7.0	4.9	7.9	8.8	9.5	11.9	11.9



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### ECL (CONTINUED)

##### Alternative Scenarios Considered

In the *Principal Risks and Uncertainties* section of the *Strategic Report* we refer to the increasing risk of inflation and rising interest rates. Given the potential for an adverse impact on affordability, the possibility of introducing a fifth economic scenario as an alternative base case was considered. However, in that scenario interest rates and unemployment would be expected to remain low by historical standards. After review, including consideration of the sensitivity of our mortgage books and associated impairment models to increasing interest rates, we concluded that the existing four scenario approach provides sufficient coverage across the range of potential credit loss outcomes.

##### 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	2021		2020	
	Weighting	ECL	Weighting	ECL
Scenario	%	£m	%	£m
Upside	5	29.7	5	37.4
Core	50	30.9	45	42.4
Downturn	30	74.9	35	105.5
Stress	15	100.5	15	120.7
<b>Weighted scenario</b>	<b>100</b>	<b>54.5</b>	<b>100</b>	<b>76.0</b>

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

As in prior periods, the stress scenario is an operational measure used to stress test the rigour of the Group's balance sheet and applying a 15% weight to this scenario is still considered appropriate. The upside of 5% is also still deemed appropriate.

If the December 2020 weightings had been applied to the December 2021 balances the ECL would be £2.2 million higher.

##### Post Model Adjustments

Post model adjustments (PMAs) are applied when an increase in credit risk is identified that is not effectively captured in the core expected credit loss models. 2021 has seen a rapidly changing macro-economic environment and there has therefore been an increased focus on identifying and quantifying the resulting risks and exposures. There has also been a rigorous review of previously applied PMAs to determine whether the risks identified are still applicable. The PMAs applied at 31 December 2021 are as follows:

	2021	2020
	£m	£m
Methodology changes	6.4	–
Model recalibration	1.4	–
Extended time to sale	2.2	–
Cladding	1.3	–
Uncertainty	3.6	3.0
Payment deferrals	–	3.5
<b>Total PMA</b>	<b>14.9</b>	<b>6.5</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### ECL (CONTINUED)

#### Post Model Adjustments (continued)

##### Methodology Changes

The Group has updated the definition of default (DoD) and the probability of default (PD) rating scale on the back of a comprehensive review as part of the transition to the fourth-generation internal ratings based (Gen 4 IRB) method of calculating regulatory capital. However, given the time and governance required to manage the introduction of amendments into the core underlying models, they will be updated to reflect these changes in 2022. A PMA was established to provide a high-level overlay to the models to reflect the impacts, primarily:

- the additional accounts that would be classified as being Stage 3 due to meeting the additional default criteria;
- the accounts that would be more likely to be classified as Stage 2 due to an increase in risk, either by their transition to a higher rating grade or potentially to a higher risk PD model; and
- reflect changes to the eligibility of accounts meeting the definition of a significant increase in credit risk ('SICR'). The changes reflect using initial recognition PD as a comparison point for SICR rather than lifetime PD.

##### Model Recalibration

Regular model performance monitoring has highlighted that the observed default rates (ODRs) of certain risk grades have moved above their upper tolerance thresholds and are expected to remain that way for an extended period. This PMA represents the recalibration of the behavioural and application score to grade mappings to correct the tolerance breaches.

##### Extended Time to Sale

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

This post model adjustment adjusts for this by increasing each of the time from default to possession (TFDP) parameters by 12 months to reflect the under-estimation present in the core model. This PMA will continue to be monitored and is expected to be released as the repossession activity reverts back to historic levels as backlogs are cleared.

##### Cladding

Following the Grenfell Tower fire in June 2017, the UK Government mandated that aluminium composite material (ACM), the cladding type used on Grenfell Tower, be removed from all blocks of flats in excess of 18 metres or six storeys high. In January 2020 the Ministry for Housing, Communities & Local Government (MHCLG) also published guidelines that introduced a duty on freeholders to obtain a detailed assessment, and undertake remedial works, on any potentially combustible elements of any cladding, of any height, on all blocks of flats.

Subsequently, the *Fire Safety Act 2021* legislated that repair costs could be passed onto leaseholders in accordance with the standard lease terms and that the obligation to pay for remediation works would fall to the current leaseholder. The main area of risk therefore is residential leaseholders that have these costs passed on to them and this impacts their ability to meet mortgage payments. In addition, whilst the Group does not have exposure to individual residential freehold flats, there are a number of block freeholds within the Commercial lending portfolio. In the cases affected, the freeholder is able to recover the costs of any necessary works from the leaseholders but there is a risk of non-recovery if the leaseholder has neither the means nor the desire to pay.

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

Note: in January 2022 the UK Government's announced proposals for ensuring leaseholders do not pay the remediation costs associated with cladding on properties greater than 11 metres in height. This has been reviewed and the PMA has not been adjusted as a result as they remain proposals at this stage.

Whilst these recommendations are welcome, they do not resolve a number of fire safety issues that would still require leaseholder funded remediation like fire stopping, internal fire doors, balconies and service voids. The impact on our PMA will be considered once there is a final agreed position from government and industry.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### ECL (CONTINUED)

#### Post Model Adjustments (continued)

##### Uncertainty

Whilst we incorporate a range of economic assumptions in the scenarios and probability weightings used to calculate ECL, this approach still has certain limitations, particularly given the current volatility in market conditions. The resulting unusual and largely unforeseen impacts on the credit risks faced by the Group have given rise to several assumption uncertainties and a PMA has been established to aim to correct for these.

The key risks that this PMA provides an estimate for are provided below.

##### Buy-to-Let (BTL)

Whilst BTL has been very resilient during the COVID-19 pandemic, the level of risk and uncertainty in this book is increasing. The UK and Devolved Governments have significantly increased tax rates to landlords in recent years and these are only just starting to impact market behaviour as they have been phased-in gradually.

In addition, structural changes in the rental market, both in terms of demographics and geography, may place some landlords in a position where they cannot find tenants in their area who can afford rent at a level that would cover the loan servicing and maintenance costs of the property. Whilst there has not been an increase in BTL defaults over the last 12 months, it is assumed that this has been due to landlords meeting mortgage obligations by means other than rental income and there is a latent risk that defaults are masked behind the lack of arrears.

##### House Price Volatility

This PMA has been raised in response to extraordinary growth in house prices since the easing of the first COVID-19 lockdown and, in particular, the limitations of the underlying models to cope with the HPI being applied at regional level in our models. In a rapidly rising market, we expect there to be significant local variances in house price inflation between areas within a region. The uncertainty being modelled in this PMA is that the HPI increases at a regional level are not evenly distributed and the ECL impact of changes in collateral values is non-linear.

This PMA seeks to correct for the standard deviation from the regional type mean and not an attempt to correct for any perceived current market wide over-valuation. The HPI assumptions applied in the underlying economic scenarios estimate the impacts of future HPI trends at a macro level based on the current baseline.

##### Climate risk

We have assessed the risks associated with climate change, both physical and transitional, in the context of ECL and concluded that the majority of these risks do not meet the requirements for recognition as:

- There have been no observed climate related defaults and therefore no identifiable significant increase in credit risk (SICR); and
- The material transition risks identified are expected to occur over a timescale in excess of the current behavioural life of our portfolio (i.e. the average term before a customer either moves onto an alternative deal or transfers to another provider) and, as such, any potential impact would be against loans yet to be underwritten.

We have, however, assessed the impact on our current loan book from properties subject to significant flood risk. The detailed assessment conducted for the purposes of Climate Biennial Exploratory Scenario (CBES) reporting, see the *Building a Greener Society* section of the *Strategic Report*, have yet to be incorporated into the core ECL models so a PMA is therefore required to assess the current level of risk.

This has been estimated by taking the proportion of properties at risk based on an external benchmark and applying a 10% additional loss against these properties. Factoring in the 12-month loss window for stage 1 balances, and assuming that the loss would be incurred as a result of a 1 in 25 flood event, a £1 million PMA has been raised as an estimate of the impact. We will continue to evaluate the need for this PMA as our modelling evolves and the full exposure to physical risks, and transition risks as they emerge, are embedded into the ECL process.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

ECL (CONTINUED)

#### **Post Model Adjustments (continued)**

Uncertainty (continued)

##### **Credit Bureau Data**

A £2.0 million PMA was applied at 31 December 2020 to cover the scenario where a Group mortgage customer has been granted a payment deferral on another product with another provider and where there is a delay in this information flowing through credit reference agency data used to generate probability of default estimates.

These risks have either now been largely extinguished or the impacts have worked their way through the credit bureau data system and are reflected in the underlying ECL models. As a result, the PMA for this risk was released in the first half of the year.

##### **Payment Deferrals**

A £3.5 million PMA was applied at 31 December 2020 to ensure that the levels of increased risk in the book potentially masked by payment deferrals granted to our mortgage customers was adequately reflected. A post model adjustment was developed to reflect the risk and uncertainty surrounding customer behaviour when coming out of the deferral period. Throughout 2021, the PMA was fully released in line with reducing balance of mortgage customers granted deferrals.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### ECL (CONTINUED)

#### Staging and POCI

The tables below show the staging of loans and advances plus those classed as purchased or originated credit impaired (POCI) recognised as part of the acquisitions of Norwich & Peterborough Building Society (N&P) and Chelsea Building Society (CBS). The fair value discount applied on acquisition is recognised as the *fair value credit adjustment*.

The Group has £440.1 million of POCI loans (2020: £515.4 million). Of these, 87% (2020: 87%) are now considered performing loans but are not permitted to be reclassified to stage 1 or 2.

	2021						2020	
	Gross Exposure		PMA	Total ECL	Coverage	Average LTV	Exposure	Coverage
	£m	%	£m	£m	%	%	%	%
Stage 1	37,614.0	89.1	2.0	5.6	–	51.7	89.3	–
Stage 2	3,791.2	9.0	8.3	17.5	0.5	35.7	8.6	0.8
Stage 3	366.2	0.9	4.6	15.4	4.2	43.9	0.8	5.0
POCI	440.1	1.0	–	16.0	3.6	45.9	1.3	5.1
<b>Total</b>	<b>42,211.5</b>	<b>100.0</b>	<b>14.9</b>	<b>54.5</b>	<b>0.1</b>	<b>49.5</b>	100.0	0.2

The *cost of risk* measure has been calculated using the impairment charge for the year divided by the average balance over the period. This is negative due to the large impairment release over the year. *Problem loans* represent the total of the Group's stage 3 balances and the non-performing portion of our POCI loans.

	2021		2020	
	£m	%	£m	%
<b>Gross exposures</b>				
Stage 1	37,614.0	89.1	35,228.9	91.2
Stage 2	3,791.2	9.0	2,556.6	6.7
Stage 3	366.2	0.9	308.7	0.8
POCI	440.1	1.0	515.4	1.3
<b>Total gross exposures</b>	<b>42,211.5</b>	<b>100.0</b>	38,609.6	100.0
Problem loans	423.7	1.0	375.0	1.0
Cost of risk	–	(0.1)	–	0.1
<b>ECL and Coverage ratios</b>				
Stage 1	5.6	–	4.0	–
Stage 2	17.5	0.5	27.2	1.1
Stage 3	15.4	4.2	15.4	5.0
POCI	16.0	3.6	26.4	5.1
Unstaged PMA	–	–	3.0	–
<b>Total ECL</b>	<b>54.5</b>	<b>0.1</b>	76.0	0.2
Of which impairment	26.1	47.9	43.9	57.8
Of which fair value credit adjustment	28.4	52.1	32.1	42.2

## 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 expected credit losses, split by impairment and fair value credit adjustments, and a best estimate of the collateral against these mortgages. The collateral is calculated as the lower of the value of the property and the outstanding loan amount so does not represent the overall value of properties backing the loans.

Group	Gross Exposure		Collateral		Impairment		Fair Value Credit Adjustment	
	2021	2020	2021	2020	2021	2020	2021	2020
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Stage 1</b>	<b>37,614.0</b>	35,228.9	<b>37,611.5</b>	35,226.7	<b>5.6</b>	4.0	–	–
<b>Stage 2</b>	<b>3,791.2</b>	2,556.6	<b>3,790.5</b>	2,555.2	<b>15.8</b>	26.1	<b>1.7</b>	1.1
Less than 30 days past due	<b>3,700.0</b>	2,435.1	<b>3,699.3</b>	2,433.8	<b>14.7</b>	22.3	<b>1.6</b>	1.0
More than 30 days past due	<b>91.2</b>	121.5	<b>91.2</b>	121.4	<b>1.1</b>	3.8	<b>0.1</b>	0.1
<b>Stage 3</b>	<b>366.2</b>	308.7	<b>365.8</b>	308.1	<b>11.8</b>	10.5	<b>3.6</b>	4.9
Less than 30 days past due	<b>183.6</b>	110.2	<b>183.5</b>	110.1	<b>3.9</b>	1.3	<b>1.0</b>	1.0
30-90 days past due	<b>57.3</b>	67.4	<b>57.3</b>	67.3	<b>1.3</b>	1.2	<b>0.3</b>	0.4
More than 90 days past due	<b>125.3</b>	131.1	<b>125.0</b>	130.7	<b>6.6</b>	8.0	<b>2.3</b>	3.5
<b>POCI</b>	<b>440.1</b>	515.4	<b>439.3</b>	514.0	<b>(7.1)</b>	0.3	<b>23.1</b>	26.1
Less than 30 days past due	<b>392.7</b>	461.6	<b>392.0</b>	460.4	<b>(6.7)</b>	(0.8)	<b>19.2</b>	22.0
30-90 days past due	<b>26.5</b>	30.7	<b>26.5</b>	30.7	<b>0.1</b>	0.6	<b>1.2</b>	1.3
More than 90 days past due	<b>20.9</b>	23.1	<b>20.8</b>	22.9	<b>(0.5)</b>	0.5	<b>2.7</b>	2.8
<b>Unstaged PMA</b>	–	–	–	–	–	3.0	–	–
<b>Total</b>	<b>42,211.5</b>	38,609.6	<b>42,207.1</b>	38,604.0	<b>26.1</b>	43.9	<b>28.4</b>	32.1

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### ECL (CONTINUED)

#### Staging and POCI (continued)

Society	Gross Exposure		Collateral		Impairment		Fair Value Credit Adjustment	
	2021	2020	2021	2020	2021	2020	2021	2020
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Stage 1</b>	<b>9,395.6</b>	10,675.4	<b>9,393.5</b>	10,689.1	<b>2.6</b>	1.4	–	–
<b>Stage 2</b>	<b>1,816.8</b>	1,682.6	<b>1,816.4</b>	1,671.4	<b>9.7</b>	17.1	<b>1.7</b>	1.1
Less than 30 days past due	<b>1,781.7</b>	1,631.9	<b>1,781.3</b>	1,624.7	<b>9.2</b>	15.7	<b>1.6</b>	1.0
More than 30 days past due	<b>35.1</b>	50.7	<b>35.1</b>	46.7	<b>0.5</b>	1.4	<b>0.1</b>	0.1
<b>Stage 3</b>	<b>140.9</b>	133.8	<b>140.8</b>	134.2	<b>2.1</b>	1.2	<b>3.6</b>	4.9
Less than 30 days past due	<b>78.3</b>	51.9	<b>78.2</b>	52.3	<b>1.2</b>	0.2	<b>1.0</b>	0.9
30-90 days past due	<b>22.0</b>	28.7	<b>22.0</b>	24.8	<b>0.2</b>	0.1	<b>0.3</b>	0.4
More than 90 days past due	<b>40.6</b>	53.2	<b>40.6</b>	57.1	<b>0.7</b>	0.9	<b>2.3</b>	3.6
<b>POCI</b>	<b>439.5</b>	514.8	<b>438.7</b>	508.4	<b>(7.1)</b>	0.2	<b>23.1</b>	26.1
Less than 30 days past due	<b>392.1</b>	461.0	<b>391.4</b>	456.2	<b>(6.7)</b>	(0.9)	<b>19.2</b>	22.0
30-90 days past due	<b>26.5</b>	30.7	<b>26.5</b>	29.4	<b>0.1</b>	0.6	<b>1.2</b>	1.3
More than 90 days past due	<b>20.9</b>	23.1	<b>20.8</b>	22.8	<b>(0.5)</b>	0.5	<b>2.7</b>	2.8
<b>Unstaged PMA</b>	–	–	–	–	–	2.0	–	–
<b>Total</b>	<b>11,792.8</b>	13,006.6	<b>11,789.4</b>	13,003.1	<b>7.3</b>	21.9	<b>28.4</b>	32.1

All accounts in stage 1 are less than 30 days past due. All accounts in stage 2 are less than 90 days past due.

#### LENDING BY TYPE

Group	2021	2020
<b>Percentage split of gross contractual exposure</b>	<b>%</b>	<b>%</b>
Residential Prime	<b>86.0</b>	85.3
Residential Sub-Prime/Self-Cert	<b>0.6</b>	0.8
Retail Buy-To-Let	<b>11.3</b>	11.1
Social Housing	<b>0.5</b>	0.8
Commercial Lending (exc. Social Housing)	<b>1.6</b>	2.0
	<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 and reporting on risk exposures is provided regularly to the Group's risk committees, including analysis of mortgages in arrears and monitoring of the characteristics of the loan portfolios (e.g. geographic location and loan-to-value).

Group	2021		2020	
	Retail	Commercial	Retail	Commercial
<b>Arrears</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
No arrears	<b>98.3</b>	<b>98.1</b>	97.9	98.1
Less than three months	<b>1.3</b>	<b>1.9</b>	1.7	1.5
Equal to or more than three months, less than six months	<b>0.2</b>	–	0.2	0.3
Equal to or more than six months, less than twelve months	<b>0.1</b>	–	0.1	0.1
Twelve months or more	<b>0.1</b>	–	0.1	–
Property in possession	–	–	–	–
<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	<b>50</b>	–	26	–

The percentage of retail mortgages with arrears of three months or more (as a % of outstanding balances, including possessions) has reduced during 2021 from 0.43% to 0.36%.

The UK Finance industry average ratio for mortgage arrears is measured using the number of accounts (including possessions). On this basis, the Group's retail mortgage arrears ratio of 0.50% (2020: 0.59%) is below the comparable UK Finance ratio 0.79% (2020: 0.84%). Arrears on more recent lending are minimal, reflecting the Group's credit risk appetite. Arrears is also lower than average for the buy-to-let portfolio with an arrears ratio of 0.16% (2020: 0.24%).

Society	2021	2020
<b>Arrears</b>	<b>%</b>	<b>%</b>
No arrears	<b>98.0</b>	97.7
Less than three months	<b>1.4</b>	1.6
Equal to or more than three months, less than six months	<b>0.3</b>	0.3
Equal to or more than six months, less than twelve months	<b>0.1</b>	0.2
Twelve months or more	<b>0.1</b>	0.2
Property in possession	<b>0.1</b>	–
<b>Total</b>	<b>100.0</b>	100.0
Number of properties in possession at the year end	<b>43</b>	24



## 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:

Group	Book		New Lending	
	2021	2020	2021	2020
<b>Retail Mortgage Customer Type</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
First time buyer	24.8	20.8	36.8	31.0
Other buyers e.g. movers	38.1	37.1	40.5	35.0
Re-mortgage	25.1	30.4	12.2	23.4
Buy-to-let	11.8	11.6	10.1	9.8
Other	0.2	0.1	0.4	0.8
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

	2021	2020
<b>Retail Mortgage Geographical Distribution</b>	<b>%</b>	<b>%</b>
Scotland	6.5	6.7
North East	3.3	3.3
Yorkshire & Humberside	8.8	9.0
North West	10.5	10.5
Midlands	12.9	13.1
East	10.7	10.6
South West	7.2	7.2
Greater London	18.3	18.2
South East	17.7	17.4
Wales & Northern Ireland	4.1	3.9
Non-UK	–	0.1
	<b>100.0</b>	<b>100.0</b>

The Group's retail mortgages are secured on property. The value of these properties is updated on a quarterly basis using the Office for National Statistics (ONS) regional property price indices which comprise relative house price movements across the UK. These indexed valuations provide senior management with a view of the value and risk of the properties on which retail mortgages are secured.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## RETAIL MORTGAGE LENDING (CONTINUED)

Group	Book		New Lending	
	2021	2020	2021	2020
<b>Loan-to-value distribution of retail mortgages</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
100% or greater	–	0.1	–	–
95 to 100%	–	–	–	–
90 to 95%	<b>0.9</b>	1.4	<b>4.4</b>	4.8
85 to 90%	<b>3.2</b>	5.8	<b>22.4</b>	20.0
80 to 85%	<b>7.1</b>	9.6	<b>25.8</b>	27.2
75 to 80%	<b>10.3</b>	9.5	<b>16.7</b>	10.6
70 to 75%	<b>11.9</b>	10.5	<b>12.9</b>	13.2
60 to 70%	<b>20.4</b>	17.9	<b>8.2</b>	10.4
Less than 60%	<b>46.2</b>	45.2	<b>9.6</b>	13.8
	<b>100.0</b>	100.0	<b>100.0</b>	100.0
Average LTV (all retail)	<b>49.6</b>	50.8	<b>77.1</b>	74.2
Average LTV (buy-to-let)	<b>55.0</b>	57.2	<b>71.0</b>	66.6

Group	2021		2020	
	Not impaired	Impaired	Not impaired	Impaired
<b>Loan-to-value distribution of retail mortgages</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
100% or greater	–	–	–	–
95 to 100%	–	–	–	–
90 to 95%	<b>0.9</b>	–	1.0	–
85 to 90%	<b>3.2</b>	–	5.0	–
80 to 85%	<b>7.1</b>	–	9.3	0.1
75 to 80%	<b>10.2</b>	<b>0.1</b>	9.3	0.1
70 to 75%	<b>11.7</b>	<b>0.1</b>	10.2	0.2
60 to 70%	<b>20.1</b>	<b>0.3</b>	17.7	0.5
Less than 60%	<b>44.9</b>	<b>1.4</b>	45.4	1.2
	<b>98.1</b>	<b>1.9</b>	97.9	2.1

The definition of default/impaired includes accounts that are 90 days past due, interest only accounts past term end, those under certain forbearance measures and others exhibiting other unlikeliness to pay indicators. Accounting standards require accounts considered to be credit impaired at the time of business combinations (POCI) to be classed as impaired until de-recognition.

## 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.

Group and Society	2021	2020
Average loan to value (%)	<b>50.6</b>	52.8
Average loan size (£m)	<b>0.4</b>	0.3
Value of security held (£m)	<b>2,217.8</b>	1,863.0
Balance of loans >100% LTV (£m)	<b>16.6</b>	21.8
Largest exposure to a single counterparty (£m)	<b>17.9</b>	17.9

At the year end only 0.04% (2020: 0.40%) of commercial balances (including repossessions) were more than three months in arrears.

'Watch list' loans include those where there are circumstances which could impact on the quality and recoverability of the loan. Examples include borrowers requesting forbearance or reporting trading losses. Loans on the watch list total decreased to £33.9m in 2021 (2020: £65.3m). Our appetite and approach to the provision of commercial lending is to provide amortising term loans, typically over 10 – 25 years. We do not provide short-term, interest only facilities which require repayment on expiry through refinance. Where a period of interest only is agreed, it will be for a short period following which the loan will be structured to amortise over the remaining term. Corporate buy-to-let loans increased to £551.4m (2020: £382.0m). These loans are mainly interest only and are continuously monitored to ensure that full repayment is made on the expiry of the loan term.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## COMMERCIAL LENDING (CONTINUED)

Group and Society	2021	2020
<b>Commercial mortgage balances by geographical region</b>	<b>%</b>	<b>%</b>
Scotland	–	–
North East	0.5	0.7
Yorkshire & Humberside	3.3	3.4
North West	5.3	4.7
Midlands	7.3	7.4
East	4.5	4.3
South West	6.8	4.9
Greater London	46.1	48.2
South East	25.0	25.3
Wales & Northern Ireland	1.2	1.1
	<b>100.0</b>	<b>100.0</b>

Group and Society	2021	2020
<b>Commercial mortgage balances by lending type</b>	<b>%</b>	<b>%</b>
Commercial owner occupied	6.4	8.2
Commercial investment property	42.9	32.5
Corporate Buy-To-Let	33.9	33.0
Social Housing	16.8	26.3
	<b>100.0</b>	<b>100.0</b>

The Group has an active business lending to housing associations in England and Wales, via the Yorkshire Building Society brand. This sector has particularly robust credit characteristics and the lending is low risk albeit at low margins. At 31 December 2021 this loan book was £215.0m (2020: £312.6m). The Group has written further undrawn Term Loan/Revolving Credit facilities in the region of £242.0m (2020: £438.2m) 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 (PD) bands and origination year.

The risk models cover the majority of loans underwritten by the Group, with exceptions for portfolios subject to bespoke modelling requirements including Accord buy-to-let, commercial lending and POCI accounts. 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 significantly 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	2021						2020	
	Stage 1	Stage 2	Stage 3	POCI	Total Exposure	ECL	Total Exposure	ECL
PD Band	£m	£m	£m	£m	£m	£m	£m	£m
0.00%–<0.15%	30,830.6	2,127.7	–	–	32,958.3	2.0	27,443.8	1.0
0.15%–<0.25%	642.9	151.1	–	–	794.0	0.4	2,970.4	0.6
0.25%–<0.50%	285.6	267.0	–	–	552.6	0.3	752.7	0.5
0.50%–<0.75%	313.6	317.8	–	–	631.4	1.0	498.0	0.4
0.75%–<1.00%	151.8	185.3	–	–	337.1	1.1	463.8	0.8
1.00%–<2.50%	251.3	405.8	–	–	657.1	4.4	665.9	4.4
2.50%–<10.0%	34.1	147.4	–	–	181.5	3.2	432.6	7.4
10.0%–<100%	3.1	92.4	–	–	95.5	1.9	184.1	8.1
Default	–	–	366.2	57.4	423.6	16.2	375.0	19.9
Other	5,101.0	96.7	–	382.7	5,580.4	24.0	4,823.3	32.9
<b>Total</b>	<b>37,614.0</b>	<b>3,791.2</b>	<b>366.2</b>	<b>440.1</b>	<b>42,211.5</b>	<b>54.5</b>	<b>38,609.6</b>	<b>76.0</b>

Society	2021						2020	
	Stage 1	Stage 2	Stage 3	POCI	Total Exposure	ECL	Total Exposure	ECL
PD Band	£m	£m	£m	£m	£m	£m	£m	£m
0.00%–<0.15%	7,662.7	858.7	–	–	8,521.4	0.2	9,290.5	0.3
0.15%–<0.25%	196.0	71.5	–	–	267.5	0.1	699.0	0.2
0.25%–<0.50%	137.5	136.0	–	–	273.5	0.1	260.1	0.2
0.50%–<0.75%	178.1	187.9	–	–	366.0	0.7	289.1	0.3
0.75%–<1.00%	78.8	119.4	–	–	198.2	0.9	248.9	0.6
1.00%–<2.50%	87.7	263.3	–	–	351.0	3.2	366.9	2.9
2.50%–<10.0%	7.6	73.9	–	–	81.5	1.9	227.5	4.8
10.0%–<100%	1.3	45.7	–	–	47.0	1.0	82.9	3.5
Default	–	–	140.9	57.4	198.3	9.6	200.1	10.5
Other	1,045.9	60.4	–	382.1	1,488.4	18.0	1,341.6	30.7
<b>Total</b>	<b>9,395.6</b>	<b>1,816.8</b>	<b>140.9</b>	<b>439.5</b>	<b>11,792.8</b>	<b>35.7</b>	<b>13,006.6</b>	<b>54.0</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 exposures and expected credit losses by origination year for retail loans. The table shows that the credit quality of newly written business is of significantly higher quality than that written before 2009 or acquired as part of business combinations.

Group	2021						2020	
	Stage 1	Stage 2	Stage 3	POCI	Total Exposure	ECL	Total Exposure	ECL
Origination year	%	%	%	%	£m	£m	£m	£m
2021	23.4	0.6	–	–	10,143.8	4.2	–	–
2020	14.6	0.5	–	–	6,368.6	2.5	6,438.9	1.0
2019	12.4	0.6	0.1	–	5,515.4	2.8	6,999.2	1.5
2018	11.9	0.5	0.1	–	5,266.7	2.7	6,405.9	2.9
2017	8.0	0.4	–	–	3,558.6	1.7	4,426.4	1.8
2013 – 2016	12.0	2.1	0.1	–	6,014.9	3.1	7,801.2	3.2
2009 – 2012	2.2	0.8	–	–	1,278.8	0.5	1,594.9	0.3
Pre-2009	2.1	2.0	0.4	–	1,880.6	8.7	2,301.7	15.9
Acquired loans	2.5	1.5	0.2	1.0	2,184.1	28.3	2,641.4	42.9
PMA	–	–	–	–	–	–	–	6.5
<b>Total</b>	<b>89.1</b>	<b>9.0</b>	<b>0.9</b>	<b>1.0</b>	<b>42,211.5</b>	<b>54.5</b>	<b>38,609.6</b>	<b>76.0</b>

For 2009 and post lending, the average indexed LTV is 54.9% and the 90 days plus arrears rate is 0.1%. For Lending prior to 2009 the average indexed LTV is 29.1% and the 90 days arrears rate is 2.7%.

## 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 ECL from the beginning to the end of the reporting period split by class of financial instrument.

Group	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
<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>
Transfers from stage 1 to 2	(1,826.9)	1,826.9	–	–	–
Transfers from stage 1 to 3	(89.7)	–	89.7	–	–
Transfers from stage 2 to 1	371.1	(371.1)	–	–	–
Transfers from stage 2 to 3	–	(64.2)	64.2	–	–
Transfers from stage 3 to 1	9.1	–	(9.1)	–	–
Transfers from stage 3 to 2	–	42.1	(42.1)	–	–
Changes to carrying value	(1,807.5)	134.7	4.8	(13.4)	(1,681.4)
New financial assets originated or purchased	10,706.9	–	–	–	10,706.9
Financial assets derecognised during the year	(4,977.9)	(333.8)	(47.0)	(61.1)	(5,419.8)
Write-offs	–	–	(3.0)	(0.8)	(3.8)
<b>Gross exposure at 31 December 2021</b>	<b>37,614.0</b>	<b>3,791.2</b>	<b>366.2</b>	<b>440.1</b>	<b>42,211.5</b>

Group	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
<b>ECL at 31 December 2020</b>	<b>4.0</b>	<b>27.2</b>	<b>15.4</b>	<b>26.4</b>	<b>76.0</b>
Transfers from stage 1 to 2	–	5.0	–	–	5.0
Transfers from stage 1 to 3	–	–	2.8	–	2.8
Transfers from stage 2 to 1	0.1	–	–	–	0.1
Transfers from stage 2 to 3	–	–	1.5	–	1.5
Transfers from stage 3 to 1	–	–	–	–	–
Transfers from stage 3 to 2	–	0.8	–	–	0.8
Changes in PDs/LGDs/EADs	6.6	(8.9)	–	–	(2.3)
New financial assets originated or purchased	2.3	–	–	–	2.3
Changes to model assumptions and methodologies	(6.9)	(4.4)	(2.5)	(8.3)	(22.1)
Unwind of discount	–	–	0.5	0.6	1.1
Financial assets derecognised during the year	(0.5)	(2.2)	(1.6)	(2.5)	(6.8)
Write-offs	–	–	(0.7)	(0.2)	(0.9)
Unstaged PMA	–	–	–	–	(3.0)
<b>ECL at 31 December 2021</b>	<b>5.6</b>	<b>17.5</b>	<b>15.4</b>	<b>16.0</b>	<b>54.5</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 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>
Transfers from stage 1 to 2	(722.3)	722.3	–	–	–
Transfers from stage 1 to 3	(26.1)	–	26.1	–	–
Transfers from stage 2 to 1	277.1	(277.1)	–	–	–
Transfers from stage 2 to 3	–	(32.5)	32.5	–	–
Transfers from stage 3 to 1	2.4	–	(2.4)	–	–
Transfers from stage 3 to 2	–	20.2	(20.2)	–	–
Changes to carrying value	(539.2)	(78.1)	(4.9)	(13.5)	(635.7)
New financial assets originated or purchased	1,240.9	–	–	–	1,240.9
Financial assets derecognised during the year	(1,512.6)	(220.6)	(22.3)	(61.0)	(1,816.5)
Write-offs	–	–	(1.7)	(0.8)	(2.5)
<b>Gross exposure at 31 December 2021</b>	<b>9,395.6</b>	<b>1,816.8</b>	<b>140.9</b>	<b>439.5</b>	<b>11,792.8</b>

Society	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
<b>ECL at 31 December 2020</b>	<b>1.4</b>	<b>18.2</b>	<b>6.1</b>	<b>26.3</b>	<b>54.0</b>
Transfers from stage 1 to 2	–	3.2	–	–	3.2
Transfers from stage 1 to 3	–	–	1.1	–	1.1
Transfers from stage 2 to 1	–	–	–	–	–
Transfers from stage 2 to 3	–	–	0.7	–	0.7
Transfers from stage 3 to 1	–	–	–	–	–
Transfers from stage 3 to 2	–	0.5	–	–	0.5
Changes in PDs/LGDs/EADs	4.3	(6.4)	(0.4)	0.1	(2.4)
New financial assets originated or purchased	0.3	–	–	–	0.3
Changes to model assumptions and methodologies	(3.3)	(2.7)	(0.8)	(8.3)	(15.1)
Unwind of discount	–	–	0.2	0.6	0.8
Financial assets derecognised during the year	(0.1)	(1.4)	(0.7)	(2.5)	(4.7)
Write-offs	–	–	(0.5)	(0.2)	(0.7)
Unstaged PMA	–	–	–	–	(2.0)
<b>ECL at 31 December 2021</b>	<b>2.6</b>	<b>11.4</b>	<b>5.7</b>	<b>16.0</b>	<b>35.7</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### FORBEARANCE

Forbearance tools are used, in line with industry guidance, where they are deemed appropriate for an individual customer's circumstances. These include capitalisation, interest only concessions, arrears arrangements and term extensions. Forbearance measures are incorporated into the calculation of ECLs.

The table below shows the retail accounts that are forborne. These accounts have been further classified as follows:

- non-performing – where an account meets the definition of default at the point it is granted a forbearance measure; and
- probationary – for accounts that have exited forbearance measures and been re-classed from non-performing in the last 2 years.

The definition of non-performing and stage 3 are aligned such that no accounts in stage 2 are classed as non-performing. Any accounts that were previously in default have a cure period of 12 months, after which they are able to move back into stage 2 or 1.

Group	Arrangements		Other Concessions		Term extension		Interest Only	
	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL
<b>2021</b>	£m	£m	£m	£m	£m	£m	£m	£m
<b>Probation</b>	49.2	0.5	1.5	–	3.2	–	0.2	–
Stage 1	13.5	–	–	–	0.4	–	0.2	–
Stage 2	35.7	0.5	1.5	–	2.8	–	–	–
<b>Non-performing</b>	175.1	7.2	12.0	1.0	5.5	0.1	5.8	–
Stage 3	141.9	5.5	8.2	0.6	3.6	0.1	5.6	–
POCI	33.2	1.7	3.8	0.4	1.9	–	0.2	–
<b>Total</b>	<b>224.3</b>	<b>7.7</b>	<b>13.5</b>	<b>1.0</b>	<b>8.7</b>	<b>0.1</b>	<b>6.0</b>	<b>–</b>
<b>2020</b>	£m	£m	£m	£m	£m	£m	£m	£m
<b>Probation</b>	76.0	1.3	2.3	0.1	3.2	–	0.1	–
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>	180.6	10.5	11.7	1.1	6.8	0.2	0.2	–
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>

All requests for forbearance on commercial loans are subject to full credit risk appraisal and are predominantly for a period of interest only, which allows the borrower to improve income from trading or rent receipts, pending the sale of the property. The appraisal process considers the likelihood of a loss being substantiated from any borrower granted a concession and ensures that the concession is in the interests of both the borrower and the Group. In 2021 there were 29 accounts (2020: 21) in the commercial loans portfolio subject to forbearance with a total balance of £7.0m (2020: £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 OR ORIGINATED CREDIT IMPAIRED (POCI)

The table below shows the status of the Group's POCI loans and how they are distributed across loan-to-value (LTV) bands. A substantial proportion of POCI balances, were they not required to be classified as stage 3 by accounting standards, would transfer to other stages. The table below shows that 70.4% (2020: 71.3%) of balances have been fully up to date for the last 24 months and only 13.1% (2020: 12.9%) of balances would be classified as in default.

Group and Society	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>2021</b>				
Gross exposure	309.8	72.8	57.4	440.1
ECL	8.8	4.0	3.2	16.0
<b>2020</b>				
Gross exposure	367.3	81.9	66.2	515.4
ECL	15.1	6.6	4.7	26.3
<b>2021 LTV Split</b>				
Less than 60%	240.3	49.9	32.7	322.9
From 60 to 70%	43.8	13.8	16.4	74.0
From 70 to 80%	16.1	5.9	7.1	29.1
From 80 to 90%	4.2	2.1	0.4	6.7
90% or greater	5.4	1.1	0.9	7.4
<b>Total</b>	<b>309.8</b>	<b>72.8</b>	<b>57.5</b>	<b>440.1</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 balance sheet date.

2021	Carrying Value	Fair Values			Total Fair Value
		Level 1	Level 2	Level 3	
Group	£m	£m	£m	£m	£m
<b>Assets</b>					
Loans and advances to credit institutions	381.4	–	381.4	–	381.4
Loans and advances to customers	41,922.4	–	–	41,974.7	41,974.7
Debt securities – amortised cost	791.5	791.3	–	–	791.3
<b>Liabilities</b>					
Shares	35,506.4	–	35,475.4	–	35,475.4
Amounts due to credit institutions	6,089.8	–	6,089.8	–	6,089.8
Other deposits	873.5	–	873.5	–	873.5
Debt securities in issue	5,890.9	5,087.6	884.0	–	5,971.6
Subordinated liabilities	857.7	846.9	39.5	–	886.4
Society	£m	£m	£m	£m	£m
<b>Assets</b>					
Loans and advances to credit institutions	295.8	–	295.8	–	295.8
Loans and advances to customers	11,456.6	–	–	11,713.1	11,713.1
Debt securities – amortised cost	11,656.5	11,638.8	–	–	11,638.8
<b>Liabilities</b>					
Shares	35,506.4	–	35,475.4	–	35,475.4
Amounts due to credit institutions	6,089.8	–	6,089.8	–	6,089.8
Other deposits	15,562.1	–	15,562.1	–	15,562.1
Debt securities in issue	4,993.7	5,087.6	–	–	5,087.6
Subordinated liabilities	857.7	846.9	39.5	–	886.4

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 33. FAIR VALUES (CONTINUED)

2020	Carrying Value	Fair Values			Total Fair Value
		Level 1	Level 2	Level 3	
<b>Group</b>	£m	£m	£m	£m	£m
<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
<b>Society</b>	£m	£m	£m	£m	£m
<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	–	669.8

The fair values of all cash in hand, balances with the Bank of England and loans and advances to credit institutions are deemed to be their carrying value as they are all due in under one year.

The fair value of loans and advances to customers is assessed as the value of the expected future cash flows. Future cash flows are projected using contractual interest payments, contractual repayments and the expected prepayment behaviour of borrowers. The resulting expected future cash flows are discounted at current market rates to determine fair value.

For standard variable rate mortgage products, the interest rate on such products is equivalent to a current market product rate and as such the Group considers the fair value of these mortgages to be equal to their carrying value. Fixed rate mortgages have been discounted using current market product rates. The difference between book value and fair value results from market rate volatility relative to the fixed rate at inception of the loan; in addition to assumptions applied in relation to redemption profiles, which are regularly reviewed and updated where necessary.

As these redemption profiles are not considered to be observable by the market, then the fair value of loans and advances to customers continues to be a Level 3 valuation technique. Overall the fair value is higher than the carrying value by £52.3m (2020: £103.3m lower), which arises primarily due to the hedging adjustment reducing the carrying values.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 33. FAIR VALUES (CONTINUED)

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 2021, the estimated fair value of share balances, using a Level 2 method, is lower than the carrying value by £31.1m (2020: £45.5m higher) due to the increase of market interest rates in throughout the year.

Society accounts include some subordinated liabilities classified as Level 2 as fair values are calculated using a method based on observable market prices. The fair value of subordinated liabilities is higher than the carrying value due to the significant movement in market rates over the course of the year and a new debt issuance.

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>2021</b>	£m	£m	£m	£m
<b>Assets</b>				
Debt securities	28.6	–	–	28.6
Debt securities – fair value through OCI	3,255.4	–	–	3,255.4
Derivative financial instruments	–	487.2	3.7	490.9
Investments	–	–	5.4	5.4
<b>Liabilities</b>				
Derivative financial instruments	–	265.3	7.4	272.7
<b>2020</b>	£m	£m	£m	£m
<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

The Group's Level 1 portfolio of available for sale debt securities comprises liquid securities for which traded prices are readily available.

Some derivative financial instruments are included within Level 2 as fair values are derived from discounted cash flow models using yield curves based on observable market data.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 33. FAIR VALUES (CONTINUED)

#### LEVEL 3 INSTRUMENTS

Derivative financial instruments within Level 3 are external interest rate swaps held in the SPVs. These are valued using similar valuation technique as Level 2 derivatives, namely present value calculations using interest rate curves, but these are not based on market observable data.

The interest rate swaps are balance tracking and the swap notional is projected, and changes over time to match the balance of the underlying mortgage portfolio. The changes in the fair value of these instruments from movements in Level 3 parameters related to prepayment risk will largely offset across the interest rate swaps as the Group is hedged across these positions. Sensitivity analysis to the individual Level 3 parameters has not been disclosed on the basis that the Group does not have a significant exposure to these.

Investments classified in Level 3 relate to the Group's holding in equity preference shares. These shares are convertible into common equity shares at various intervals during the life of the instrument, based on a conversion factor set by the issuer. The valuation method therefore uses the quoted share price of the unrestricted stock as a base, applies the current estimated conversion factor as advised by the issuer and applies a discount.

This discount reflects the current illiquidity of the instrument and the risks to changes in the conversion factor between the balance sheet date and the next conversion date. Whilst the valuation is primarily based on an observable market price, the level and significance of the unobservable input relating to the calculation of the discount moves this asset into Level 3.

Changes in the carrying value of Level 3 financial instruments in the period all relate to changes in fair value. There have been no changes in methodology, redemption, additions or transfers in or out of Level 3 in the year.

#### FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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 £4.2m (2020: £29.8m) was recognised in net realised gains.

### 34. RELATED PARTIES

#### IDENTITY OF RELATED PARTIES

The Society has related party relationships with its controlled entities, a joint venture, the pension schemes and key management personnel. The Society considers its key management personnel to be its directors.

#### CONTRIBUTIONS TO THE PENSION SCHEME

The Society paid contributions of £17.2m to the pension schemes (2020: £14.1m).

#### REMUNERATION OF AND TRANSACTIONS WITH DIRECTORS

Full details of directors' remuneration, including the highest paid director, bonuses and pensions are given in the *Directors' Remuneration Report*. In addition, past directors' pensions in respect of services as directors from the closed scheme amounted to £22,246 (2020: £21,598).

None of the directors of the Society had any equity interest in, or loans to or from, any subsidiary of the Society at any time during the financial year.

A register containing details of loans, transactions and arrangements between the Society and its directors and connected persons is maintained at the head office of the Society. A statement containing the details of this register for 2021 will be available for inspection at the head office by members for a period of 15 days up to and including the date of the annual general meeting.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 34. RELATED PARTIES (CONTINUED)

#### KEY MANAGEMENT PERSONNEL COMPENSATION

The directors of the Society are considered to be the key management personnel as defined by IAS 24 *Related party Disclosures*. Total key management personnel compensations was as follows:

	2021	2020
	£000	£000
Short-term employee benefits	2,899	2,654
Post-employment benefits	187	220
<b>Total key management personnel compensation</b>	<b>3,086</b>	<b>2,874</b>

Key management compensation in 2021 includes amounts paid to key management personnel who both retired and joined the Society during 2021. The number of key management personnel at 31 December 2021 totalled 10 (31 December 2020: 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.

	2021		2020	
	No. of key management personnel	Amounts in respect of key management personnel and their close family	No. of key management personnel	Amounts in respect of key management personnel and their close family
		£000		£000
<b>Mortgage loans</b>				
At 1 January	1	9	2	234
Net movements in the year	(1)	(9)	(1)	(225)
<b>At 31 December</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>9</b>
<b>Deposit accounts and investments</b>				
At 1 January	11	1,425	10	986
Net movements in the year	(1)	(360)	1	439
<b>At 31 December</b>	<b>10</b>	<b>1,065</b>	<b>11</b>	<b>1,425</b>

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 £9,044 (2020: £233,957).

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 £4 (2020: £1,150), received interest totalling £5,312 (2020: £8,231), and paid no fees and commissions during the year. Interest paid includes amounts relating to 'offset' mortgages where savings balances are used to reduce the interest-bearing balance of mortgage loans.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 34. RELATED PARTIES (CONTINUED)

#### TRANSACTIONS WITH CONTROLLED ENTITIES

The Society transacts with its controlled entities in the form of intra-group loans and equity shareholdings in the normal course of business. The value of related party transactions, outstanding balances at the year end and related income and expense for the financial year are as follows:

	2021	2020
	£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 controlled entities</b>		
At 1 January	29,105.3	27,037.4
Net movements	3,920.4	2,067.9
<b>At 31 December</b>	<b>33,025.7</b>	29,105.3
<b>Deposits from controlled entities</b>		
At 1 January	11,229.9	10,180.8
Net movements	4,741.8	1,049.0
<b>At 31 December</b>	<b>15,971.7</b>	11,229.8
Interest receivable on loans	381.0	426.7
Interest payable on deposits	(75.1)	(96.5)
Fees and expenses receivable	60.5	56.0
Fees and expenses payable	(0.1)	(0.2)
Dividends received	75.0	59.3

#### OTHER

The Society has a joint-venture investment in Arkose Funding Limited. In 2014, a loan of £4.0 million to Arkose Funding Limited was fully impaired.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 35. NOTES TO THE CASH FLOW STATEMENTS

	Group		Society	
	2021	2020	2021	2020
	£m	£m	£m	£m
Depreciation and amortisation	22.7	25.8	22.7	25.8
Loss/(profit) on sale of assets	(2.5)	(2.9)	(2.5)	(2.9)
Interest on subordinated liabilities	23.5	22.5	23.5	22.5
Impairment (release)/charge for the year	(19.2)	12.2	(15.4)	6.7
Provision charge for the year	2.3	4.7	2.3	4.7
Non-cash movements on subordinated liabilities	(37.3)	18.6	(37.3)	18.6
(Gain)/loss on realisation of debt securities	(0.8)	(12.9)	(0.8)	(12.9)
(Increase) in cash ratio deposit, other assets and non-OCI element of retirement benefit surplus	(37.2)	(8.6)	(46.9)	(13.0)
Cash movements in other liabilities and provisions	3.0	(16.0)	14.2	(13.0)
<b>Non-cash items included in profit before tax</b>	<b>(45.5)</b>	<b>43.4</b>	<b>(40.2)</b>	<b>36.5</b>
(Increase)/decrease in operating assets:				
Non-impairment change in loans and advances to customers	(3,104.6)	(826.3)	1,713.3	1,127.2
Investments	8.2	(4.4)	(3,912.2)	(2,072.4)
Non-OCI elements of derivative financial assets	(59.0)	(48.0)	(186.3)	3.7
<b>Net increase in operating assets</b>	<b>(3,155.4)</b>	<b>(878.7)</b>	<b>(2,385.2)</b>	<b>(941.5)</b>
Increase/(decrease) in operating liabilities:				
Shares	2,138.1	2,691.0	2,138.1	2,691.0
Amounts owed to credit institutions	2,252.9	531.9	2,252.9	531.8
Non cash movements on debt securities	(295.8)	173.0	(272.1)	172.8
Other deposits	337.8	(48.9)	4,167.6	971.4
Derivative financial liabilities	(218.2)	260.1	(284.2)	232.7
<b>Net increase in operating liabilities</b>	<b>4,214.8</b>	<b>3,607.1</b>	<b>8,002.3</b>	<b>4,599.7</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 35. NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

The following table reconciles liabilities arising from financing activities.

Liabilities from financing activities	Brought forward	Cash flows		Non-cash changes caused by:			Carried forward
		Redemption	Issue	Foreign exchange	Accrued interest	Fair value and other movements	
<b>2021 – Group</b>	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	6,128.3	(1,365.6)	1,424.0	(228.8)	(6.4)	(60.6)	5,890.9
Subordinated liabilities	645.0	–	250.0	–	1.1	(38.4)	857.7
<b>Total</b>	6,773.3	(1,365.6)	1,674.0	(228.8)	(5.3)	(99.0)	6,748.6
<b>2020 – Group</b>	£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</b>	6,661.2	(1,129.5)	1,050.0	169.4	(6.2)	28.5	6,773.3
<b>2021 – Society</b>	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	5,379.6	(1,082.2)	968.4	(233.8)	(6.7)	(31.6)	4,993.7
Subordinated liabilities	645.0	–	250.0	–	1.1	(38.4)	857.7
<b>Total</b>	6,024.6	(1,082.2)	1,218.4	(233.8)	(5.6)	(70.0)	5,851.4
<b>2020 – Society</b>	£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</b>	5,615.1	(831.9)	1,050.0	173.2	(3.1)	21.2	6,024.6

## ANNUAL BUSINESS STATEMENT

### 1. STATUTORY PERCENTAGES

	2021	2020	Statutory limit
	%	%	%
Lending limit	<b>2.8</b>	2.6	25.0
Funding limit	<b>26.6</b>	23.9	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

	2021	2020
	%	%
As a percentage of shares and borrowings:		
Gross capital	<b>8.16</b>	7.85
Free capital	<b>7.83</b>	7.44
Liquid assets	<b>20.67</b>	19.16
Profit after taxation for the financial year as a percentage of mean total assets	<b>0.51</b>	0.27
Management expenses as a percentage of mean total assets	<b>0.55</b>	0.60

The above percentages have been prepared from the Group financial statements and further details on the above percentages can be found in the *Glossary*.

## ANNUAL BUSINESS STATEMENT (CONTINUED)

## 3. INFORMATION RELATING TO THE DIRECTORS AT 31 DECEMBER 2021

Director name and date of birth	Business occupation	Date of appointment	Other Directorships
J R Heaps, LLB 8 July 1953	Chair of the Board	20 November 2014	TheCityUk Limited
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 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 Foresight Group Holdings Ltd Liverpool Victoria Financial Services Ltd Your Penny Ltd
A B Lenman, MA, ACMA 25 December 1969	Chief Finance Officer and Executive Director	4 December 2017	YBS Pension Trustees Ltd
D Matta, BSc, BA 15 May 1962	Non-Executive Director	27 April 2021	Cambridge Digital Health Ltd Fat Fractal Inc
G P C Parsons, BA 31 July 1963	Non-Executive Director	1 May 2013	NuUnlimited Ltd
M Parsons, BA, FCMA 24 October 1961	Non-Executive Director	20 October 2020	Fairstone Capital Group Ltd
J L Tilling, BBus, BA 19 June 1969	Non-Executive Director	1 November 2021	Marketing with Insight Ltd Camelot UK Lotteries Ltd Shaftesbury Plc Guide Dogs for the Blind Association (The)
S C White, BComm 4 April 1971	Interim Chief Executive Officer and Executive Director	24 February 2016	Accord Mortgages Ltd BCS Loans & Mortgages Ltd YBS Properties (Edinburgh) Ltd Yorkshire Key Services Ltd

Mr S.C. White entered into a contract on 1 February 2016 and was appointed to the Board on 24 February 2016 – his mutual contractual notice period is one year. Mr A.B. Lenman entered into a contract on 28 September 2017 and was appointed to the Board on 4 December 2017 – his mutual contractual notice period is six months.

Documents may be served on the above named directors: Ref. 'Yorkshire Building Society' c/o PricewaterhouseCoopers LLP at the following address: Central Square, 29 Wellington Street, Leeds, LS1 4DL.

## 4. REGISTERED OFFICE

Yorkshire Building Society is a building society incorporated and domiciled in the United Kingdom. The address of the principal office is Yorkshire House, Yorkshire Drive, Bradford, BD5 8LJ.

## COUNTRY-BY-COUNTRY REPORT

### DISCLOSURE REQUIREMENTS UNDER CRD IV COUNTRY-BY-COUNTRY REPORTING

We are required to disclose the following information in our Annual Report and Accounts to comply with the Regulations of Article 89 of the Capital Requirements Directive IV (CRD IV) country-by-country reporting (CBCR). This regulation requires us to disclose financial information by country. Yorkshire Building Society has a number of subsidiaries; these can be found in note 8 to the financial statements.

All Group companies operate in the United Kingdom. Therefore, total income and profit before tax shown in the Income Statement and corporation tax paid shown in the Statement of Cash Flows, as well as the average number of employees disclosed in note 6 to the financial statements, are related to the United Kingdom. No public subsidies were received in 2021.

### 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 2021 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 2021 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

1 March 2022

## 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.
<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.
<b>Currency risk</b>	The exposure to risk from assets and liabilities denominated in currencies other than Sterling.

## GLOSSARY (CONTINUED)

<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 credit losses</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.
<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.



## GLOSSARY (CONTINUED)

<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. Due to the IBOR reform this has been phased out during 2021, with the exception of USD LIBOR that will be phased out by cessation date of June 2023.
<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.
<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.

## GLOSSARY (CONTINUED)

<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).
<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.

## GLOSSARY (CONTINUED)

<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).
<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.

## GLOSSARY (CONTINUED)

<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	Calculation of Measure	Reconciling items to statutory measure	Definition and purpose
<b>Income Statement measures</b>			
<b>Core operating profit</b>	Profit before tax adjusted for one-off items.	A full reconciliation between profit before tax as shown in the income statement and core operating profit is shown in the <i>Strategic Report</i> .	Core operating profit excludes items such as fair value volatility and material one-time charges that do not reflect the Group's day-to-day activities. Our Board considers core operating profit to be a more appropriate measure of the underlying performance of the business and this is how financial performance is reported to and assessed by the Board.
<b>Cost to income ratio</b>	Management expenses as a percentage of core income.	Management expenses = administrative expenses plus depreciation and amortisation per the income statement. Core income = total income less gains/(losses) from financial instruments held at fair value per the income statement.	This is a measure of the Group's costs in relation to its income excluding fair value volatility. This is used by the Group to monitor and manage its overall cost position and understand how efficient the Group is at generating income on an underlying basis.
<b>Cost to income ratio</b>	Management expenses as a percentage of total income.	Management expenses = administrative expenses plus depreciation and amortisation per the income statement. Total income as per the income statement.	This is an industry-standard measure of the Group's costs in relation to its income. This is used by the Group to monitor and manage its overall cost position and understand how efficient the Group is at generating income.
<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.

## GLOSSARY (CONTINUED)

APM	Calculation of Measure	Reconciling items to statutory measure	Definition and purpose
<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.
<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, re-mortgages 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.

## GLOSSARY (CONTINUED)

APM	Calculation of Measure	Reconciling items to statutory measure	Definition and purpose
<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.
<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 ratio is defined as a percentage of risk weighted assets.	This ratio represents the relationship between the strongest form of capital (primarily accumulated profits that have built up over time) and assets, weighted by the level of risk they carry. It is a regulatory-defined ratio whose purpose is to ensure that institutions are able to absorb unexpected losses. It is a key measure of financial sustainability.
<b>Leverage ratio</b>	Reserves as a percentage of total assets.	Leverage ratio measures the Society's Tier 1 capital as a percentage of total assets adjusted for certain off-balance sheet exposures. The CRR leverage ratio is defined by the EU's Capital Requirements Regulation, while the UK leverage ratio modifies this ratio to exclude Central Bank reserves.	The leverage ratio is also a regulatory-defined ratio used to assess capital adequacy, but removes the risk-weighting element of assets. It is therefore a more simplified measure of financial sustainability.
<b>Total capital ratio</b>	None	Total capital ratio is defined as a percentage of risk weighted assets.	This measure is used to assess the total amount of capital the Group retains compared to its risk weighted assets, hence it includes externally issued capital. It is also defined by the regulatory authorities.

## GLOSSARY (CONTINUED)

APM	Calculation of Measure	Reconciling items to statutory measure	Definition and purpose
<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>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.
<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>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.



NOTES

## NOTES



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: 02139881. 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). It is an independent registered charity governed by a board of trustees and its results are not included in the annual report and accounts of Yorkshire Building Society. 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: 7th Floor, One America Square, 17 Crosswall, London EC3N 2LB.

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)