

YORKSHIRE BUILDING SOCIETY

FULL YEAR RESULTS 2022

"The Society's performance this year demonstrates our clear commitment to supporting our members and to delivering against our purpose of providing Real Help with Real Life.

2022 saw some of the best outcomes we have seen as an organisation, across areas including the quality of customer service provided, the number of members and customers we have supported, and the robust financial results we have delivered - all while operating within a context of elevated unpredictability and uncertainty."

Alasdair Lenman

Interim Chief Executive

2022 key highlights:

- Helping people to have a place to call home is one of the Society's core purpose ambitions. In support of this, total gross mortgage lending remained high, matching 2021 volumes at £10.3bn. 2022 net lending was £3.0bn (2021: £3.6bn).
- Supported member financial wellbeing through multiple increases to savings rates over the year. Overall rates were on average 0.56 percentage points higher than the market average over 2022 (2021: 0.32 percentage points higher), equating to £198.6m of additional interest paid¹.
- Strong savings book growth achieved, owing to continued success in rewarding loyal members and transforming customer experience. Shares balances increased by £6.5bn in 2022 (2021: £2.1bn increase).
- Retail deposit performance and continued wholesale issuance has allowed early repayment of a proportion of government funding, TFSME, in 2022. This strategy of early exit from TFSME reflects the non-structural nature of TFSME as part of the Society's overall funding profile.
- Net interest income was £724.1m in 2022, increasing £186.7m year on year (2021: £537.4m), and represents an improved net interest margin of 1.30% (2021: 1.07%). The improvement reflects increased interest income in light of the frequent and material increases made to Bank Rate, alongside the successful execution of trading strategies.
- Management expenses ratio stable year on year at 0.54% (2021: 0.55%), despite inflationary pressures and increased investment in ongoing capability transformation.
- On a statutory reporting basis, profit before tax was £502.5m (2021: £320.0m). Core operating profit² was £425.6m (2021: £297.3m), which excludes a £74.9m fair value gain driven by volatility in the external interest rate environment.
- Liquidity and capital positions continue to be strong and comfortably in excess of regulatory minimums. Common Equity Tier 1 (CET1) ratio stands at 16.8% (2021: 16.8%).
- Asset quality of loan book remains strong. The number of accounts which are more than three months in arrears, including possessions, was 0.44% (2021: 0.50%) which compares favourably to the industry average of 0.74% (2021: 0.79%). As at December 2022, the rate of arrears was among the lowest observed by the Society historically.

Alongside the above commercial and financial outcomes, the Society also continued to make progress in a number of other important areas.

Customers and colleagues

Underpinning the strong performance in the year was the Society's Strategic Blueprint and ongoing investment in transforming customer experience. The first phase of work under the Transformation Roadmap is reaching its conclusion, and in the last two years some tangible improvements for customers have been delivered.

The process for new account openings was streamlined in the year, and focus was placed on addressing some of the known points of customer dissatisfaction. This included the implementation of a new, simplified login process allowing access to online services with greater ease. Digital Net Promoter Score³ (NPS) increased against 2021, and a high proportion of the shares balance growth in 2022 was driven through online channels, demonstrating the progress made in enhancing digital capabilities.

Volatility in the mortgage market, coupled with the accelerated growth targets, resulted in material peaks in transaction volumes, to which operational teams were able to adapt without detriment to the standard of customer service provided. The Society's overall Net Promoter Score - a measure of how willing customers are to recommend products and services - stood at +54 in 2022, an increase of 3 points on the score in 2021.

The Society remains committed to supporting colleagues, fostering an environment aligned to the values of inclusion and diversity, and actively maintaining effective dialogue. In 2022, overall colleague engagement increased once again, from 8.5 in 2021 to 8.6, which continues to place the Society within the upper quartile for financial organisations.

The Society continues to embrace being a part of the communities in which it operates, with a range of active community and charitable initiatives to promote financial and digital education, and employability skills. Support for charitable causes and community programmes will continue on an ongoing basis on local, regional, and national scales. In 2022, successful partnerships delivered valuable help, including those working with Age UK and Citizens Advice.

The external environment

The progress made as an organisation in 2022 is noteworthy given the context within which it was achieved. Over the course of the year, a number of events caused significant levels of uncertainty in the geopolitical and economic landscapes. The Society navigated the environment of elevated uncertainty well, guided by its unchanged organisational purpose and strategy.

Periods toward the end of the year saw significant levels of disruption, during which the Society adapted its wholesale funding strategy, and maintained a principled and responsible approach to lending. In the context of the cost-of-living pressures, members benefitted from the Bank Rate increases which were effected in the year, going some way toward supporting them through the challenges that many face.

Looking forward, challenges appear likely to remain in the external environment. A key uncertainty is for how long inflationary pressures will persist, and what this will mean for the cost of living and the functioning of markets, including the market for housing.

The security of the Society's financial position has been further strengthened by 2022 performance. Good levels of growth were achieved on both sides of the balance sheet, and the elevated profit will support capital reserves and future sustainability. The effective generation of capital is important in ensuring resilience in the event of an economic shock or downturn, and will support the Society in preparation for anticipated changes to capital regulations and requirements.

The Yorkshire Building Society will continue to prioritise the areas it has over the many years of its operations including responsible lending, robust risk management, and operational resilience. Alongside this, further investment will be made to enhance strategically important capabilities, including transforming customer experience, to continue to deliver on the Society's purpose.

ENDS

About Yorkshire Building Society

The Yorkshire Building Society was founded in 1864.

As at December 2022, the Society has assets of £58.8 billion.

Chelsea Building Society and Norwich & Peterborough Building Society are part of Yorkshire Building Society. Its subsidiary companies include Accord Mortgages Limited. For more information on Yorkshire Building Society visit www.ybs.co.uk.

1. YBS Group average savings rate compared to rest of market average rates. Source: CACI's Current Account and Savings Database (CSDB), Stock. Data period January - December 2022.
2. 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. The main difference between statutory profit before tax and core operating profit in 2022 is a £74.9m gain on fair value volatility (2021: £19.1m gain) which was largely driven by the heightened uncertainty in the economic outlook and the interest rate environment.
3. Net Promoter Score and NPS are trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc. Data period January - December 2022, based on 41,703 responses. Following a change in the calculation methodology for Group NPS in 2022, the comparative period 2021 has been restated on a consistent basis.

Appendix: Summary Financial Statements

Consolidated Income Statement

	2022	2021
	£m	£m
Net interest income	724.1	537.4
Fair value gains/(losses)	75.6	26.7
Net realised gains/(losses)	2.9	0.8
Other income	8.8	12.7
Total income	811.4	577.6
Management expenses	(298.7)	(274.5)
Operating profit before provisions	512.7	303.1
Impairments of financial assets	(6.0)	19.2
Movement in provisions	(4.2)	(2.3)
Profit before tax	502.5	320.0
Tax expense	(123.2)	(62.9)
Net profit	379.3	257.1

Consolidated Statement of Comprehensive Income

	2022	2021
	£m	£m
Net profit	379.3	257.1
Items that may be reclassified through profit or loss		
Cash flow hedges:		
Fair value movements taken to equity	26.1	15.3
Amounts transferred to the income statement	(28.1)	0.4
Tax on amounts recognised in equity	0.5	(4.2)
Effect of change in corporation tax rate	0.8	(0.9)
Assets measured through other comprehensive income:		
Fair value movements taken to equity	(27.0)	18.3
Amounts transferred to the income statement	(1.9)	(3.7)
Tax on amounts recognised in equity	7.8	(4.0)
Effect of change in corporation tax rate	1.9	(1.9)
Items that will not be reclassified through profit or loss		
Remeasurement of net retirement benefit obligations	(80.0)	30.5
Tax on remeasurement of retirement benefit obligations	21.6	(8.0)
Effect of change in corporation tax rate	6.9	(7.2)
Total comprehensive income for the year	307.9	291.7

Consolidated Statement of Financial Position

	2022	2021
	£m	£m
Liquid assets	12,482.3	9,996.7
Loans and advances to customers	43,695.4	41,922.4
Other assets	2,576.4	804.6
Total assets	58,754.1	52,723.7
Shares - retail savings	42,008.2	35,506.4

Wholesale funding and other deposits	11,558.3	12,854.2
Subordinated liabilities	1,035.1	857.7
Other liabilities	756.0	416.8
Total liabilities	55,357.6	49,635.1
Members' interest and equity	3,396.5	3,088.6
Total members' interest, equity and liabilities	58,754.1	52,723.7

Reconciliation of Core Operating Profit

	2022	2021
	£m	£m
Statutory profit before tax	502.5	320.0
Reverse out the following items:		
Fair value gains and losses	(74.9)	(19.1)
Historical fair value credit adjustments on acquired loans	(2.4)	(3.2)
Movement in restructuring provision	0.1	2.1
Other non-core items	0.3	(2.5)
Core operating profit	425.6	297.3

Key ratios

	2022	2021
	%	%
Net interest margin	1.30	1.07
Management expense ratio	0.54	0.55
Asset growth	11.4	10.0
Loans and advances growth	4.2	8.1
Member balance growth	18.3	6.4
Liquidity ratio	23.3	20.7
Funding ratio	21.6	26.6
Gross Capital	8.3	8.2
Free Capital	8.1	7.8
Total Capital Ratio	18.2	18.7
Common Equity Tier 1 ratio	16.8	16.8
Leverage Ratio	6.2	5.9
Cost: Core Income ratio	40.7	49.8

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