

BOARD AUDIT COMMITTEE REPORT

A word from the Chair of the Board Audit Committee

I am pleased to present our 2025 Board Audit Committee Report which sets out the Committee's role and its key activities during the year, including its review of financial reporting matters, oversight of the Group's internal controls, and its internal and external auditors.

I joined our Board as a Non-Executive Director on 1 September 2024, when I also joined the Committee. I undertook a tailored induction programme in preparation for my appointment as Chair of the Committee, which formally commenced on 1 September 2025. This followed a structured and formal handover from Guy Bainbridge, who retired from his position as Chair and later stepped down from the Board on 31 December 2025. The handover enabled me to prepare thoroughly for the responsibilities of the role. I want to thank Guy for his valuable contribution to the Committee's work over the last six years, as both a member and Chair.

I am also very grateful to my fellow Committee members for the diligence with which they contribute to the Committee's work, and to management for the time and effort they put in to ensure the Committee remains effective.

During the year we have spent considerable time assessing progress in strengthening the Group's control environment to meet external threats and regulatory requirements, and to protect our members' interests. This included strengthening the regulatory reporting control environment through enhanced frameworks and improved documentation of key judgments and assumptions. We continued to oversee developments in our internal audit function, including progress against its strategic priorities and the results of its quality assurance programme. We have remained focused on the impacts of the economic environment, notably interest rates, inflation, and unemployment, and regulatory and legislative developments upon our current and future business. In 2026, the Committee will continue its work to protect the interests of all of the Group's stakeholders.

Peter Bole
Board Audit Committee Chair

25 February 2026

Board Audit Committee members and meetings

The members of the Board Audit Committee are:



Peter Bole
Committee Chair
and Independent
Non-Executive Director



Angela Darlington
Independent Non-
Executive Director
Vice Chair
from 1 January 2026



Mark Parsons
Senior Independent Director

Guy Bainbridge (former Vice Chair and Committee Chair) was a member of the Committee to 31 December 2025 when he stepped down from the Board.

Our Board appoints members to the 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 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 2025, all the members of the 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.

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

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

Only members of the 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 Financial Officer, Chief Internal Audit Officer and the external auditor were invited to attend all meetings in 2025, along with other members of our Leadership Team and Senior Managers where the Committee felt it was beneficial.

The Committee held six scheduled meetings in 2025 and one ad-hoc meeting, with the Board Risk Committee, to consider the Society's implementation plans for Provision 29 of the Code. Three of those meetings began with a private session between the invited members of the Leadership Team and the Committee members and finished with a private session between the Committee members and our Chief Internal Audit Officer and external auditor. These private sessions allow the Committee to discuss confidential matters, which may not be appropriate to discuss with all Committee attendees present. The Committee also has private sessions each year with the Chief Financial Officer. Meetings are regularly scheduled outside the Committee with the Chair and management and the internal and external auditors to maintain a constructive dialogue. We also used the Written Resolution process twice where matters required review and approval outside of the planned meeting schedule.

Details on the number of scheduled meetings attended by each of the Committee members during 2025 are shown in the Corporate Governance Report.

Board Audit Committee responsibilities

The responsibilities of the Committee include:

- Overseeing the integrity of financial reporting.
- Monitoring the adequacy and effectiveness of the Society's internal financial controls, systems and risk management.
- Monitoring and overseeing the internal audit function and performance of the external auditor.
- Monitoring the Society's approach to the introduction of Provision 29 of the Code and the implementation of defined material controls.
- Reviewing and recommending to the Board for approval, the Group's annual Sustainability disclosures.
- Reporting to the Board on matters within its remit and making recommendations where required.

Further detail on the role and responsibilities of the Committee can be found in the Terms of Reference which can be found on our website⁴⁰.

The Committee's Terms of Reference are reviewed annually to ensure they remain aligned with regulatory requirements and good practice, alongside ensuring the Committee is fulfilling its responsibilities. To incorporate any changes arising from the Board and Committee Effectiveness Reviews, details of which are outlined in the Board Governance and Nominations Committee Report, the approval of the latest Terms of Reference reviews will take place in Quarter 1 of 2026. This timing aligns with the implementation of the current Terms of Reference in January 2025. Throughout 2025, the Committee fulfilled the requirements of its Terms of Reference, with particular emphasis on the areas that are covered in more detail in this report.

The Committee is committed to ongoing development and learning and 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. During 2025 the Committee were provided with additional training on hedge accounting, along with other Board members, and an insight session with the external auditor on Provision 29 of the Code.

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

Board Audit Committee effectiveness review

The effectiveness of the Committee is assessed annually. The Committee has throughout 2025 continued to progress the actions agreed as part of the 2024 process. For 2025 the Board Committee evaluations were incorporated into the Board internal evaluation process. A self-assessment exercise was performed, coordinated by Group Secretariat, and a summary of the results was reported to the Committee and discussed in January 2026. The 2025 review concluded that the Committee operated effectively during the year and that there were no significant areas for improvement or significant actions arising for the Committee.

Further details on the evaluation process for 2025 can be found in both the Board Governance and Nominations Committee Report and the Corporate Governance Report.

Corporate Governance

The Committee considered in more detail the Financial Reporting Council's (FRC) 'Audit Committees and the External Audit: Minimum Standard' ('the Standard'), published in 2023, which sets the minimum standards for audit committees in relation to their oversight responsibilities for the external audit and includes guidance on assessing the effectiveness of the audit process alongside covering the audit committee's responsibilities for the external audit, the external audit tender, oversight of the external auditor and audit and finally the reporting of activities undertaken to meet the Standard's requirements. Whilst the Standard applies to FTSE350 companies and is voluntary, the Standard is seen as good governance. The Committee reviewed a comprehensive assessment of the Society's approach to the Standard and while the Society demonstrated strong alignment with many aspects of the Standard, the review identified some areas where current practices would benefit from further formalisation or enhancement. The areas identified did not indicate non-compliance with the Standard, rather areas where enhancements would support stronger alignment and demonstrate best practice in audit oversight. The Committee will continue to focus on these enhancements in 2026 developing further its External Audit Tender Policy.

The Committee has monitored the Society's approach to the introduction of Provision 29 of the Corporate Governance Code 2024 and the implementation of defined material controls. The Committee will continue to work with key stakeholders to monitor the operation of material controls and ensure ongoing compliance, following provision 29 becoming effective on 1 January 2026.

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 Committee is responsible for ensuring that the key accounting policies, estimates and judgements used in our financial statements are appropriate. To help the Committee achieve this, it receives reports from management and our external auditor, PwC.



⁴⁰ <https://www.ybs.co.uk/your-society/inside-your-society/corporate-governance/committees#audit>

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

Matters considered	Key activities 2025
Expected credit losses	<p>The Committee continued to provide robust oversight of the Group's approach to credit risk management and the calculation of Expected Credit Losses (ECL). The estimation of provisions for mortgage loan portfolios remains inherently judgemental, requiring the use of historical data alongside forward-looking assumptions about macroeconomic conditions and customer behaviour.</p> <p>Throughout 2025, the Committee closely scrutinised management's selection of economic assumptions and the weighting of macroeconomic scenarios used in the ECL models. These assumptions have a material impact on impairment outcomes, and the Committee sought assurance that they appropriately reflect the evolving economic landscape.</p> <p>The UK macroeconomic environment showed signs of stabilisation during the year. The labour market loosened modestly, with rising unemployment, slowing wage growth, and reduced vacancy levels alongside inflation peaking at 3.8% in the second half of the year. However, real earnings growth helped ease affordability pressures for borrowers.</p> <p>The Bank Rate was reduced gradually over the course of the year, with further cuts expected to continue. Interest rate expectations remained volatile, as the Monetary Policy Committee (MPC) continued to balance slow economic growth and a softening labour market against persistent inflationary pressures.</p> <p>The housing market demonstrated resilience, particularly in response to changes in stamp duty. Mortgage approvals recovered well, with activity levels ahead of 2024. However, house price growth moderated, and an emerging imbalance between supply and demand was evident, driven by an increase in sellers of buy-to-let and second homes.</p> <p>The Committee reviewed and agreed the assumptions applied across base case, upside, downside, and severe stress scenarios. It concurred with management that the range and weighting of scenarios were appropriate given the current macroeconomic outlook. Post Model Adjustments (PMAs) continue to be applied where risks are identified that are not adequately captured by the core ECL models. These adjustments are reviewed regularly to ensure they remain relevant and reflect emerging risks.</p> <p>The Society previously applied a PMA to address under-prediction in the probability-of-default element of the ECL calculation. Following a 2025 model review and update, this adjustment is no longer required and has therefore been removed.</p> <p>Given the ongoing uncertainty, PMAs remain a critical component of the Society's approach to ECL estimation. Their judgemental nature requires robust governance, clear documentation, and a transparent process to ensure consistency and reliability.</p>
Hedge accounting	<p>During 2025, the Committee continued to review the methodology and key assumptions applied to the Group's hedge accounting models. As part of its oversight responsibilities, the Committee undertook targeted training on hedge accounting to deepen its understanding of the technical requirements and evolving regulatory landscape. This training supported more informed discussions and challenge of management's approach.</p> <p>The Committee considered the development of new hedge strategies introduced during the year and assessed their alignment with the Group's risk management objectives. While not all unmatched interest rate swaps are currently designated within formal hedge relationships, the Committee noted that investigations remain ongoing into how these instruments can be more effectively incorporated. The aim is to further mitigate fair value volatility and enhance the alignment between accounting outcomes and economic risk management.</p> <p>Following its review, the Committee is satisfied that the amounts recognised in the financial statements are appropriately stated and reflect a prudent and consistent application of hedge accounting principles.</p>

Matters considered	Key activities 2025
Retirement benefit obligations	The Group operates one employee benefit scheme (the Scheme) with both defined benefit and defined contribution sections. The defined benefit scheme is accounted for by the Group under IAS 19, with the key assumptions presented to, and approved by, the Committee. During the period the Committee reviewed the assumptions proposed by management and the scheme administrators (Willis Towers Watson), including how they benchmark against the rest of the industry.
Effective interest rate ('EIR')	The Committee considered the results of management's detailed reviews of the methods and assumptions used in the calculation of interest income under the Effective Interest Rate (EIR) methodology, as required under IFRS, and concluded that the amounts recognised were fairly stated.
Acquisition fair value adjustment run-off	The 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 Committee is comfortable that the carrying amounts reflect the remaining expected life of the acquired loans balances.
Tax	Papers setting out the judgements applied in the recognition of deferred tax balances and the level of transfer pricing adjustments applied between Group entities were presented to the Committee over the period. The Committee is satisfied that the recognised amounts of deferred tax are reasonable given the substantive enactment of scheduled changes in UK corporation tax rates and the transfer pricing assumptions are reasonable.
Provisions for liabilities and charges	The Committee reviewed and considered the provisions and disclosures for liabilities and charges, being those relating to restructuring, customer redress and property related costs, and agreed with the overall amount held.
Viability and going concern	<p>The Committee reviewed papers prepared by management and recommended to the Board that the financial statements should be prepared on a going concern basis i.e. 12 months from the date of approval of this report. The Committee confirmed that three years was a suitable period of review for the viability statement, and that the viability statement could be provided. Whilst there is no guarantee, there is a reasonable expectation that the Society will be able to continue to be viable, i.e. operate and meet its liabilities as they become due, until 31 December 2028.</p> <p>More information can be found in our Directors' Report.</p>
Disclosures	<p>The 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.</p> <p>The 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.</p> <p>The Committee also reviewed the Group's regulatory Pillar 3 quarterly disclosures included in full on the Society's website. The Committee approved the quarter one, two and three Pillar 3 disclosures for publication and recommended the quarter four disclosures to the Board for its approval.</p>

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

Other significant reporting matters considered by the Board Audit Committee since the last Annual Report and Accounts

In 2025, the Committee approved the 2024 Environmental, Social and Governance Report (the ESG Report) following a review that began in late 2024. The review considered the report's objectives, structure, key messages, and the governance and publication timeline. The Committee assessed the controls and processes in place to ensure the accuracy and credibility of the data and narrative, alongside key areas of focus including ESG governance, strategic alignment, data validation, future assurance, and the clarity of definitions and measures to support transparency and regulatory compliance. To strengthen governance, the Committee, and subsequently the Board Governance and Nominations Committee (BGNC), considered the governance process for future ESG Reports. From 2025, the Board Environmental and Social Purpose Committee and BGNC will review and recommend their respective sections of the Sustainability Report (formerly ESG Report) to the Committee, which in turn will recommend the Sustainability Report to the Board for approval.

Oversight of the external auditor and external audit process

The Committee oversees the audit process and the relationship with our external auditor. The 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 Committee and our external auditor around key risk areas to ensure that there is agreement on the focus of the external auditor's work and their assessment of materiality for the financial statements. The Committee's discussion of the external auditor's risk assessment was informed this year by the economic factors affecting ECLs, hedging strategies and operational risks.

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

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

Throughout the year, the Committee assesses the effectiveness of the external audit process, an assessment which is based on guidance from the Financial Reporting Council (FRC). The assessment included a survey following the completion of the 2024 audit to members of the Committee, and Senior Managers in the Society's Finance division. Feedback from key internal stakeholders was also gathered to assess the auditor's performance, and a meeting was held with senior audit team members to discuss this feedback, share conclusions from reviews, and gather perspectives on the effectiveness of the external audit process and how the Society could further contribute to this. These conclusions were then shared with the Committee to support its assessment of the quality and performance of the external audit team and process.

In line with the FRC's 'Audit Committees and the External Audit: Minimum Standard' (the Standard), the Committee considered Audit Quality Indicators (AQIs) proposed by the external auditor to support a structured and evidence-based assessment of audit effectiveness. These AQIs will be adopted from the 2025 year-end audit. The Committee also reviewed the external auditor's internal quality procedures, including their response to the FRC's Audit Quality Inspection and Supervision reports, and reviewed the auditor's system of quality management under ISQM (UK) 1. The Committee concluded that the external auditor was performing its duties in an effective manner in 2024 and believe it remains so through the 2025 audit.

External auditor independence

The Board 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 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 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 Committee. Fees for those assignments under the threshold are approved by the Chief Financial 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 Committee is satisfied that the Group has operated in line with the policy during 2025.

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

In line with the Standard, the Committee continued to strengthen its oversight of auditor independence by reviewing the external auditor's internal quality procedures, including their response to the FRC's Audit Quality Inspection and Supervision reports, and by considering the auditor's system of quality management under ISQM (UK) 1. The Committee also receives regular updates from the external auditor on their independence and objectivity, and formally considers independence twice a year as part of its audit planning and effectiveness review cycle.

The 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. PwC were reappointed as the Society's external auditor at the 2025 AGM and the Committee remains satisfied with the performance of PwC during 2025 and the Committee has therefore recommended to the Board that they be approved for reappointment as external auditor at the 2026 AGM.

Review of internal controls

Our Board recognises the importance of effective risk management and strong 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. Well-designed controls 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 the Society faces evolve over time, so the Committee regularly considers the risks we face, 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. 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 Committee's review of internal controls, our Internal Audit function provides reports to every meeting and our external auditor provide their own independent opinions to us. The Committee also receives reports on significant control weaknesses from the Leadership Team. The Committee works closely with the Board 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 Board Audit Committee considered during 2025 were

- Internal Audit reports: The Committee reviewed and approved the Internal Audit assurance plan for the year, the proposed revisions to the plan, and the resources needed to support it. In doing this the Committee considered the ongoing appropriateness of Internal Audit's coverage of the Group's risks, processes, systems and controls and the balance of assurance between the Group's transformation programme and business-as-usual activities. The 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 Committee and explain why the identified control weaknesses have arisen and what actions are being taken to address them. In 2025, Internal Audit drew the Committee's attention to a range of areas that required significant improvement, in particular, the control framework and governance over the group's change programme.
- Updates on risk management culture: During the year, the Committee discussed the Society's risk culture and continued their ongoing monitoring of progress made by management in improving end-to-end process and controls documentation.
- External auditor reports: The Committee reviewed reports from our external auditors, PwC, about recommendations in relation to internal controls for key financial reporting processes and systems.
- Report on the adequacy of internal controls in 2025: The Committee received a report from all three lines of defence within the Society, concerning the effectiveness of internal controls, including focus on areas not yet at target levels of maturity. The Committee's attention was drawn to the need to increase the maturity of the control framework covering Change Risk, Information Management, Compliance & Conduct Risk, Financial Crime & Fraud and Model Risk, and the work being done to embed a robust control environment for the increasing use of Artificial Intelligence tools.

Findings that were raised were prioritised by management according to impact and areas for improvement are being addressed. The Committee considered regular updates on the status of control issues identified by both Internal Audit and PwC, and the volume and age profile of those issues remained within tolerable limits. Because our total assets exceed £50bn, our external auditor provides the PRA with a Written Auditor Report on selected aspects of their audit. This was also considered by the Committee during the year.

The Committee considered whether any recommendation should be made to the Board Remuneration Committee for a possible adjustment to the variable remuneration of the Leadership Team, in respect of internal control weaknesses.

Taken together, the information the Committee reviewed provided assurance that, whilst control improvement work is ongoing, the Group maintained an adequate internal control framework in 2025 and there were no significant breaches of control or regulatory standards. This supports our aim of complying with the principles and provisions of the Code where they apply to building societies. The Leadership Team proactively took action to tackle identified control weaknesses, thereby improving the strength of the internal control environment, so that our Group remains financially and operationally resilient.

Oversight of the Internal Audit function

The purpose of Internal Audit is to provide an independent and objective opinion to the Board on the adequacy and functioning of the Society's system of internal control. This is primarily achieved by performing risk-based reviews, following an established audit methodology. Internal Audit's focus includes assessing risk management and governance processes to ensure:

- Significant risk exposures are appropriately identified, reported to the Board and the Society's Senior Leadership Team, and effectively controlled.
- Significant financial, management, and operating information is accurate, reliable and delivered in a timely manner.
- The Society's actions comply with policies, standards, procedures, and applicable laws and regulations.

Our Internal Audit function is governed by a charter, which the Board Audit Committee reviews and approves annually. The Committee reapproved the charter in November 2025 and you can find a copy of it on our website ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.

The Chief Internal Audit Officer reports directly to the Board Audit Committee Chair and Internal Audit has full and unrestricted access to all of our Group's functions, systems, records and colleagues. The Board Audit Committee Chair 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. During 2025, the Board Audit Committee Chair also provided input to the Chief Internal Audit Officer's performance objectives, annual performance appraisal and remuneration.

In addition to receiving reports on the outcomes of Internal Audit activities, as described above, the Committee receives regular reports on the performance of Internal Audit against an agreed set of performance measures. Internal Audit also reports to the Committee annually on the strategy for the function, the expertise, skills and resources it has, and what it needs to effectively discharge its role. The Committee reviews and approves any proposed changes to Internal Audit's strategy and resources. During 2025, this has included consideration of the resources the Internal Audit function may need over the year ahead, and the technology and systems that Internal Audit uses.

Internal Audit continues to operate its own quality assurance and improvement programme. In 2023, an external quality assessment of the function was performed, which benchmarked Internal Audit against relevant professional standards and codes and industry best practice. The assessment was performed by an independent third-party. The recommendations put forward by the third-party to enhance the function's approach, effectiveness, quality, skills and experience were implemented in 2024.

Overall, the Committee remains satisfied that the Internal Audit function is effective and has the appropriate resources, including use of external third-party support where necessary, to fulfil its responsibilities. The 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.

Peter Bole
Board Audit Committee Chair

25 February 2026

