YORKSHIRE BUILDING SOCIETY

Half-Yearly Financial Report 30 June 2022

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Interim Management Report

Introduction from the Interim Chief Executive

A purposeful start to 2022

I am pleased to introduce the 2022 half-yearly financial report for the Yorkshire Building Society. In the first six months of this year we have continued to demonstrate how committed we are to our purpose of providing ***Real Help with Real Life***.

Having been with the Society as Chief Finance Officer for the last five years, I will be proud to serve in the role as Interim Chief Executive until the process for appointing our next permanent Chief Executive concludes. I offer my sincere thanks to Stephen White as he leaves the Society for his excellent contributions over the course of his time with us, both as our Chief Operating Officer and most recently as our Interim Chief Executive.

Looking back on the first half of 2022, the environment in which we operate has been subject to considerable change. External factors including geopolitical and economic uncertainty, and the conflict in Ukraine, have all had a bearing on the financial services sector to some degree. Despite this, I am able to report on a period where we have delivered against the key elements of our purpose, as well as having delivered a balanced and positive set of financial results.

Helping people to have a place to call home is one of our central ambitions. In 2022, the market for mortgages has been subject to a high degree of volatility and increased levels of competition. Our adaptability and agility as an organisation have helped us to perform strongly despite the challenging environment, just as they helped us through the disruption experienced over the last two years. As a result, we maintained a high level of gross mortgage lending at £5.3 billion (2021 H1: £5.9 billion), and so far this year we have helped 28,000 people to have a place to call home (2021 H1: 49,000)[1].

Actively participating in the local and national communities we operate within speaks to our commitment to our social purpose and to making a positive difference. In addition to working with our charity partner, Age UK, this year we are proud to have expanded two of our social initiatives. The first is the launch of our free *Money Minds* website, which aims to help 11- to 19-year-olds feel more confident about their finances and prepare them for the world of employment. Secondly, we have expanded our partnership with Citizen's Advice after a successful pilot. We are proud to support this great initiative which allows both organisations to work in harmony and facilitate much-needed support across a range of issues, including improving financial wellbeing. The expansion will mean that free, independent, face-to-face advice will be available to members of the public from 18 of our branches.

The need to build greater financial resilience and wellbeing is a long-standing issue for many in society, and the current state and outlook of the economic environment has only served to make the pressures many face more acute. Currently, one of the main concerns is inflation and the rate at which it has risen. Sharp inflationary rises can have significant ramifications on the cost of living and personal finances for many, especially as household utilities and travel costs are among the most impacted. What savings balances people have may need to be relied upon more heavily as they try to make ends meet. In this environment, being fairly rewarded for saving also becomes more important than ever.

In response to inflationary pressures, the Bank of England increased Bank Rate four times so far in 2022, increasing from 0.25% to 1.25%. When an increase to Bank Rate occurs, the Society carefully considers strategies of how best to balance the prospect of increases to customer rates with our long-term sustainability. We need to generate sufficient capital to ensure that we can continue to deliver on our purpose and be here to serve our members and customers for many years to come. We raised the lowest rates we pay our existing variable rate savers twice in the first half of this year, once in February and once again in April, with a further increase effected in early July. Our successful member loyalty programme has also continued, having launched a loyalty ISA and a loyalty fixed rate bond already this year, with more to come. We are proud that the differential between the rates we offer our savers and the average rate offered by the rest of the market has widened – with our rates 0.38 percentage points higher[2]. Through our savings accounts and community investment, so far this year we have helped over 104,000 people toward building their financial resilience (2021 H1: 59,000)[1].

The rates we pay our savers is one way we can return value to our members; another is through our investment in developing products and services that meet their needs. Our *Strategic Blueprint* and *Transformation Roadmap* will enable the Society to keep up with the pace of digital adoption and meet the evolving needs of our customers.

Good progress has been made on our strategic agenda so far this year. We have sustained our focus on our *Savings Rebooted* priority, improving the products and propositions we offer, as well as working to optimise our customer experience including the journeys for our online customers.

For our mortgage customers, we have delivered internal process improvements to increase the speed and efficiency with which we can launch our mortgage products and have also implemented a new pricing proposition which will allow us to support even more customers than before, many of whom are first-time buyers. We look forward to delivering further enhancements in line with our strategic priorities.

1. Place to call home measure based on average residents in properties against which loans have been advanced in the period (excluding remortgages and further advances but including buy-to-let and social housing). Financial resilience measure based on number of new access savers and the impact of our community support programmes.
2. 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 – April 2022.

Interim Management Report (continued)

Introduction from the Interim Chief Executive (continued)

Progress is also being made on our strategy to manage the risks and financial implications of climate change. YBS, along with the wider financial services industry, has a role to play in helping to mitigate and support the management of the risks posed by present and future climate change. As part of our 2021 Annual Report and Accounts, we included our Taskforce on Climate-related Financial Disclosures (TCFD) report and announced our ten climate commitments, which together describe the action we will take in order to safeguard the interests of our members and customers. We look forward to disclosing our progress against these commitments in our 2022 Annual Report and Accounts and each year thereafter. Alongside this, we have also re-focused our commitment to Environmental, Social and Governance (ESG) issues; our first, dedicated ESG report has now been published.

Our financial results for the first half of this year are particularly strong – driven by our mortgage growth in the last twelve months and supported by the impacts of the succession of increases to Bank Rate. This has seen our cost to core income ratio reduce to 42.3% from 50.4% a year ago, our core operating profit increase to £192.5 million (2021 H1: £134.9 million) and statutory profit before tax reach £243.4 million (2021 H1: £147.7 million). Purposeful performance in our core markets has supported balanced levels of growth, with mortgage lending funded largely by a corresponding increase in retail savings balances. Our levels of capital and liquidity remain robust and comfortably above regulatory minimums.

After enabling us to return more in member value and broaden our savings differential, the elevated levels of profits generated will help to ensure that we are secure in our position, able to withstand shocks, and able to adapt to the challenges that lie ahead.

Finally, a note of thanks to our talented and dedicated colleagues for their continued efforts in serving our members and customers. All of this hard work is reflected in our Net Promoter Score, a measure of how likely our customers are to recommend us, which currently stands at +51 over the period – a promising indicator for the remainder of the year to come.

Alasdair Lenman
Interim Chief Executive Officer

Interim Management Report (continued)

Performance at a Glance

Place to call home

Gross lending	Gross mortgage market share[3]	Growth in mortgage balances	New residential mortgages
£5.3bn	3.4%	3.3%	25,000
£5.9bn 30 June 2021	3.2% 31 December 2021	5.7% 30 June 2021	27,000 30 June 2021
This represents the amount we have provided to customers to help finance properties over the period.	This represents our share of all mortgage lending in the UK housing market.	This represents the growth in our overall mortgage balance over the period.	The number of new residential mortgage advances in the period, helping our customers to have a place to call home.

Financial wellbeing

Savings accounts opened	Savings market share[4]	Growth in retail savings balances	Average savings rate differential[5]
171,000	1.97%	6.3%	0.38%
153,000 30 June 2021	1.92% 31 December 2021	5.5% 30 June 2021	0.32% over 2021
The number of accounts opened by new and existing members over the period, helping them save for the future.	This reflects our share of the UK savings market.	This shows the total deposits we use to fund the mortgages we offer to our customers.	This shows how much higher the rates we paid our customers were compared to the rest of market average.

Member value

Statutory Profit before tax	Core Operating Profit[6]	Cost to core income ratio[6]	Average savings rate paid
£243.4m	£192.5m	42.3%	0.69%
£147.7m 30 June 2021	£134.9m 30 June 2021	50.4% 30 June 2021	0.60% over 2021
This is the profit we earned from our ongoing business operations, excluding taxes.	This is the profit we earned, excluding taxes, fair value volatility and one-time charges.	This ratio measures how efficiently we run our Society by showing how much we are spending to generate every pound of our income.	This shows the benefit we are giving back to our members.

Common Equity Tier 1 ratio	Liquidity ratio	Leverage ratio	Net Promoter Score (NPS®)[7]
16.6%	22.1%	5.8%	+51
16.8% 31 December 2021	20.7% 31 December 2021	5.9% 31 December 2021	+51 in 2021
Maintaining this ratio above a certain minimum helps to protect ourselves against unexpected losses.	This ratio measures our ability to lend to borrowers, give money back to savers when they want it, and pay our bills.	This ratio highlights the capital we hold compared to our assets, showing our ability to cope with unexpected events.	This measures how willing our customers are to recommend us to others.

More detail on business performance can be found in the *Business Highlights* below.

3. Based on Bank of England total industry gross lending. Data period January – May 2022
4. Based on analysis of BSA deposits Held by Households. Data period: May 2022.
5. 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 – April 2022 (latest data available). Comparative period: January – December 2021.
6. Definitions of alternative performance measures are provided on pages 251 to 254 of the 2021 Annual Report and Accounts.
7. *Net Promoter Score* and *NPS* are trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc. Following a change in the calculation methodology for Group NPS in 2022, the comparative period FY 2021 has been restated on a consistent basis.

Interim Management Report (continued)

Business Highlights

Over the course of the year so far, the external environment has been subject to a great deal of volatility. Market uncertainty remains and, among other factors, risks are posed by inflationary pressures, shortages of skilled and unskilled labour, as well as the trade consequences stemming from the conflict in Ukraine. Despite this challenging environment, the Society has performed well in our core markets of mortgages and savings, in a way that aligns to our purpose.

Mortgages

Activity in the UK housing market has been at elevated levels since the latter half of 2020; high demand began to drive an acceleration in house price indices as buyers looked for larger homes and sought to take advantage of the Stamp Duty Land Tax (SDLT) relief, which was available until September 2021. Demand was further supported by increased disposable incomes, which accrued during the pandemic and a resilient jobs market. This level of high demand has been sustained into 2022 and, accordingly, house price growth has persisted, with the price of the average UK home having increased by 12.4% over the year to April 2022[8].

The multiple increases to Bank Rate, and the related speculation of its future path, contributed to much volatility in the financial markets throughout the first six months of 2022. The resulting rise in funding costs caused downward pressure on asset margins and lenders began to increase the rates customers pay on their mortgages, fuelling a dynamic market where products were withdrawn and replaced at pace.

Against this backdrop, our performance in the mortgage market has been strong. Our application volumes have remained high – achieving a record high in May – contributing to a healthy pipeline of business as we proceed into the second half of the year.

In the first half of this year, we have managed to almost match our H1 2021 net lending performance, reaching £2.1 billion (2021 H1: £2.4 billion), despite the fact that completion volumes in the preceding year were boosted by external incentives including the increase in the SDLT threshold. Our lending performance in 2022 has been supported by increased growth in our Accord Mortgages Limited (Accord)intermediary buy-to-let channel, where our newly launched product propositions and adjusted criteria were well-received by brokers and customers. Throughout this period, we were also able to keep our customer service levels high, supported by our effective teamworking and investments in our mortgage origination system and service.

In 2019, we relaunched our commercial lending strategy, investing in broadening our geographical reach to diversify our lending strategy and utilise our resources effectively. The commercial lending market was impacted significantly by the pandemic; activity has since resumed, and we are beginning to generate momentum behind our plans to grow this part of the business.

A high degree of price competition has been observed within the mortgage market, which emphasises the importance of our strategy of focusing on the value of our lending, not only the volume. Identifying segments that offer value, whilst also aligning with our purpose and our risk appetite, will not only help customers who have fewer alternatives, but will also support our performance should the more mainstream lending segments become saturated with competition.

How our Transformation Roadmap has supported our mortgage business this year

We are in continuous pursuit of easier and more efficient processes. In February, we implemented a new approach to retention pricing across our Yorkshire and Chelsea brands, allowing us to tailor our transfer products to each maturity cohort. Additionally, in April we introduced a new, automated process for the setup and launch of our mortgage products. The greater speed to market this provides will allow us to adjust our pricing swiftly to reflect the latest market conditions and, ultimately, offer the best rates we can to our customers – both new and existing.

Improved product setup and management capabilities also helped us in launching a new pricing proposition. Enhancing our understanding of, and ability to price for, specific risk profiles is strongly aligned to our common-sense lending approach. Our Cascade Score proposition, which is now live in our Accord business, is designed to support customers who require loans with a higher loan to value (LTV) and who pass our scorecard requirements though not as highly as we would previously have asked. These customers are typically those who have had little credit in the past, including first-time buyers, and we are proud that we can support these customers toward having a place to call home.

Savings

In recent years, the historically low interest rate environment has suppressed the rates available to savers. This was further exacerbated by the pandemic, which not only brought further cuts to Bank Rate in 2020 but also resulted in an abundance of liquidity in the UK retail banking system as Government funding schemes were launched and customer deposits were bolstered by accruing disposable incomes.

Since then, the most significant impacts of the pandemic have subsided, but global supply and demand imbalances and rising energy costs have driven inflation to levels not seen for more than 30 years. In response, the Bank of England raised Bank Rate four times in quick succession in 2022, increasing from 0.25% to 1.25%. This provided some stimulus to customer rates in the market, however even the best rates are unable to keep pace with inflation, posing challenges to household finances.

8. Office of National Statistics: https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/april2022

Interim Management Report (continued)

Business Highlights (continued)

Savings (continued)

In light of the Bank Rate announcements, and building on the rate increases we provided to our savers last year, we have increased the lowest rates we pay our existing variable rate savers multiple times in 2022. We raised our administered savings rates by 0.10 percentage points in February, passed a further 0.25 percentage points on in April and, with effect from early July, a further increase of 0.25 percentage points has been enacted. After these increases, we now pay a minimum savings rate of 1.00% for all variable rate accounts[9].

We strive to fairly reward all of our savings members, both those new to the Society and those with whom we have enjoyed a longer relationship. In March, we launched our first loyalty product of 2022, our Loyalty Six Access Saver ISA, and followed this up with the launch of our Loyalty Fixed Rate Bond in June. These products were open to members who had been with us for 12 months or more and proved successful. That our existing members feel valued is important to us, and there will be more to come from our member loyalty programme later in the year.

In addition to our loyalty activity, the competitive rates we offered supported strong growth in our savings balances, which have increased by £2.2 billion since the end of 2021. We are proud that the savings rates we offer compare favourably to the market – on average 0.38 percentage points higher than the market average over April year to date, meaning our members have benefitted from higher interest payments.

How our Transformation Roadmap has supported our savings business this year

One of our strategic priorities is *Savings Rebooted*, an element of which is devoted to the transformation and enhancement of our digital savings channel. We need to ensure that we adapt our business model in line with the shift in customer preferences toward digital interaction. Meeting the evolving needs of customers over the long term will require continuous development and we are working to add features to our online platform and mobile app, and expand the range of self-serve capabilities available.

We are working toward the next phases of delivering improvements for our savings customers, especially with respect to online customer journeys. Our recent deliverables, including improvements in the online account opening process, continue to make a difference to both the experience our customers have when interacting with us, and to our performance within the market. Our online saving balances have increased by c.£2 billion since December 2021, and a high proportion of our new customers are also being acquired through digital channels.

Our Financial Performance

The following summary sets out the key drivers of our financial results over the first half of the year, and the impact they have on the condensed interim financial statements.

The table below presents the results of Yorkshire Building Society ('YBS' or 'the Society') and its controlled entities (collectively 'the Group' or 'YBS Group') for the half-year ended 30 June 2022. See note 1 to the condensed interim financial statements for more information on the basis of preparation.

Income statement

Income and profitability for the first six months of 2022 are materially stronger than in previous periods. Statutory profit before tax for the six months to 30 June 2022 was £243.4 million (30 June 2021: £147.7 million) and core operating profit for the period was £192.5 million, up £57.6 million on the equivalent period last year (30 June 2021: £134.9 million).

Our financial performance is monitored by our Board who, in addition to looking at statutory profit before tax look at core operating profit, as this is considered to be a more appropriate measure of underlying business performance. Core operating profit excludes items such as fair value volatility and one-time charges that are either temporary or typically reverse over time and so do not reflect the Group's day-to-day activities. In this reporting period, a significant gain was recorded in respect of fair value movements, £49.8 million of which relates to volatility on derivatives and equity financial assets and has therefore been excluded from core operating profit. This gain predominantly relates to interest rate swaps purchased against our mortgage pipeline. These swaps only qualify for hedge accounting when the mortgage is advanced and, until such time, we are exposed to their fair value movements driven by the external interest rate environment.

The increase in core operating profit is predominantly driven by improved net interest income performance which comes as a result of the growth in mortgage balances achieved in the year, in addition to the impact the rising rate environment has had on our balance sheet.

9. Excludes cash transactor and offset savings accounts.

Interim Management Report (continued)

Business Highlights (continued)

Our Financial Performance (continued)

Income statement (continued)

The following table shows the items removed from statutory profit before tax to arrive at core operating profit.

		Half-year ended 30 June 2022			Half-year ended 30 June 2021			Year ended 31 December 2021		
		Statutory	Remove non-core items	Core	Statutory	Remove non-core items	Core	Statutory	Remove non-core items	Core
	Notes	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net interest income	i	**334.2**	**(1.3)**	**332.9**	256.0	(1.9)	254.1	537.4	(3.2)	534.2
Other income		**3.6**	**-**	**3.6**	6.7	(0.1)	6.6	12.7	(2.5)	10.2
Fair value gains and losses	ii	**50.2**	**(49.8)**	**0.4**	11.4	(11.4)	-	26.7	(19.1)	7.6
Net realised gains		**2.4**	**-**	**2.4**	0.4	-	0.4	0.8	-	0.8
Total income/core income		**390.4**	**(51.1)**	**339.3**	274.5	(13.4)	261.1	577.6	(24.8)	552.8
Management expenses		**(143.6)**	**-**	**(143.6)**	(132.6)	-	(132.6)	(274.5)	-	(274.5)
Impairment of financial assets		**(0.7)**	**-**	**(0.7)**	6.0	-	6.0	19.2	-	19.2
Movement in provisions	ii	**(2.7)**	**0.2**	**(2.5)**	(0.2)	0.6	0.4	(2.3)	2.1	(0.2)
Profit before tax/core operating profit		**243.4**	**(50.9)**	**192.5**	**147.7**	**(12.8)**	**134.9**	**320.0**	**(22.7)**	**297.3**

The notes below explain the adjustments made to statutory profit to arrive at the core operating profit figure.

i. Historical fair value credit adjustments on acquired loans.
ii. Removed fair value volatility i.e. gains and losses on derivatives not qualifying for hedge accounting, and on non-core equity investments.
iii. Non-core elements of the restructuring provision – see note 7 to the condensed interim financial statements for more information.

The following are the main items in the income statement that contribute to core operating profit:

- Net interest income for the year to June is £334.2 million (2021 H1: £256.0 million), representing a net interest margin of 1.22%, an increase of 0.17 percentage points compared to the equivalent period last year.
- Other income of £3.6 million relates to fees, commissions, and other operating income (2021 H1: £6.7 million).
- Net realised gains of £2.4 million relate to profits from the sale of liquid asset investments (2021 H1: £0.4 million).
- Management expenses were £143.6 million, an increase of £11.0 million against the same period in 2021, largely driven by additional investment made in our transformation portfolio.
- A £0.7 million impairment charge has been recorded in the period (2021 H1: £6.0 million release). The charge relates to post-model adjustments reflecting the increased risk due to the cost-of-living crisis, although this is largely offset by the impact of positive HPI movements in the period. See note 9 to the condensed interim financial statements for more information on expected credit losses, including the economic scenarios used.

As a mutual, we do not pay dividends to external shareholders; our profit requirements are driven solely by our need for ongoing capital to support our activities. Profit remains sufficient to provide capital for our current and future growth aspirations and ensure we are resilient to severe economic stresses. The Group's business activities are focused within the UK and relate predominantly to mortgage lending funded primarily through domestic deposits. We continue to have a cautious approach to liquidity management and as at 30 June 2022, the majority of our liquidity portfolio consisted of exposures to the Bank of England and the UK Government.

Interim Management Report (continued)

Business Highlights (continued)

Our Financial Performance (continued)

Balance Sheet

	Half-year ended 30 June 2022	Half-year ended 30 June 2021	Year ended 31 December 2021
	£bn	£bn	£bn
Liquid assets	**11.4**	7.7	10.0
Loan and advances to customers	**43.3**	41.0	41.9
Other Assets	**1.7**	0.7	0.8
Total assets	**56.4**	49.4	52.7
Shares - retail savings	**37.7**	35.2	35.5
Wholesale funding and other deposits	**13.7**	10.2	12.9
Subordinated liabilities	**1.1**	0.6	0.9
Other liabilities	**0.6**	0.5	0.3
Total liabilities	**53.1**	46.5	49.6
Member's interest and equity	**3.3**	2.9	3.1
Total members' interest, equity and liabilities	**56.4**	49.4	52.7

Overall balance sheet growth achieved in the year to June stands at 7.0% (2021 H1: 3.1%), having broadly matched our retail flows across both savings and mortgages. Net lending performance was maintained at a level similar to that in H1 2021, even without the support of the external stimulus of SDLT relief. The relaunch of our Accord intermediary buy-to-let lending channel also contributed to this growth. Net savings flows were strong, owing to the competitive positioning of our saving products, supported by the increases to our back-book rates and member loyalty programme.

Our overall liquidity position remains stable, standing at 22.1% (2021: 20.7%), supported by retail flows. Sufficient headroom to regulatory requirements has been maintained and we continue to diversify our high-quality liquid asset portfolio.

Our robust capital position has been maintained as demonstrated by our key capital ratios. Our Common Equity Tier 1 ratio, which represents the relationship between the strongest form of capital (largely accumulated reserves) and risk weighted assets, is 16.6% (2021: 16.8%). And our UK leverage ratio, which compares Tier 1 capital with total assets, stands at 5.8% (2021: 5.9%).

The Society has maintained an active presence within our chosen markets for wholesale funding. In 2022, we have successfully issued the following debt securities: the latest in our covered bond programme, a Medium-Term Note (MTN) and a Senior Non-Preferred (SNP) Note. Additionally, in January we repaid a portion of our Bank of England term funding (TFSME) drawings, significantly ahead of its contractual maturity, and we intend to make a further repayment in the second half of the year.

The asset quality of our loan book has seen no deterioration. The value of loans more than three months in arrears represents 0.30% of our mortgage book at 30 June 2022 (31 December 2021: 0.36%). The number of accounts which are more than three months in arrears (including possessions) is 0.44% (31 December 2021: 0.50%), which remains significantly better than the industry average[10] 0.79% (2021: 0.85%). The credit quality of our loan book is continually monitored using a number of indicators, and we continue to consider lending criteria carefully.

Regulatory Environment

Relevant updates with respect to the regulatory environment include:

Pillar 3

Pillar 3 Disclosures, as required by Basel III, are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. From 1 January 2022, specific 'tabular' requirements were implemented to encourage consistency and comparability across institutions. As the Society is categorised as a large institution, there is now a requirement to publish quarterly disclosures. Our first quarterly disclosure was published in June 2022, reporting on the period up to 31 March 2022, and can be found on our website ybs.co.uk. Subsequent disclosures will be made in due course.

10. Industry average based on the latest available from UK Finance date: March 2022.

Interim Management Report (continued)

Business Highlights (continued)

Regulatory Environment (continued)

Consumer Duty

The Financial Conduct Authority (FCA) are expected to publish rules relating to a new Consumer Duty by 31 July 2022, with firms having until April 2023 to implement any changes required to meet the new rules. The Duty will place increased requirements on financial services firms, like YBS, to ensure customers receive suitable products that are priced fairly and offer good value, as well as providing appropriate support throughout the relationship, and making sure customers have a good understanding of the products and services they are using.

Regulations already require financial services firms to 'treat customers fairly'; the new duty brings additional emphasis that will require all firms to 'act to deliver good outcomes' for their customers. As such, the Society will be required to take all reasonable steps to avoid foreseeable harm to customers and to enable them to achieve their financial objectives.

Regulator Plans and Strategies

During the first half of 2022, the FCA, the Prudential Regulation Authority (PRA) and the Payment Systems Regulator (PSR) refreshed their strategies and business plans which set out the goals and areas of focus for each.

FCA Business Plan & Strategy

The FCA published its three-year strategy alongside its Business Plan for the coming 12 months. The publications articulate the regulator's direction of travel as it sets out to become more innovative, assertive, and adaptive. In developing its strategy, the FCA has considered the rising cost of living, digital transformation, and geopolitical uncertainty and has listed the following as areas of priority:

- Reducing and preventing serious harm to consumers
- Setting and testing higher standards for firms it regulates
- Promoting competition and positive change in the UK Financial Services sector.

PRA Business Plan

The PRA has published its Business Plan for the year ahead. The PRA undertook a strategic review in 2021 to consolidate lessons from the first eight years of its existence. This review led to the identification of the following four strategic priorities:

- Retaining and building on the strength of the banking and insurance sectors delivered by the financial crisis reforms
- Being at the forefront of identifying new and emerging risks and developing international policy
- Supporting competitive and dynamic markets in the sectors that they regulate
- Running an inclusive, efficient, and modern regulator.

PSR Strategy

The PSR has published its first formal strategy which sets out its direction of travel over the next five years and details several strategic priorities. The following items are particularly relevant to YBS:

- The PSR has vowed to protect access to cash for customers who rely on it
- The regulator has reinforced its position that there should be mandatory reimbursement for victims of scams who have done nothing wrong.

The Government intends to legislate on these two priorities through the 'Financial Services & Markets Bill' as announced in the Queen's Speech, which also seeks to reform the UK Regulatory Framework post-Brexit.

YBS continues to monitor the regulatory outputs to understand regulatory expectations and ensure that we respond and adapt appropriately.

Interim Management Report (continued)

Changes to the Board

A list of the Board of Directors can be found in the 2021 Annual Report and Accounts; any subsequent changes are detailed below.

In June 2022, we announced that our Interim Chief Executive, Stephen White, would be leaving the Society and confirmed the appointment of Alasdair Lenman, our Chief Finance Officer, as Interim Chief Executive with effect from 17 June 2022. Alasdair has 23 years' experience in finance and has worked in financial services for 15 years. The process to appoint the next permanent Chief Executive is well advanced.

The 2021 Annual Report and Accounts communicated that the recruitment search for a new Non-Executive Director had commenced. As a result of this search, the Board was pleased to announce the appointment of Angela Darlington as a Non-Executive Director from 26 April 2022. Angela has over 30 years' experience in financial services, including extensive experience in relation to risk, regulation, and climate change.

Neeta Atkar, Non-Executive Director and Chair of our Group Risk Committee, stepped down from the Board with effect from 22 June 2022 after more than five years. In accordance with the Board's succession plans, Angela Darlington was appointed as the Chair of our Group Risk Committee on 22 June 2022, subject to regulatory approval.

As signposted in the Annual Report and Accounts:

- David Morris, our Chief Commercial Officer was appointed as Executive Director in January 2022, having been with the Society since 2018.
- Non-Executive Director, Guy Parsons, retired from the Board at the conclusion of the Society's Annual General Meeting on 26 April 2022. Guy was succeeded as Chair of the Remuneration Committee by Alison Hutchinson, Senior Independent Director and Vice Chair.

Outlook

Elevated levels of uncertainty continue to characterise the political and economic environment. Risks stemming from the potential emergence of a new coronavirus variant remain, and central banks will have to contend with the global inflationary pressures which were further heightened following the invasion of Ukraine.

There are expectations that consumer prices index (CPI) inflation will rise over the remainder of 2022, averaging slightly over 10% at its peak in the final quarter[11]. A main driver of the increase is expected to be due to higher household energy and food prices, exerting pressure on real disposable incomes. The outlook for Gross Domestic Product (GDP) growth in the UK has weakened due to the cost-of-living crisis and its impacts on consumer spending.

The market expectations for the future path of Bank Rate may make retail savings books increasingly attractive as a source of funding. When coupled with the need for many UK banks and building societies to refinance drawings from government funding schemes over the next couple of years, this looks likely to drive increased competition for the attraction and retention of savings balances.

Whilst the mortgage market has been buoyant for a sustained period, downside risks may impact the level of activity in the near future. Whether house prices stay on their upward trajectory will depend largely on the size of the market and whether the demand for housing will continue to surpass the available supply of housing stock.

Another concern is around higher interest rates and the impact they may have on the affordability of mortgages. Those whose mortgage deal is coming to an end may face a sharp increase in their monthly repayments, and those looking to purchase a house may fall short of lending criteria as a result.

Broader consequences of the cost-of-living crisis may emerge as savings balances are increasingly relied upon to fund everyday life, reducing customers' ability to service their debt should they suffer a loss of income for any reason. Emergent challenges and threats, of natures both economic and operational, will continue to be monitored to ensure that the Yorkshire Building Society responds appropriately and remains in a position of strength to continue to serve our members.

Principal Risks and Uncertainties

The environment within which we operate, and the nature of the threats that we face, is continually evolving. 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 risk scenarios. It is our belief that, whilst they each bring their individual challenges, we are well placed to manage them.

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

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

11. https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2022/may/monetary-policy-report-may-2022.pdf

Interim Management Report (continued)

Principal risks and uncertainties (continued)

Risk	Description	Principal mitigation
Strategic Risk	The risk to the Group'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.	We mitigate risks relating to the business environment and our strategic choices through horizon scanning, corporate planning, scenario analysis and stress testing, and ongoing monitoring and reporting activity.
Retail & Commercial Credit Risk	The risk to the Group of credit losses as a result of failure to design, implement and monitor an appropriate credit risk appetite.	We set a risk appetite for retail and commercial lending activities which manages exposure to higher risk lending areas, and monitors adherence to this.
Treasury Risk	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.	We set a risk appetite for treasury risk and monitor adherence to this. We adopt a low risk approach to our treasury activities, investing most of its liquidity in the highest quality assets.
Funding & Liquidity Risk	The risk of the Group having inadequate cash flow to meet current or future requirements and expectations.	We set a risk appetite and stress test our positions against this. We operate a diversified funding base, primarily through retail savings, supported by a strong wholesale funding franchise.
Market Risk	The risk to the Group's earnings or the value of its assets and liabilities due to changes in external market rates.	We adopt a low risk approach to market risk, and stress test all positions against a range of scenarios.
Capital Risk	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.	We maintain a capital risk appetite and regularly stress test its positions against severe scenarios.
Model Risk	The risk that the Group's models that are used to manage the business are inaccurate, perform inadequately or are incorrectly used.	We operate a Model Risk Management Maturity framework which includes monitoring of model suitability and performance within agreed risk appetite.
Operational Risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events.	We operate an internal control framework in line with the Board risk appetite and monitor adherence.
Compliance & 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.	We operate an internal control framework in line with the Board risk appetite and monitor adherence.

Evolution of Principal Risk Exposures

The principal risks and uncertainties continue to evolve with the key areas of focus through the first half of 2022 being cost of living concerns, compounded by political, economic and supply chain implications of geo-political conflict and the potential for further Covid-19 variants, along with those that may still be seen from the UK's withdrawal from the European Union in the context of the Group's risk appetite, business model and strategy.

The Covid-19 pandemic placed significant operational demands on all financial services organisations, requiring rapid changes to working arrangements, and adapting existing processes to continue to meet customer needs under unprecedented and challenging circumstances.. As Government guidance and national measures were lifted in the first half of 2022, we revised our strategic response and implemented further changes to remove restrictions at our office sites.

Economic, Social and Geo-political Uncertainties (Retail & Commercial Credit Risk)

Pressure on mortgage affordability remains prevalent, with a range of contributing economic, social, and geo-political factors. Whilst the effects of Covid-19 have lessened in the first half of 2022, ongoing impacts of the pandemic continue to be seen, with a degree of latent risk relating to the potential emergence of arrears. There also remains a risk of new variants emerging and the subsequent re-introduction of restrictions.

Additionally, whilst the UK has now officially left the EU with a trade deal in place, the ongoing economic impacts remain unclear. Our economic scenarios cover a range of impacts that reflect different levels of productivity and output of the UK and the subsequent impact on the broader economy. Most of our exposure relates to UK-based residential and commercial property values, and so risk arises from any potential economic downturn stemming from the new trading relationship rather than any specific risks to any particular business sector.

Interim Management Report (continued)

Principal risks and uncertainties (continued)

Evolution of Principal Risk Exposures (continued)

The ramifications of both the Russian military action in Ukraine and the response from the international community have implications for the global economy and, in turn, compound economic uncertainties in the UK. It is a contributing factor to inflationary pressures and has the potential to lead to wider economic impacts. We have a responsibility to consider the specific risk exposures that these implications create and will continue to closely monitor these.

Inflation is predicted to rise over the short term, which will place affordability stresses on mortgage borrowers, as well as tenants of Buy to Let and Commercial landlords. The Bank of England's response of raising interest rates has placed further stress on borrowers.

Affordability for our new lending is assessed using a sophisticated model, which currently incorporates a stressed interest rate, and is reviewed every six months (as a minimum) to ensure it remains an appropriate level of stress. Recent changes have been made to this model to ensure that various "cost of living" factors are accounted for, including National Insurance and the impact of inflation on monthly expenditure. Equally, comprehensive activity has taken place to understand the impact of, and mitigate where appropriate, cost of living on our new and existing portfolio.

We continue to consider lending criteria carefully using an approach that is intended to balance the level of risk we take against our purpose of providing Real Help with Real Life. At all times we focus on our lending being responsible to protect customers and to minimise arrears.

Attracting & Retaining Skills and Talent in High Demand Areas (Operational Risk)

We are increasingly recognising that social changes brought about by the Covid-19 pandemic, such as removal of geographical barriers have accelerated changes in employee expectations. These are resulting in increased competition in the recruitment and retention of colleagues across all areas of the business, but particularly those areas with high demand skills such as digital, technology and data functions.

We continue to review our value proposition in relation to talent acquisition and retention and undertake continual monitoring of the recruitment market. We do not expect the recruitment market to return to pre-pandemic levels and, as such, continually review how and where we source talent. Effective resource planning and forecasting is a priority and our resourcing practices are regularly reviewed to ensure we proactively manage associated risks in order to deliver our Strategic Blueprint.

Model Risk (Model Risk)

We continue to monitor and address the risks associated with the use of models and specifically, 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 Outcome (Compliance & Conduct Risk)

Compliance and conduct are central to our values and behaviours, with an internal control framework that operates in line with the Board risk appetite, and which monitors adherence. However, 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 transformation programme which will explore new initiatives and ways of working.

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 introduction of new Consumer Duty regulation which sets higher expectations for the standard of care that firms provide to consumers. As a mutual organisation, fair customer treatment is already intrinsic to everything we do and is aligned to our purpose to provide Real Help with Real Life.

Climate Change Risk (Credit and Operational 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 us are how physical risks such as flooding, subsidence and coastal erosion affect our customers' homes. Additionally, we recognise 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, particularly buy-to-let.

In the first half of 2022, we reviewed and updated our Environmental and Climate Change Risk Policy in order to integrate the associated financial and operational risks; define how we govern environmental and climate risks; and, to incorporate our climate commitments.

We continue to develop our environmental and climate change risk management capabilities to integrate these within our risk management framework, ensure that we align with best practice and are able to meet reporting and disclosure requirements.

Interim Management Report (continued)

Principal risks and uncertainties (continued)

Evolution of Principal Risk Exposures (continued)

Increased Competition and New Technology (Operational Risk)
Our digitalisation programme continues to develop wider access to our products and services through expanded digital channels. Challenger banks, FinTech firms and the digital transformation of direct competitors continue to heighten the need to remain competitive in these areas.

We continue to successfully deliver the first phase of our programme and have maintained strong governance and extensive oversight of the management of associated risks. There is, however, a residual risk that the cost of delivering the level of change necessary for some customer groups to keep pace with rapidly changing technology may also prove unsustainable and require investment choices which may not fully meet customer expectations.

Further phases of our digitalisation programme will create additional risks, and we will continue to identify, assess and manage these as appropriate.

Financial Crime Threats (Compliance and Conduct Risk)
We already operate in a hostile and constantly evolving financial crime environment, including phishing and spam attempts that seek to take advantage of customers during this time of uncertainty.

Whilst we have not seen a meaningful increase in financial crime incidents directly attributable to these threats, the business remains on high alert. Our continued focus on our financial crime capability remains paramount to keep these evolving financial crime exposures within our risk appetite. The Society continues to deliver and implement proportionate and effective monitoring, enhance our ability to identify threats and invest in financial crime controls.

New and Evolving Cyber Security Threats (Operational Risk)
The increasing use of technology, and the pace of technological change, exposes the UK financial services sector to ever-increasing and evolving cyber security risks. Geo-political threats have elevated the threat landscape, with ransomware a continued threat. Resilience to such threats and an ability to effectively respond in the event of an attack remains essential to protect the Group, maintain the trust of customers and the confidence of regulators.

We continue to invest in this area to ensure that our key controls are appropriately maintained. A new security monitoring team has been established to perform holistic monitoring across the estate and we regularly review network upgrade requirements.

Continued Risk Management Effectiveness
Good progress has been made through the first half of 2022, with the continued embedding of our risk management framework across the business, evidenced by our ability to continue to adapt and respond to rapid change in our operating environment and ongoing support in the delivery of our Strategic Blueprint.

To further support the Strategic Blueprint, we have defined a set of risk management priorities, which set out the role that risk management plays in its delivery and, in turn, our customers, colleagues and long-term sustainability. Priorities include but are not limited to; ensuring operational resilience vulnerabilities are identified and evaluated; building on existing capabilities to enhance understanding of risks arising from climate change, and delivering robust financial crime identification, prevention, mitigation and reporting that will protect the Society and its customers.

Forward-Looking Statements

This Interim Management Report has been prepared solely to provide additional information to members to assess the Group's performance and strategies, and should not be relied on by any other party or for any other purpose. It contains certain forward-looking statements, which are made by the directors in good faith based on the information available to them up to the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Alasdair Lenman
Interim Chief Executive Officer
26 July 2022

Condensed Interim Financial Statements

Consolidated Income Statement

	Notes	Half-year to 30 June 2022 (unaudited) £m	Half-year to 30 June 2021 (unaudited) £m	Year to 31 December 2021 (audited) £m
Interest revenue calculated using the effective interest method	3	**534.5**	461.0	962.7
Other interest revenue	3	**39.1**	18.6	30.8
Interest revenue	3	**573.6**	479.6	993.5
Interest expense	4	**(239.4)**	(223.6)	(456.1)
Net interest income		**334.2**	256.0	537.4
Fee and commission revenue		**11.5**	13.8	24.1
Fee and commission expense		**(8.5)**	(8.1)	(15.2)
Net fee and commission income		**3.0**	5.7	8.9
Gains from financial instruments held at fair value	5	**50.2**	11.4	26.7
Income from investments		**-**	-	0.1
Net realised gains on disposal of financial instruments		**2.4**	0.4	0.8
Other operating income		**0.6**	1.0	3.7
Total income		**390.4**	274.5	577.6
Administrative expenses		**(132.7)**	(121.1)	(251.8)
Depreciation and amortisation		**(10.9)**	(11.5)	(22.7)
Impairment of financial assets	6	**(0.7)**	6.0	19.2
Movement in provisions	7	**(2.7)**	(0.2)	(2.3)
Profit before tax		**243.4**	147.7	320.0
Tax expense	8	**(57.2)**	(26.5)	(62.9)
Profit for the period		**186.2**	121.2	257.1

Condensed Interim Financial Statements (continued)

Consolidated Statement of Comprehensive Income

	Half-year to 30 June 2022 (Unaudited)	Half-year to 30 June 2021 (unaudited)	Year to 31 December 2021 (audited)
	£m	£m	£m
Profit for the period	**186.2**	121.2	257.1
Items that may be subsequently reclassified through profit or loss			
Cash flow hedges:			
Fair value movements taken to equity	**18.6**	-	15.3
Amounts transferred to the income statement	**(3.9)**	0.2	0.4
Tax on amounts recognised in equity	**(4.2)**	(0.1)	(4.2)
Effect of change in corporation tax rate	**0.8**	-	(0.9)
Financial assets measured through other comprehensive income:			
Fair value movements taken to equity	**(3.3)**	3.6	18.3
Amounts transferred to the income statement	**0.8**	(0.8)	(3.7)
Tax on amounts recognised in equity	**0.6**	(0.9)	(4.0)
Effect of change in corporation tax rate	**1.6**	(1.1)	(1.9)
Items that will not be reclassified through profit or loss			
Remeasurement of retirement benefit obligations	**(30.5)**	4.7	30.5
Tax on remeasurement of retirement benefit obligations	**8.4**	(1.0)	(8.0)
Effect of change in corporation tax rate	**6.0**	(5.5)	(7.2)
Total other comprehensive income	**(5.1)**	(0.9)	34.6
Total comprehensive income for the period	**181.1**	120.3	291.7

Condensed Interim Financial Statements (continued)

Consolidated Statement of Financial Position

		30 June 2022 (unaudited)	30 June 2021 (unaudited)	31 December 2021 (audited)
	Notes	£m	£m	£m
Assets				
Cash and balances with the Bank of England		**5,526.9**	2,871.1	5,539.8
Loans and advances to credit institutions		**617.8**	1,095.5	381.4
Debt securities		**5,210.4**	3,776.2	4,075.5
Loans and advances to customers	9	**43,312.3**	41,026.8	41,922.4
Derivative financial instruments		**1,461.9**	308.0	490.9
Investments		**5.2**	14.0	5.4
Intangible assets		**20.7**	27.5	23.5
Investment properties		**14.4**	14.4	14.5
Property held for sale		**0.3**	7.7	0.3
Property, plant and equipment		**119.0**	124.9	122.0
Deferred tax assets		**-**	12.7	-
Retirement benefit surplus	10	**90.9**	94.8	120.8
Other assets		**30.5**	26.1	27.2
Total assets		**56,410.3**	49,399.7	52,723.7
Liabilities				
Shares		**37,739.0**	35,190.0	35,506.4
Amounts owed to credit institutions		**6,569.6**	3,954.6	6,089.8
Other deposits		**1,123.3**	472.6	873.5
Debt securities in issue		**6,008.9**	5,733.8	5,890.9
Derivative financial instruments		**467.3**	371.6	272.7
Current tax liabilities		**9.4**	3.1	4.0
Deferred tax liabilities		**37.7**	44.6	50.4
Other liabilities		**75.9**	75.7	83.6
Provisions		**6.6**	5.6	6.1
Subordinated liabilities		**1,102.9**	630.9	857.7
Total liabilities		**53,140.6**	46,482.5	49,635.1
Members' interests and equity		**3,269.7**	2,917.2	3,088.6
Total members' interest, equity and liabilities		**56,410.3**	49,399.7	52,723.7

Condensed Interim Financial Statements (continued)

Consolidated Statement of Changes in Members' Interest and Equity

	General reserve	Cash flow hedge reserve	Fair value through other comprehensive income	Total
	£m	£m	£m	£m
Half-year to 30 June 2022				
At 1 January 2022 (audited)	**3,056.9**	**10.6**	**21.1**	**3,088.6**
Profit for the period	**186.2**	**-**	**-**	**186.2**
Net remeasurement of defined benefit obligations	**(16.1)**	**-**	**-**	**(16.1)**
Net movement in cash flow hedges	**-**	**11.3**	**-**	**11.3**
Net movement in fair value through other comprehensive income	-	-	**(0.3)**	**(0.3)**
Total comprehensive income	**170.1**	**11.3**	**(0.3)**	**181.1**
At 30 June 2022 (unaudited)	**3,227.0**	**21.9**	**20.8**	**3,269.7**
Half-year to 30 June 2021				
At 1 January 2021 (audited)	2,784.5	-	12.4	2,796.9
Profit for the period	121.2	-	-	121.2
Net remeasurement of defined benefit obligations	(1.8)	-	-	(1.8)
Net movement in cash flow hedges	-	0.1	-	0.1
Net movement in fair value through other comprehensive income	-	-	0.8	0.8
Total comprehensive income	119.4	0.1	0.8	120.3
At 30 June 2021 (unaudited)	2,903.9	0.1	13.2	2,917.2
Year to 31 December 2021				
At 1 January 2021 (audited)	2,784.5	-	12.4	2,796.9
Profit for the period	257.1	-	-	257.1
Net remeasurement of defined benefit obligations	15.3	-	-	15.3
Net movement in cash flow hedges	-	10.6	-	10.6
Net movement in fair value through other comprehensive income	-	-	8.7	8.7
Total comprehensive income	272.4	10.6	8.7	291.7
At 31 December 2021 (audited)	3,056.9	10.6	21.1	3,088.6

Condensed Interim Financial Statements (continued)

Consolidated Statement of Cash Flows

	Notes	Half-year to 30 June 2022 (unaudited) £m	Half-year to 30 June 2021 (unaudited) £m	Year to 31 December 2021 (audited) £m
Cash flows from operating activities				
Profit before tax		**243.4**	147.7	320.0
Adjustments to profit before tax	12	**(46.5)**	(25.8)	(45.5)
Net change in operating assets	12	**(2,346.7)**	(2,114.2)	(3,155.4)
Net change in operating liabilities	12	**3,057.3**	1,547.0	4,214.8
Tax paid		**(51.3)**	(31.8)	(66.5)
Net cash flow from operating activities		**856.2**	(477.1)	1,267.4
Cash flows from investing activities				
Purchase of property, plant and equipment, and intangible assets		**(5.2)**	(7.8)	(14.5)
Proceeds from sale of property, plant and equipment		**0.2**	0.8	13.1
Purchase of debt securities		**(1,737.7)**	(1,217.8)	(1,828.8)
Redemption of debt securities		**602.7**	304.9	628.7
Net cash flow from investing activities		**(1,140.0)**	(919.9)	(1,201.5)
Cash flows from financing activities				
Redemption of debt securities in issue	12	**(417.5)**	(660.1)	(1,365.6)
Issue of debt securities	12	**635.0**	475.6	1,424.0
Issue of subordinated liabilities	12	**300.0**	-	250.0
Interest paid on subordinated liabilities and subscribed capital		**(15.3)**	(11.1)	(23.5)
Interest paid on lease liabilities		**(0.4)**	(0.5)	(0.9)
Capital repayments on lease liabilities		**(2.8)**	(2.8)	(5.6)
Net cash flow from financing activities		**499.0**	(198.9)	278.4
Net change in cash and cash equivalents		**215.2**	(1,595.9)	344.3
Opening balance		**5,765.7**	5,421.4	5,421.4
Closing cash and liquid cash equivalents		**5,980.9**	3,825.5	5,765.7
Cash and liquid cash equivalents				
Cash and cash equivalents		**5,526.9**	2,871.1	5,539.8
Less Bank of England cash ratio deposit		**(163.8)**	(141.1)	(155.5)
Loans and advances to credit institutions		**617.8**	1,095.5	381.4
Closing cash and liquid cash equivalents		**5,980.9**	3,825.5	**5,765.7**

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements

1. Basis of Preparation

These condensed interim financial statements present the results of Yorkshire Building Society ('YBS') and its controlled entities (collectively 'the Group' or 'YBS Group') for the half-year ended 30 June 2022.

The accounting policies, presentation and measurement applied during the period are consistent with those applied by the Group in the 31 December 2021 audited annual financial statements being International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the International Accounting Standards Board (IASB) effective as at 31 December 2021 and endorsed by the European Union (EU).

As a result of the United Kingdom's exit from the EU, the Group is now required under the *Building Societies Act 1986* to apply 'UK-adopted international accounting standards.' The condensed interim financial statements have therefore been prepared in accordance with UK-adopted International Accounting Standard 34 *Interim Financial Reporting* and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Pounds sterling is both the functional currency of the YBS Group and the presentation currency applied to these financial statements. Except where otherwise stated, all figures in the financial statements are presented in round hundreds of thousands of pounds sterling (£0.0m).

During the half-year to 30 June 2022 there have been no changes to the composition of the Group. The condensed interim financial statements have been subject to a review and have not been audited.

Accounting developments

The information on future accounting developments and their potential effect on the financial statements are provided on page 159 of the 2021 Annual Report and Accounts.

Going concern

The YBS Board of Directors undertake regular rigorous assessments of whether the Group is a going concern in light of changing economic and market conditions, using all available information about future risks and uncertainties. Details of the review undertaken to support the 31 December 2021 financial statements are given on page 138 of the 2021 Annual Report and Accounts.

The directors confirm that, based on the latest formal review undertaken in July 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 condensed interim financial statements.

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 condensed interim financial statements.

In addition, estimates and assumptions are used which could affect the reported amounts of assets and liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis.

Other than the specific changes highlighted below, the key sources of estimation uncertainty remain unchanged since those disclosed on pages 165 to 166 of the 2021 Annual Report and Accounts.

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 scenario and weightings

The UK economy is undergoing a number of developments as we progress through 2022, with activity rebounding from the Omicron-related dip at the end of 2021. The largest concerns are the cost-of-living squeeze on consumer demand and the wide ranging impact from Russia's invasion of Ukraine. The Group has assessed these uncertainties, with the economic assumptions applied to the ECL model adjusted to reflect the most recent view of the macro-economic environment. In addition, a post model adjustment has been raised to reflect the risks relating to affordability and the impact of cost of living increases on our mortgage customers (see note 9 for more details).

Furthermore, the Group determined that the continued application of the combined 45% weighting to downside and stress scenarios as at the balance sheet date still reflected a reasonable view of the outturn for the UK economy. Consistent with 31 December 2021, the Group continues to apply a 5% weighting to upside, 50% to core, 30% to downside and 15% to stress scenarios.

The Group considered alternative sets of weightings. The most severe applied weightings of 45% Core and 35% Downside – this would result in a £1.9 million increase in ECL. The least severe applied weightings of 55% Core and 10% Stress - this would result in a £2.0 million decrease in ECL. These changes in weightings have been fully modelled and been allowed to impact staging.

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 9.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

3. Interest revenue

	Half-year to 30 June 2022 (unaudited)	Half-year to 30 June 2021 (unaudited)	Year to 31 December 2021 (audited)
	£m	£m	£m
Calculated using the effective interest rate method:			
Loans secured on residential property	**482.3**	437.2	912.3
Other loans	**11.1**	9.3	19.2
Liquid assets	**19.3**	2.3	4.8
On debt securities	**21.8**	12.2	26.4
Interest revenue calculated using the effective interest rate method	**534.5**	461.0	962.7
Other:			
Derivatives in hedge relationships	**34.6**	9.8	16.4
Derivatives not included in hedge relationships	**4.5**	8.8	14.4
Other interest revenue	**39.1**	18.6	30.8
Total interest revenue	**573.6**	479.6	993.5

4. Interest expense

	Half-year to 30 June 2022 (unaudited)	Half-year to 30 June 2021 (unaudited)	Year to 31 December 2021 (audited)
	£m	£m	£m
Shares held by individuals	**135.7**	105.3	218.0
Deposits from banks	**19.9**	1.8	4.4
Other deposits	**2.1**	0.1	0.2
Debt securities in issue	**29.9**	26.4	61.1
Subordinated liabilities	**15.3**	11.1	23.5
Derivatives in hedge relationships	**31.5**	69.1	134.6
Derivatives not included in hedge relationships	**4.6**	9.3	13.4
Interest expense for leasing arrangements	**0.4**	0.5	0.9
Total interest expense	**239.4**	**223.6**	**456.1**

5. Gains from financial instruments held at fair value

	Half-year to 30 June 2022 (unaudited)	Half-year to 30 June 2021 (unaudited)	Year to 31 December 2021 (audited)
	£m	£m	£m
Derivatives and debt securities not included in hedge relationships	**60.3**	8.5	30.2
Hedge accounting ineffectiveness	**(9.9)**	2.5	(3.6)
Equity investments held at fair value	**(0.2)**	0.4	0.1
Total net gains from financial instruments held at fair value	**50.2**	11.4	26.7

Derivatives and hedging

Hedge accounting attempts to match the gains and losses on derivatives against the items they are acquired to offset, however the income statement is still impacted by fair value gains and losses where the Group has either not achieved hedge accounting or the nature of the hedge relationship has given rise to ineffectiveness. The gain in the current year has been driven by market movements resulting from rising interest rates.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Impairment of financial assets

The following table splits the income statement impairment of financial assets into those elements impacting the ECL and other items.

	Half-year to 30 June 2022 (unaudited)	Half-year to 30 June 2021 (unaudited)	Year to 31 December 2021 (audited)
	£m	£m	£m
Impairment charge/(release) on loans and advances to customers	**0.5**	(5.6)	(18.5)
Recoveries relating to loans and advances previously written off	**0.2**	(0.6)	(1.0)
Impairment of other financial assets	**-**	0.2	0.3
Impairment charge/(release)	**0.7**	(6.0)	(19.2)

7. Movement in provisions

The provisions charge for the period is outlined below:

	Half-year to 30 June 2022 (unaudited)	Half-year to 30 June 2021 (unaudited)	Year to 31 December 2021 (audited)
	£m	£m	£m
Customer redress	**-**	(0.1)	0.1
Restructuring	**0.5**	0.2	2.0
Property related provision	**2.2**	0.3	0.4
Other	**-**	(0.2)	(0.2)
Total provisions charge	**2.7**	0.2	2.3

8. Tax expense

From 1 April 2023 the UK corporation tax rate will increase from 19% to 25%. This measure was substantively enacted on 24 May 2021 and deferred tax assets and liabilities at 30 June 2022, at 31 December 2021 and at 30 June 2021 have all been calculated based on the 25% rate.

From 1 April 2023 the banking surcharge will decrease from 8% (on taxable profits in excess of £25 million) to 3% (on taxable profits in excess of £100 million). This change was substantively enacted on 2 February 2022. Deferred tax assets and liabilities at 30 June 2022 have been calculated using a banking surcharge rate of 3%. At 31 December 2021 and at 30 June 2021, deferred tax assets and liabilities were calculated based on the 8% rate.

Where it is known that a temporary difference will reverse prior to 1 April 2023, a blended rate has been applied for both corporation tax and the banking surcharge as appropriate.

The Group has an effective tax rate of 23.5%, which is higher than the UK statutory corporation tax rate of 19%. This is mainly due to the 8% banking surcharge on the taxable profits of the Society above £25 million.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

9. Credit risk on loans and advances to customers

Gross contractual exposure
The table below splits the loans and advances to customers balance per the Consolidated Statement of Financial Position into its constituent parts and reconciles to the gross exposures used in the Expected Credit Losses ('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. Hedging is described in more detail in note 5. 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.

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 are considered to result 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 30 June 2022 are described below.

	30 June 2022 (unaudited)	30 June 2021 (unaudited)	31 December 2021 (audited)
	£m		£m
Gross contractual exposures	**44,265.9**	41,012.9	42,211.5
EIR	**49.9**	50.9	52.8
Hedging	**(906.0)**	89.0	(238.2)
Fair value rate adjustment	**(43.8)**	(57.2)	(49.2)
Gross loans and advances to customers	**43,366.0**	41,095.6	41,976.9
Impairment	**(26.7)**	(38.7)	(26.1)
Fair value credit adjustment	**(27.0)**	(30.1)	(28.4)
ECL	**(53.7)**	(68.8)	(54.5)
Loans and advances to customers	**43,312.3**	**41,026.8**	**41,922.4**

Analysis of changes in ECL
The following tables analyse the changes in ECL, split by impairment and fair value credit adjustments.

	Half-year to 30 June 2022 (unaudited)	Half-year to 30 June 2021 (unaudited)	Year to 31 December 2021 (audited)
	£m	£m	£m
Opening Impairment	**26.1**	43.9	43.9
Amounts written off in the period	**(0.4)**	(0.3)	(0.6)
Discounting recognised in net interest income	**0.5**	0.7	1.3
Charge/(release) for the year recognised in the income statement	**0.5**	(5.6)	(18.5)
Impairment	**26.7**	38.7	26.1

	Half-year to 30 June 2022 (unaudited)	Half-year to 30 June 2021 (unaudited)	Year to 31 December 2021 (audited)
	£m	£m	£m
Opening fair value credit adjustment	**28.4**	32.1	32.1
Release recognised in the income statement through net interest	**(1.3)**	(1.8)	(3.2)
Write-offs	**(0.1)**	(0.2)	(0.5)
Fair value credit adjustment	**27.0**	30.1	28.4

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

9. Credit risk on loans and advances to customers (continued)

ECL

Economic Scenarios
Accounting standards require ECL to be calculated by applying multiple economic scenarios. Each economic scenario is provided a weighting, and these are combined to arrive at the total ECL.

These scenarios are generated internally using external data, statistical methodologies, and senior management judgement, to span a range of plausible economic conditions. The Group continue to use four scenarios: an *upside* scenario that assumes more benign economic conditions; our *core* or central best estimate scenario; a more negative *downturn* scenario; and a worst-case *stress* scenario.

Scenarios are projected over a five-year window, reverting to long term averages past that point. The Group allows all macroeconomic scenarios to impact staging.

Current Macroeconomic Conditions
The UK economy grew in the first months of 2022 as activity rebounded from the Omicron-related dip at the end of 2021, but the post-Covid recovery in social consumption has now made way for the cost-of-living squeeze on consumer demand.

Russia's invasion of Ukraine has had a wide-ranging impact on a UK economy that was already starting to suffer from rising energy prices. Extensive economic sanctions have added to the mix of supply chain bottlenecks, exacerbating inflationary measures for consumers and businesses.

The Bank of England responded to rising inflation with a succession of rate rises, with the last one in June taking the interest rate to 1.25%. Further increases are anticipated before the end of the year.

Upside
This assumes continued sanctions lead to a softening in Russia's stance on Ukraine and the conflict is deescalated; measures to reduce inflation are highly effective; and vaccines continue to successfully negate the impact of all new Covid-19 variants.

After a strong performance in the second half of 2022, GDP 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 2.5% in 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 continued return to post-pandemic normality over the remainder of 2022 and that supply chain issues in China are resolved as their local lockdowns ease.

The initial economic shocks arising from Russia's invasion of Ukraine level off over time as western economies seek alternative sources to sanctioned Russian imports, particularly oil and gas, and global food supplies adjust to the loss of output from Ukraine.

Successive Bank Rate rises successfully bring inflation back to the Bank of England's 2% target and the UK Government's cost of living support packages help mitigate the impact of energy price rises on the most vulnerable consumers.

House Price Index (HPI)
Core expects both the supply of, and demand for, housing stock to normalise in 2022 with expectations of further interest rate rises this year and next year to dramatically slow recent growth in house prices. The steep rises in HPI growth seen in the first half of the year are forecasted to ease in the second half of 2022 and then revert to 2% from 2023.

Gross Domestic Product (GDP)
In this scenario GDP growth for 2022 has been revised down from 5.7% to 4.1%. This slowdown is driven by a fall in real household disposable income as, whilst there is strong nominal wage growth, this is eroded by rising inflation. However, GDP is not expected to fall any further as it is assumed that households use excess savings to finance spending.

Increased capital spending of cash stockpiled by large companies continues to be reflected, albeit partially offset with growing labour costs and component shortages. The UK economy returns to near its pre-pandemic level in late 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 job market even with rising job vacancies).

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 to 4.1% by the end of 2022 and a gradual increase to 4.5% by 2025 as labour supply expands.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

9. Credit risk on loans and advances to customers (continued)

ECL (continued)

Economic Scenarios (continued

Downturn

The downturn scenario assumes that the war in Ukraine continues to rumble on, with a longer lasting impact on energy and food supplies, and intermittent waves of Covid-19 outbreaks and lockdowns in China further impact supply chain issues. These geo-political tensions keep inflation high and, although Bank Rate is reduced to 0.5%, unemployment accelerates and earnings growth falls behind inflation, reducing spending power.

In addition, the emergence of new Covid-19 variants resistant to current vaccines result in spikes in hospitalisations and fatalities. Delays in the rollout of effective boosters forces the UK Government to reintroduce local and national restrictions to ease the pressure on the healthcare system. In the absence of direct government support, non-essential sectors are restricted from trading, with the economy and consumer confidence continuing to take a hit.

HPI

A combination of a rapid rise in unemployment, falling real earnings and a collapse in consumer confidence drives house prices down over the remainder of 2022 and by a further 5% in 2023, with no recovery in values until 2025. A rise in repossessions drives down valuations further.

GDP

GDP contracts over the second half of 2022, falls by 5.1% in 2023 but starts to grow slowly at 1.3% in 2024 as the restrictions lift. Global supply chain issues ease and the economy recovers as producer demand for raw materials grows. However, with weakness in the labour markets, declining real earnings and low demand/business investment, downturn forecasts growth rates of only 1.5% for 2025 and 2026.

Unemployment

With high inflation and increasing wage demand pressure, businesses start to let staff go. In the absence of government backed income support schemes for non-essential sectors, unemployment starts to accelerate to a peak of 8.8%. As recovery sets in, unemployment gradually starts to fall, although to a level still high by recent standards.

Stress

The war in Ukraine escalates leading to a complete breakdown in relations between Russia and the West. This is exacerbated by worsening relations with China placing increasing pressure on already stretched global supply chains. Business began to retrench operations, diverting investment from productivity and growth plans. Increased tensions between the EU and the UK put into doubt the workability of the 2020 trade agreement, increasing uncertainty in the business sector, again reducing investment, hiring and growth.

Domestically, a virulent new strain of Covid-19 requires the UK government to reimpose strict public health measures with a national lockdown in winter 2022 and wider local restrictions for much of early 2023. An updated booster vaccine emerges in early 2023 but supply chain and production issues mean it is not widely available until late 2023.

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 0.1, 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. The government embarks on its deficit reduction strategies in 2023, taking demand out of the economy through higher taxes and spending cuts. This adds further stress to household finances and consumer spending in addition to the high level of unemployment.

This scenario also 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.

This results in a less pronounced GDP fall in 2023 than the downturn scenario but leads to a more prolonged recession.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

9. Credit risk on loans and advances to customers (continued)

ECL (continued)

Economic Scenarios (continued)
The following table shows the 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.

Note that, in itself, inflation is not a key input parameter into the models and, as such, the risks arising from sharply rising inflation, and the impact this has on customers' ability to meet mortgage repayments, are not directly captured. See the *Affordability* post model adjustment below for details on how this risk has been assessed and incorporated into the ECL.

	June 2022 Scenario (unaudited)					December 2021 Scenario (audited)				
	2022	**2023**	**2024**	**2025**	**2026**	2022	2023	2024	2025	2026
HPI										
Upside	**11.0**	**3.0**	**2.5**	**2.5**	**2.5**	4.0	3.0	3.0	2.0	2.0
Core	**8.4**	**2.0**	**2.0**	**2.0**	**2.0**	1.2	2.0	2.0	2.0	2.0
Downturn	**(7.7)**	**(5.0)**	**-**	**1.5**	**2.0**	(12.7)	(5.0)	-	1.5	2.0
Stress	**(8.1)**	**(10.5)**	**(5.0)**	**-**	**-**	(13.0)	(10.5)	(5.0)	-	1.0
GDP										
Upside	**6.3**	**2.1**	**2.0**	**2.0**	**2.0**	6.3	2.1	2.0	2.0	2.0
Core	**4.1**	**1.8**	**1.6**	**1.6**	**1.6**	5.9	1.8	1.6	1.6	1.6
Downturn	**(5.7)**	**(5.1)**	**1.3**	**1.5**	**1.5**	(5.6)	(5.0)	1.3	1.5	1.5
Stress	**(5.1)**	**(2.0)**	**(0.7)**	**-**	**-**	(5.1)	(2.0)	(0.7)	-	-
Unemployment										
Upside	**3.9**	**3.8**	**3.8**	**3.8**	**3.8**	4.3	4.3	4.2	4.1	4.1
Core	**4.3**	**4.4**	**4.4**	**4.5**	**4.5**	4.7	4.7	4.5	4.4	4.4
Downturn	**7.0**	**8.8**	**7.8**	**7.5**	**7.0**	7.0	8.8	7.8	7.5	7.0
Stress	**8.4**	**11.2**	**10.0**	**8.3**	**7.3**	10.0	11.9	9.0	8.0	7.0
Bank Rate										
Upside	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	0.5	0.8	0.8	0.8	0.8
Core	**2.0**	**2.3**	**2.0**	**1.5**	**1.5**	0.5	0.8	0.8	0.8	0.8
Downturn	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	-	-	-	-	-
Stress	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	-	-	-	-	-

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:

	30 June 2022 (unaudited)		31 December 2021 (audited)	
	Weighted	ECL	Weighted	ECL
Scenario	**%**	**£m**	%	£m
Upside Scenario	**5**	**32.7**	5	29.7
Core Scenario	**50**	**33.8**	50	30.9
Downturn Scenario	**30**	**71.5**	30	74.9
Stress Scenario	**15**	**91.4**	15	100.5
Probability weighted ECL	**100**	**53.7**	100	54.5

The relative weighting of the scenarios has not changed since 2021 year end but this will continue to be monitored during the second half of the year.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

9. Credit risk on loans and advances to customers (continued)

ECL (continued)

Post Model Adjustments
Post model adjustments ('PMA') are applied when an increase in credit risk is identified that is not effectively captured in the core expected credit loss models. A rigorous review of the 2021 year end PMAs has been performed to determine whether the identified risks are still applicable. Changes in credit risk not deemed to be captured in the underlying models resulting from the spike in inflation have also been assessed and an *affordability* PMA included to reflect this.

The PMAs applied at 30 June 2022 are as follows:

	30 June 2022 (unaudited)	31 December 2021 (audited)
	£m	£m
Affordability	5.7	-
Methodology changes	5.5	6.4
Model recalibration	1.2	1.4
Extended time to sale	1.1	2.2
Cladding	1.2	1.3
Uncertainty	3.6	3.6
Total PMA	18.3	14.9

Affordability
Inflation is not a direct input into the underlying ECL models and, as such, does not have a direct influence on the output. Secondary impacts on other measures such as house prices will eventually feed into the model but there is an element of short-term insensitivity, particularly in a period of high inflation.

As a result, a new post model adjustment has been applied for half year to reflect the risks of rising inflation, and its impact on customers' ability to meet repayments on their mortgage, not captured in the underlying ECL models.

Although the lending undertaken by YBS Group is risk-averse, with a significant amount of affordability assessment undertaken as part of the decision to advance mortgage loans, there are several segments of the mortgage book that are likely to be at greater risk of affordability due to the cost of living pressures.

The PMA was established using the following factors:

- The core modelled population was broken down by several risk drivers within the book and all accounts which meet at least three of these at-risk criteria were reallocated to Stage 2.
- Further consideration was given to affordability levels of the mortgage book by applying a stress to the monthly expenditure amounts in their affordability calculation. With affordability only measured at application stage, additional considerations were applied to earnings, indexing using UK wage growth since completion.

The accounts reallocated from stage 1 to stage 2 per the first point above accounted for £642.5 million of gross exposures and £1.9 million of the PMA. The element relating to stress on monthly expenditure remaining in stage 1 amounted to £8,569.8 million of gross exposure and the remaining £3.8m of the PMA.

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 not be updated to reflect these changes until the second half of 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, and potentially to a higher risk PD model.
- to 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.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

9. Credit risk on loans and advances to customers (continued)

ECL (continued)

Post Model Adjustments (continued)

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 repossessions, and this remained in place until April 2021. This 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 adjusted 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.

Subsequent to 31 December 2021, a review of the repossession activity was performed, and it was determined that this could now be reduced to a 6 month extension as it was showing signs of improving. This change has resulted in a £1.1 million release.

This PMA will continue to be monitored and is expected to be fully 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 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.

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 the PMA will be considered once a final agreed position between a government and the industry is reached.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

9. 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 YBS 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.

House Price Volatility
This PMA has been raised in response to recent significant growth in house prices and, in particular, the limitations of the underlying models to cope with the HPI being applied at regional level. In a 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 is 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 2021 Annual Report and Accounts) 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.

Buy-to-Let ('BTL')
This PMA was a response to the increasing level of risk and uncertainty in BTL sector with the gradually phased in increases in tax rates to landlords starting to impact market behaviour. Furthermore, whilst there had not been an increase in BTL defaults over the preceding 12 months, it was assumed that this had been due to landlords meeting mortgage obligations by means other than rental and there was a latent risk that defaults were masked behind the lack of arrears.

Although the increase in credit risk is still appropriate given the current climate, the *methodology changes* and *affordability* PMAs have been deemed to provide sufficient coverage of this risk.

As a result, this PMA was fully released at 30 June 2022.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

9. Credit risk on loans and advances to customers (continued)

ECL (continued)

Staging and POCI

The tables below shows the staging of loans and advances plus assets considered to be purchased or originated credit impaired ('POCI') recognised as part of the acquisitions of Norwich & Peterborough Building Society ('N&P') and Chelsea Building Society ('CBS'). The discount on acquisition is recognised as the fair value credit adjustment.

The Group has £415.6 million of POCI loans. Of these, 88% are now considered performing loans but are not permitted to be reclassified to stage 1 or 2. *Problem loans* represent the total of the Group's stage 3 balances and the non-performing portion of our POCI loans.

	30 June 2022 (unaudited)		31 December 2021 (audited)	
	£m	%	£m	%
Gross exposures by stage				
Stage 1	**38,949.2**	**88.0**	37,614.0	89.1
Stage 2	**4,558.6**	**10.3**	3,791.2	9.0
Stage 3	**342.5**	**0.8**	366.2	0.9
POCI	**415.6**	**0.9**	440.1	1.0
Total gross exposures	**44,265.9**	**100.0**	42,211.5	100.0
Problem loans (stage 3 plus non-performing POCI)	**393.5**	**0.9**	423.7	1.0
ECL and coverage ratio by stage				
Stage 1	**9.7**	**-**	5.6	-
Stage 2	**17.6**	**0.4**	17.5	0.5
Stage 3	**11.5**	**3.4**	15.4	4.2
POCI	**14.9**	**3.6**	16.0	3.6
Total ECL	**53.7**	**0.1**	54.5	0.1

The following table shows the staging split by days overdue.

	Gross Exposure		ECL	
	30 June 2022 (unaudited)	31 December 2021 (audited)	30 June 2022 (unaudited)	31 December 2021 (audited)
	£m	£m	£m	£m
Stage 1	**38,949.2**	37,614.0	**9.7**	5.6
Stage 2:				
Less than 30 days past due	**4,469.6**	3,700.0	**16.2**	16.3
More than 30 days past due	**89.0**	91.2	**1.4**	1.2
Stage 3:				
Less than 30 days past due	**170.5**	183.6	**3.6**	4.9
30-90 days past due	**57.8**	57.3	**1.2**	1.6
More than 90 days past due	**114.2**	125.3	**6.7**	8.9
POCI:				
Less than 30 days past due	**374.3**	392.7	**11.8**	12.5
30-90 days past due	**24.0**	26.5	**1.2**	1.3
More than 90 days past due	**17.3**	20.9	**1.9**	2.2
Total	**44,265.9**	42,211.5	**53.7**	54.5

All accounts in stage 1 are less than 30 days past due.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

9. Credit risk on loans and advances to customers (continued)

Risk Assessment
The following tables are included to give an overview of the Group's credit risk.

Lending by Risk Grade

	30 June 2022 (unaudited)						31 December 2021 (audited)
	Gross Exposure					ECL	Gross Exposure
	Stage 1	Stage 2	Stage 3	POCI	Total		
Probability of default range	£m	£m	£m	£m	£m	£m	£m
0.00%-<0.15%	31,537.0	2,776.3	-	-	34,313.3	1.9	32,958.3
0.15%-<0.25%	526.2	148.2	-	-	674.4	0.7	794.0
0.25%-<0.50%	295.1	281.3	-	-	576.4	0.7	552.6
0.50%-<0.75%	293.2	325.7	-	-	618.9	0.8	631.4
0.75%-<1.00%	136.3	190.7	-	-	327.0	0.9	337.1
1.00%-<2.50%	245.9	390.3	-	-	636.2	4.0	657.1
2.50%-<10.0%	32.3	142.3	-	-	174.6	2.4	181.5
10.0%-<100%	1.1	102.2	-	-	103.3	1.9	95.5
Default	-	-	342.5	51.0	393.5	12.1	423.6
Other*	5,882.1	201.6	-	364.6	6,448.3	28.3	5,580.4
Total	38,949.2	4,558.6	342.5	415.6	44,265.9	53.7	42,211.5

* Other includes Accord BTL, Registered Social Landlords, Commercial Lending and POCI accounts.

Lending by origination year

	30 June 2022 (unaudited)						31 December 2021 (audited)	
	Gross Exposure					ECL	Gross Exposure	ECL
	Stage 1	Stage 2	Stage 3	POCI	Total			
Origination year	£m	£m	£m	£m	£m	£m	£m	£m
2022	4,612.7	182.6	0.7	-	4,796.0	2.4	-	-
2021	9,351.9	383.3	17.8	-	9,752.9	5.0	10,143.8	4.2
2020	5,663.4	320.2	20.8	-	6,004.4	3.0	6,368.6	2.5
2019	4,717.4	351.2	28.1	-	5,096.7	2.9	5,515.4	2.8
2013 - 2018	12,012.1	1,572.2	72.3	-	13,656.6	7.9	14,840.2	7.5
2009 - 2012	827.0	345.0	8.2	-	1,180.2	0.6	1,278.8	0.5
Pre-2009	815.2	806.8	118.1	-	1,740.1	6.8	1,880.6	8.7
Acquired loans	949.5	597.3	76.5	415.6	2,039.0	25.1	2,184.1	28.3
Total	38,949.2	4,558.6	342.5	415.6	44,265.9	53.7	42,211.5	54.5

Lending by Loan to Value

	30 June 2022 (unaudited)					31 December 2021 (audited)
	Gross Exposure					Gross Exposure
	Stage 1	Stage 2	Stage 3	POCI	Total	
Loan-to-value	£m	£m	£m	£m	£m	£m
Less than 60%	18,317.5	3,179.1	226.7	335.2	22,058.5	19,690.6
60% to 75%	13,724.7	974.3	94.6	65.1	14,858.7	13,583.3
75% to 90%	6,690.9	389.2	17.4	9.3	7,106.8	8,485.0
90% or greater	216.1	16.0	3.8	6.0	241.9	452.6
Total	38,949.2	4,558.6	342.5	415.6	44,265.9	42,211.5
Average LTV (%)	50.4	34.7	41.6	43.2	48.2	49.6

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

9. 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 stage.

	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Gross exposure at 31 December 2021	37,614.0	3,791.2	366.2	440.1	42,211.5
Transfers from stage 1 to 2	(1,484.1)	1,484.1	-	-	-
Transfers from stage 1 to 3	(20.1)	-	20.1	-	-
Transfers from stage 2 to 1	619.2	(619.2)	-	-	-
Transfers from stage 2 to 3	-	(40.4)	40.4	-	-
Transfers from stage 3 to 1	17.5	-	(17.5)	-	-
Transfers from stage 3 to 2	-	32.0	(32.0)	-	-
Changes to carrying value	(1,044.0)	130.1	(0.1)	(3.2)	(917.2)
New financial assets originated or purchased	5,211.0	-	-	-	5,211.0
Financial assets derecognised during the period	(1,964.3)	(219.2)	(33.0)	(21.0)	(2,237.5)
Write-offs	-	-	(1.6)	(0.3)	(1.9)
Gross exposure at 30 June 2022	**38,949.2**	**4,558.6**	**342.5**	**415.6**	**44,265.9**
ECL at 31 December 2021	5.6	17.5	15.4	16.0	54.5
Transfers from stage 1 to 2	(0.1)	1.7	-	-	1.6
Transfers from stage 1 to 3	(0.1)	-	0.6	-	0.5
Transfers from stage 2 to 1	0.2	(1.6)	-	-	(1.4)
Transfers from stage 2 to 3	-	(0.5)	1.0	-	0.5
Transfers from stage 3 to 1	0.1	-	(0.4)	-	(0.3)
Transfers from stage 3 to 2	-	0.4	(0.6)	-	(0.2)
Changes in PDs/LGDs/EADs	(0.8)	2.4	0.4	(0.2)	1.8
New financial assets originated or purchased	1.2	-	-	-	1.2
Changes to model assumptions and methodologies	(0.6)	(2.4)	(1.7)	(0.2)	(4.9)
Unwind of discount	-	-	0.2	0.3	0.5
Financial assets derecognised during the period	(0.1)	(0.7)	(1.3)	(0.9)	(3.0)
Write-offs	-	-	(0.4)	(0.1)	(0.5)
PMA	4.3	0.8	(1.7)	-	3.4
ECL at 30 June 2022	**9.7**	**17.6**	**11.5**	**14.9**	**53.7**

Loans Purchased Credit Impaired (POCI)
The table below shows the status of the Group's POCI loans. A substantial proportion of POCI balances, were they not required to classified as stage 3 by accounting standards, would transfer to other stages. The table below shows that 71.4% (2021: 70.4%) of balances have been fully up to date for the last 24 months and only 12.3% (2021: 13.1%) of balances would be classified as in default.

	Up to date for the last 24 months	Some arrears in the last 24 months	Meets definition of default	Total
	£m	£m	£m	£m
At 30 June 2022 (unaudited)				
Gross Exposure	**296.9**	**67.7**	**51.0**	**415.6**
ECL	**8.1**	**3.7**	**3.1**	**14.9**
At 31 December 2021 (audited)				
Gross Exposure	309.8	72.8	57.5	440.1
ECL	8.8	4.0	3.2	16.0

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

10. Retirement benefit obligations

	30 June 2022 (unaudited)	30 June 2021 (unaudited)	31 December 2021 (audited)
	£m	£m	£m
Present value of defined benefit retirement obligations	**(696.4)**	(907.5)	(928.2)
Assets at fair value	**787.3**	1,002.3	1,049.0
Funded status/defined benefit asset/(liability)	**90.9**	94.8	120.8

The present value of the defined benefit obligations as at 30 June 2022 has been derived applying the same methodology as that used at 31 December 2021.

Corporate bond yields have increased over the first half of 2022, which has the effect of increasing the discount rate and decreasing liabilities. Actual inflation has been higher than expected and this has served to increase the liabilities, all else being equal. Future long-term expectations of inflation have reduced slightly over the first half of the year. There has been a reduction in the amount of benefits transferred out of the Scheme, with transfers paid out totalling £0.04 million over the half year to 30 June 2022, compared with around £3.5 million over the half year to 30 June 2021. As per previous years, these transfers have been reflected in the liabilities.

Asset returns over the first half of the year have been less than the discount rate. While this has been largely offset by the decrease in liabilities over the half year, the overall result is a weakening in the funding position by £29.9m.

11. Related parties

There have been no material changes to related parties and the associated related party transactions since the year end. For further information on these see pages 236 to 238 of the 2021 Annual Report and Accounts.

12. Notes to the consolidated statement of cash flows

	Half-year to 30 June 2022 (unaudited)	Half-year to 30 June 2021 (unaudited)	Year to 31 December 2021 (audited)
	£m	£m	£m
Depreciation and amortisation	**10.9**	11.5	22.7
Loss/(profit) on sale of assets	**-**	(0.1)	(2.5)
Interest on subordinated liabilities	**15.3**	11.1	23.5
Impairment charge/(release)	**0.7**	(6.0)	(19.2)
Provisions charge	**2.7**	0.2	2.3
Non-cash movement in subordinated liabilities	**(54.8)**	(14.1)	(37.3)
(Gain)/loss on realisation of debt securities	**(2.4)**	(0.4)	(0.8)
(Increase) in cash ratio deposit, other assets and non-OCI element of retirement benefit surplus	**(12.2)**	(21.5)	(37.2)
Cash movements in other liabilities and provisions	**(6.7)**	(6.5)	3.0
Adjustments to profit before tax	**(46.5)**	(25.8)	(45.5)
Net change in operating assets			
Non-impairment change in loans and advances to customers	**(1,390.6)**	(2,222.2)	(3,104.6)
Investments	**0.2**	(0.4)	8.2
Non-OCI elements of derivative financial assets	**(956.3)**	108.4	(59.0)
	(2,346.7)	(2,114.2)	(3,155.4)
Net change in operating liabilities			
Shares	**2,232.6**	1,821.7	2,138.1
Amounts owed to credit institutions	**479.8**	117.7	2,252.9
Non-cash movements on debt securities in issue	**(99.5)**	(210.0)	(295.8)
Other deposits	**249.8**	(63.1)	337.8
Derivative financial liabilities	**194.6**	(119.3)	(218.2)
	3,057.3	1,547.0	4,214.8

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

12. Notes to the consolidated statement of cash flows (continued)

The following tables reconcile liabilities arising from financing activities.

Liabilities from financing activities	Brought forward (audited)	Cash flows		Non-cash			Carried forward (unaudited)
		Redemption	Issue	Foreign exchange	Accrued interest	Fair value adjustments	
Period to 30 June 2022	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities in issue	5,890.9	**(417.5)**	**635.0**	**102.9**	**(3.1)**	**(199.3)**	**6,008.9**
Subordinated liabilities	857.7	**-**	**300.0**	**-**	**4.8**	**(59.6)**	**1,102.9**
Total	6,748.6	**(417.5)**	**935.0**	**102.9**	**1.7**	**(258.9)**	**7,111.8**
Period to 30 June 2021							
Debt securities in issue	6,128.3	(660.1)	475.6	(166.0)	(12.9)	(31.1)	5,733.8
Subordinated liabilities	645.0	-	-	-	0.9	(15.0)	630.9
Total	6,773.3	(660.1)	475.6	(166.0)	(12.0)	(46.1)	6,364.7
Year to 31 December 2021							
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
Total	6,773.3	(1,365.6)	1,674.0	(228.8)	(5.3)	(99.0)	6,748.6

Cash and balances with central banks
Cash and cash equivalents excludes cash ratio deposits of £163.8 million held with the Bank of England, which are not available for use in the Group's day-to-day operations.

13. Fair values

Fair value is the price that would be received on the sale of 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).

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

13. Fair values (continued)

The table below summarises the carrying value and fair value of financial assets and liabilities measured at amortised cost as at the Statement of Financial Position date.

Held at amortised cost	Carrying value	Fair Values			Total fair value
		Level 1	Level 2	Level 3	
30 June 2022 (unaudited)	**£m**	**£m**	**£m**	**£m**	**£m**
Assets					
Loans and advances to credit institutions	**617.8**	**-**	**617.8**	**-**	**617.8**
Loans and advances to customers	**43,312.3**	**-**	**-**	**43,891.9**	**43,891.9**
Debt securities - amortised cost	**980.0**	**949.8**	**-**	**-**	**949.8**
Liabilities					
Shares	**37,739.0**	**-**	**37,662.4**	**-**	**37,662.4**
Amounts owed to credit institutions	**6,569.6**	**-**	**6,569.6**	**-**	**6,569.6**
Other deposits	**1,123.3**	**-**	**1,123.3**	**-**	**1,123.3**
Debt securities in issue	**6,008.9**	**6,428.7**	**783.8**	**-**	**7,212.5**
Subordinated liabilities	**1,102.9**	**1,029.8**	**35.9**	**-**	**1,065.7**
30 June 2021 (unaudited)					
Assets					
Loans and advances to credit institutions	1,095.5	-	1,095.5	-	1,095.5
Loans and advances to customers	41,026.8	-	-	41,151.2	41,151.2
Debt securities - amortised cost	562.8	562.8	-	-	562.8
Liabilities					
Shares	35,190.0	-	35,194.4	-	35,194.4
Amounts owed to credit institutions	3,954.6	-	3,954.6	-	3,954.6
Other deposits	472.6	-	472.6	-	472.6
Debt securities in issue	5,733.8	4,808.0	991.0	-	5,799.0
Subordinated liabilities	630.9	621.6	41.8	-	663.4
31 December 2021 (audited)					
Assets					
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
Liabilities					
Shares	35,506.4	-	35,475.4	-	35,475.4
Amounts owed 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

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

13. Fair values (continued)

The table below classifies all financial instruments held at fair value according to the method used to establish the fair value.

Held at fair value	Fair Values			Total fair value
	Level 1	Level 2	Level 3	
30 June 2022 (unaudited)	**£m**	**£m**	**£m**	£m
Debt securities - fair value through income statement	**26.3**	**-**	**-**	**26.3**
Debt securities - fair value through other comprehensive income	**4,204.1**	**-**	**-**	**4,204.1**
Derivative financial assets	**-**	**1,444.6**	**17.3**	**1,461.9**
Investments	**-**	**-**	**5.2**	**5.2**
Derivative financial liabilities	**-**	**(467.0)**	**(0.3)**	**(467.3)**
30 June 2021 (unaudited)				
Debt securities - fair value through income statement	26.6	-	-	26.6
Debt securities - fair value through other comprehensive income	3,186.8	-	-	3,186.8
Derivative financial assets	-	308.0	-	308.0
Investments	8.3	-	5.7	14.0
Derivative financial liabilities	-	(358.7)	(12.9)	(371.6)
31 December 2021 (audited)				
Debt securities - fair value through income statement	28.6	-	-	28.6
Debt securities - fair value through other comprehensive income	3,255.4	-	-	3,255.4
Derivative financial assets	-	487.2	3.7	490.9
Investments	-	-	5.4	5.4
Derivative financial liabilities	-	(265.3)	(7.4)	(272.7)

Level 3 instruments

Derivative financial instruments within Level 3 are interest rate swaps held in some of the Group’s securitisation entities. 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. A sensitivity to the individual Level 3 parameters has not been disclosed given the minimal impact these inputs have on the Group’s income statement.

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 to reflect the illiquidity of the stock and risks to the actual conversion rate at exercise. 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.

Details of valuation techniques are disclosed on pages 234 to 235 of the 2021 Annual Report and Accounts.

14. Events occurring after the end the reporting period

There have been no material post balance sheet events between 30 June 2022 and the approval of the condensed interim financial statements.

Responsibility Statements

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with UK-adopted International Accounting Standard 34 *Interim Financial Reporting*; and
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year).

By order of the Board

Alasdair Lenman Interim Chief Executive Officer	Rob Purdy Interim Chief Finance Officer

26 July 2022

Independent review report to Yorkshire Building Society

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Yorkshire Building Society's condensed consolidated interim financial statements (the "interim financial statements") in the Half-Yearly Financial Report of Yorkshire Building Society for the 6 month period ended 30 June 2022 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the Consolidated Statement of Financial Position as at 30 June 2022;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period then ended;
- the Consolidated Statement of Cash Flows for the period then ended;
- the Consolidated Statement of Changes in Members' Interest and Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Half-Yearly Financial Report of Yorkshire Building Society have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Half-Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the *Basis for conclusion* section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with this ISRE. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Half-Yearly Financial Report, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Half-Yearly Financial Report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the Half-Yearly Financial Report, including the interim financial statements, the directors are responsible for assessing the group'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 or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the Half-Yearly Financial Report based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the Society for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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
Leeds
26 July 2022

Other information

The information set out in this document is unaudited and does not constitute accounts within the meaning of section 73 of the *Building Societies Act 1986*. The financial information for the year ended 31 December 2021 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2021 have been filed with the Financial Conduct Authority.

The Auditor's report on the Annual Accounts was unqualified and did not include any matters to which the Auditor drew attention by way of emphasis without qualifying their report.

A copy of the Half-Yearly Financial Report is placed on Yorkshire Building Society's website. The directors are responsible for the maintenance and integrity of the information on the website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.