TOGETHER

we are building a better society

YORKSHIRE BUILDING SOCIETY

YORKSHIRE BUILDING SOCIETY

Annual Report and Accounts 2019


YOU ARE PART OF
SOMETHING BIGGER

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Our strategy is built around our purpose of providing Real Help with Real Life. For us, that means delivering against our long-term goals in three areas.

PERFORMANCE

Member value

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

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

Statutory Profit before tax

£167m

£193m in 2018

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

Core Operating Profit[1]

£185m

£181m in 2018

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

Cost to core income ratio[1]

60%

63% in 2018

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

Common Equity Tier 1 ratio

16.6%

16.3% in 2018

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

Liquidity ratio

13.8%

13.9% in 2018

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

Leverage ratio

5.8%

5.8% in 2018

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

Average savings rate paid

1.09%

0.34% above the market average of 0.75%[2]

This equates to more than £95m of benefit given back to our members.

Net Promoter Score (NPS™)[3]

+51

+41 in 2018

This measures how willing our customers are to recommend us to others and we have seen improvements across most products and channels.

Carbon footprint[4]

-17%

-16% in 2018

This shows how much we have reduced our carbon emissions year on year.

[1] Detail about core operating profit can be found on page 49 and definitions of alternative performance measures are provided on pages 230 to 233.

[2] YBS Group average savings rate compared to rest of market average rates based on savings stock from CACI's Current Account and Savings Database (CSDB). Data period January - November 2019.

[3] KPMG Nunwood Customer Voice Programme, January – December 2019. Based on 14,566 completed interviews with customers. Net Promoter score and NPS are trademarks of Satmetrix Systems, Inc. Bains & Company Inc., and Fred Reichheld.

[4] All YBS Carbon Emission data has been verified by Ricardo AEA Limited. A full breakdown of our carbon footprint can be found on page 222.

AT A GLANCE

Place to call home

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

This includes people choosing us to be their mortgage provider, people renting from our customers who are buy-to-let landlords, people living in housing association accommodation we have funded, or even young people receiving our support through our partnership with End Youth Homelessness.

"We have set ourselves an ambition to help 500,000 people have a place to call home over the next few years."

Gross lending

£7.9bn

£8.9bn in 2018

Retention improvements meant lower lending to ensure sustainable levels of growth.

Gross mortgage market share

2.9%[5]

3.3% in 2018

This reflects our share of all mortgage lending in the UK housing market.

Mortgage balances have grown by

3.5%

4.7% in 2018

We use the interest from our mortgages to give back to our savers and invest for the future.

Financial wellbeing

We are here to help people towards greater financial wellbeing.

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

"We have set ourselves an ambition to support 500,000 people towards greater financial wellbeing over the next few years."

Savings accounts opened

243,000

197,000 in 2018

Helping thousands of our members save for the future.

Savings market share

1.96%[6]

1.97% in 2018

This reflects our share of the UK savings market.

Retail savings balances

£30.7bn

£29.6bn in 2018

We use this to fund the mortgages we offer to our customers.

5 Bank of England total industry gross lending in 2019.

6 Based on analysis of BSA deposits Held by Households in 2019.

PERFORMANCE

Awards

"We are delighted that our customers and industry professionals continue to recognise our hard work, as shown by the number and calibre of awards that we have won this year".

Mike Regnier
Chief Executive

Customer Awards	Accolade
Moneynet Personal Finance Awards	Best Building Society Savings Provider
Moneynet Personal Finance Awards	Best Overall Mortgage Provider
Moneynet Personal Finance Awards	Best First-Time Buyer Mortgage Provider
Moneynet Personal Finance Awards	Best Offset Mortgage Provider
Moneyfacts Consumer Money Awards 2019	First-Time Mortgage Buyers' Choice Award
Moneyfacts Awards 2019	Best Building Society Mortgage Provider
Mortgage Strategy Awards 2019	Best Mortgage Lender
Mortgage Advice Bureau Awards 2019	Best Lender for Relationship
Moneywise Mortgage Awards 2019	Best Lender for Discounted Mortgages
Business Moneyfacts Awards 2019	Best Commercial Mortgage Provider

Yorkshire Building Society CEO Mike Regnier at the National Centre for Diversity Grand Awards 2019.

AT A GLANCE

People Awards	Accolade
Fairer Finance	Gold Ribbon for Savings Customer Experience
TMA Awards	Best Customer Service 2019
Mortgage Finance Gazette Awards 2019	Leadership Award
Mortgage Finance Gazette Awards 2019	Customer Service/ Treating Customers Fairly - lenders
Financial Adviser Service Awards 5* Awards 2020	5* lender
UK Complaint Handling Awards 2019	Gold Winner for Most Efficient Complaint Handling
National Centre for Diversity Grand Awards	Managing Director/ Chief Executive of the Year
National Centre for Diversity Grand Awards	Diversity Steering Group of the Year
National Centre for Diversity Grand Awards	Employee of the Year
REBA Employee Wellbeing Awards	Employee Wellbeing Award: Financial
REBA Employee Wellbeing Awards	Mental Wellbeing (fewer than 5,000 employees)
Working Families	Top 30 Employer for Working Families
Inclusive Companies	Placed in the Inclusive Top 50 UK Employers List

Above: The Society picked up the First-Time Mortgage Buyers Choice Award at the Moneyfacts Consumer Money Awards 2019.

Above: The Society collected the Employee Wellbeing Award at the REBA Employee Wellbeing Awards 2019.

CHAIRMAN'S WELCOME

JOHN HEAPS

Providing Real Help with Real Life

I am pleased to present our 2019 Annual Report and Accounts. Once again I am able to report a good set of financial results and excellent progress against our strategic plan, despite challenging trading conditions in the market.

As well as reporting on our financial performance, we have expanded the report to incorporate more information on how our activities impact our broader set of stakeholders.

The report focuses on the ways that we create value for all of our stakeholders, including our members, customers, colleagues, wholesale investors and communities.

Our purpose and strategy

For the past 155 years, our purpose has been to help people with the major financial decisions in life. Although the world has changed enormously since our establishment in 1864, our purpose has remained the same. In 2019, we conducted the largest and most detailed stakeholder engagement exercise in our history. This consultation identified the three key ambitions around which our strategy would be centred. These are: creating long-term value for our members, helping people to have a place to call home and supporting people towards greater financial wellbeing. We believe that striving for these ambitions is how we can make the biggest contribution to society. We call this Real Help with Real Life.

Being a mutual organisation allows us to put our members and customers at the centre of what we do. It is important to us that our objectives serve their best interests, which is why we focus on offering consistently competitive mortgage and savings rates and products which are targeted towards their needs.

We aim to do this while delivering the high standard of service our customers deserve and ensuring that we remain financially sustainable over the longer term.

External factors

The environment in which we operate influences our performance and can provide us with opportunities as well as challenges. In order to maintain a strong and healthy organisation in the long term we need to respond to these appropriately.

This year, we have seen a continuation of strong competition in the market for mortgages. The introduction of the ring-fencing regulation resulted in some of the large banks having significant amounts of surplus liquidity, which some have subsequently begun to use to fund mortgage lending. This also has the effect of keeping savings rates low, as their need to attract savings deposits is reduced. The low Bank Rate has also contributed to this difficult environment for savers.

There are also broader challenges for our economy. There has been a change in political leadership in 2019, as well as uncertainty linked to the exit of the UK from the

European Union (EU). Although we do not anticipate any significant direct impact, this uncertainty may continue to affect corporate investment plans across a range of industries.

Regulatory factors

Several regulatory changes have impacted our Society this year – **the most significant of which include:**

- The second Payment Services Directive (PSD2) and Open Banking, which required those financial institutions with payment accounts to open up their data and functionality to third parties.

  We are well placed in our compliance with this new regulation and have delivered significant changes to our online services in 2019 to meet the new requirements. Throughout 2020, we will look to improve the customer experience and also consider ways of providing our customers with new propositions to take advantage of this new functionality.

- The Minimum Requirement for Own Funds and Eligible Liabilities (MREL) also starts to come into force from 2020. This regulation prescribes the level of capital we are required to hold. In 2019, we achieved the level of capital required for the final-state requirements for MREL, which removes the need for us to enter into any transitional arrangements allowable by the Prudential Regulation Authority in the period through to 2022.

Corporate Governance

As Chairman, a key responsibility of mine is to ensure that our Society is secure in its position and has robust controls in place to remain so for years to come. I make sure that we are a well-run organisation, lead our Board and ensure that it is operating effectively. We work to the highest standards of corporate governance and will continue our commitment to do so in 2020. This will support the long-term success of the Society, to the benefit of our current and future members, customers, colleagues and all other stakeholders.

I am pleased to note that this year has been a period of stability in terms of our Board membership, helping us to remain focused on delivering our strategy. Finally, I would like to thank our colleagues for their hard work and commitment to serving our members which has produced such good results in terms of our Net Promoter Score as well as our financial performance.

John Heaps,
Chairman

26 February 2020

We are owned by our members who are also our customers, which means we are able to act in our customers' interests. We want to help them to navigate this difficult environment and achieve their life goals.

Victoria Quarter, Leeds

INTERVIEW WITH

Can you give me a brief summary of how YBS has performed this year?

I am happy to report that we have had another good year, making excellent progress delivering on our purpose of providing Real Help with Real Life for our members and stakeholders. We developed our purpose-aligned strategy and have made progress on each of our ambitions of creating value for our members, helping people to secure a place to call home and supporting members towards greater financial wellbeing.

I am very pleased with the progress we have made in executing our strategy this year, in particular the delivery of our new Mortgage Sales Origination (MSO) system, as well as the migration of our Norwich & Peterborough (N&P) commercial mortgage business to our core YBS system. These are key examples of how we are striving to serve our members better by simplifying our business model.

Alongside this, we have been able to continue to create value for our stakeholders, including our members. This is clear from a 10 point rise in our overall Net Promoter Score (NPS™) to +51 (2018; +41), which is a measure of the strength of our customer service. I am particularly proud of this achievement because, as a mutual, our aim is to put customers at the centre of everything that we do. Our savings interest rates have been maintained at an average of 0.34% (2018: 0.37%) higher than the average rates paid across the market. This equates to more than £95m of value given back to our members last year.

The Society generated £167m in profit before tax (2018: £193m) and £185m of core operating profit which is an increase of £4m on 2018. This helps to support the sustainability of our Society over the long term and our ability to deal with uncertainties as they arise. With support from our colleagues and members, we have also contributed £1m to our local communities. In addition, this year saw increased emphasis on environmental concerns, both in the public consciousness and here at YBS. We recognise the importance of minimising the environmental impacts of our business and I am proud that we have further reduced our carbon footprint by 17% in 2019.

I would like to thank all of our colleagues and business partners for the role they have played in delivering such a good performance.

Where has your key focus been this year?

To help us to achieve our three strategic ambitions, we have set ourselves five strategic priorities designed to enable us to deliver on our purpose.

The focus of our **Help** priority is on providing the targeted support that individual customers need in order to overcome the real financial challenges they face. In order to become more agile, efficient and

OUR CHIEF EXECUTIVE

effective we need to continue to **Digitalise** our business. Through our **Unleash** priority, we are working to support every one of our colleagues to maximise their full potential.

We also intend to **Expand** our reach, both physically and digitally, so that we can help a greater number of people. To make sure we are able to serve existing and future members for years to come, it is essential to **Protect** our Society and our stakeholders by making sure our organisation is financially and environmentally sustainable, with robust controls to minimise and mitigate risk.

What are the challenges you have faced to deliver Help?

Both the housing and savings markets are challenging for many people and buying your first home can be difficult. Savings interest rates have also remained low, a result of the low Bank Rate, set by the Bank of England, as well as the regulatory changes made to ring-fence the retail operations of large banks from their other activities.

To help more people to secure a place to call home, we introduced a number of changes to help first-time buyers, including extending our maximum mortgage term to 40 years. We also supported our older borrowers who may be looking to downsize or remortgage, to help younger generations by increasing the maximum lending age to 80.

Our aim is to give our customers as much flexibility as possible. This year we introduced a 15-year fixed rate mortgage to help customers have greater certainty over their monthly repayments for longer, and also developed an overpayment calculator to help them better understand the potential benefit of repaying their mortgage sooner. To support the rental sector, we introduced Basic Rate Tax Payer affordability to help landlords manage the changes to personal tax rules. This year, we also raised over £244,000 for End Youth Homelessness, enabling 206 homeless young people to have a safe place to call home.

To help our savers, we offered rates that were on average higher than the market, we launched a competitive Children's Regular Saver and also launched a tiered easy access account, which allows savers to take advantage of higher rates whilst retaining access to their money in case of an emergency. Our workplace savings products have been taken up by over 100 organisations, helping 135,000 employees to save directly from their salary.

In the community, our colleagues volunteered to deliver financial education to over 7,000 young people around the UK through our Money Minds programme. Personally, I was proud to work with colleagues at our Strand branch in London to give a session to pupils at Grafton Primary School in Islington, where I saw the difference an introduction to financial literacy makes to young people first hand.

Many of your members still value face-to-face services. How does your Digitalise agenda add value for them?

Investing in our digital capabilities is an essential part of our future. In addition to online services becoming increasingly important to our customers, we have also begun digitalising our internal processes to help us to work more efficiently. All of this will improve our services and allow our colleagues more time to support our customers, whether they choose to interact with us online, in our contact centre or face-to-face at one of our branches or agencies.

In 2019, we introduced a new online MSO platform for brokers through our Accord brand, which has reduced the time between application and offer and has significantly reduced our paper usage in this part of the business. Investments have also been made in robotics and automation to increase the efficiency of some of our processes.

Although progress has been made this year in terms of streamlining our website, we have not delivered as many improvements as we would have liked. Given the pace of change in the wider market, we recognise the importance of accelerating our Digitalise priority, as this will provide us with significant opportunities to serve our existing customers better and to access new customers and markets.

Colleagues have a key role to play in delivering your purpose. How do you keep them engaged and fulfilled?

Our most important asset is our people – they are essential to everything we do to deliver our strategy and purpose. We want all of our colleagues to feel respected, proud to work for us and able to reach their full potential.

Our colleague engagement score for 2019 was 7.4 out of 10, which is slightly lower than the average for financial services organisations of 7.6. We are working hard to improve this in the coming year.

Our goal is to provide a secure and supportive environment where all of our colleagues are able to be themselves and contribute to our success. In order to achieve this we have a number of initiatives focused on creating inclusive workplaces, improving our diversity and supporting working parents. We have continued to develop our programmes to support our colleagues' physical, mental and financial wellbeing. In 2019, we launched My Benefits, a new online portal which enables colleagues to choose flexible benefits that support their personal needs from an enhanced range of options.

We are very proud to have been included in the Working Families' Top 30 UK employers for the third year in succession, and in addition, the Society was ranked as a Top 50 UK Employer by Inclusive Companies and won three awards from the National Centre for Diversity.

Do you see any risks in your Expand priority, given it's such a difficult market for mortgages and savings?

The mortgage and savings markets are highly competitive and we believe this will continue for the foreseeable future. We want to reach more people and make sure that we are supporting our members and customers, both new and existing, in underserved markets. Alongside our agenda to enhance our digital capabilities, we are also planning to make the most of new opportunities and potential partnerships.

We are committed to continue offering a national network of face-to-face service. To do this in a cost-effective way, our approach includes partnering with trusted local business owners who work with us to provide our services from their own business premises.

Investing in our digital capabilities is an essential part of our future.

It will enable us to work smarter and serve our customers more efficiently.

As well as expanding our customer-facing network where we believe a new agency would improve our service, we have converted eight of our existing branches into agencies in 2019. This allows us to strike the right balance between providing our members and customers with the service they value with the costs of operating a national face-to-face network.

In June, we relaunched YBS Commercial Mortgages and are now investing more in this line of business. Regional hubs are being established in Birmingham, Bristol and Manchester, at existing branches, to enable us to operate on a national scale. These regional hubs are the start of our plan to expand our commercial lending operation across the UK, thereby supporting customers at an increasingly local level.

We have also strengthened our team, enhancing the support available to existing customers and new borrowers in London and the South East. In 2020, there will be further improvements including expanding our product range, enhancing our systems, engaging with more brokers and continuing to expand our lending team.

How does your Protect priority help customers and members?

We are proud to have nearly three million customers who trust us to finance their homes or look after their savings. It is our purpose to help as many people as we can for years to come, and to do this, we must be strong and sustainable. All of our profit is retained to bolster our financial strength or is reinvested in our Society to provide better products, rates and services for our members and customers. Delivering sustainable profits of the level we have achieved helps to strengthen our capital position by building up our reserves and strengthening our balance sheet.

We have delivered a good level of profit, especially considering the competitive pressure in both the mortgage and savings markets. Our approach of lending for value rather than purely for volume has helped in this respect. One of our priorities is to look after our customers and provide the right level of service; however, because of the ongoing competitive pressures on margins, we also need to consider how efficiently we are utilising our resources. Actively managing our costs is a critical part of this. Building on the progress of the last few years, we have further reduced our costs in line with our long-term ambitions. Controlling our costs will remain a continued focus for the future of our Society to ensure that we are able to deliver value for money for our members, as well as investing in even better products and services.

The Protect priority covers more than just our financial performance and takes into account considerations both internal and external to our Society. For example, we continually review, and invest in, our operational resilience capabilities in light of the fast-changing environment. This proactive approach provides better protection for all of our stakeholders and will remain a key focus of ours.

Protect is also about environmental sustainability. Like all organisations, we have a duty to minimise our impact on our planet. This year, we have again reduced our year-on-year carbon footprint, and we will continue to focus on this area to make sure that we remain a sustainable and responsible organisation in the future.

Mike Regnier,
Chief Executive

26 February 2020

In this review of our strategy and performance, we provide our view of the environment in which we operate, combined with our progress against our long-term goals, as well as the key risks faced by the Society.

EXTERNAL ENVIRONMENT

We are committed to creating value for our stakeholders, now and in the future. As our environment becomes increasingly complex and fast-changing, we have to prepare for, and respond to, many risks and opportunities in order to protect and enhance the way we create value.

ECONOMIC AND POLITICAL OVERVIEW

In 2019, the underlying economy in the UK has remained broadly stable, although market uncertainty continued throughout the year, partly as a result of the UK's decision to leave the EU. This ongoing uncertainty is one of the key risks to the UK economy, alongside impacts resulting from the trade tensions between the US and China and a broader global economic slowdown in growth. As the Society operates almost entirely within the UK, our view remains that the direct impact of the UK leaving the EU on the Society is likely to be low. Our biggest threat relates to the potential wider economic impact of significant and unfavourable changes to inflation, growth, interest rates and house prices.

House price growth has been relatively modest and when combined with real wage growth, low interest rates and low unemployment rates[7], this has helped to keep housing affordability at a sustainable level. This has also meant that mortgage impairment has remained low.

Annual house price growth reached 2.2% in the year to November 2019. London, the South East and East of England were the areas with the lowest level of growth[8]. House price growth in 2020 is expected to be in the range 0-2%, with the higher end of this range being seen as more likely.

[7] Office for National Statistics – Labour market overview, UK: May 2019 (2019). Available here: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/may2019.

[8] Office for National Statistics – UK House Price Index: November 2019 (2019). Available here: https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/november2019.

[9] Bank of England – Interest rates and Bank Rate. More information available here: https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate.

The retail sector has had a challenging year with many businesses struggling due to factors such as high business rates and competition from online businesses due to changing customer preferences. The Bank Rate, set by the Monetary Policy Committee, did not change in the year[9], although market expectations of when the next rate change may occur have been particularly volatile.

The Society remains alert to these wider macroeconomic risks through its risk management framework. Should our KPIs indicate the need for changes to our planned activities, we will respond accordingly.

UK MORTGAGE AND SAVINGS MARKET

The UK mortgage market has remained relatively subdued throughout 2019, with a modest upward trend in the number of first-time buyers and a stable home-mover market. The remortgage market has performed fairly strongly, although the trend towards longer-term deals is starting to influence the volume of customers looking to refinance their properties. The buy-to-let market has continued to decline, with changes to taxation and stamp duty having the biggest impacts on landlords.

Ring-fencing of the large UK banks came into effect in 2019, and this resulted in the largest retail banks holding more liquidity. This has led to some banks choosing to lend this excess liquidity to retail customers, with the majority of this being put to use in the mortgage market. The consequence of this has been to suppress customer rates and, based on the level of liquidity on hand, it may take some time before this has been fully utilised.

In addition, we have seen parts of the challenger-bank market looking to grow, intensifying price competition. In the short term, we have seen funding costs remain low as a result of existing drawings from the Government's Funding for Lending Scheme (FLS) and Term Funding Scheme (TFS). These factors have combined to result in a highly competitive market characterised by relatively low margins.

The Society's trading performance against this market backdrop, including the impact on our KPIs, is covered in the commercial performance section on page 46.

COMPETITIVE LANDSCAPE

Advances in technology and the use of data, combined with the launch of a number of new digital–first businesses in financial services, are transforming the ways our customers wish to interact with us. Customers are increasingly using mobile devices rather than traditional computers, voice or face-to-face services. The pace of change in this area is accelerating and customer expectations are growing accordingly.

The second Payment Services Directive (PSD2) and Open Banking regulations are designed to give more control and choice to customers over how they can view and manage their money.

This is enabling new entrants with lean business models to emerge and freely connect into banking data and infrastructure to create new, value-added services for customers. This lowering of the barrier to entry for new and potential competitors also supports the migration of customers away from traditional banking services, though uptake in the market has so far been limited.

REGULATORY OVERVIEW

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

Key changes include:

- **Open Banking & PSD2**

  2019 was a significant year for Open Banking and PSD2, with many of the new requirements coming into regulation during the year. The market is evolving quickly in this space, with regular clarification being provided by the regulator and the Open Banking Implementation Entity. There have also been continuing developments in the underlying architecture and security requirements.

  All of the changes are intended to allow customers' banking transaction data to be shared securely with trusted third party providers (TPPs). This will allow easier entrance to the market for these TPPs which can then provide additional consumer services to the market.

- **New Payment Architecture (NPA)**

  During 2019, the operator of the payment schemes, Pay.UK, continued progress on the design and implementation of the NPA outlined within the Payment Strategy Blueprint.

  We have continued to monitor progress and provide input to the process. As the Society currently accesses payment schemes primarily through sponsorship arrangements via a third party, we are partly shielded from the NPA. We will continue to monitor progress so that we are able to identify key opportunities or risks as they emerge.

- **Minimum Requirement for Own Funds and Eligible Liabilities (MREL)**

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

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

  The key changes introduced in the CRR II final rules, which were published in June 2019, include: the introduction of a binding leverage ratio requirement for all institutions; revised rules on capital requirements for counterparty credit risk and for exposures to central counterparties; and a revised Pillar 2 framework.

- **Countercyclical buffer**

  In December 2019, the Financial Policy Committee of the Bank of England raised the Countercyclical Buffer from 1% to 2%, effective from December 2020[10], leading to increases in the capital that institutions will be required to hold.

- **FCA Consultation Single Easy Access Rate (SEAR)**

  In January 2020 the FCA announced a consultation into the potential for bringing a new approach to rate setting for easy access customers. The implications of this consultation will become clearer through 2020. Relevant business areas within YBS are working together to fully understand the impact and are developing a response to the consultation.

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

  Following a review by the Financial

[10] Bank of England – Financial Stability: January 2020 (2020). Available here: https://www.bankofengland.co.uk/financial-stability

Stability Board (FSB) to reform Major Interest Rate Benchmarks following the LIBOR rigging scandal, the Bank of England set up a market-led working group on Sterling Risk-Free Reference Rates in March 2015. In April 2017 the BoE announced that a reformed Sterling OverNight Index Average (SONIA) was its recommended Risk Free Rate (RFR) to replace LIBOR. It has set out a timeline to achieve this by no later than the end of 2021.

- **European Money Laundering Directive (EUMLD)**

  The 5th EUMLD came into force in January 2020, with additional elements of the Directive coming into force later in 2020.

  The aim is to harmonise the legislation across the EU with regard to combating financial crime. A key change is the promotion of improved transparency around the ownership of assets, and the regulation has also led to new sectors now being regulated, such as cryptocurrency.

- **Climate Change**

  The financial services regulators have proposed changes to the rules and guidance given to firms across the industry. The guidance sets out a requirement for financial services firms to better understand the financial risks related to climate change, and to improve certain climate-related disclosures. YBS is working closely with regulators and cross-industry bodies to support the development and implementation of best practice in relation to managing climate change risk.

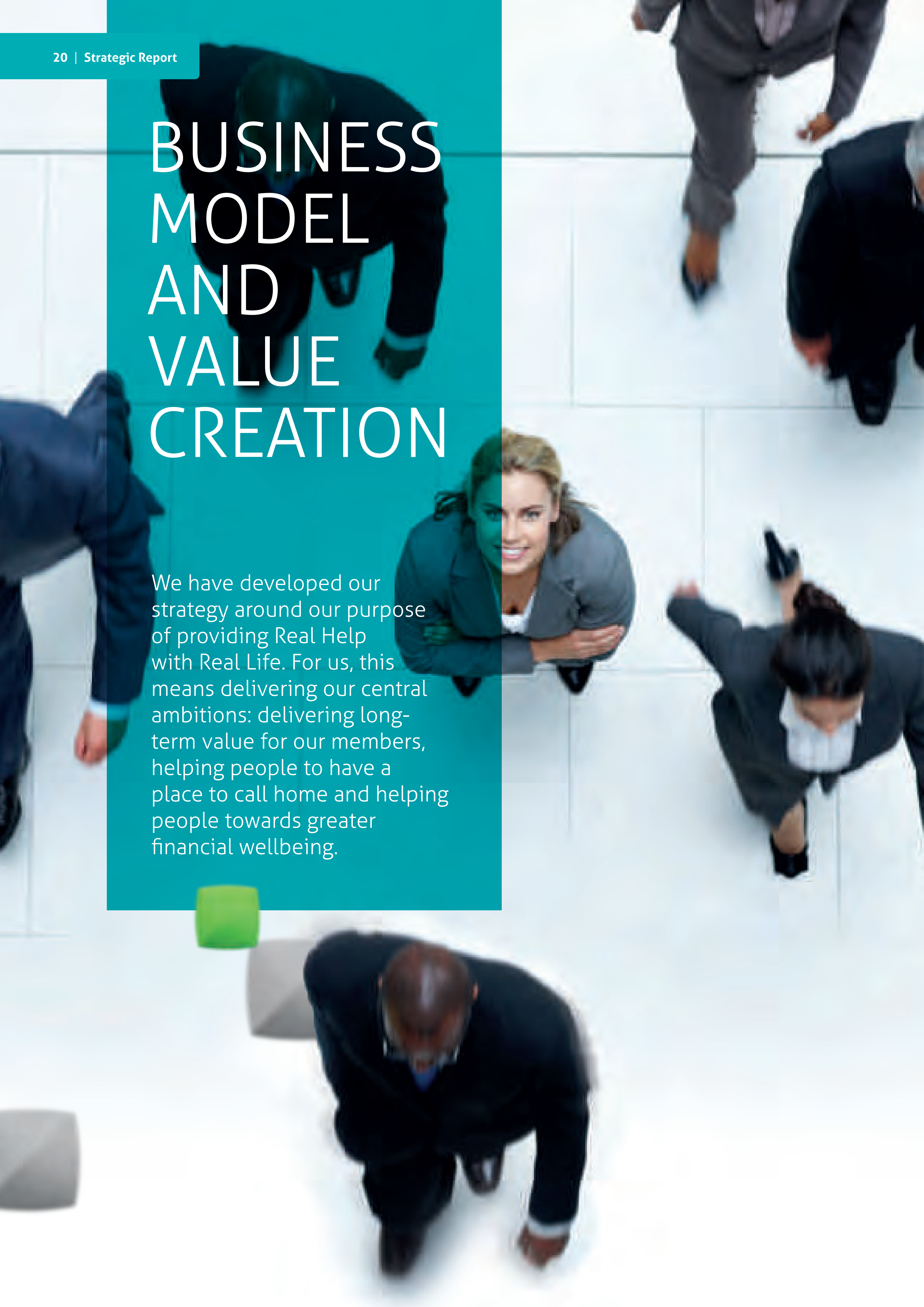
OUR STAKEHOLDERS

Since we were established in 1864, we have been supporting our members and customers to achieve their financial goals by helping people into a home of their own and improving people's financial wellbeing. Much has changed over the course of our 155 year history – the financial services sector is now a major part of the UK economy and technological advancements are transforming the ways we serve our members. Our fundamental purpose however, remains the same as when we were founded, expressed today as providing Real Help with Real Life.

We have developed our long-term strategy around this purpose. To support this, we carried out our largest and most detailed stakeholder engagement exercise to date, which this has been instrumental in the shaping of our strategy.

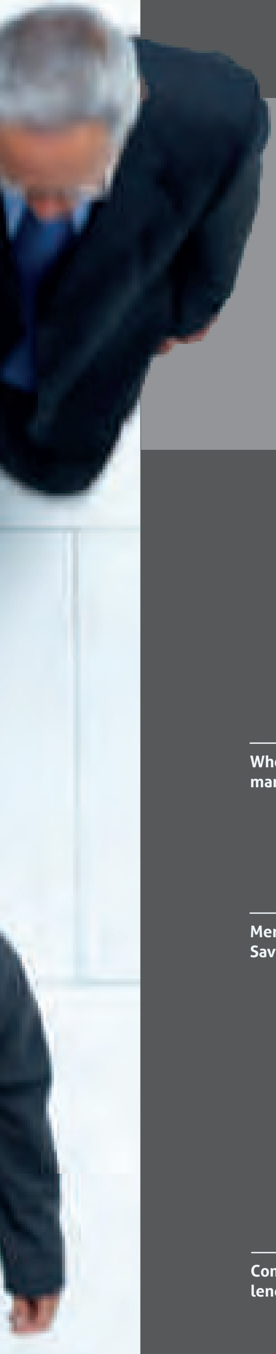
We recognise that it takes more than a one-off exercise to monitor, and attend to, the needs and expectations of our stakeholders. To make sure that our strategy continues to create value, we will continue to consult with our stakeholders regularly.

Key stakeholders	Who they are	How we listen and engage	What they expect from us
MEMBERS AND CUSTOMERS	• Members • Mortgages and savings customers • Share Plans customers • Registered Providers of Social Housing • Commercial lending clients	• Member events (Your Time to Talk sessions, in-branch events) • Annual General Meeting • Focus groups and surveys (including our member panel, My Voice) • Direct engagement through specialist teams (face-to-face, online web chat, telephone calls, letters, emails, social media)	• Offer good value and flexible savings accounts and mortgages • Deliver helpful, effective, approachable, friendly and efficient service • Invest in the products and services they need to gain better financial resilience or buy a home • Run a strong, secure and sustainable business in their long-term interests
COLLEAGUES	• Full and part time colleagues • Contractors • Agency colleagues	• People Experience Forum • Focus groups and surveys • Colleague events and conferences • Intranet (live Q&As, news, blogs) • Direct engagement through leadership teams, including a Non-Executive Director appointed to lead on colleague representation	• Encourage and support their development and training • Fairly reward them • Support a good work-life balance • Care about their physical, mental and financial wellbeing • Treat people with empathy, respect and fairness
GOVERNMENT AND REGULATORS	• Central and Local Governments • Financial Conduct Authority • Prudential Regulation Authority • Payment Systems Regulator	• Direct engagement through specialist teams (face-to-face, telephone calls, letters, emails) • Engaging with consultations • Monitoring, engaging and complying with regulatory change and reporting	• Act within the law and regulation and in the interests of our customers • Swiftly and proactively resolve customer issues • Be financially strong and secure by maintaining adequate resources including capital and liquidity • Act with integrity and transparency
INVESTORS	• Wholesale investors • Ratings agencies	• Direct engagement through face-to-face meetings and events • Annual Report and Accounts • Regulatory News Service announcements • Investor reporting	• Offer appropriately-priced debt securities in the wholesale markets which adequately reward for the risk on investments • Operate in a prudent manner, protecting our financial sustainability and ability to service our debt • Behave responsibly in wholesale markets • Keep them informed and updated on strategy, financial performance and principal risks • Share details of our funding strategy and the expected volumes of issuing securities
PARTNERS	• Brokers • Agency proprietors • Suppliers • Trade unions • Industry bodies • Communities	• Direct engagement through specialist relationship management teams (face-to-face meetings and events, telephone calls, letters, emails)	• Be simple and straightforward to deal with • Collaborate with them as trusted partners to achieve mutual success • Deliver helpful, effective, approachable, friendly and efficient service



BUSINESS MODEL AND VALUE CREATION

We have developed our strategy around our purpose of providing Real Help with Real Life. For us, this means delivering our central ambitions: delivering long-term value for our members, helping people to have a place to call home and helping people towards greater financial wellbeing.



OUR BUSINESS MODEL

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

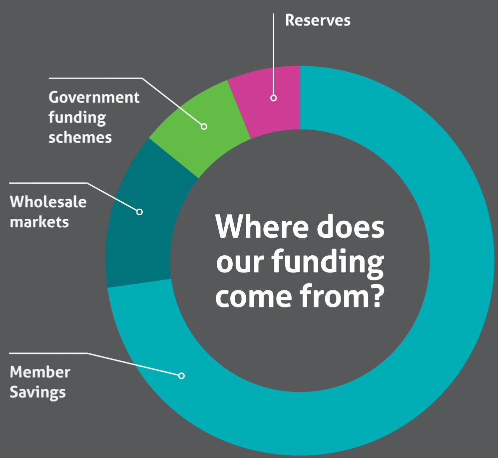
The majority of our lending is in the residential property market, but we also provide loans to the buy-to-let, commercial and housing association sectors. To help deliver our purpose, we are continuing to prioritise lending to customers who are currently poorly served by the market, in order to help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

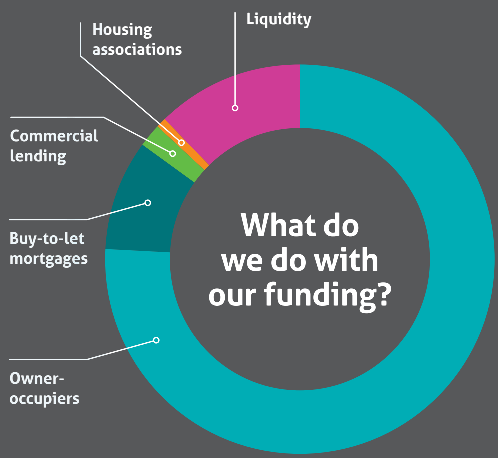
We earn interest on the mortgages that we provide, as well as generating a return on our investments in liquid assets. We pay interest to our members, at a rate above the market, and also pay interest to the providers of our wholesale funding. A smaller proportion of our income is generated from other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

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

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

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





Having customers at our heart means we can truly focus on providing Real Help with Real Life.

BUILDING OUR STRATEGY AROUND OUR STAKEHOLDERS

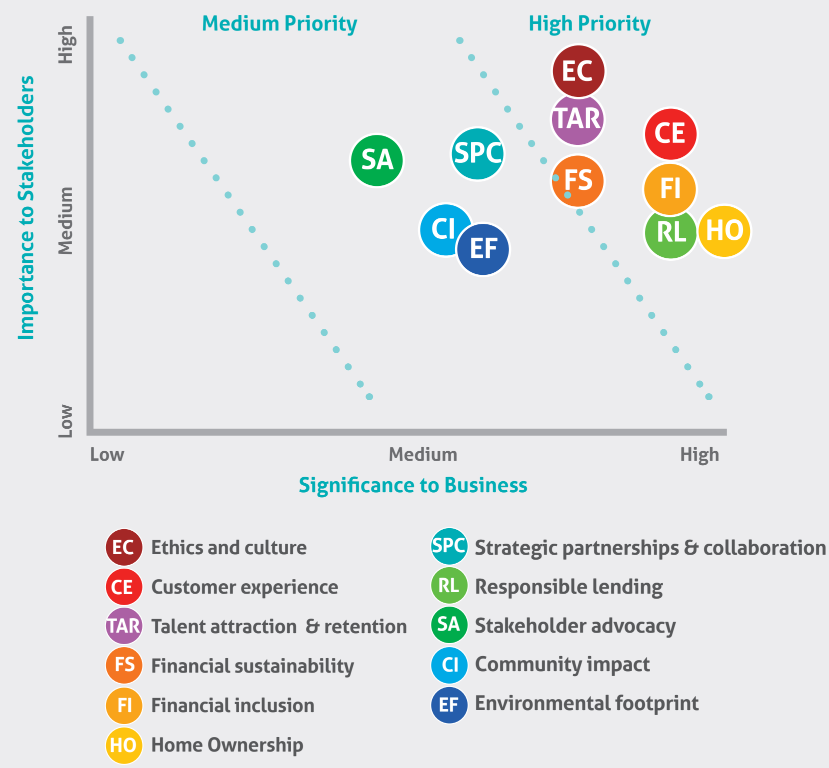
In 2019, we finalised our strategy, which has our purpose at its centre.

1. CONSULTING WITH OUR STAKEHOLDERS

Our external stakeholders, including members, customers, investors, brokers and local community groups, contributed to this process by giving their perspectives on how our activities create value for them, allowing us to gauge the impact we have on different areas of society. Colleagues from every department across the Society also helped us to explore how we create financial, social, human and environmental value for all of our stakeholders.

We summarised the findings from all of our stakeholders into value creation statements which were refined via a survey of three of our biggest stakeholder groups: customers, colleagues and brokers.

VALUE CREATION: KEY THEMES[11]



2. IDENTIFYING THE KEY AREAS OF FOCUS IN TODAY'S SOCIETY

The views and contributions of our stakeholders allowed us to identify 11 key areas where we currently create value, or where we have potential to in the future. We recognise that the areas most important to our stakeholders may evolve over time and therefore we are planning further consultations in 2020 to understand whether there are any new themes or emerging issues. An example of this may be an increased focus on the environment, given the recent societal focus on the drivers of climate change.

[11] Based on research finalised in September 2018.

3. SHAPING OUR STRATEGY

We used the consultation to inform our strategy, driven by our purpose of providing Real Help with Real Life. The areas where we felt we could make the biggest contribution to society became our long-term ambitions: helping people to secure a place to call home and supporting people towards greater financial wellbeing. These are underpinned by our ambition of creating long-term value for our members, which reflects our mutual ownership structure and the importance of maintaining a sustainable business.

To make sure that we remain focused on delivering these ambitions, we identified the five key themes of Help, Digitalise, Unleash, Expand and Protect that drive our shorter-term priorities. These are designed to make sure that we are protecting the interests of our stakeholders, growing our business and putting the Society in a strong position for the future.

4. MEASURING PROGRESS

We have set long-term goals to measure the progress that we make towards delivering on our ambitions. To keep us on track, we will monitor the value we create through specific, measurable outputs and impacts.

5. COMMUNICATING TO OUR STAKEHOLDERS

Continuing to engage with our stakeholders will ensure that we understand what they value most, and will inform the evolution of our strategy. Our progress towards achieving our specific goals will be tracked in our Annual Report and Accounts, maintaining a level of transparency and accountability with regard to our stakeholders.

OUR VALUE

UNDERSTANDING THE VALUE WE CREATE FOR OUR STAKEHOLDERS

Our value creation model shows the resources we rely on, and activities we undertake, in order to deliver our strategy. The value we create for our stakeholders is measured by

INPUTS

Financial

- Interest received from mortgage customers
- Fees and charges received from customers
- Members' savings deposits
- Funding from investors
- Financial capabilities (e.g. financial reserves and risk management)

Social

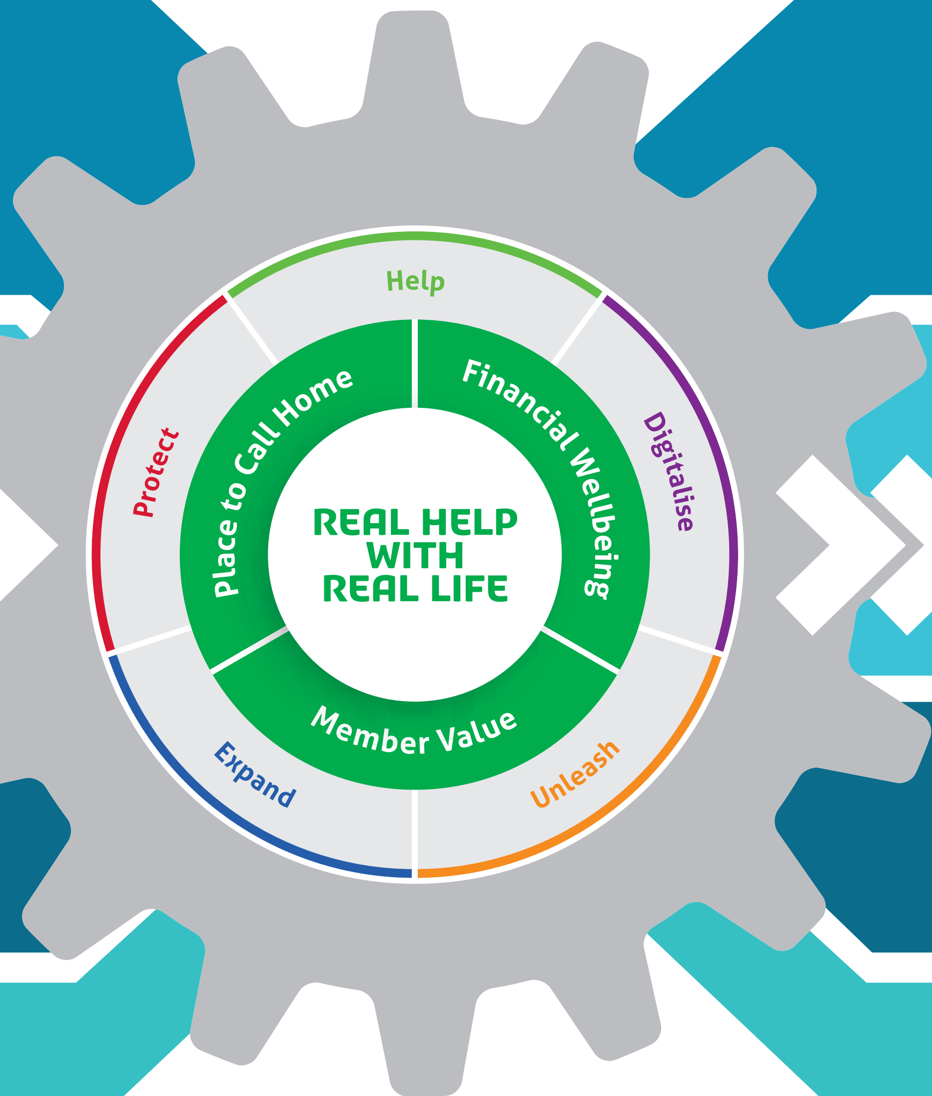
- Strong relationships with stakeholders, including partners
- Thriving local communities
- Healthy housing market and employment rates

Human

- Colleagues' time, skills, knowledge and experience
- Internal systems, processes and technology

Environmental

- Energy, water and other natural resources consumed



CREATION MODEL

comparing our inputs against the outputs and impacts of our activities.

There is always the potential for an activity that we undertake to decrease value for some stakeholders. We try to strike the right balance, sometimes knowing that the creation of value in one area may cause a decrease of value in another.

OUTPUTS AND IMPACTS

Financial

- Interest paid to our members and investors
- Salary and benefits provided to our colleagues
- Profits to ensure our long-term sustainability for all our stakeholders
- Taxes paid to HMRC

Social

- Access to a place to call home through mortgages and End Youth Homelessness partnership
- Greater financial wellbeing through savings accounts and financial education programmes
- Great customer service in branches, agencies, by phone and online
- Investment in our local communities

Human

- Training and development for our colleagues
- Engaging workplace culture

Environmental

- Environmental footprint

OUR STRATEGY AND PERFORMANCE

OUR AMBITIONS

Our purpose is to provide Real Help with Real Life by delivering our three central ambitions – delivering long-term value for our members, helping people to have a place to call home and helping people towards greater financial wellbeing.

MEMBER VALUE

We are here to deliver sustainable long-term value to our members by providing flexible products with the friendly, practical and efficient customer service they expect from us. The Society is run for the benefit of our members and customers – not external shareholders – so every decision is made with their interests in mind.

We are proud to have achieved a Net Promoter Score (NPS™) of +51 in 2019, up from +41 in 2018. Our NPS™ measures how satisfied our customers are with the services we provide and how willing they are to recommend us to their friends and family. The feedback from our customers shows that they particularly value the service provided by our colleagues in branches and through our agency partners. Brokers interacting with our Accord brand also praised our efficiency and common-sense decision making.

One area where our customers are telling us we need to do more is in relation to our digital services where our online NPS™ has fallen to -11 from +20 in 2018. We are responding to this through our Digitalise priority.

With the Bank Rate at a near-record low, and increased competition for mortgage lending, there has been downward pressure on rates offered to savers over the past year.

To help savers, we price our rates as competitively as we can. Across our savings range, our average rates were 0.34% higher (2018: 0.37%) than the market average giving savers an additional £95m in interest in 2019.

The help we offer to our savers has to be balanced against the rates we offer to our mortgage borrowers in order to protect our profitability and assure our longer-term stability. This means that we are not able to offer rates which are significantly out of line with other savings providers. If we did, we would attract more money from savers than we could safely and securely lend out as mortgages.

Given the pressures in both the savings and mortgages markets, we have to continue to focus on reducing costs, where it makes good sense to do so, and improving our efficiency, so that we can provide our members with value for money. We have made some major changes in recent years both to our product range and to the way we run our operations. This has contributed to a year-on-year cost reduction of 7% (2019: £290m, 2018: £311m), a rate in line with our expectations. We have managed to achieve this at the same time as investing in a range of improvements, including our digital programme, which will create a better customer experience.

Our levels of capital and liquidity have also remained strong throughout 2019, which puts us in a secure financial position and means that we are better able to respond to the challenging market conditions and can continue to support our members.

PLACE TO CALL HOME

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

We know that the housing market of today can be challenging. Average house prices in England and Wales climbed from three and a half times the average full-time worker's salary in 1997 to over seven times the average earnings in 2018.[12] We support both first-time buyers and those moving home through a range of residential mortgages, directly through our YBS brand and via our broker-led service, Accord.

The private and social rental markets also form a key part of the housing market in the UK. Not everyone wants, or is able, to buy a home of their own, and renting is becoming increasingly common, especially amongst younger generations. We therefore think it is important to help landlords with the finance they need to provide rental properties. This lending also helps us to diversify our product offering and supports our long-term financial sustainability.

Our ambition to help people to secure a home is reflected in our community investment, through our EYH partnership. EYH is a movement of grassroots charities who work together at a local level to end youth homelessness on a national scale. Our partnership enables young people who have faced homelessness to access a home in the private rental sector. This is through providing landlords with a guarantee certificate in place of a traditional cash deposit, and helping young people access the support they need as well as essential household items through a grant. Since the partnership started in 2017, we have helped 386 homeless young people move into their own rented home, including 206 in 2019.

You can read more about how we have achieved this in our Help priority, on page 31.

We have set ourselves an ambition to help 500,000 people have a place to call home over the next few years.

[12] Office for National Statistics. Housing affordability in England and Wales: 2018 (2019). Available here: https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingaffordabilityinenglandandwales/2018

[13] StepChange. Becoming a nation of savers (2015). Available here: https://www.stepchange.org/Portals/0/documents/Reports/BecominganationofsaversStepChangeDebtCharityreport.pdf

[14] Office of National Statistics - Households (S.14): Households' saving ratio (per cent): Current price: £m: SA. Available here: https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/dgd8/ukea

[15] Salary Finance – The Employer's Guide to Savings (2019). Available here: https://www.salaryfinance.com/uk/employers-savings-guide/

[16] Provided the plan meets the requirements of the legislation in Schedule 3 of the Income Taxes (Earnings and Pensions) Act 2003 and is also registered and reported via HMRC's ERS Online filing service. Introduced under the 1980 Finance Act.

[17] YBS Share Plans, Durham University and University of Leeds – Financial Behaviour and Decision Making (2018). Available here: https://www.ybsshareplans.co.uk/assets/pdf/misc/financial-behaviours.pdf

[18] Money Advice Service - Habit Formation and Learning in Young Children (2013). Available here: https://www.moneyadviceservice.org.uk/en/corporate/habit-formation-and-learning-in-young-children

FINANCIAL WELLBEING

We are here to help people towards greater financial wellbeing, which includes people choosing to build up their savings with us, directly or through our partners, as well as people benefitting from financial literacy and employability support via our community programmes: Money Minds and Career Minds.

Having sufficient savings is a cornerstone of good financial wellbeing. A household with an income of £25,000 a year after tax is 44% less likely to fall into problem debt if they have accessible cash savings of £1,000.[13] However, national levels of saving in the UK are very low. Households in the UK saved just 5.4% of their disposable income in 2019 Q3, down from 11.6% in 2010 and a high of 14.4% in 1993.[14] Additionally, 34% of people regularly run out of money before payday.[15]

The primary way we support our members' financial wellbeing is by providing a range of savings products including fixed rate bonds, easy access accounts, and regular savers amongst others. Each of these products can help our members to build up their savings and support them in becoming more resilient to potential financial shocks in the future.

Another way that we support our financial wellbeing ambition is through YBS Share Plans, which enables employers to provide direct-from-salary savings schemes to their employees. These include the Sharesave scheme, which is an all-employee share plan offering tax advantages[16] and allowing employees to obtain shares in their employer's business on potentially advantageous terms. Research shows that Sharesave is an important way of helping people to start saving. Almost one in three (28%) of those using direct-from-salary shareplans schemes have no other form of savings, whilst two in five (40%) said that they would spend their contributions if they were not in the scheme.[17]

Knowledge and understanding of good money management are also essential in forming healthy financial habits. Research from the Government's Money Advice Service indicates that basic concepts relating to money habits are formed by the time a child is seven years old[18] - an indication of the importance of early financial education.

As well as helping people to plan for their future and save towards their financial goals, we provide financial education to young people across the UK through our colleague volunteering programme, Money Minds. This works hand-in-hand with our Career Minds programme. Career Minds helps to prepare young people for the working world, supporting employment prospects and helping to maintain long-term financial wellbeing. In 2019, we delivered over 450 sessions to over 8,000 young people on financial education and career skills.

Improving the financial wellbeing of society is an area where we also want to do more, so we have set ourselves an ambition to help 500,000 people to better financial wellbeing over the next few years.

Bringing Money Minds into branches

After the success of Money Minds in schools, we wanted to expand the reach of this programme to help more young people and build links with more schools and families in our local communities.

To support financial education, we developed the Pass it On campaign, which encourages older generations to share their knowledge of good financial habits with younger friends and relatives. As well as advertising on radio, in newspapers, and on social media, we also held a series of Money Minds mini-sessions in our high street network. Over the school summer holidays, we successfully piloted these mini-sessions in 12 branches and one agency, reaching 161 children and their families. We received positive feedback from those in attendance so we decided to expand the programme. During the October half-term break, 54 branches and one agency held Money Minds events for families.

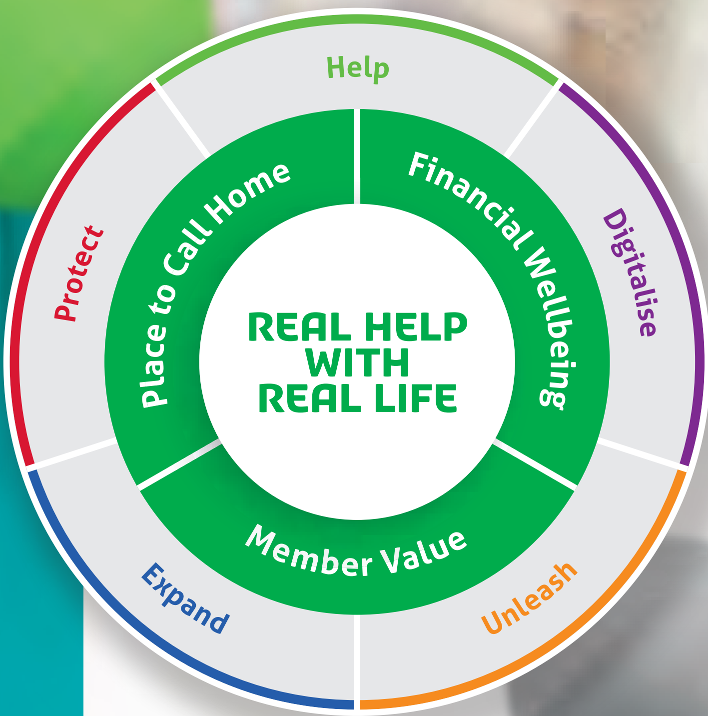
A parent of a child who took part said:

"This session was very informative for the children. It's made them think more deeply about money and how much we actually use, including spending on needs more than wants and thinking about saving for the future. The branch colleagues were very clear, concise and friendly."

OUR PRIORITIES

To deliver our three ambitions, we focus our efforts on our five priority areas: Help, Digitalise, Unleash, Expand and Protect.

HELP
DIGITALISE
UNLEASH
EXPAND
PROTECT



HELP

Our Help priority is very important to us – as an organisation owned by our members, our purpose is to provide Real Help with Real Life for our customers and other stakeholders. We understand that each member and customer is an individual and that there is no one-size-fits-all solution. Our aim is to offer good value, flexible products through efficient processes and friendly, practical customer service.

Supporting homeowners

Our customers can access our residential mortgage products through our two main channels; directly through our YBS brand or through our broker-led Accord Mortgages brand.

We have a product range which can cater for a broad range of customers – from those with a deposit as low as 5%, to those seeking to remortgage their own home or purchase a property for rental.

SUPPORTING FIRST-TIME BUYERS

Our own research tells us that 39% of aspiring first-time buyers under 40 prioritise homeownership over having children, getting married or achieving academic and career goals.[19] The research also indicated that raising a deposit remains one of the biggest challenges for this group of people.

To help people to overcome this barrier, we offered a Help to Buy ISA, prior to its withdrawal by the Government in November 2019. As part of the Government scheme, the ISA gave those saving for their first home a 25% Government bonus of up to £3,000, as well as tax-free returns on their money.

We also amended our lending policies during the year to enable those buying a new-build house or flat to make the purchase with a 10% deposit, rather than a 15% deposit. We recognise that delays can often affect new-builds, so mortgage offers are now valid for six months, with the option to extend this by a further six months. In 2019, we extended this to include our direct mortgage customers, after the successful launch for our Accord customers in September 2018.

ENABLING LATER-LIFE LENDING

In 2007, almost half (48%) of first-time buyers opted for a 25-year term, with 38% choosing a term between 25 and 35 years. In 2019, only around a fifth (22%) took a 25-year term, with 62% now choosing a 25 to 35-year term.[20]

Many people are now buying their first homes later in life. In 2007, the average age of a first-time buyer was 31, rising to 33 by 2017[21]. Two in five (40%) borrowers who took out a mortgage in 2017 will be aged over 65 when their mortgage is repaid.[22]

[19] YBS – First-time buyers 2018 (2018). Available from: https://www.ybs.co.uk/media-centre/first-time-buyer-report-2018.html

[20] YBS analysis of UK Finance data. Available here: https://www.ukfinance.org.uk/data-and-research/data

[21] Ministry of Housing, Communities & Local Government – English Housing Survey (2018). Available here: https://www.gov.uk/government/collections/english-housing-survey

[22] Financial Conduct Authority – Sector Views (2019). Available here: https://www.fca.org.uk/publication/corporate/sector-views-january-2019.pdf

In addition to enabling borrowers to take a mortgage with us for up to 40 years, we have also increased the maximum age for a borrower to have completed their mortgage term from 75 to 80. These changes allow homeowners to benefit from lower monthly payments by lengthening the term of their borrowing. The changes can also help older people to downsize or remortgage their property to release equity.

GIVING BORROWERS MORE FLEXIBILITY

We have observed a notable increase in the demand for longer term mortgages. In response, in 2019, we started to offer a 15-year fixed rate mortgage, whilst continuing to offer a competitive range of ten, seven, five, three and two-year fixed rate mortgages.

A fifth (23%) of our borrowers were in credit at the start of 2019, taking advantage of lower interest rates to pay more than their minimum mortgage payments.[23] As a result of this research, we developed an overpayment calculator, which launched in November 2019, to help borrowers to understand how overpaying can give them flexibility or help them become mortgage-free sooner.

Our range of offset mortgages allows customers to repay their mortgage more quickly, or lower their monthly repayments, by linking their savings to their mortgage account. Instead of earning interest on their savings, they reduce the interest charged on their mortgage, whilst still being able to access and add to their savings balance at any time. Our offset plus mortgages also allow friends and family to link a savings account to a borrower's offset mortgage. This can help to reduce the financial commitment faced by the borrower, whilst friends and relatives retain full access to their savings.

On most of our mortgages, borrowers can overpay by up to 10% of their total outstanding mortgage balance each year without triggering early repayment charges. The overpayment calculator is designed to help our customers see quickly and easily how they might be able to pay off their mortgage sooner than they had originally planned, reducing the interest they pay. It also shows them how overpaying can help them to plan for a period in the future where they might want to ask us to reduce their payments or agree a temporary payment break, provided they have built up a sufficient credit balance.

HELPING CUSTOMERS IN FINANCIAL DIFFICULTIES

We have a dedicated team who work with mortgage customers finding themselves in financial difficulties. There are a number of ways we can help borrowers who are in arrears and we work with them to find the best solution. In 2019, we helped 4,504 of our borrowers return back to stable repayments after being in arrears.

We have lending policies in place which aim to prevent us from lending more than borrowers can comfortably repay over the term of their mortgage. The proportion of our customers who are more than three months in arrears is 0.56% (2018: 0.50%), which is significantly lower than the market average of 0.76% (2018: 0.80%).[24]

Repossession of a property is always the last resort, but unfortunately it is sometimes the only solution available. We must prevent customers from getting into unmanageable debt, as well as act in the interests of our whole membership and ensure our long-term sustainability. As at the end of December 2019 we had 63 properties in possession (2018: 85).

[23] At 28 February 2019, 22.96% of Yorkshire Building Society's mortgage customers were in credit on their mortgage accounts[20] YBS analysis of UK Finance data. Available here: https://www.ukfinance.org.uk/data-and-research/data

[24] At 31 December 2019. Retail arrears only. Includes possessions

Enabling people to rent

We lend to private landlords through Accord Buy-to-Let and YBS Commercial Mortgages. We also lend to Registered Providers of Social Housing (formerly known as housing associations) through our specialist Social Housing team. Although the buy-to-let market is being impacted by increased levels of taxation and regulation, it remains an important market in the UK as we have seen increasing numbers of people choosing to rent rather than to buy a home of their own.

10 YEARS as an established social housing lender

35 is the number of Registered Providers who we currently work with

£315m Current drawn balance as a social housing lender

HELPING PEOPLE TO RENT PRIVATELY

Following changes in the taxation rules of the private rental market we have adapted our buy-to-let product range. We have changed the affordability criteria to now include the tax rebate that basic rate tax payers receive, to make it easier for prospective landlords to obtain a mortgage. We also introduced let-to-buy for first-time landlords, which enables homeowners to buy another property before remortgaging their existing home on a buy-to-let basis.

We set our lending criteria in a way that tries to ensure that we only lend on good quality buy-to-let properties, reducing the risk of rogue landlords offering substandard rental accommodation.

HELPING PEOPLE ACCESS SOCIAL HOUSING

Social housing lending is a means by which we can help some of society's most vulnerable people. Registered Providers of Social Housing help people with specific health needs, as well as those without the income to pay rent at full-market rates or buy a home of their own.

Registered Providers offer affordable properties to tenants, by renting at below-market rates or offering options for shared ownership, and reinvest or retain the profits made. Collectively, they own over 2.9 million houses in the UK and this number is increasing each year. We expect Registered Providers to make a significant contribution to the Government targets to build more homes in order to address housing shortages. The sector will also be reinvesting in its existing stock to improve standards and help address fire safety concerns, following the fire at Grenfell Tower in North Kensington, London. This will require substantial investment and we will be one of the financial organisations supporting this.

Since establishing ourselves as a social housing lender 10 years ago, we have built a portfolio through working with 35 Registered Providers with total facilities of over £950m (2018: £656m) and a current drawn balance of £315m (2018: £265m), with all lending secured on property.

HELPING YOUNG PEOPLE ESCAPE HOMELESSNESS

Becoming homeless can have a devastating effect on a young person. As well as making it difficult to hold down employment or to continue studying, it can have a severe negative impact on their mental health and wellbeing. In 2019, it is estimated that more than 103,000 young people asked their local authority for help because they were homeless or were at risk of becoming homeless.

For the past three years, we have been working with EYH. This cause was chosen by our colleagues and members. This year, our colleagues and customers have raised £244,000, bringing the total figure raised for EYH throughout our partnership to £791,000, against our original target of £750,000.

This has enabled us to fund a scheme, administered by EYH, which has already helped 386 young people who have faced homelessness to access homes in the private rental sector. The scheme provides landlords with a guarantee certificate instead of a deposit, protecting the landlord from property damage and rent arrears. It also provides a grant to contribute towards essential household items. Throughout the tenancy, the young person receives support and help with life skills that are vital to help them live a successful, independent life, such as managing household bills and beginning to build savings.

As well as supporting homeless young people, the scheme helps private landlords to fill vacant properties quickly and free of charge. Since we began working with EYH, we changed our buy-to-let policy to allow landlords to let properties mortgaged with us to people who receive benefits.

£791,000

total figure raised for EYH throughout our partnership

“Throughout the tenancy, the young person receives support and help with life skills that are vital to help them live a successful, independent life, such as managing household bills and beginning to build savings”

Supporting people to save

Creating a culture of financial wellbeing through saving

Saving regularly helps people to build financial resilience by giving them money to fall back on in an emergency.

In support of our ambition to improve financial wellbeing, we expanded our range of easy access products in 2019. This included the launch of a range of restricted access notice products as well as our Internet Saver Plus, which features a tiered rate structure, to reward customers with an increasing interest rate as they build up their savings balance.

HELPING PEOPLE TO SAVE DIRECTLY FROM THEIR SALARY

Through YBS Share Plans, we offer other employers a series of options to help their employees to save directly from their salaries. Since the 1980s, we have offered plans through the Government's Sharesave scheme, which is also known as Save As You Earn (SAYE). YBS Share Plans also offers all-employee Share Incentive Plans (SIPs) and discretionary share plans to employers.

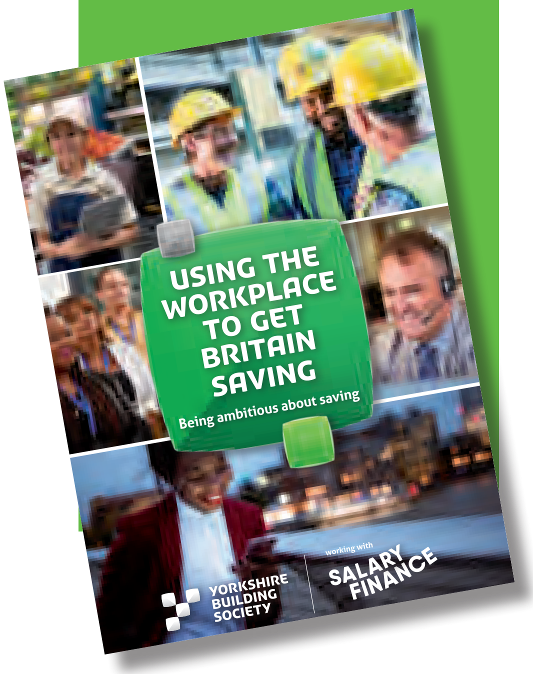
We realise that Sharesave is not necessarily right for everyone, so in 2018 we partnered with technology-led provider Salary Finance to launch an easy access direct-from-salary savings account. The employee sets a savings amount to move into the account every pay day, and they can change the amount at any time. Savings can be accessed instantly and therefore are available in case of emergencies.

Through Salary Finance, we now work with more than 100 employers with a combined workforce of over 400,000 employees who are able to access our workplace savings product.

This takes the number of people that we are providing access to our workplace savings schemes to 900,000, with around 135,000 already saving with us.

In March, we published a joint report with Salary Finance, Using the Workplace to Get Britain Saving, which highlighted the results of their survey of 10,000 people. It estimated that 7.5 million working adults in the UK do not have any savings; statistics such as this one inform our ambition to get more people into the habit of saving.[25] This work has supported a project developed by the Building Society Association, which has created a member-led savings taskforce to help build and strengthen a culture of financial wellbeing.

Joint report with Salary Finance, Using the Workplace to Get Britain Saving, which highlighted the results of their survey of 10,000 people.



[25] Yorkshire Building Society and Salary Finance – Using the workplace to get Britain savings: Being ambitious about saving (2019). Available here: https://www.ybs.co.uk/media-centre/getting-britain-saving/index.html

Supporting good financial education

418
Money Minds sessions delivered by colleagues

1,200
young people benefited from career skills support

50
Career Minds sessions were delivered in schools and branches

HELPING PEOPLE TO UNDERSTAND FINANCES

As well as helping people to plan and reach their financial goals through saving, we also provide financial education to young people across the UK. Research from the Government's Money Advice Service indicates that seven-year-olds are already starting to form money habits,[26] indicating the importance of early education on financial matters.

To support schools, we have been delivering our Money Minds programme throughout the UK since 2016. Our colleagues volunteer to run sessions with students aged from 5 upwards, with lessons tailored to the age and level of the class.

Our colleagues have delivered 418 sessions across the country this year. This included a team effort from our Merseyside branches which enabled colleagues from our Wallasey branch to run sessions for every student at Liscard Primary School in The Wirral. In total, 89% of young people attending sessions said they had helped them to feel more confident about money management.

RAISING FINANCIAL WELLBEING THROUGH LIFE SKILLS

Alongside our financial education programme, we have been helping to prepare young people for the working world, as employment plays a big part in maintaining long-term financial wellbeing.

Research shows that there is a positive link between young people at school and college having contact with employers, and their confidence in achieving their ultimate career goals.[27]

In 2019, our colleagues started delivering Career Minds, focusing on helping 14 to 16-year-olds with CV writing and interview skills through free interactive sessions. We delivered 50 sessions to over 1,200 young people in branches and schools on career skills this year.

Business Change Manager Nicola O'Hagan, who delivered a session, said:

"I really enjoyed running the Career Minds session; I think it's fantastic that we're investing time in this generation. The skills we are covering will be a real benefit to the students at various points in their lives. I really hope we made a difference".

[26] Money Advice Service - Habit Formation and Learning in Young Children (2013). Available here: https://www.moneyadviceservice.org.uk/en/corporate/habit-formation-and-learning-in-young-children

[27] Education and Employers - It's who you meet: why employer contacts at school make a difference to the employment prospects of young adults. Available here: https://www.educationandemployers.org/research/its-who-you-meet-why-employer-contacts-at-school-make-a-difference-to-the-employment-prospects-of-young-adults/

Providing an excellent customer experience

One of the ways we measure our progress on our Help priority is through our NPS™ which measures how willing our customers are to recommend us to friends and family. We are proud to have achieved an NPS™ of +51 in 2019, up from +41 in 2018.

Customers have consistently praised our helpful, positive and knowledgeable colleagues. We are focusing on how we can continue to nurture their potential.

We understand that our customers value the service we provide through our presence on the high street. We are reviewing how we can best provide this face-to-face service and we may take advantage of opportunities to engage with new agency partners and seek new partnerships to enhance the products that we offer.

DEALING WITH COMPLAINTS

We always try to give our customers the best possible service but we do recognise that sometimes we fall short of the standard our customers expect.

We encourage any customer who is unhappy with the service they have received to let us know. We try to resolve any issues as soon as customers tell us about them. If we are unable to do this for any reason, our Customer Solutions Team steps in to make sure problems are resolved quickly and fairly.

We aim to resolve all payments issues within 15 days and all complaints within 28 days, or more quickly where possible. Any customers who are unhappy with our final response can escalate their complaint to the Financial Ombudsman Service (FOS).

In the second half of 2019, we received complaints from 7.01 out of every 1,000 mortgage customers (H2 2018: 10.88) and 0.85 out of every 1,000 savings customers (H2 2018: 1.37). These figures reflect a further improvement in service across both of our core areas.

We were also proud to be awarded Gold Winner for Most Efficient Complaint Handling in the UK Complaints Handling Awards 2019.

+51
Our Net Promoter Score

23
of our branches and agencies offer a Quiet Hour

SUPPORTING VULNERABLE CUSTOMERS

We want to deliver consistently excellent service for all of our customers. Some of our customers experience difficulties that may affect their ability to manage their finances or could create barriers to accessing our products and services.

To give them the support they deserve, a specialist team has been established which understand the needs of these customers and help them find solutions to overcome the obstacles that they face. The team offers advice and guidance through a dedicated customer helpline, as well as through colleagues in branches and call centres.

This includes providing documents in alternative formats such as braille and larger print, arranging British Sign Language interpreters in branches or Text Talk in our call centre. We also liaise with local authorities or trusted third parties where there are any concerns about the safety of our customers.

Earlier in the year, we trialled our Quiet Hour initiative which aims to help some of our vulnerable customers who may feel safer and more comfortable in a calmer environment. In branches, this means lights are dimmed, big screens are switched off, longer appointment times are provided and rooms are made available for quiet conversations.

After our initial eight-week trial of the Quiet Hour, fantastic feedback was received from customers and colleagues in the participating branches.

There are now 23 of our branches and agencies offering a Quiet Hour to better support customers who would otherwise find it difficult to visit the Society and receive face-to-face guidance.

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

> **Earlier in the year we trialled our Quiet Hour initiative to help some of our vulnerable customers who may feel safer and more comfortable in a calmer environment.**

DIGITALISE

Digital investment is an important part of making sure that the Society continues to create value for our members, colleagues and other stakeholders long into the future. Many of our customers value face-to-face service as well as online channels and we want to provide our customers with the flexibility to transact with us in the way that is most convenient for them.

We made important progress on our digital agenda in 2019 which will put us in a strong position to take advantage of opportunities in a constantly evolving market.

350
transactions a day now completed through automation

OPENING UP DATA TO HELP CUSTOMERS

In 2019, we became one of the first UK financial services organisations to successfully meet the standards of PSD2. This is a European Union (EU) law designed to encourage providers to create safer and more innovative payment services by establishing a single EU market for payments. PSD2 builds on previous laws by increasing customer rights, improving security and allowing customers to give permission for third-party organisations to access their account information.

USING DIGITAL TO BECOME MORE EFFICIENT

In the interest of improving our efficiency and customer experience, we are exploring opportunities to automate some of our processes. In 2019, we succeeded in automating six processes, meaning 350 transactions a day are being completed using robots. This reduces the amount of manual, repetitive tasks that our colleagues are required to undertake, allowing this time to be used adding value in other ways. Our Digitalise agenda is also helping us to progress towards our environmental goals, for instance by reducing the amount of paper we use.

You can read more about how we manage the rest of our environmental impact under our Protect priority on page 55.

BRINGING N&P INTO YBS

Further progress on finalising the integration of our N&P brand into YBS was made this year. During 2019 our commercial lending business was successfully relaunched under the YBS brand, and the final stage is to complete the migration of the existing book of N&P mortgages.

The final process is taking longer than we had originally expected, however this should be completed in 2020.

LAUNCHING OUR MORTGAGE PROCESSING PLATFORM

During 2019 we successfully launched our new Mortgage Sales and Origination (MSO) platform for our broker-led brand, Accord. This system reduces the amount of time taken to issue a mortgage offer for our straightforward applications.

The new platform provides benefits by improving our internal processes and the overall experience of the brokers who interact with us, as well as significantly reducing the amount of paper we use in this part of the business. We have already received positive feedback from brokers who cite the speed and ease of use of the system as particular benefits as this allows them to receive a response for their clients more quickly.

MSO also provides opportunities to further enhance our mortgage processing capabilities. We have started to look at rolling out this platform to our buy-to-let and YBS branded direct mortgages, and the system has the capability for future application programme interface (API) integration with brokers and other third party providers.

UNLEASH

Our ambition is to be a leading employer and unleash the potential of every colleague.

We are strengthening our culture of supporting and engaging all colleagues, as well as prioritising their wellbeing and promoting diversity and inclusion.

2 AWARD WINS
REBA Employee Wellbeing Awards

Supporting and engaging all colleagues

We are focusing on making sure that our people leaders are equipped with the tools they need to be able to understand our strategy and how it translates to their area of the business. This is important because it allows this message to be cascaded to their teams, helping our colleagues to appreciate how their contributions benefit the Society as a whole.

A number of activities have taken place in this area, including:

- Offering individual and confidential drop-in sessions on engagement with an independent expert.
- Introducing our one-to-one engagement coaching programme to explore how people leaders can improve their own personal engagement.
- The launch of our new colleague engagement survey, Peakon, helping us to gather honest feedback from our colleagues and use this to develop action plans.

To help embed our strategy, our Chief Executive Mike Regnier hosted 13 three-hour workshops for more than 300 of our people leaders. A total of 94% of surveyed colleagues who attended one of these sessions, or a subsequent cascade session, said they now had a clear understanding of our strategy – a 41% uplift from the last engagement survey.

The results of our first Peakon survey show engagement levels are now 7.4 out of 10, which is slightly lower than the average of 7.6 for other financial services organisations. Building strong engagement, and more specifically, leadership capability in this area, will continue to be our focus in the long term.

OUR COLLEAGUE WELLBEING PROGRAMMES

Over the last year we have continued to develop our colleague wellbeing programmes, focusing on their physical, emotional and financial health as well as supporting community and social connection in the workplace.

Colleagues can access resources such as our Employee Assistance Programme, an anonymous helpline for colleagues and their families, and Unmind, an online platform supporting colleagues with topics such as how to tackle stress and improve sleep. We also have 'Rest, Restore, Relax' rooms at two of our main office sites to provide a calm environment for reflection and prayer.

Supporting the mental resilience of our colleagues continues to be an area of focus for us, whether that means helping them deal with day-to-day stresses, the changing world of work or unexpected crises at home. With this in mind, in 2019 we partnered with Nuffield Health to run mental resilience workshops and webinars to help colleagues understand their own resilience and identify signs of stress. In 2020, we are also planning to set up a network of mental health first-aiders.

We are mindful of the link between financial difficulties and mental and physical wellbeing. In 2018 we launched a new financial wellbeing programme to give our colleagues the resources and support to be more in control of their money and reduce worries about personal finances. Our progress in mental health and financial wellbeing was also recognised with two award wins at the 2019 REBA Employee Wellbeing Awards.

CREATING A DIVERSE AND INCLUSIVE WORKPLACE

We are building an inclusive working environment, offering flexible working options, enhanced maternity and paternity pay and paid leave for caring responsibilities. As a result, we are proud to have been included in the charity Working Families Top 30 UK employers for the third year in succession, and placed in the Inclusive Top 50 Employers List. The Society and our colleagues were also winners in three categories in the National Centre for Diversity Grand Awards 2019.

Wherever we can, we remove or minimise any barriers that may prevent our colleagues from achieving their full potential. We value the diverse voices of our colleagues, as it is their unique experiences and contributions that enrich the Society and help to maintain our connection to our members and the communities in which we operate.

As colleagues, we have a shared responsibility to treat each other with decency and fairness, and view any form of discrimination, victimisation or harassment as unacceptable. We are fully committed to making sure there is no discrimination in the recruitment, retention, training and development of colleagues on the basis of any protected characteristic. Any complaints of discrimination are investigated and necessary steps taken where appropriate.

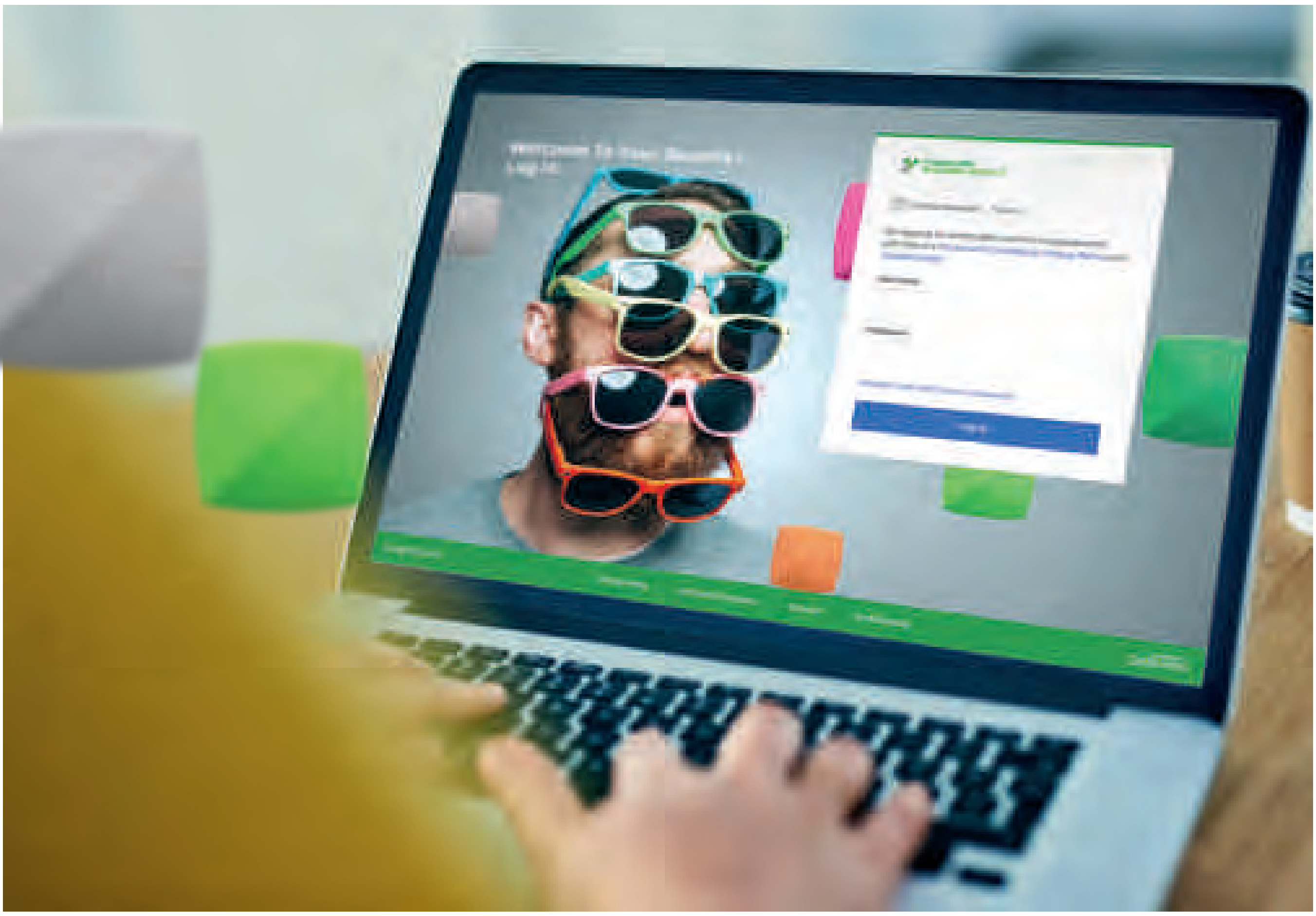
For the third year running we have published our gender pay gap, the difference between the average pay of men and women regardless of seniority. In April 2019 our mean gender pay gap was 30.5%, which is 0.8% higher than in 2018. The main driver for our gender pay gap is that we have more women in less senior roles. We regularly review our pay by grade to ensure that men and women are treated equally, and we are comfortable with our position in that respect. To bring this to life, if YBS were to have a 50:50 split of males and females at each level, our gender pay gap would reduce to 2.5%.

The full gender pay gap report is available at ybs.co.uk/your-society/inside-your-society/corporate-governance/policies/gender-pay-gap.html

LAUNCH OF NEW 'MY BENEFITS' PLATFORM

Over the course of 2018 and early 2019, we consulted with more than 200 of our colleagues to understand whether our approach to colleague benefits provided them with the level of support they need. Their feedback suggested that our colleagues were looking for a more flexible and personalised approach to benefits, as well as the ability to access their benefits information outside of work.

In October 2019, we launched My Benefits, a new online portal which enables colleagues to choose their personal benefits. We also enhanced the range of benefits from which our colleagues can choose – with options like critical illness, health assessments and a dental plan. We made improvements to our sick pay policy, and increased holiday entitlement for over 1,000 colleagues, mainly in customer-facing roles, and introduced the option for all colleagues to buy additional holiday. The new portal has proved to be a success, with the majority of colleagues proactively choosing their own benefits.



Providing opportunities for every colleague to develop and reach their potential

£1.48m invested in the training of our colleagues

OUR APPROACH TO LEARNING AND DEVELOPMENT

To continue to deliver our excellent customer service, we need to ensure that our colleagues are equipped with the skills and knowledge necessary for them to be effective in their roles. Our colleagues can access learning resources through face-to-face sessions as well as online and social learning portals.

We facilitate bespoke training sessions to help teams to become even more effective, and also offer structured management development programmes.

In 2019, we invested £1.48m (2018: £1.39m) in the training of our colleagues to help them develop their skills and competencies. In 2020, we are planning to conduct a full review of our learning programmes to provide an even better experience to our colleagues, and make sure they have the right tools to help them to reach their potential.

A total of 14 of our colleagues have successfully completed their apprenticeships since the launch of our scheme in 2016. We continue to use the apprentice learning route to support our existing colleagues learning new skills, from Level 3 apprenticeships to Level 7 masters programmes.

Currently nine of our talented colleagues have enrolled for the Building Societies Association (BSA) Masters in Strategic Leadership programme at Loughborough University, with an additional five colleagues having already graduated from the Masters since it launched in 2015.

RECOGNISING OUR COLLEAGUES' ACHIEVEMENTS

As well as helping our colleagues to build their career, we want them to feel recognised for the great work that they do. One way we do this is by celebrating the big moments in their lives and work. We have been using our annual recognition awards, Raising the Roof, since 2015 to celebrate colleagues who go the extra mile for our customers, colleagues, communities and the Society.

The scheme has two elements: monthly awards, which recognise the achievements of our colleagues all year round, and an annual event to celebrate those colleagues who have made the biggest difference to the Society.

Our Raising the Roof Awards 2019 took place in November to celebrate our colleagues' achievements. Attendees were selected by a judging panel after being nominated for the awards by their colleagues.

Making a positive impact on our communities

The Charitable Foundation donated to **360** UK charities in 2019

14,535 colleague volunteering hours donated to good causes

Our branch and agency network in 243 cities, towns and villages, alongside our office sites in Bradford, Leeds and Peterborough gives us the opportunity and scale to make a significant impact.

We are really proud of the positive impact we make thanks to our members and colleagues who are passionate about helping their communities to thrive. In 2019, the estimated value of our charitable giving and volunteering programmes is £1m.

Our 2019 community contribution

Funds raised for our charity partner, End Youth Homelessness	**£0.2m**
Funds donated through the Yorkshire Building Society Charitable Foundation	**£0.3m**
Value of the volunteering hours donated	**£0.3m**
Value of other donations to charities	**£0.2m**
2019 total	**£1.0m**

This is a combination of contributions made directly by the Society, our members and our colleagues.

HELPING THROUGH VOLUNTEERING

All of our colleagues are given up to 31 hours (pro rata) of paid leave each year to volunteer and are actively encouraged to take advantage of this opportunity. Since the launch of the programme in 2007, our colleagues have donated over 120,000 hours of volunteering time to charities and good causes. Over the years we made more volunteering opportunities available and in 2019, 51% of colleagues took part, donating 14,535 hours in total.

HELPING MEMBERS' SMALL CHANGE MAKE A BIG DIFFERENCE

The Yorkshire Building Society Charitable Foundation was established 21 years ago to help the communities where our members and colleagues live and work. It has donated over £8.1m during that time.

The Charitable Foundation is an independent registered charity governed by a board of external and internal trustees. It makes donations of up to £2,000 to charities which are nominated by members and colleagues. The Charitable Foundation provides support to many causes, focused on improving health, alleviating poverty and saving lives. In 2019, the Charitable Foundation donated £0.3m to more than 360 charities around the UK.

Donations are made possible thanks to members who take part in the Small Change Big Difference® scheme. This scheme allows members to donate pennies from the interest they earn on their savings accounts or round up their mortgage payment and donate the difference once a year.

To find out more about the charities supported by The Charitable Foundation and the Small Change Big Difference® scheme please visit ybs.co.uk/charitablefoundation.

Yorkshire Building Society Charitable Foundation donated £500 to Honley CE (VC) Junior, Infant and Nursery School for trikes.

EXPAND

We want to reach more people and make sure we are supporting our members and customers, both new and existing, in underserved markets. We have been working on a number of projects in 2019, and we are ready to expand into more areas and explore more partnership opportunities in 2020.

8
branches transferred to trusted agency partners

3
new commercial lending regional hubs

MAINTAINING FACE-TO-FACE SERVICE

As well as improving the digital services that we offer, we are committed to continue offering a national face-to-face network. As we are owned by our members, we need to ensure that our network operates in an appropriate number of locations, as well as with an appropriate mix of branches and agencies. Our agency proprietors, who are local business owners providing our services from their premises, play a key role in our face-to-face retail network. The use of branches and agencies helps us to strike the right balance between providing our members with face-to-face service and ensuring that our financial commitments do not exceed a level that we can sustain in the long term.

We have been reviewing our mix of branch and agency locations and have been expanding where we believe that a new agency will enhance our network. We have also turned eight of our existing branches into agencies in 2019 and will continue this review to adapt to future changes in customer preference.

EXPANDING OUR COMMERCIAL LENDING REACH

In June 2019, we relaunched YBS Commercial Mortgages. As part of these changes, we intend to transform our commercial lending business into a national lender. This requires significant investment in order to expand our geographic reach. To reach these new markets, in 2019 we started to establish regional hubs in Birmingham, Bristol and Manchester using our existing branches. Through these hubs, we aim to provide high-quality individual service, with each hub having a dedicated team of knowledgeable lending managers who have existing relationships with brokers.

In 2020, we will be engaging with more brokers and investing more in our product range, our systems, and our lending teams.

PROTECT

By focusing on protecting the Society, our stakeholders and our resources, we can continue to support our members and stakeholders for the long term.

Our Protect priority focuses on ensuring that we operate sustainably by maintaining our commercial and financial performance, managing risks effectively and minimising our environmental impact.

OUR COMMERCIAL PERFORMANCE

TRADING

The Society has delivered a good trading performance by delivering levels of lending and savings flows that balance the need for growing the balance sheet and managing our margins in a challenging environment.

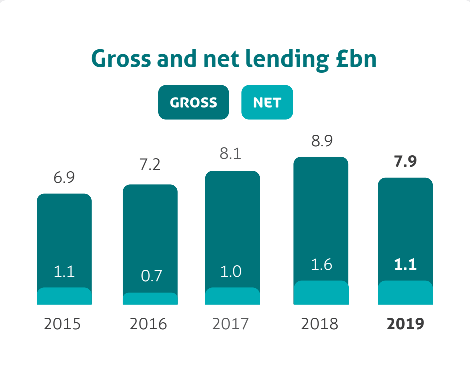
Mortgages	2018	2019
Gross lending	£8.9bn	£7.9bn
Net lending	£1.6bn	£1.1bn
Market share (gross lending)	3.3%	2.9%
Mortgage balance growth	4.7%	3.5%
Savings	**2018**	**2019**
Retail savings balance growth	2.1%	3.8%
Retail savings inflow/outflow	£0.6bn	£1.1bn
Average savings rate differential vs market average	0.37%	0.34%

Definitions of our Alternative Performance Measures are provided on pages 230 to 233.

MORTGAGE PERFORMANCE

The Society has delivered a controlled trading performance by balancing new business acquisition and customer retention more actively during 2019. There have been a number of changes to our product ranges and propositions through the year, mainly focusing on delivering Real Help with Real Life.

As a result of the margin pressure across both mortgages and savings, the amount of net interest margin made by the Society has fallen to 1.06% from 1.11% in 2018. This margin pressure is being experienced across the industry and we have worked hard to mitigate the degree of margin erosion that we have experienced. In addition we have been able to offset this impact by making efficiencies in other areas of the business and widening our offering.



SAVINGS PERFORMANCE

Our retail savings performance is monitored by tracking the net difference between savings deposits and withdrawals in any given period. Our overall savings portfolio has grown by £1.1bn (2018: £0.6bn). This level of savings growth aligns well to our mortgage lending and has allowed us to maintain a balance between our assets and liabilities throughout the year.

In 2019, we relaunched our entire savings range and brought a number of new products to market with the intention of supporting more customers towards greater financial wellbeing. A challenge we constantly face is how we determine the rates we can afford to pay our savings customers. The amount we can pay is in part influenced by the income we earn from our mortgage lending, and so we have to make sure that the rates we pay safeguard our long-term sustainability as an organisation.

During 2019, we paid a rate to our savings customers that was, on average 0.34% higher than the average rate paid by our competitors across the market (2018: 0.37%).

WHOLESALE PERFORMANCE

The majority of our funding comes from retail deposits but we also utilise the wholesale funding markets in order to:

- Diversify our funding mix to ensure we do not place too much reliance on one source of funding
- Support the level of liquidity we need to hold
- Balance the flows of liquidity with those we see on our existing customer books.

We have started to repay our Government borrowing earlier than the contractual due date. This helps to mitigate the refinancing risk at maturity.

NON FINANCIAL INFORMATION STATEMENT

Yorkshire Building Society has complied with the requirements of s414CB of the Companies Act 2006 by including certain non-financial information within our Annual Report and Accounts, intended to help stakeholders understand our position on key non-financial matters.

Information regarding the following matters can be found on the following pages:

The Society's business model	**21**
Environmental matters	**55**
Employees	**40 to 42, 82**
Social matters	**33 to 36**
Respect for human rights	**40 to 41**
Anti-corruption and anti-bribery matters	**94**
Principal risks	**51**
Where principal risks have been identified in relation to any of the matters listed above, including a description of how the principal risks are managed.	
All key performance indicators of the Group, including those non-financial indicators	**2 to 3, 46, 48 to 50**
Business performance	**26 to 50**
Includes, where appropriate, references to, and additional explanations of, amounts included in the entity's annual accounts.	

Section 172 Companies Act 2006

Section 172 of the Companies Act 2006 sets out the duties of Company Directors. This does not apply to YBS Directors as we are building society not a company, but the UK Corporate Governance Code expects boards to report on how they have considered the matters set out in Section 172 in its decision making.

The Society's Board, therefore, confirms that it considers that it has acted in a way that, in good faith, would be most likely to promote the success of the Society for the benefit of its members and customers whilst having regard to the matters set out in Section 172 as they apply to a building society.

Further information can be found in the Corporate Governance Report on page 63.

Our financial performance

We are pleased to report a good set of financial results for 2019, outperforming our plan in a number of important areas and maintaining a strong and sustainable balance sheet. This has been achieved despite competitive market conditions for both mortgages and savings, along with considerable uncertainty and volatility in the wider economy.

	2018	2019
Statutory profit before tax	£193m	**£167m**
Core operating profit	£181m	**£185m**
Common equity tier 1 capital	16.3%	**16.6%**
Liquidity ratio	13.9%	**13.8%**
Net interest margin	1.11%	**1.06%**
Cost to core income ratio	63%	**60%**
Management expense ratio	0.73%	**0.66%**
Leverage ratio	5.8%	**5.8%**

In light of strong competition in the market and downward pressure on mortgage margins, we have shifted the focus of our lending strategy from a volume based approach to one based on both volume and value, through utilising our enhanced pricing capabilities. This will ensure that our lending creates sustainable returns for the Society and helps to retain our high levels of asset quality and low levels of arrears. This also helps us to be self-sustaining from a capital generation perspective. Writing a lower volume of business that is of a higher quality has resulted in more controlled balance sheet growth, when compared to 2018, but has helped to protect our long-term sustainability.

Our financial performance is monitored by our Board, who look at statutory profit before tax and core operating profit. Core operating profit excludes items that do not reflect the Society's ongoing activities, and our Board considers this to be a more appropriate measure of underlying performance.

INCOME STATEMENT

£m	2014	2015	2016	2017	2018	2019
Net interest income	549	535	476	502	472	465
Fair value volatility	(11)	(7)	1	13	20	(22)
Net realised gains	1	2	2	6	8	6
Other income	26	18	36	15	10	8
Total income	**565**	**548**	**515**	**536**	**510**	**457**
Management expenses	(331)	(346)	(346)	(340)	(311)	(290)
	234	**202**	**169**	**196**	**199**	**167**
Loan loss provisions	(20)	(13)	-	10	1	-
Other provisions	(26)	(16)	(17)	(40)	(7)	-
Statutory profit before tax	**188**	**173**	**152**	**166**	**193**	**167**

In 2019, statutory profit before tax was £167m (2018: £193m) and core operating profit was £185m (2018: £181m). The main difference between statutory and core operating profit this year is fair value volatility. We recorded a fair value loss, largely as a result of the Bank Rate environment, and the impact this has on our mortgage pipeline interest rate swaps. These are mostly timing differences which will reverse in future years.

CORE OPERATING PROFIT

£m	2014	2015	2016	2017	2018	2019
Statutory profit before tax	**188**	**173**	**152**	**166**	**193**	**167**
Reverse out:						
FSCS levy	12	11	5	2	(1)	-
Non-core investments	(11)	1	(1)	(6)	(7)	(2)
Timing differences - fair value volatility	22	6	(1)	(7)	(13)	24
Credit day 1 fair value	(32)	(4)	(3)	(4)	(3)	(2)
Restructuring provision	-	-	-	14	10	1
Other non-core items	-	(2)	(24)	(5)	2	(3)
Core operating profit	**179**	**185**	**128**	**160**	**181**	**185**

NET INTEREST INCOME

Net interest income in 2019 has fallen by £7m to £465m from £472m in 2018. Trading performance in the year has been characterised by severe price competition in the mortgage market, creating significant pressure on margins. Our improved pricing capability, coupled with a more controlled growth strategy, has helped us to guard against these impacts whilst still managing to successfully grow both our asset base and our retail deposit balances. We have also continued to pay above market savings rates to our members, despite increasing competition in this market as well. Net interest margin has decreased to 1.06% (2018: 1.11%), reflecting the challenging trading environment in which we operate.

FAIR VALUE VOLATILITY

In addition to the losses recorded on mortgage pipeline interest rate swaps which do not qualify for hedge accounting and will reverse in future reporting years, we generated gains from our holdings of VISA and Vocalink shares of £2.4m and £1.4m respectively, and recognised a gain on our our legacy structured asset portfolio of £1.6m.

NET REALISED GAINS

Realised gains reflect profits made on disposing some of our liquid asset investments, predominantly gilts, during the year.

OUR OTHER INCOME

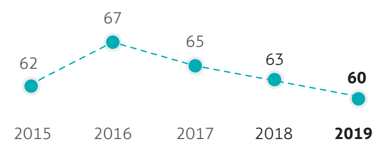
Other income reduced by £2m compared to the prior year. The underlying levels of income from our secondary lines of business such as insurance and shareplans have remained broadly stable. The decrease relates to non-recurring costs associated with intangible asset write-offs.

MANAGEMENT EXPENSES

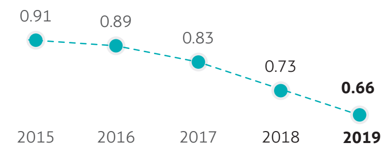
Given the pressures faced in retail markets, it is essential that we deliver against our ambition to reduce costs and become more efficient. We have made some major changes in the last couple of years to our products, our customer-facing network and our office site operations, which have all contributed towards another year-on-year cost reduction to £290m in 2019 (2018: £311m). We have managed to achieve this alongside delivering investment projects such as our new mortgage application platform for brokers. We have also made additional investment in our IT capabilities, improved our operational resilience and invested in our digital programme. The progress we have made on managing our costs can be seen by looking at the cost to core income ratios over the past five years.

The cost to core income ratio, which excludes fair value volatility, is 60% in 2019, down 3% from 2018. The reduction in costs has been achieved at the same time as growing both our mortgage and savings balances. This results in a fall in the management expenses ratio to 0.66%.

Cost:core income ratio %



Management expenses (cost to mean assets) %



PROVISIONS

Provisions include those set aside to cover losses on our loan portfolio, customer redress, and a number of small specific items. Due to the continued low levels of default on our mortgage portfolio and growth in the House Price Index (HPI), the net charge to the income statement for our loan loss provisions this year was £0.2m (2018: £0.4m release). The charge for our other provisions was £0.4m, reflecting an increase of £2m to the provision for PPI, largely being offset by provision releases for other elements of customer redress.

TAXATION

Our 2019 tax charge is £38.3m (2018: £42.7m) which represents an effective tax rate of 23.0% (2018: 22.2%).

This is higher than the UK statutory corporation tax rate of 19.0% (2018: 19.0%), primarily due to a charge of £7.7m (2018 £9.2m) for the banking surcharge.

BALANCE SHEET

The increase in our mortgage balances has been closely matched by a corresponding increase in retail funding.

£bn	2014	2015	2016	2017	2018	2019
Liquid assets	4.8	4.4	4.7	6.1	5.5	5.6
Mortgage and other loans	32.2	33.3	34.1	35.1	36.7	38.0
Other assets	0.6	0.5	0.8	0.8	0.9	0.7
Total assets	**37.6**	**38.2**	**39.6**	**42.0**	**43.1**	**44.3**
Retail savings	27.2	27.4	28.7	28.9	29.6	30.7
Wholesale funding and other deposits	7.5	7.9	7.9	9.8	10.1	9.9
Other liabilities	0.6	0.5	0.5	0.3	0.3	0.4
Total liabilities	**35.3**	**35.8**	**37.1**	**39.0**	**40.0**	**41.0**
Remunerated capital	0.3	0.3	0.3	0.6	0.6	0.6
Reserves	2.0	2.1	2.2	2.4	2.5	2.7
Total members' interest, equity and liabilities	**37.6**	**38.2**	**39.6**	**42.0**	**43.1**	**44.3**

LIQUIDITY

We have continued to efficiently manage our liquidity and have maintained our liquidity ratio at a similar level to last year at 13.8% (2018: 13.9%). Throughout the year we remained above the liquidity thresholds set by the regulator, but also recognise that holding excess liquidity does not provide the best returns for our members.

We have also further diversified our liquidity portfolio across a range of Level 1 High Quality Liquid Assets (HQLA), in line with our balance sheet strategy.

WHOLESALE FUNDING

We have further diversified our funding programme this year with our first ever Residential Mortgage Backed Security (RMBS) issuance in the US market. We have also issued two covered bonds and Senior Non Preferred (SNP) bonds to support our capital position.

In addition, we executed a successful liability management exercise to buy-back some inefficient Tier 2 capital and made a substantial repayment of Funding for Lending Scheme (FLS) funding towards the end of the year.

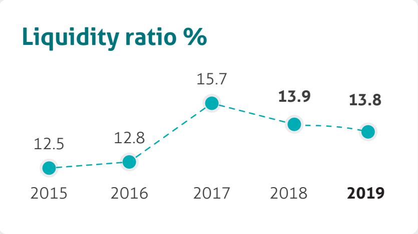
ARREARS

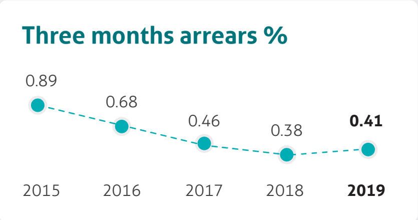
The quality of our mortgage portfolio is monitored on a monthly basis using a number of indicators, the most important being the percentage of outstanding retail mortgage balances in arrears by three months or more (including possessions). The quality of our loan book has remained strong, with the value of these loans representing 0.41% of our mortgage book at 31 December 2019 (2018: 0.38%).

The industry average for mortgage arrears is measured as the number of accounts which are more than three months in arrears (including possessions). At 0.56% (2018: 0.50%) our performance continues to remain significantly better than the industry average of 0.76% (2018: 0.80%).

At 31 December 2019, we had 63 retail mortgage properties in possession (2018: 85). The amount written off our loans and advances to customers in 2019 was £2.0m (2018: £3.0m).

Our consistently low levels of arrears and possessions reflect the high quality lending that we continue to write, as well as our prudent approach to risk.





CAPITAL

Our capital position has remained strong throughout 2019 and our key capital ratios compare favourably to our 2018 position. Our Common Equity Tier 1 ratio, which measures the relationship between our strongest form of capital (largely accumulated reserves) and our risk weighted assets, was 16.6% (2018: 16.3%). Our leverage ratio, which compares Tier 1 capital with total assets, was 5.8% (2018: 5.8%). The successful issuance of SNP in 2019 ensures that we are fully compliant with end state Minimum Required Eligible Liabilities (MREL) regulations.

Principal risks and uncertainties

The Society has a risk profile that changes as the economic environment changes around us. Our risk management framework is intended to be used by colleagues to manage the risks we face. The categories of risk that currently impact us most significantly along with the ways that we mitigate those risks are described more fully in the Risk Management Report which starts on page 87.

A summary is also noted below:

Risk	Principal mitigation	Further detail found on
Retail and Commercial Credit Risk	The Society sets a risk appetite for its retail and commercial lending activities which manages exposure to higher risk lending areas, and monitors adherence to this.	page 91
Treasury Risk	The Society sets a risk appetite for treasury risk and monitors adherence to this. It adopts a low risk approach to its treasury activities, investing most of its liquidity in the highest quality assets.	page 91
Funding and Liquidity Risk	The Society sets a risk appetite and stress tests its positions against this risk appetite. The Society operates a diversified funding base, primarily through retail savings, supported by a strong wholesale funding franchise.	page 92
Market risk	The Society adopts a low risk approach to market risk, and stress tests all positions against a range of scenarios.	page 92
Operational Risk	The Society operates an internal control framework in line with the Board risk appetite and monitors adherence.	page 93
Model Risk	The Society operates a Model Risk management framework which includes monitoring of model risk appetite.	page 93
Capital Risk	The Society maintains a capital risk appetite and regularly stress tests its positions against severe scenarios.	page 93
Compliance & Conduct Risk	The Society operates an internal control framework in line with the Board risk appetite and monitors adherence.	page 94

We recognise that the environment within which we operate and the nature of the threats we face are continually evolving. Consequently, we continue to invest in our risk management capability ensuring emerging and evolving risks continue to be closely monitored, and that timely and appropriate action is taken to protect the interests of the Society and our customers. Significant emerging risks are regularly reviewed through the senior risk committees and are considered as part of our planning process.

MACROECONOMIC ENVIRONMENT (MARKET RISK)

Economic uncertainty in the UK

There has been continued uncertainty surrounding the UK's exit from the EU. Through this period, the economic environment has been continuously monitored through reporting by our strategic economist through the quarterly Chief Risk Officer report to Group Risk Committee (via Executive Risk Committee) and is discussed at the monthly Asset and Liability Committee (ALCO). The general election in December 2019 has brought with it a degree of clarity for the Society but uncertainties remain with regard to understanding the economic risk environment. Following the ratification of the withdrawal agreement in January 2020, until the transition period is successfully concluded with new arrangements agreed between the UK and EU, there is a continued risk of disruption to the UK economy and financial system.

Market pressures on core business

We have seen pressure on margins for both mortgages and savings driven by a combination of the ring-fencing of the retail banks and a need across the industry to pay back lending from the Government following the financial crisis. A continuation of low interest rates is likely to constrain margins; although this combined with rising wage growth should help affordability for homeowners.

Funding markets and government schemes

We have considered, and factored into our five year Corporate Plan, anticipated pressures on funding markets and the end of Government funding schemes such as Funding for Lending Scheme (FLS) and Term Funding Scheme (TFS). We will ensure a stable and diversified funding base is maintained, to support lending and to meet operational requirements. Repayment timings of FLS and TFS have been phased in such a way to allow for greater flexibility to funding plans in addition to reducing refinancing risk. Our Plan anticipates an increase in funding costs which has been factored into margin projections.

Increased competition and new technology

The activities of challenger banks and FinTech firms, as well as rapidly accelerating digital transformation of direct competitors, continues to gather momentum, further serving to pressure margins as cost to income ratios fall across the sector. Consumer expectations influenced from other sectors and increasingly within financial services, further increase the risk of the Society losing relevance amongst savers and home buyers. Digitalisation of the business in order to respond to market conditions may create a need to further enhance our risk management capabilities across a number of categories. The cost of delivering the level of change necessary to keep pace with rapidly changing technology may also prove unsustainable and require investment choices which may not fully meet customer expectations.

Climate change risk

We have increased our focus on managing the risks from climate change, which includes taking a more strategic approach to this important risk area. In line with regulation that was published during 2019, new responsibilities have been allocated to Executive Committee members relating to risk management, scenario analysis, disclosure and governance requirements. We will continue to develop our approach to managing the financial risks from climate change in order to meet the increasing expectations of our stakeholders.

OPERATIONAL RESILIENCE (OPERATIONAL RISK)

New and evolving cyber security threats

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

Ensuring the provision of resilient services

Traditionally, operational resilience has largely referred to the ability to recover from an incident in the shortest time possible. As set out within the recent regulatory papers on this topic, operational resilience is evolving to one that assumes that major operational disruptions will occur and seeks to ensure that firms are able to prevent, adapt, respond to, recover and learn from operational disruptions. Customer and regulatory expectations have changed over time and any interruption in service may result in significant reputational damage. Consequently, we continue to maintain our focus on the resilience of our most important business services to ensure they remain safe and reliable for the benefit of our customers.

Keeping our IT capabilities current and in line with customer expectations

The ageing and diverse IT infrastructure, software, applications, satellite IT and use of third party packages present within institutions across the UK financial services sector, expose these firms to increasing operational risks. As IT components age, their fit and value often deteriorate whilst cost and risk often conversely grow. Moreover, future digitalisation and modernisation initiatives may force firms to use old technology in ways for which they were not designed. Over the last couple of years, we have developed our approach to managing and mitigating our legacy IT risks. Our progress has been reported to the Board at least annually and the Executive Committee now allocates a proportion of the Society's change portfolio investment towards legacy IT risk mitigation. We will continue to review and monitor the Society's legacy IT position, in particular those that could impact upon the firm's important business services.

COMPLIANCE & CONDUCT RISK

Rapidly evolving financial crime threats

We operate in a hostile financial crime environment. Continued focus on our financial crime capability remains paramount in order to keep these evolving exposures within our risk appetite. We have continued to invest in this area, focusing particularly on money laundering, customer due diligence and Open Banking compliance by looking at appropriately upgrading business standards, due diligence, IT and people capability.

Continued focus on values and behaviours

Compliance and conduct are central to our values and behaviours. Ongoing focus and robust challenge will be required to keep pace with the rapidly-changing legal and regulatory environments.

Outlook

Significant competition in the UK residential mortgage market, as ring-fenced banks and new entrants seek to gain share, looks set to continue over the medium term. We have adapted our approach in order to meet this challenge and we are enhancing our digital capabilities and investing in our various customer channels, offering our customers better access to our services while also making them more efficient. Focusing our initiatives on providing Real Help with Real Life also allows us to focus on the segments where we see customers are not being served effectively by the broader market.

Our efficiency programme has delivered in line with our expectations and we intend to reduce costs further in the coming years, whilst continuing to grow our business. In light of the competition in the markets, we will continue to evaluate, and focus on improving, our products and services with the intention of operating sustainably over the long term.

2020 initiatives that we will be working on and delivering include:

- Transforming the Society into a more digital organisation through further investment.

There will be three main areas of focus:

1. We will be making it easier for customers to access and manage our services online and via their mobile devices.
2. We will continue improving our processes, removing paper and transforming the way we work to make it easier for colleagues to deliver for our customers as well as reduce costs.
3. We will be improving the payment services we provide, simplifying our processes and making it quicker and easier for our customers to move money in and out of their savings accounts.

- Continuing our efficiency programme by migrating all of our N&P residential mortgage customers onto a third party system. This will allow the N&P systems to be decommissioned and will reduce costs as well as the risks relating to legacy IT systems.
- Focusing on efficiency, we will complete the disposal of the Charlton Kings office in Cheltenham with operational activity having moved to the Bradford head office site. We will also move our Peterborough office to an alternative site offering lower running costs and a better experience for colleagues based at that site.
- Amongst our priorities is the further investment in our mortgage systems, in order to deliver further significant efficiency improvements to brokers and customers through the mortgage application process. This will also allow us to continue to develop our product offering and serve a wider customer base.
- We will be continuing the work in relation to our Internal Ratings Based (IRB) project, to address feedback from the PRA on the second phase of the application which was submitted during 2018.
- Further work on making improvements to our legacy IT systems to mitigate risk and improve our services. Specific deliverables in 2020 will include a new network for all of our branches and office sites, a new telephony system and a refresh of our desktop estate.

VIABILITY AND GOING CONCERN

The Directors confirm that they consider that the Society has adequate resources to continue in existence for at least 12 months from the date of signing these financial statements, and so the requirements of the principles surrounding going concern accounting requirements can be met. This confirmation is made after having reviewed assumptions about future trading performance, liquidity requirements, capital requirements and sustainability contained within our Corporate Plan. The Directors also considered potential risks and uncertainties in business, credit, market and liquidity risks, including the availability and repayment profile of funding facilities. Based on the above, together with available market information and the Directors' knowledge and experience of the Society and markets, the Directors continue to adopt the going concern basis in preparing the accounts for the year ended 31 December 2019.

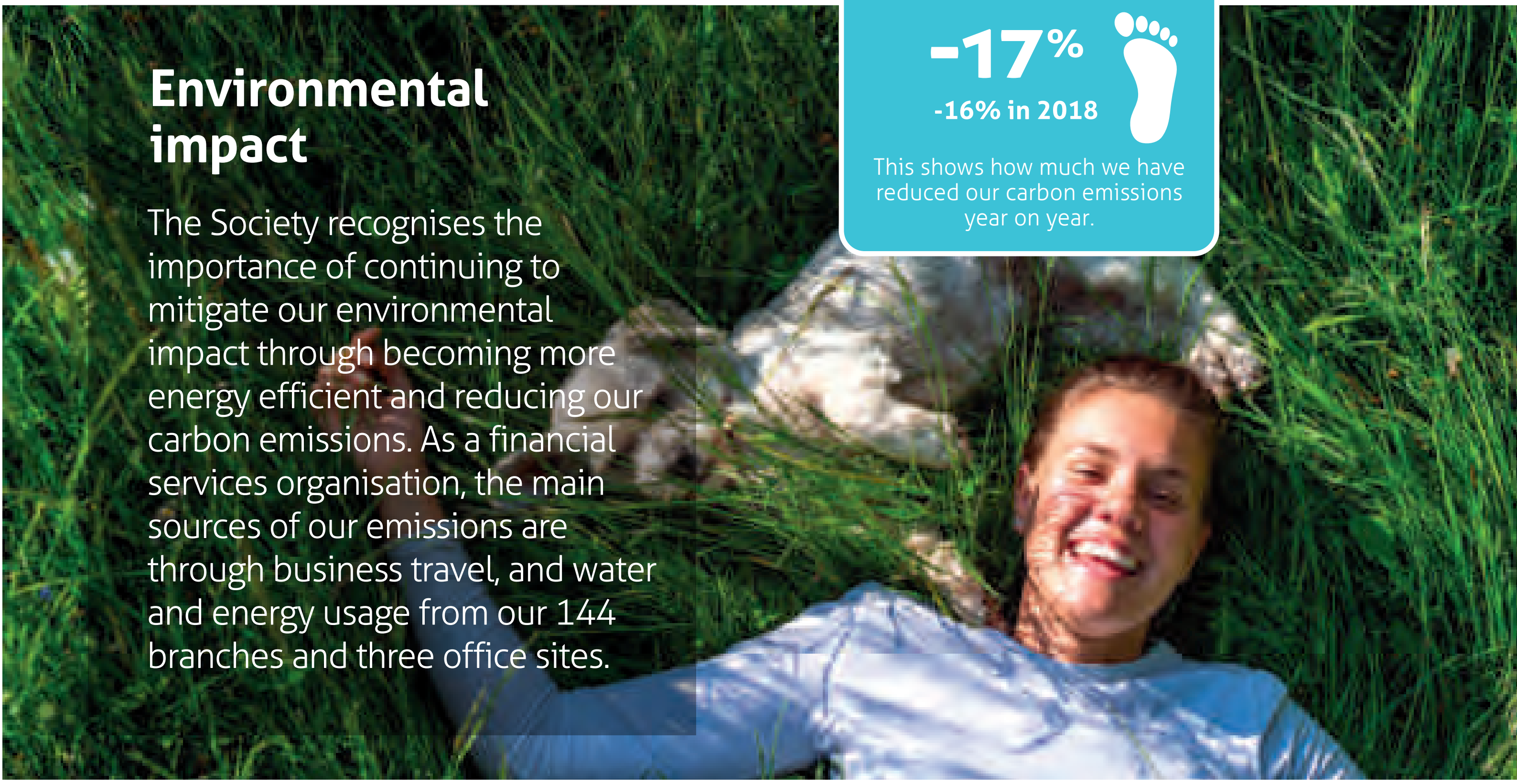
For the purposes of the viability statement the Directors have determined three years to be the most appropriate period to consider as this covers the typical term of a large proportion of our products and is the longest period over which the Board considers that it can form a reasonably firm view over the possible macroeconomic environment and associated key drivers of business performance.

The Directors have assessed the viability of the Society over the next three years to December 2022, taking account of the Society's current position and the potential impact of the risks documented elsewhere in this Strategic Report. The Society's financial planning process comprises an Operating Plan for the next financial year, together with a forecast for the following four financial years. Achievement of the one-year Operating Plan has a greater level of certainty and is used to set near-term targets across the Society. Achievement of the five-year Corporate Plan is less certain than the Operating Plan, but provides a longer term outlook against which strategic decisions can be made.

The financial planning process considers the Society's profitability, capital position, liquidity and other key financial metrics over the period, including impending regulatory changes such as MREL. These metrics are subject to sensitivity analysis through the annual Group ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process). The Society stresses its capital and liquidity plans, under 'severe but plausible' stress test scenarios, in line with PRA requirements. This includes a scenario that was more severe than the global financial crisis and encompassed a wide range of UK macroeconomic outcomes.

The ICAAP stress test ensures that the plan projections for capital requirements and capital generation are resilient to stresses should the environment deteriorate beyond the levels currently envisaged. The Society maintains capital buffers that are sufficient to absorb the level of capital erosion in the stress scenario over and above its minimum capital requirement, ensuring that the Society can continue to meet its minimum capital requirements throughout a 'severe but plausible' stress. The ILAAP stress test ensures that the Society holds adequate liquid assets in terms of both quality and quantity sufficient to meet both its business as usual liquidity needs and any increased requirement that could occur as a result of the Society entering into a period of stress. Planned liquidity levels meet the Society's key risk appetite measures over a period of three years.

The Board has undertaken a robust assessment of the principal risks and uncertainties that could threaten the business model, future performance, solvency or liquidity of the Society. Based on the assessment set out above, the Directors have a reasonable expectation that the Society will continue in operation and meet its liabilities as they fall due over the period to December 2022.



Environmental impact

The Society recognises the importance of continuing to mitigate our environmental impact through becoming more energy efficient and reducing our carbon emissions. As a financial services organisation, the main sources of our emissions are through business travel, and water and energy usage from our 144 branches and three office sites.

Carbon footprint

-17%

-16% in 2018

This shows how much we have reduced our carbon emissions year on year.

Year	2013	2014	2015	2016	2017	2018	2019
Our Carbon Footprint (tCO2e)	10,509	10,875	10,136	9,297	7,555	6,357	5,253

Although we have continued to grow our business and our balance sheet in 2019, our carbon emissions have reduced by 17%. This was driven by a combination of having fewer colleagues and branches, as well as improvements in the energy efficiency of our buildings.

Our carbon footprint has been independently verified and a full breakdown is available on page 222.

As well as a responsibility to reduce our direct carbon footprint we also have a responsibility to reduce our indirect emissions, including those emitted through the sourcing of materials from our suppliers. We will be working on increasing the scope of our carbon footprint reporting in 2020.

ENERGY EFFICIENCY

In 2019, a number of actions have been taken to improve our energy efficiency, and in turn our carbon footprint. This includes replacing old, inefficient equipment with more sustainable alternatives. During 2019, we began updating our servers to solid state devices which have much lower energy usage. Our solar panels at our Bradford office site contributed to 5% of the site's usage, helping to reduce our carbon emissions.

We have begun to review the energy efficiency of our branch and office sites and will focus on further improving their energy performance in 2020.

REDUCING WASTE

Reviewing how we dispose of our waste is another area where we are focusing on reducing our environmental impact. During the year the proportion of waste we divert from landfill was 96% compared to 97% in 2018. Waste diverted from landfill is sorted by our contractors and sent to different sites to be reused, recycled or incinerated to produce energy. Improving how we dispose of our waste is another area of focus for 2020.

The use of paper in an organisation can also have a detrimental impact on the environment. In 2019 we launched a new paperless initiative to replace paper-based processes with digital ones. Through this we are able to make our processes more efficient as well as reducing our environmental impact. In addition, we have also started sending our colleagues an individual paper consumption report to show how we can all have an impact on reducing the cost to our environment. In 2020, our members will also be encouraged to support in reducing our paper consumption. The AGM literature will be sent electronically to all members who have registered an email address with us, unless they opt to receive it by post.

CARBON NEUTRAL

The Society is proud to have maintained our certified carbon neutral status in 2019 by purchasing carbon offsets which support two projects in developing countries.

Carbon offsetting is an internationally recognised method of balancing out carbon emissions by investing in projects that will reduce the same amount of carbon emissions elsewhere. Whilst we recognise the duty to reduce our own emission levels year on year, carbon offsetting provides us with an opportunity to compensate for the emissions that we do produce.

OUR LEADERSHIP TEAM

Our Board is responsible for running the Society on the behalf of our members, who vote to elect all Directors to the Board at our Annual General Meeting (AGM). More information on the role of the Board can be found in the Corporate Governance Report on page 63.

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

We also have an executive team which is responsible for managing the Society and is made up of our Executive Directors (who are also Board members) and our Chief Officers.

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

COMMITTEE MEMBERSHIP KEY:

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

Chairman

John Heaps LLB

CHAIRMAN

BGNC RC

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

Background and career

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

Skills and experience

John has extensive commercial and legal experience. He had an important role in shaping Eversheds' long-term strategy and helped drive considerable change, as it grew into a major international law firm.

Other roles

Member of the Law Society Business and Oversight Board, member of the Audit and Constitutional Committees of the International Bar Association and a member of the board of TheCityUK.

"The Board I chair is responsible for developing, approving and overseeing the implementation of the Society's strategy. In this rapidly changing market, with the increasing move towards digital services, our aim is to stay true to our mutual roots and our historical role of helping people into their homes, helping them to build their financial wellbeing and offering excellent long-term value and service for our customers."

Non-Executive Directors

Neeta Atkar BSc

INDEPENDENT NON-EXECUTIVE DIRECTOR

GRC AC

Joined our Board in 2017.

Background and career

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

Skills and experience

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

Other roles

Senior Independent Director and Chair of Risk Committee for the British Business Bank plc and Non-Executive Director and Chair of Risk Committees of Nomura Europe Holdings plc and other group companies. Neeta has also been a magistrate for over 20 years.

"Having worked in the industry for over 30 years, initially as a Central Banker, then a regulator and finally as a practitioner, I have the benefit of having experienced a number of different economic environments, regulatory regimes and practices at firms. Together this enables me to better assess the appropriateness of our strategy given what we're all experiencing today and in the future."

Non-Executive Directors

Guy Bainbridge MA (Cantab), ACA

INDEPENDENT
NON-EXECUTIVE DIRECTOR

GRC AC

Joined our Board in January 2019.

Background and career

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

Skills and experience

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

Other roles

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

"I bring nearly 40 years of experience in the retail banking industry to help shape the Society's strategy, and through my role as Chair of Audit Committee contribute to clear financial reporting and a strong control environment."

Alison Hutchinson BSc, CBE

INDEPENDENT
NON-EXECUTIVE DIRECTOR

GRC RC BGNC

Joined our Board in 2015.

Background and career

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

Skills and experience

Alison has a strong background in technology and financial services as well as extensive experience in the retail financial services sector. She has more than 30 years of management and Board level experience. Alison was awarded a CBE in 2016 for services to the economy and charities.

Other roles

Chief Executive of The Pennies Foundation and a Non-Executive Director of Liverpool Victoria Friendly Society and the Senior Independent Director of DFS Furniture plc.

"Throughout my career in technology, financial services and charity industries, I've combined a passion for true customer centricity with using digital innovation to improve organisations at every level. I'll continue to make sure our strategy embraces the digital revolution whilst also recognising the need of members and colleagues. Having previously led a mortgage company, my inquisitiveness and interest in ensuring our range of products and services meet more of our members' requirements is ever-present."

Gordon Ireland BSc, FCA

INDEPENDENT
NON-EXECUTIVE DIRECTOR

GRC AC

Joined the Board in 2015.

Background and career

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

Skills and experience

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

Other roles

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

"I use my experience as a former auditor and business advisor to contribute to the development of the Society's strategy and I am committed to ensuring we continue to provide value to our members, customers and all our stakeholders."

Executive Directors

Mark Pain BSc, FCA

INDEPENDENT NON-EXECUTIVE DIRECTOR AND VICE CHAIRMAN

GRC BGNC

Joined our Board in 2013 and became Vice Chairman and Senior Independent Director in 2015.

Background and career

Mark spent 16 years with Abbey National Group, including roles as Group Finance Director, Chief Executive of Abbey National Treasury Services and Customer Sales Director. He was also Group Finance Director at Barratt Developments plc. He has 10 years' experience in a number of Non-Executive Director roles across different sectors, including LSL Property Services plc, Punch Taverns plc, Johnston Press plc, Aviva Insurance Ltd and Ladbrokes Coral Group plc.

Skills and experience

Mark has 20 years' experience of director level roles. He brings a wide range of skills and experience in risk management and governance, strategic planning, treasury services, business leadership and change. Mark has a strong technical finance background and in-depth knowledge of retail financial services.

Other roles

Chair of London Square Ltd and Empiric Student Property plc, and a Non-Executive Director of Axa UK plc.

"I've spent more than 30 years in UK Financial services. I bring a broad range of skills across financial and risk management, strategy and operational excellence. Critical to the sustainability of the Society will be its continued ability to make the right decisions in an increasingly volatile and challenging competitive market. I hope that my experience can add value to the quality of the decisions we make."

Guy Parsons BA

INDEPENDENT NON-EXECUTIVE DIRECTOR

RC

Joined our Board in 2013.

Background and career

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

Skills and experience

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

"I have a strong operational and marketing background. I believe in continuous improvement and making sure that everything starts with the customer's perception of value. Customer service is really important to me and I love that YBS puts its members first. I'm excited to be a member of a team that can make things happen and deliver excellence."

Mike Regnier MEng, MBA

CHIEF EXECUTIVE

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

Background and career

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

Skills and experience

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

"My background in strategy consulting has taught me how to take a long-term view on important decisions. This, combined with a practical engineering background and experience in the customer-based retail sector, helps me to prioritise actions that will benefit customers and that can be implemented quickly."

Executive Directors

Chief Officers

Alasdair Lenman MA, ACMA
CHIEF FINANCE OFFICER

Joined our Board in 2017.

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

Skills and experience
Alasdair has a strong finance background with more than 20 years' experience, including running the finance function for a large mortgages and savings business and having previously acted as a Group Chief Finance Officer. Alasdair has also been a Non-Executive Director and Audit Committee Chair for both Sainsbury's Bank and Coventry Building Society.

"I have a very broad experience of different industries and functions gained in highly regarded firms over more than 25 years. Of particular relevance is my experience of digital and financial services businesses, including my technical understanding of the mortgages and savings business model gained in public limited companies, privately-owned companies and mutuals. I have a passion for making a practical difference and using my skills and experience to help deliver our strategy for the benefit of our members."

Stephen White BComm
CHIEF OPERATING OFFICER

Joined our Board in 2016.

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

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

"I have over 25 years' experience in financial services and have worked at a senior level globally. My international experience is uniquely placed to ensure YBS continues to deliver our purpose of providing Real Help for Real Life, creating long-term value for our members, colleagues and other stakeholders."

Charles Canning
CHIEF CUSTOMER OFFICER

Joined our Society in 1987.

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

Skills and experience
Charles has over 30 years' experience with the Society across many areas and is also a director of Accord Mortgages Limited, our wholly owned intermediary lending subsidiary.

"In my role as Chief Customer Officer, I work to ensure that the voice of our members and customers is a key consideration when developing and implementing our strategy."

Suzanne Clark BEng, FCA
CHIEF INTERNAL AUDIT OFFICER

Joined our Society in 2017.

Background and career

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

Skills and experience

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

"I use my broad financial services and internal audit experience to make sure that the work that I lead looks at the key risks that could prevent the Society from achieving its strategy. I'm not afraid to ask challenging questions of my colleagues to best protect the interests of our members, customers, colleagues and other stakeholders. My Non-Executive role at the NHS enables me to bring a different perspective to the table."

Orlagh Hunt BA, FCIPD
CHIEF PEOPLE OFFICER

Joined our Society in 2019.

Background and career

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

Skills and experience

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

"As Chief People Officer I'm keen to use my experience, gained in a number of sectors and organisations, to unleash the full potential of our colleagues, so that they in turn can successfully deliver on our purpose of Real Help with Real Life. This will see me focus on the quality of our leaders, encouraging ongoing learning and continuing to evolve the culture at YBS."

David Morris BA, MA
CHIEF COMMERCIAL OFFICER

Joined our Society in 2018.

Background and career

David began his career at Citigroup and has subsequently worked at various financial services institutions across the UK and abroad. Most recently David was the Head of Products at Coventry Building Society. He is responsible for the innovation, development and on-going management of the Society's mortgages and savings products, the marketing and digital functions, as well as our Commercial Lending business.

Skills and experience

David has over a decade of experience in retail banking and has a strong track record of driving commercial performance in financial services organisations, including the mutual sector.

"My role involves developing solutions that help customers realise their goals and objectives. This puts my remit at the heart of our purpose, delivering Real Help with Real Life. My key objectives over the next year include: continuing to find solutions that allow people to get on the housing ladder through new and innovative mortgage solutions; developing our digital channels, communications and capability; and successfully rolling out our new Commercial Lending distribution model and strategy."

Chief Officers

Richard Wells FCIB

CHIEF RISK OFFICER

Joined the Society in 2010.

Background and career

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

Skills and experience

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

"My years spent working in risk roles across six major organisations has enabled me to understand where Yorkshire Building Society's risk capability can be used to give our customers a better product and service experience. However, perhaps more importantly as the Chief Risk Officer, it enables me to support the Board in ensuring that we only take appropriate levels of risk and are able to effectively manage and mitigate the impacts."

Greg Willmott MA, BPhil

CHIEF STRATEGY AND VENTURES OFFICER

Joined the Society in 2018.

Background and career

With extensive experience in retail financial services, Greg's corporate roles include Development Director for Zurich UK, Strategy and Development Director for Aviva in the UK and Principal in Barclays' in-house strategy team. He also has extensive experience in strategy consulting with PA Consulting Group, KPMG, Towers Watson and as a freelance advisor. Greg and his team are responsible for continuing to embed our new purpose-driven strategy and developing YBS's long-term corporate business strategy in a rapidly changing and uncertain future. They also lead on identifying and developing new market opportunities to secure YBS's continuing relevance and growth, and enhancing the Society's reputation and influence with external stakeholders.

Skills and experience

Greg has 25 years' experience in corporate strategy and development, from major corporations to private equity start-ups, with significant recent work in digital, innovation and business growth.

"I've been fortunate enough to work with a wide range of financial services companies, from niche global specialists to multi-national companies, to help them develop and implement business, market and corporate strategies to position those companies for long-term success. Having worked with mutual organisations, I strongly believe in opportunities offered by a mutual model to deliver genuine differentiation and choice for customers by creating distinct long-term value propositions. This will provide vital diversity to industry in the UK."

A WORD FROM OUR CHAIRMAN

CORPORATE GOVERNANCE REPORT

I am pleased to present our Corporate Governance Report, which sets out the role of our Board and its Committees, along with their key activities in 2019.

As Chairman, I am responsible for leading our Board and making sure it is effective. Our approach to corporate governance is based on the principles and provisions of the UK Corporate Governance Code (the Code) published by the Financial Reporting Council, which we aim to comply with where it applies to a building society. Our commitment to operate to this standard helps to ensure the long-term success of the Society for our current and future members, customers, colleagues and all other stakeholders.

WHAT IS THE UK CORPORATE GOVERNANCE CODE?

Corporate governance is about the rules and policies we use to manage the Society. The Code only applies to publicly-listed companies (companies listed on the UK Stock Exchange) however, we seek to comply with the Code where it applies to a building society as we believe this is in the best interests of our members. This report sets out how we have done this during 2019.

For the 2019 financial year we have applied the Principles and complied with the Provisions of the Code published in July 2018 (available on the Financial Reporting Council's website frc.org.uk) as far as they apply to building societies (as set out in the Building Societies Association Guidance available at bsa.org.uk).

The approach to Workforce Engagement set out on page 69 was developed and implemented during the year.

WHAT CHANGES HAVE THERE BEEN TO OUR BOARD IN 2019?

Last year I confirmed the appointment of Guy Bainbridge as a Non-Executive Director. Guy joined our Board and Audit Committee in January 2019, making their mix of skills and experience even stronger. I am pleased to announce that Guy has since become Chair of our Audit Committee in October 2019. I would like to thank Mark Pain for his excellent contribution as Audit Committee Chair since April 2015 and his continued support as Vice Chair and Senior Independent Director. Guy's appointment was an important part of our succession planning and this work continued in 2019 to make sure our Board has members with the skills and experience it needs both now and in the future

HOW DO WE MAKE SURE OUR BOARD LISTENS TO THE VOICE OF OUR KEY STAKEHOLDERS?

As a building society we put our members at the heart of all the decisions we make, but also understand how important it is to take into account the views and needs of all our key stakeholders. In 2019 the Board reviewed its engagement with key stakeholders to ensure that their voices continue to be part of all Board discussions. In particular we have developed our colleague engagement framework further during 2019 to reflect the requirements of the new Code and make sure our colleagues voice continues to be heard in decision making at YBS.

For more on how our Board engages with its stakeholders see page 68.

WHAT WILL OUR BOARD BE DOING IN 2020?

We will continue to oversee and support the development and delivery of our strategy during 2020 and make sure we continue to create long-term value for our stakeholders through strong governance.

On behalf of the Board,

John Heaps
Chairman

26 February 2020

BOARD LEADERSHIP AND COMPANY PURPOSE

OUR BOARD AND COMMITTEE STRUCTURE

Key
- Board/Board Committee
- Management and Sub-Committee

OUR BOARD
Chair - John Heaps

Together our Board is responsible for our long-term success. It delegates some matters to Board Committees so that they can be looked at in more detail. by directors who have the most relevant skills and experience.

CHAIRMAN'S COMMITTEE
Chair: John Heaps

Its role is to meet when asked by our Board to look at specific matters. Its members are usually the Chair, Vice Chair and Chief Executive.

GROUP RISK COMMITTEE
Chair: Neeta Atkar

Its role is to oversee Prudential Risk, Operational Risk and conduct Risk Strategy, Appetite and Oversight.

Read more page 87

AUDIT COMMITTEE
Chair: Guy Bainbridge

Its role is to oversee financial reporting, our internal controls and risk management systems, Internal and External Audit.

Read more page 83

REMUNERATION COMMITTEE
Chair: Guy Parsons

Its role is to agree and oversee our Remuneration Policy for Executive Directors and our colleagues.

Read more page 95

BOARD GOVERNANCE AND NOMINATIONS COMMITTEE
Chair: John Heaps

Its role is to oversee Board governance, including composition, succession and appointment processes for the Board.

Read more page 79

OPERATING COMMITTEE (OPCO)

Its role is to take Group level operational decisions with a specific focus on trading, service, people, cost and risk. Its members include all Chief Officers and the Leadership Team.

EXECUTIVE COMMITTEE (EXCO)

Its role is to oversee and direct the management of all aspects of the Society with delegated authority from the Board. All the Chief Officers are members.

EXECUTIVE RISK COMMITTEE (ERC)

Its role is to oversee our day to day risk management activity with delegated authority from the Group Risk Committee.

Read more page 89

ASSET AND LIABILITY COMMITTEE (ALCO)

Its role is to optimise the balance between margin and delivery of benefits to customers within agreed risk limits.

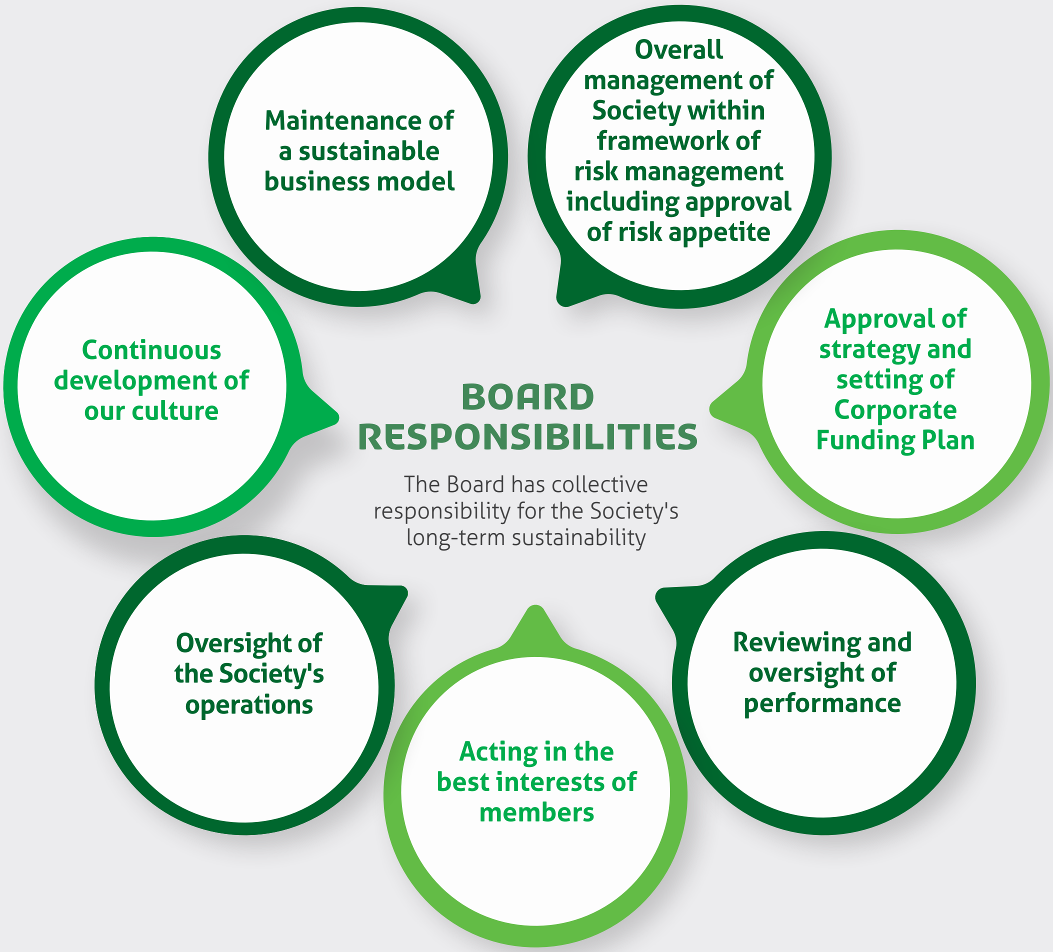
Our Board and Committee structure

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

You can find the terms of reference of our Board, Remuneration, Audit, Group Risk and Board Governance and Nominations Committees on our website at ybs.co.uk/board.

BOARD'S RESPONSIBILITIES

Our Board is accountable to our members and its role and responsibilities shown in its Terms of Reference include:



The Board keeps certain key matters for its own approval which it does not delegate to any of its committees or any individual. These are set out in a Schedule of Matters Reserved which can be found on our website at ybs.co.uk/board.

SETTING OUR PURPOSE AND GENERATING LONG-TERM SUCCESS

Our Board is committed to delivering our purpose and creating long-term value for our stakeholders through good governance. It does this through:

- **Effective decision making**
  a strong governance structure supports quicker and better decision making, in line with our strategy, for our long-term success.
- **Ensuring good quality reporting**
  the quality of the information provided to the Board, including details of any impact on its stakeholders, wider community and the environment, ensures it is able to make informed decisions which can improve value creation and reduce costs.
- **Compliance**
  good corporate governance ensures that we meet legal and regulatory requirements and avoid any consequences of not doing so.
- **Brand and reputation**
  a clear and effective framework of corporate governance provides confidence to our stakeholders, supporting a positive brand reputation.

Further details on our purpose can be found in the Strategic Report on pages 26 to 29.

BOARD ACTIVITIES IN 2019: Summary of key areas considered by the Board during 2019

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

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

At each meeting the Board receives:

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

In addition to the list to the left, during 2019, Board agendas have also included the following key topics at appropriate scheduled meetings in the year:

- Approval of Annual Report and Accounts and Interim Group Accounts.
- Approval of key policies.
- Minutes of Accord Board meetings and bi-annual governance updates.
- Member engagement and feedback.
- Succession planning and the diversity pipeline.
- Whistleblowing Policy and Annual Report.
- Approval of Modern Slavery Act Statement.
- Updates in relation to the management of cyber security and resilience.
- Approval of the 2019 Internal Capital Adequacy Assessment Process (ICAAP).
- Approval of the 2019 Internal Liquidity Adequacy Assessment Process (ILAAP).
- Non-Executive Director and Chief Officer appointments.
- Updates on the approach to culture and diversity.
- Review of lending initiatives.
- Consideration of the risk position and its management.
- Internal Ratings Based (IRB) application process.
- Approval of Risk Appetite and ongoing monitoring of adherence.

The Board also holds two separate strategy sessions each year.

OUR BOARD'S ENGAGEMENT WITH STAKEHOLDERS

It is important that our Board understands the areas of interest or concern for our key stakeholders when it makes decisions. The relationship our Board has with all our stakeholders will help to drive the achievement of our purpose and priorities.

Each report to our Board includes details of the impact or potential impact of a decision on our key stakeholders.

OUR MEMBERS

As a mutual we have no external shareholders – we are owned by our members. We encourage feedback from them on any aspect of our activities and use this to inform the Board's decisions. We hold an Annual General Meeting (AGM) to present to our members details of how we performed during the previous year and our plans for the future. It is an opportunity for members to ask our Board questions and provide us with their feedback.

Eligible members are asked to vote on a number of resolutions including the election and re-election of all our directors. The Code expects that if there is a vote of 20 per cent or more against any resolution put forward by our Board at the AGM, we should give details of how we will consult our members to understand the reason why. The Society has a process in place if this happens, however there were no votes of 20 per cent or more against any of the resolutions our Board put forward at the 2019 AGM.

Board Members at Our Time to Talk Events

In addition to our AGM, we hold 'Our Time to Talk' events, which are an opportunity for members to meet our leadership team, including members of our Board, ask questions and provide feedback on what is important to them. In August 2019 we held an Our Time to Talk event in Birmingham which was attended by Neeta Atkar, a Non-Executive Director and Chair of our Group Risk Committee.

Neeta Atkar, Non-Executive Director "Our Time to Talk sessions are really valuable - they provide a great opportunity for colleagues, including those of us who sit on the Board, to meet members of the Society to hear first-hand what's at the top of their agenda and to answer their questions directly, but also to thank them personally for continuing to be members of the Society."

YBS Member

"I actually felt valued as a customer and it had quite a personal feel about it. It was good to feel we are recognised out there as customers and people."

OUR COLLEAGUES

The Board has an important role in making sure that the views of our colleagues influence the decisions we make. The revised Code, effective from 1 January 2019, recommends:

' For engagement with the workforce, one or a combination of the following methods should be used:

i. a designated Non-Executive Director

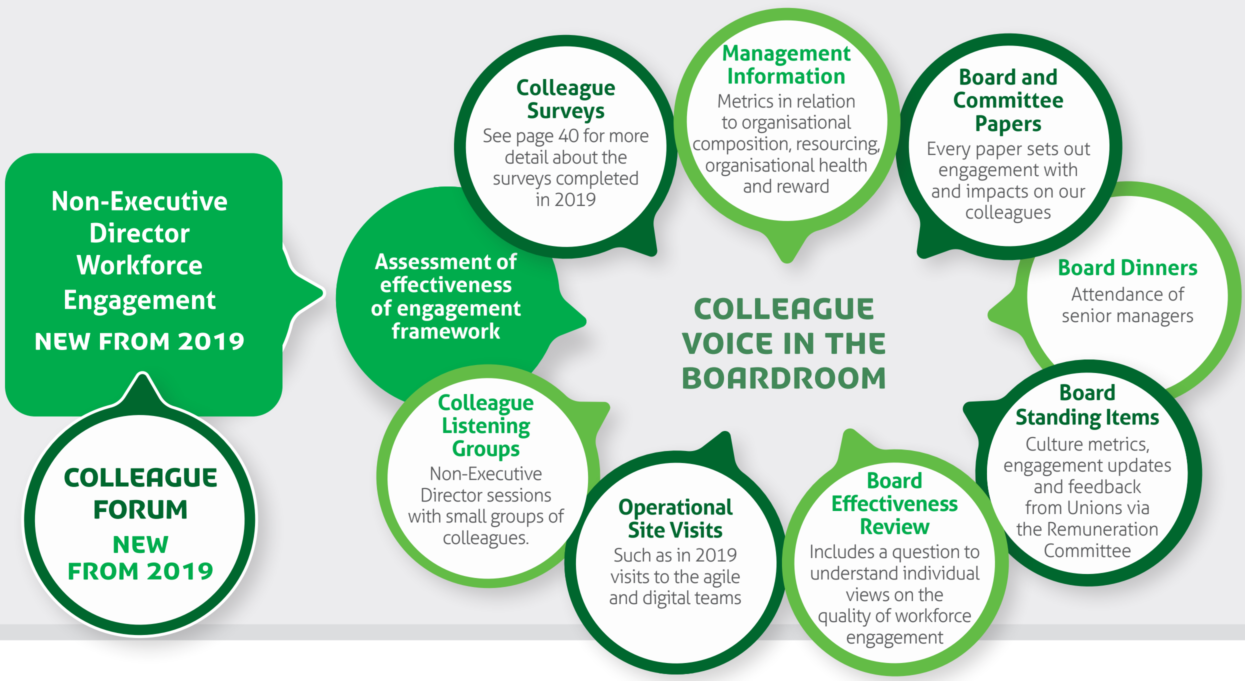
ii. a Director appointed from the workforce

iii. a formal workforce advisory panel.'

As referred to earlier we chose to appoint Alison Hutchinson as our Non-Executive Director for Workforce Engagement in April 2019 to make sure the views of our colleagues are understood.

The role is an important part of our Board's commitment to making sure that the employee voice is a part of all Board discussions.

There has been a significant drive over the last few years to develop a framework for colleague engagement and as part of this dialogue with colleagues is maintained in a number of ways. In 2019, building on this foundation, we created the Colleague Forum as an additional mechanism to support Alison Hutchinson in spending significantly more time talking to colleagues in her Workforce Engagement role:



Creation of Colleague Forum

In 2019, we created the Colleague Forum as an additional way in which Alison Hutchinson could spend more time in dialogue with colleagues, as part of her workforce engagement role.

Alison attended the first Colleague Forum in October 2019, with colleagues from around the business sharing their views on Board topics of interest as well as issues that are important to our colleague experience. The session was engaging and key areas of discussion were our colleagues' understanding of the strategy, colleagues' ability to influence our activity and their views on Leadership. This feedback is enabling us to test whether we are focusing on the right things and will inform the agenda in 2020.

YBS Colleagues:

"Plenty of opportunity to share your thoughts and views and hear from other colleagues across the business"

"Open friendly atmosphere with free exchange of views across the room with no political restrictions"

OUR CULTURE

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

Our Board has continued to monitor its development throughout 2019 and all our Directors lead by example in promoting our culture. Board members receive periodic cultural insight updates, which helps them support its ongoing development and shaping.

WHISTLEBLOWING

We are committed to making sure that anyone, including our colleagues, can be confident that any concerns raised with us will be taken seriously and treated as confidential. Nobody will be the subject of victimisation, subsequent discrimination or disadvantage for reporting their concerns, whatever the outcome. We have clear processes in our Whistleblowing Policy which is approved by our Board annually. Our Board also oversees how the policy works.

With effect from 2019, responsibility for the Whistleblowing Policy and how it works moved from the Audit Committee to the Board as recommended by the revised Code.

CONFLICTS OF INTEREST

Our Board has a Conflicts of Interest Policy for Directors and Chief Officers which sets out how we will review and, where appropriate, approve any conflicts or potential conflicts of interest. These are recorded in a Register of Interests which is reviewed and approved by our Board Governance and Nominations Committee at each meeting.

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

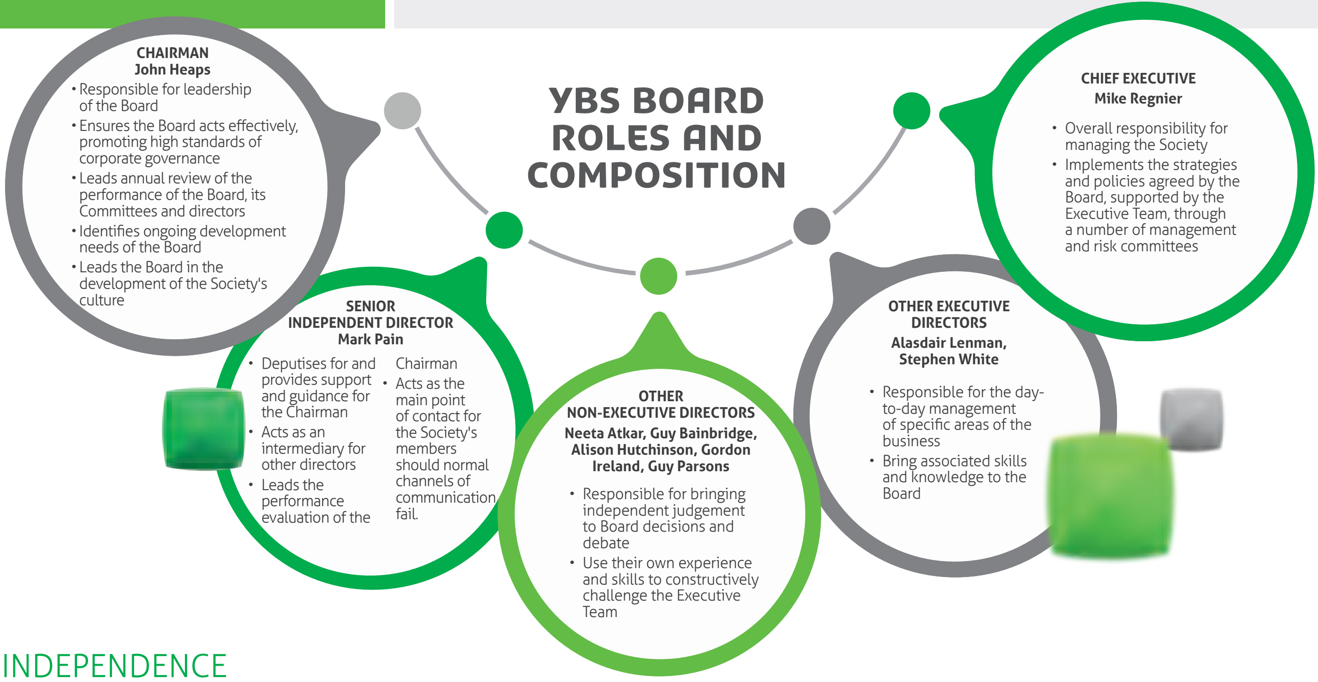
DIRECTORS DUTIES

Section 172 of the Companies Act 2006 sets out the duties of company directors. This does not apply to the Society's Directors as we are a building society not a company, but the revised Code expects boards to report on how they have considered the matters set out in Section 172 in decision making. The table below gives examples of where our Board has considered the matters during 2019:

Summary of Section 172 Requirements (as applied to a building society)	Example Board Decision Making
A director must act in a way they consider, in good faith would most likely promote the success of the business for the benefit of its members as a whole (i.e. the company's shareholders)	As a mutual the Society does not have external shareholders, we are owned by our members. The Board is committed to promoting the long-term success of the Society for the benefit of our current and future members. **Example – Our Purpose** Our Board considered papers in March, June and October 2019 on the development of our new strategy, built around our purpose of providing Real Help with Real Life. It was supported by research which had been completed with a wide range of stakeholders. The aim of the strategy is to have a wider societal impact, creating long-term value for our stakeholders.
and in doing so have regard (amongst other matters) to the:	
• likely consequences of any decision in the long-term	Our Board recognises the importance of ensuring the likely consequences of decisions in the long term are considered. **Example – Corporate and Operating Plans** The Board reviewed and approved our Corporate Plan in October 2019 which sets out our longer term financial targets from 2020 to 2024. The Plan is stress tested to ensure that the Society can deal with the risks we face and help the Board in its decision making. In December 2019 the Board approved our Operating Plan which operationalises the first year of the Corporate Plan and helps the Board to understand the challenges, threats and opportunities we face.
• interests of employees	The Board understands that our people are the foundation of our business and recognises the importance of ensuring that their voice is heard in the board room. **Example – Workforce Engagement** We run a range of activities, both formal and informal, to understand our colleagues' views. Our Board agreed to support the activities already in place by appointing a Non-Executive Director for Workforce Engagement in April 2019, and in June 2019 it looked at how our colleague engagement activities would fit with this role. This will help to make sure that the colleague voice is heard in all relevant Board discussions.
• need to foster business relationships with suppliers, customers and others	The Society's Board is committed to fostering and monitoring the effectiveness of our wider business relationships with all our key stakeholders. **Example – Lending Initiatives** As a mutual, our Board recognises the importance of keeping our members and customers at the heart of what we do. In February 2019, it considered a paper on the approach to new lending initiatives to facilitate developing a wider range of offers to our customers and members. The aim being to help deliver our strategy and purpose including supporting our customers through the provision of solutions to help them buy a house or manage a mortgage.
• impact of the businesses operations on the community and the environment	Each paper considered by the Board sets out any social or environmental implications of a decision ensuring that the Board has regard to the impact of these as part of its overall approach to promoting the success of the Society. **Example – Integrated Strategy** Our Board considered a paper in March 2019 to make sure that our purpose-driven strategy takes into account environmental and societal impacts.
• desirability of maintaining a reputation for high standards of business conduct	The Board's commitment to maintaining high standards of business conduct helps to ensure the long-term success of the Society for our current and future members, customers, colleagues and all other stakeholders. **Example – Securitisation Transaction** Our Board considered proposals in June 2019 for our latest securitisation transaction which is one of the ways we fund our business. Moving into new markets for the first time, it was important to ensure that we built on our reputation for the highest standards of conduct.
• need to act fairly as between members (i.e. the company's shareholders)	The Society does not have external shareholders, instead our members are our owners and at the heart of what we do. The Board understands the importance of engaging with our members and is committed to ensuring their views inform future decision making to ensure it is fair and in the interests of members as a whole. **Example – Member Engagement** In January 2019 our Board considered a paper on Member Engagement in the context of the new Code and understanding our relationship with both our members and customers. The discussions were then used to inform the wider work taking place in relation to the development of our strategy and the delivery of value to our stakeholders, including our members and customers.

DIVISION OF RESPONSIBILITIES

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



INDEPENDENCE

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

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The table below shows our directors and the scheduled Board and Committee meetings they attended during 2019 (where they were a member during the year). The figure in brackets shows the number of meetings the director was eligible to attend.

Director	Board	Board Strategy	Board Committees				
			Chairman's	Audit	Board Governance and Nominations	Remuneration	Group Risk
Non-Executive Directors							
John Heaps - Chairman	9 (9)	2 (2)	1 (1)	–	4 (4)	7 (7)	–
Mark Pain - Vice Chair / Senior Independent Director	9 (9)	2 (2)	1 (1)	3 (3)*	4 (4)	–	4 (4)
Neeta Atkar	9 (9)	2 (2)	–	4 (4)	–	–	4 (4)
Guy Bainbridge	9 (9)	2 (2)	–	4 (4)	–	–	1 (1)†
Alison Hutchinson	9 (9)	2 (2)	–	–	4 (4)	7 (7)	4 (4)
Gordon Ireland	7 (9)	2 (2)	–	4 (4)	–	–	4 (4)
Guy Parsons	9 (9)	2 (2)	–	–	–	7 (7)	–
Executive Directors							
Mike Regnier Chief Executive Officer	9 (9)	2 (2)	1 (1)	–	–	–	–
Alasdair Lenman Chief Finance Officer	9 (9)	2 (2)	–	–	–	–	–
Stephen White Chief Operating Officer	9 (9)	2 (2)	–	–	–	–	–

*Member to 3 October 2019 †Member from 3 October 2019

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

The Chairman and Chief Executive are usually invited to attend all Committee meetings and the Chief Risk Officer is invited to attend all Board meetings.

If an urgent decision is needed when there is not a Board or Committee meeting, a decision can be taken in writing (known as a written resolution) if there is approval from all Directors (or members in the case of a committee). Our rules set out the procedure for written resolutions and it was used one time by the Board and one time by the committees in 2019.

DIRECTORS' TIME COMMITMENT AND OTHER DIRECTORSHIPS

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

- Availability and other commitments are reviewed when recruiting new Non-Executive Directors.
- Each Non-Executive Director has a letter of appointment which sets out the time they will be expected to commit to the role.
- If a Director is intending to take on an additional external appointment this is reviewed and, if appropriate, approved before it is taken up. Our Board will take into account the impact any additional role would have on the time they could commit to their role with the Society.
- A review of time commitment is also included as part of the one to one sessions held each year with individual directors.

None of the Executive Directors held a non-executive directorship in a FTSE100 company or any other significant appointment during 2019. Mike Regnier, Chief Executive, is currently the Chair of the Building Societies Association.

GROUP SECRETARY

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

During the year, the Board considered and approved the following significant appointments for Non-Executive Directors:

Non-Executive Director	External Appointment	Reason for Approval
Guy Bainbridge	ICE Clear Europe Ltd	The Board agreed that as Guy had no other significant commitments he had the available time to serve on the ICE board without affecting his commitment to YBS.
	Manulife Financial Corporation	The Board agreed that Guy had the available time to take on the additional commitment, noting that he had indicated that he had no intention of taking on any further business appointments at this time.

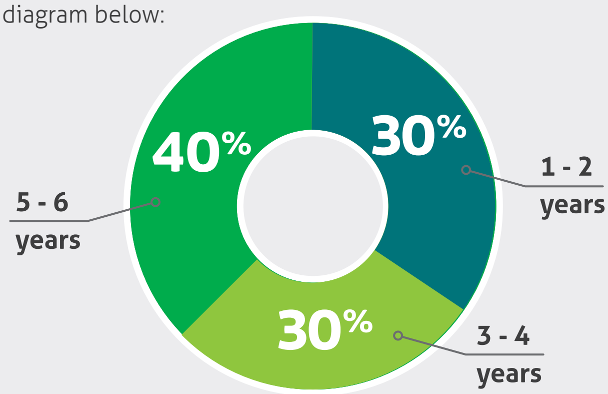
COMPOSITION, SUCCESSION AND EVALUATION

ELECTION OF DIRECTORS

All of our directors are subject to annual re-election by our members at the AGM based on the best practice set out in the Code (our rules require the re-election of our directors to take place at least every three years). Details of each individual director's contribution are set out in the booklet accompanying the Notice of AGM sent to all qualifying members.

TENURE OF DIRECTORS

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



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

OUTCOMES OF THE 2019 BOARD EVALUATION

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

For further details on the process followed for the evaluations please see the Board Governance and Nominations Committee report on page 82.

Three main themes arose from the 2018 evaluation and good progress has been made on these during 2019:

Themes from 2018	What the Board did in 2019
Continue to challenge and identify opportunities to further strengthen work in relation to diversity of the Board.	Board diversity and the diversity of the talent pipeline of our colleagues continue to be reviewed through Board Governance and Nominations Committee.
Ensure succession plans for directors remain robust with ongoing monitoring.	Significant time has been spent during 2019 ensuring our Board has robust succession plans for the short, medium and long term.
Continue to ensure opportunities are available for Non-Executive Director's involvement in member engagement.	The Board remains committed to member engagement and to ensuring our members' voice is heard in all the decisions it makes.

The outcomes of the 2019 evaluation were reviewed by the Board in January 2020 and the following themes and actions were agreed:

Key themes from 2019	What the Board plans to do in 2020
Continue to seek ways of enhancing and developing the diversity of our Board.	Making sure the Board has a diverse composition with a wide range of different skills, experience and perspectives is an ongoing commitment and as such has been identified as an area for continued development in 2020. The Board Governance and Nominations Committee's role in supporting this commitment will continue during 2020.
Ensure succession plans meet both the medium and long-term needs of our Board.	The Board Governance and Nominations Committee has an important role in making sure our Board has succession plans in place for both the medium and long term. In 2020 it will focus on making sure we have got plans to replace those directors who will be reaching the end of their terms of office over the next few years.
Ensure the Board is engaging with and encouraging participation from our colleagues.	The Board appointed Alison Hutchinson as the new Non-Executive Director for Workforce Engagement in 2019 to support the Board's engagement with colleagues. During 2020 and as part of the evaluation completed at the end of the year, the Board will review the success of the new structure.

BOARD DEVELOPMENT

Our Board has an annual training plan to make sure that the skills and knowledge of its directors and the Board as a whole are kept up-to-date. Training is also provided on our strategy and changes taking place outside the Society. All new directors also have an induction when joining our Board, based on their skills and experience.

Induction of a Non-Executive Director

Guy Bainbridge joined the Board in January 2019 and to support him in his new role he took part in a thorough induction programme. The induction covered the Board's key areas of focus and also included meetings with senior managers and colleagues from across the business.

Guy was very positive about the benefits the induction programme provided. He suggested a small number of changes based on his experience, which will be taken into account for future appointments.

Overall I've found my induction to be a great experience. It's provided me with the big picture across all areas of the business, filled in knowledge gaps, introduced me to many of the senior management team and provided a small insight into our colleagues in general.

Guy Bainbridge, Non-Executive Director

More information about our Board is available in other parts of the Annual Report and Accounts:

Subject	Where to find this information
SUCCESSION PLANNING FOR THE BOARD	See our Board Governance and Nominations Committee report on page 79.
SKILLS AND EXPERIENCE OF OUR BOARD AND COMMITTEES	See our Leadership Team biographies on pages 57 to 62.
RECRUITMENT AND APPOINTMENT OF DIRECTORS	See our Board Governance and Nominations Committee report on page 79.
BOARD DIVERSITY AND INCLUSION	See our Board Governance and Nominations Committee report on page 79.

AUDIT, RISK AND INTERNAL CONTROL

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

Subject	Where to find this information
ENSURING THAT BOTH INTERNAL AND EXTERNAL AUDIT ARE EFFECTIVE	More information can be found in the Audit Committee Report on pages 83 to 86.
SETTING OUR RISK APPETITE	More information can be found in the Risk Management Report on pages 87 to 94.
OUR SYSTEMS OF INTERNAL CONTROLS	More information about the internal controls framework can be found in the Audit Committee Report on pages 83 to 86.

REMUNERATION

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

For further details please see the Remuneration Committee Report on pages 95 to 113.

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

On behalf of the Board,

John Heaps
Chairman

26 February 2020

DIRECTORS' REPORT

We are pleased to present our Directors' Report for 2019, which tells you about the role of our directors and some of our key activities during 2019, including business performance, risk management, future outlook and key performance indicators.

This report also includes information we are required to disclose to ensure we comply with regulatory requirements including the Building Societies Act (The Act).

OUR DIRECTORS

The names of the directors who served during the year and to the date of this report, their roles and membership of Board Committees are described in the Corporate Governance report on pages 63 to 75.

At our 2020 Annual General Meeting (AGM) our directors will all retire and stand for re-election.

Details of the directors, including their previous experience are shown on pages 56 to 62.

None of the directors had an interest in, or share of, any associated body of the Society at any time during the financial year.

The directors in office at the date of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Society's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

OUR STRATEGY, FUTURE DEVELOPMENTS AND KEY PERFORMANCE INDICATORS (KPIs)

In 2019, we have shaped our purpose driven strategy following a thorough stakeholder engagement exercise.

You can read more about this in the Strategic Report on pages 20 to 25. Information on our KPIs and outlook can be found on pages 48 and 53 to 54 respectively.

HOW WE MANAGE RISKS

As a result of our normal business activity, the Group is exposed to a variety of risks, including retail and commercial credit, treasury, funding and liquidity, market, operational, model, capital, and compliance and conduct risk.

We seek to manage all the risks that arise from our business activities and we have a number of committees and policies to do so.

Details of these risk are set out in the Risk Management Report on pages 87 to 94.

OUR MORTGAGE ARREARS

Details of the Society's mortgage accounts which were 12 months or more in arrears at 31 December 2019 were as follows:

	2019	2018	**2019**	2018
			% of mortgage account/balances	
Number of accounts	**143**	128	**0.06%**	0.05%
Balances outstanding on accounts	**£19.4m**	£18.5m	**0.05%**	0.05%
Amount of arrears included in balances	**£2.2m**	£2.1m	**0.01%**	0.01%

Further details of the Society's arrears position are set out in the Strategic Report on page 50. Note 39 on page 206 describe the various forms of support offered by the Society to borrowers experiencing difficulties in meeting their repayments.

OUR CHARITABLE AND POLITICAL DONATIONS

In 2019 the Society made a charitable contribution of £1,050,413 (2018: £1,438,791) which included £244,707 (2018: £254,430) raised for End Youth Homelessness, £266,462 (2018: £283,968) contributed by our colleagues in volunteering time to the community, £30,000 (2018: £30,000) donated to the Yorkshire Building Society Charitable Foundation, £287,632 (2018: £313,138) contributed to the Charitable Foundation by our members taking part in the Small Change Big Difference scheme and a £222,612 (2018: £557,254) contribution to other charities from YBS.

No political donations were made in the year (2018: £nil).

OUR COLLEAGUES

In 2020, we will continue to listen and respond to our colleagues' needs. It is important that all our colleagues feel connected to the Society and can contribute to our success.

To achieve this, we communicate business information to our colleagues across our organisation in an appropriate and timely way.

We recognise that people from different backgrounds and experiences enhance the way we work. We are building a diverse workforce and we make adjustments for colleagues wherever we possibly can to provide an inclusive working environment for all.

OUR RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF THE ANNUAL REPORT AND ACCOUNTS

The following statement, which should be read in conjunction with the statement of the auditor's responsibilities on page 124, is made by the directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts, Annual Business Statement and Directors Report.

We are required by the Building Societies Act 1986 (the Act) to prepare, for each financial year, annual accounts which give a true and fair view of the income and expenditure of the Group and the Society for the financial year and the state of affairs of the Group and the Society as at the end of the financial year and which provide details of directors' remuneration in accordance with Part VIII of the Act and regulations made under it.

The Act states that references to International Accounting Standards accounts giving a true and fair view, are references to their achieving a fair presentation.

In preparing our Annual Report and Accounts, the directors are required to:

- Select suitable accounting policies and apply them consistently
- Make judgements and accounting estimates that are reasonable
- State whether the annual accounts have been prepared in accordance with International Accounting Standards
- Prepare the annual accounts on a going concern basis, unless it is inappropriate to presume that the Group will continue in business.

In addition to the Annual Report and Accounts and this report, the Act requires the directors to prepare, for each financial year, an Annual Business Statement containing prescribed information relating to the business of the Society and its subsidiary undertakings.

We are responsible for the maintenance and integrity of statutory and audited information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements.

Laws in the United Kingdom governing the preparation and communication of financial statements may be different from laws in other jurisdictions.

OUR RESPONSIBILITIES IN RESPECT OF ACCOUNTING RECORDS AND INTERNAL CONTROL

We are responsible for making sure the Society and its subsidiary undertakings:

- Keep accounting records in accordance with the Act
- Take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Prudential Regulation Authority under the Financial Services Act 2012.

We have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Society's performance, business model and purpose driven strategy.

GOING CONCERN AND VIABILITY

The directors have confirmed that it is appropriate to adopt the going concern basis in the preparation of the financial statements within the strategic report on pages 53 to 54.

The directors have also assessed the viability of the Society over the next 3 years and have a reasonable expectation that the Society will continue in operation and meet its liabilities as they fall due over the period to December 2022.

OUR AUDITORS

PricewaterhouseCoopers LLP were appointed as our auditors following approval at the AGM in 2019.

On behalf of the Board,

John Heaps
Chairman

26 February 2020

In 2020, we will continue to listen and respond to our colleagues' needs. It is important that all our colleagues feel connected to the Society and can contribute to our success. To achieve this, we communicate business information to our colleagues across our organisation in an appropriate and timely way.

A WORD FROM THE CHAIR OF THE BOARD GOVERNANCE AND NOMINATIONS COMMITTEE

BOARD GOVERNANCE AND NOMINATIONS COMMITTEE REPORT

I am pleased to introduce the annual report of the Board Governance and Nominations Committee and provide a summary of the work that the Committee has been doing during the year. We have had a strong focus on future recruitment and succession planning for our Board in 2019 to make sure that now and in the future we have the skills and experience we need to be effective and ensure the long-term success of the Society.

During 2020 the Committee will continue its role in supporting our Board to ensure we have the highest standards of corporate governance. It will carry on its work to make sure that succession planning is in place and future retirements and appointments are managed to support the ongoing effectiveness of our Board, whilst maintaining the focus on diversity and inclusion.

John Heaps

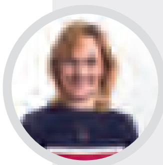
Chair of the Board Governance and Nominations Committee

BOARD GOVERNANCE AND NOMINATIONS COMMITTEE MEMBERS AND MEETINGS

THE MEMBERS OF THE COMMITTEE ARE:

John Heaps
Committee Chair

Mark Pain
Independent Non-Executive Director



Alison Hutchinson
Independent Non-Executive Director

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

The Committee met four times in 2019 and also agreed one resolution in writing.

The number of meetings attended by each member is available on page 72.

BOARD GOVERNANCE AND NOMINATIONS COMMITTEE RESPONSIBILITIES

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

CORPORATE GOVERNANCE

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

RECRUITING DIRECTORS

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

1

ROLE REQUIREMENTS

Development of role profile, setting out the skills and experience required, taking into account rhe Board's existing mix of skills and backgrounds and succession plans.

2

SEARCH PROCESS

Appointment of executive search agency to identify candidates for review by the Committee. (Search agency to have signed up to the Standard Voluntary Code of Conduct for Executive Search Agencies).

3

INTERVIEWS

Interviews of short listed candidates by a selection panel. Preferred candidate agreed based on objective criteria and merit whilst promoting diversity and inclusion.

4

APPOINTMENT

Subject to relevant checks, recommendation to the Board to appoint the preferred candidate.

As a result of recruitment in 2018, Guy Bainbridge was appointed as a Non-Executive Director from 1 January 2019. Details of his recruitment process can be found in the 2018 Annual Review.

In 2019 the Committee began a new search to find a candidate as part of future succession planning, which is still ongoing. External recruitment consultancy Egon Zehnder was appointed to support the search. Egon Zehnder have previously supported the appointment of the Chairman and Alison Hutchinson as Non-Executive Directors and assisted in the search for the Chief Operating Officer and Chief Executive.

The Committee is responsible for supporting the recruitment of any new Executive Directors.

No new Executive Directors were appointed during 2019.

SUCCESSION PLANNING FOR DIRECTORS

The Board works to ensure it has the right members both now and in the future to deliver our strategy and ensure our long-term success. To support this, the Committee carries out a detailed review of succession planning for Directors at its annual strategy session in March each year and keeps the plan under review at each meeting. It also plans ahead for future recruitment to make sure that our Board continues to have the skills and experience it needs.

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

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

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

BOARD DIVERSITY

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

The table below provides an update on progress during 2019 based on the targets set out in the Diversity Statement:

Diversity Statement Ambitions	Progress 2019
Aim to have 30% female representation on the Board in the medium term.	Our Board seeks to ensure that its composition reflects a wide range of different skills, experience and perspectives. However, it also believes that all appointments should be based on merit and the skills and experience an individual can bring to our Board as a whole. In 2016 our Board agreed our target of achieving 30% of female representation in the medium term, taking into account the Hampton Alexander Review[28] recommendation of 33%. The percentage of women on our Board at 31 December 2019 was 20% (2018: 22%). We did not meet our medium term target during 2019, however our Board remains committed to working towards achieving this target.
Only use search and specialist recruitment agencies that have signed up to the Standard Voluntary Code of Conduct for Executive Search Firms (with a preference for those signed up to the Enhanced Code).	The Voluntary Code of Conduct was created by executive search firms themselves with the aim of raising the standards of professionalism and conduct in the recruitment of women to the boards of FTSE350 companies (the largest 350 companies listed on the London Stock Exchange). Egon Zehnder was appointed to support the search for a new Non-Executive Director during 2019. Egon Zehnder was one of the firms that helped develop the code and were amongst the first to be accredited under the Enhanced Code for recruitment practices, leading to measurable success in increased gender diversity on FTSE350 company boards.
Commitment to fostering an inclusive culture and investing in the talent pipeline, particularly nurturing black, Asian and minority ethnic (BAME) and female talent and delivering tailored leadership development and robust succession planning.	Our diversity and inclusion ambition is to support an inclusive environment where everyone can contribute to our success. The Board believes investing in this culture is key to making sure it achieves its target. The importance of having a diverse workforce is recognised because it reflects the composition of our membership and the wider community. A review of talent takes place annually; further details are provided in the Director succession planning section.
Regularly review and assess the composition of the Board and its Committees, including succession plans, considering the balance of skills, experience, independence and knowledge with its diverse composition.	The Committee regularly reviews the composition of our Board. Further information is included in the Director succession planning section.

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

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

DIVERSE TALENT PIPELINES

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

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

Further details on the Society's progress in relation to diversity and inclusion and our colleagues can be found in the Strategic Report on pages 40 to 44.

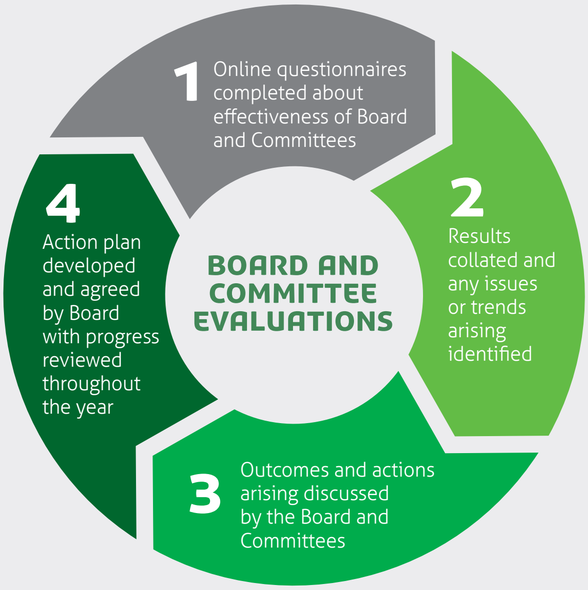
By way of further information, we had the following percentages of women colleagues at 31 December 2019 (and for comparison 2018):

	31 December 2019	31 December 2018
Executive Committee The Leadership Team immediately below our Board (as set out in the UK Corporate Governance Code)	22%	12.5%
Senior Managers Our colleagues in roles Grade E or above (in accordance with our commitments under the Women in Finance Charter)	39%	43%
All Colleagues	65%	65%

EVALUATION OF THE BOARD AND ITS COMMITTEES

The Board Governance and Nominations Committee agree and recommend to the Board the process for the annual review of the Board's performance and that of each of its committees.

For 2019, it was agreed that an internal review would be completed based on the following cycle:



In 2019 the same approach was used as the previous year, to allow our Board and its committees to see the progress they had made as well as to identify any issues or trends. The evaluation covered key areas to help our Board review how effective it is, including its composition, diversity and how our Board members work together to achieve its objectives.

This approach fits with the requirements of the Code, which asks that boards complete an external evaluation once every three years by an independent third party. Our last external evaluation took place in 2017, with the next one due in 2020 which will be reported on in the 2020 Annual Report and Accounts. In between, we have conducted annual internal evaluations.

For an update on the outcomes of our Board evaluation process for 2019 please see page 74.

The composition of our Board will also be reviewed at the Committee's annual strategy session on succession planning to be held in March 2020, taking into account the outcomes of the evaluation process.

EVALUATION OF BOARD MEMBERS

Chairman

Our Senior Independent Director meets with our Chairman twice a year on behalf of our Board. The results of the Chairman's year end evaluation were discussed at the February 2020 Board meeting and it was agreed that he continued to provide strong and effective leadership to our Board.

Non-Executive Directors

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

Executive Directors

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

EVALUATION OF THE BOARD GOVERNANCE AND NOMINATIONS COMMITTEE

The Board Governance and Nominations Committee completed an evaluation of its own effectiveness in 2019. The outcomes of the review were discussed at the meeting in January 2020 and it was agreed that the Committee continued to be effective.

The key theme from the Committee's evaluation was the need to ensure that the Committee remains effective at planning the succession of Board members. During 2020 the Committee will work on this area, making recommendations to the Board to make sure that robust plans are in place.

On behalf of the Board

John Heaps
Chair of the Board Governance and Nominations Committee

26 February 2020

A WORD FROM THE CHAIR OF THE AUDIT COMMITTEE

AUDIT COMMITTEE REPORT

I am pleased to present our 2019 Audit Committee Report which tells you about the Committee’s role and some of its key activities during the year, including its review of key financial reporting matters, and oversight of the Society's internal controls, and its internal and external auditors.

I joined our Board as a Non-Executive Director on 1 January 2019, when I also joined the Audit Committee and followed a tailored induction programme, **more information of which is set out in the Corporate Governance Report on page 63.**

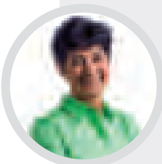
I became Chair of the Committee on 3 October 2019, when Mark Pain retired from this role following a formal handover process which allowed me to prepare fully for the role as Chair. I want to thank Mark for his valuable contribution to the Committee's work over the last six years as both a member and Chair.

In 2020, the Committee will continue its work to protect the interests of all of the Society's stakeholders.

Guy Bainbridge
Chair of the Audit Committee

THE MEMBERS OF THE AUDIT COMMITTEE ARE

Guy Bainbridge
Committee Chair



Neeta Atkar
Independent Non-Executive Director

Gordon Ireland
Independent Non-Executive Director

Only members of the Committee are entitled to attend its meetings, although others may be asked to attend all or part of a meeting. Our Chairman of the Board, Chief Executive, Chief Finance Officer, Chief Internal Audit Officer and the external auditor were invited to attend all meetings in 2019, along with other members of our Leadership Team and senior managers where the Committee felt it was needed.

AUDIT COMMITTEE MEMBERS AND MEETINGS

We had four Audit Committee meetings in 2019. The meetings began with a private session between the invited members of the Leadership Team and the Committee members, and finished with a private session between the Committee members and our internal and external auditors. These private sessions allow the Committee to discuss confidential matters which it may not be appropriate to discuss in the Committee meeting itself.

Details about the number of meetings and Committee members who attended them during 2019 are shown on page 72.

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

You can find out more about the Code in the Corporate Governance Report on page 63.

In 2019, all the members of the Committee were independent Non-Executive Directors and all have recent and relevant financial experience gained through the qualifications they hold and the roles they have held or currently hold with other organisations.

This means that the Committee benefits from a diverse range of expertise in the areas of auditing, finance and risk, with particular emphasis on the financial services sector.

Altogether, this ensures that the Audit Committee has the required competence in the financial services sector.

You can find out more about the skills, qualifications and experience of the Committee members in the directors' biographies on pages 57 to 62.

The roles and responsibilities of the Committee are explained in its Terms of Reference, which set out the areas on which it provides oversight or guidance to the Board. The Committee reviews its Terms of Reference every year and the Committee and the Board approve them each year.

You can find them on our website ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.html.

KEY FINANCIAL REPORTING MATTERS

Providing our stakeholders with complete, accurate and relevant financial information is critical to ensuring that the Society maintains their trust. The Committee is responsible for ensuring that the key accounting policies, estimates and judgements used in our financial statements are appropriate. To help the Committee achieve this, it receives reports from our external auditor, PricewaterhouseCoopers LLP (PwC).

The Audit Committee considered the following significant matters during 2019:

Matters considered	Progress 2019
Loan loss provisions (IFRS 9)	The Committee has reviewed the amount of provision held by YBS and concluded that it is adequate. The Committee has challenged the underlying assumptions and the economic scenarios, including weightings, particularly in light of ongoing uncertainty surrounding the UK's exit from the EU. This process included two reviews of key input assumptions and economic scenarios applied to expected credit loss models, as well as disclosures and benchmarking against other relevant banks and building societies. You can find out more about our loan loss provisions in Note 9 and Note 39 to the financial statements.
Run-off fair values associated with acquired books	The Committee has reviewed the estimates made and discussed these with the Leadership Team and is comfortable that a cautious, consistent and appropriate approach has continued to be taken.
Hedge accounting	The Committee has overseen the Leadership Team's control activities in this area, including reviewing the methodology and key assumptions applied. This allows the Committee to be confident that the amounts set out in the Income Statement are fairly stated and that appropriate disclosures have been made.
Other provisions	The Committee reviewed and challenged these provisions and agreed with the overall amount held. More information on these provisions can be found in Note 28 of the financial statements.
Revenue recognition	The Committee considered the results of the Leadership Team's detailed reviews of the calculation methods used, and the changes to the assumptions and models used. It concluded that the balance sheet and revenue was fairly stated.
Pensions	The Group operates one main employee benefit scheme (the Scheme), the costs of which are borne by the Society, with both defined benefit and defined contribution sections. The Defined Benefit scheme is accounted for under IAS 19 with assumptions agreed with this Committee. During 2019, there have been several industry wide areas of focus for the Committee including volatile markets, Retail Price Index/Consumer Price Index alignment and mortality assumptions. We have reviewed the assumptions proposed by the Society, reviewed the supporting documentation for those assumptions and also reviewed how they benchmark against the rest of the industry.
Viability and going concern	The Committee reviewed papers prepared by the Leadership Team and recommended to the Board that the Annual Report and Accounts should be prepared on a going concern basis. The Committee confirmed that, whilst there is no guarantee, there is a reasonable expectation that the Society will be able to continue to operate and meet its liabilities as they become due over the next three years. **More information can be found in our Strategic Report on page 53.**
Disclosures	The Committee reviewed papers prepared by the Leadership Team and agreed that the disclosures included within the Annual Report and Accounts met disclosure requirements and that disclosures aligned to showing a fair and balanced view of the performance of the Society. The Committee also reviewed the Annual Report and Accounts and provided feedback in order to ensure that they are fair, balanced and understandable.

To enable the Board to approve the Letter of Representation to the external auditor, the Committee reviews the specific representations and the basis on which members of the Leadership Team have evidenced them. The Committee also advises the Board on whether it considers the Annual Report and Accounts to be fair, balanced and understandable.

OVERSIGHT OF THE EXTERNAL AUDITOR AND EXTERNAL AUDIT PROCESS

External audit process

The Committee oversees the audit process and the relationship with our external auditor. The Committee begins each annual audit cycle by reviewing and approving the proposed audit plan presented by our external auditor. This process includes a discussion between the Committee and our external auditor around key risk areas to ensure that there is agreement on the focus of the external auditor's work and their assessment of materiality for the financial statements. For further information about materiality and how it is calculated, please refer to the Audit Report on page 114.

The Committee has assessed PwC's risk assessments, planned work and resources throughout the year and monitored the progress of PwC's audit work through discussions with PwC and management. The Committee has paid particular attention to this in what is PwC's first year as the Society's external auditor.

The external auditor provides regular updates to the Committee on their work on the Annual Report and Accounts before the Committee approves them. The Committee has been keen to capture PwC's fresh challenge and observations on both financial reporting and control matters.

Throughout the year the Committee assesses the effectiveness of the external audit process, an assessment which is based on guidance from the Financial Reporting Council (FRC). The Committee's assessment is typically informed by a survey sent to members of the Committee and senior managers in the Society's Finance Division. This helps the Committee review the quality of the external audit team and process. During 2019 the Committee concluded that the overall external audit process was effective.

External auditor independence

The Committee is conscious of the need to ensure the external auditor is independent. A key consideration of this is the length of tenure and date of rotation of the audit partner. As set out in the 2018 Annual Report and Accounts the Board appointed PwC as our external auditor following a competitive formal tender process in 2018 and this was approved by members at the 2019 Annual General Meeting (AGM). To preserve our external auditor's independence, PwC have been required to disclose all existing relationships with our organisation and ensure those relationships would not cause any conflict of interest after 1 January 2019.

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

Our Board also has a policy on the use of the external auditor for non-audit work, and this is overseen by the Committee. The policy is designed to protect the external auditor's continued independence and objectivity. The policy was reviewed and updated in 2019 to further restrict permissible non-audit services in line with developing law, regulation and best practice and it also sets out examples of services which the external auditor can and cannot perform. Fees for individual assignments that exceed a set threshold are reviewed by the Committee. Fees for those assignments under the threshold are approved by delegated authority. All non-audit services are approved in advance of the work commencing. Our external auditor's fee is reviewed regularly. The Committee is satisfied that the Society has operated in line with the policy during 2019.

The total amount of fees paid to our external auditor for both audit and non-audit work is disclosed in Note 7 to the financial statements.

REVIEW OF INTERNAL CONTROLS

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

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

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

You can find further details of risk management practices in the Risk Management Report on pages 87 to 94.

The main types of information the Committee considered during 2019 were

- **Internal Audit reports:** The Committee reviewed and approved the Internal Audit plan for the year, the proposed revisions to the plan, and the resources needed to support it. This included considering the ongoing appropriateness of Internal Audit's coverage of the Society's risks, processes, systems and controls. The Committee also considered reports on the plan's progress, including Internal Audit's findings, their root causes and the Leadership Team's responses. Where Internal Audit reports were rated as 'Unsatisfactory' the accountable members of the Leadership Team were asked to attend the Committee and explain why the identified control weaknesses had arisen and what actions were being taken to address them. The Committee also considered Internal Audit's report assessing the effectiveness of internal controls.

- **External auditor reports**: The Committee reviewed reports from our external auditors, PwC, about recommendations in relation to internal controls for key financial reporting processes and systems. There were no significant issues noted, and areas for improvement are being implemented by management.
- **The Committee** considered regular updates on the status of control issues identified by both Internal Audit and PwC, and the volume and age profile of those issues remained within tolerable limits.

Taken together, the information the Committee reviewed provided assurance that, in 2019, the Society maintained an adequate internal control framework that met the principles of the Code, and that there were no material breaches of control or regulatory standards. Where weaknesses in the internal control framework were identified, they were not material. The Leadership Team proactively took action to tackle control weaknesses, and where possible, improve the internal control framework, so that the Society remains financially and operationally resilient.

OVERSIGHT OF THE INTERNAL AUDIT FUNCTION

Our Internal Audit function is governed by a charter, which the Committee reviews and approves annually.

The Committee reapproved the charter in September 2019 and you can find a copy of it on our website ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.html.

Our Chief Internal Audit Officer reports directly to the Chair of the Committee and Internal Audit has full and unrestricted access to all of the Society's functions, systems, records and colleagues. The Chair of the Committee meets regularly with the Chief Internal Audit Officer to review the performance of the Internal Audit function and discuss any matters emerging from Internal Audit activities. The Chair of the Committee also provides input to the appraisal of the Chief Internal Audit Officer's performance.

In addition to receiving reports on the outcomes of Internal Audit activities, as described above, the Committee receives regular reports on the performance of Internal Audit against an agreed set of measures. Internal Audit also reports to the Committee annually on the strategy for the function, the skills and resources it has, and what it needs to effectively discharge its role. The Committee reviews and approves any proposed changes to the strategy and resources.

Internal Audit continues to operate its own quality assurance and improvement programme and during 2019 the Committee considered the results of this programme and the actions taken by the Chief Internal Audit Officer to enhance the function's approach, effectiveness, quality, skills and experience. These actions included those agreed in response to the external assessment of the function in late 2018.

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

AUDIT COMMITTEE EFFECTIVENESS

Every year, the Committee members complete a self-assessment exercise, coordinated by the Society's Group Secretariat function, as part of a wider Board and Board Committee review process. A summary of the review's results is shared with the Committee and the Board. The 2019 review concluded that the Committee operated effectively in 2019 and that no actions for improvement were needed.

The Committee also reviews its Terms of Reference each year to make sure the Committee has done everything it is supposed to do.

You can find out more about our Board and Committee effectiveness reviews in the Board Governance and Nominations Committee Report on page 79.

Committee members also take part in training and receive briefings on areas that concern not only their roles on the Committee, but also their roles on the Board. In 2019 the Committee was briefed on Integrated Reporting, which covered developing our internal and external reporting to reflect our strategy, and demonstrating the financial, environmental, social and governance value the Society creates. The Committee used a combination of external and internal specialists to provide the briefing, which included industry developments relevant to the Society.

Our Board Chairman oversees the training and development of the full Board and you can find more information on this in the Induction and Development section of the Corporate Governance Report on page 63.

On behalf of the Board

Guy Bainbridge
Chair of the Audit Committee

26 February 2020

A WORD FROM THE CHAIR OF THE RISK COMMITTEE

RISK MANAGEMENT REPORT

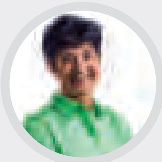
I am pleased to present the Group Risk Committee's report for 2019 which describes the Society's approach to the management of risk through its Enterprise Risk Management Framework (ERMF) and sets out the key risks to which the Society is exposed. As the Non-Executive Director that Chairs the Society's Board level Group Risk Committee it is my role to ensure that risks are properly managed across the Society and I believe that this Risk Management Report will provide you with that confidence.

The Society recognises that for the business to grow and achieve its commercial aspirations, effective risk management is essential.

During 2019 the Society continued to enhance and embed its ERMF in order to further improve robust yet efficient risk management which has an important and integral role in the Society in:

- delivering against its strategy with an appropriate culture
- protecting itself against unplanned financial outcomes
- building greater resilience to organisational threats
- protecting its customers from unfair outcomes
- demonstrating its credibility to external stakeholders.

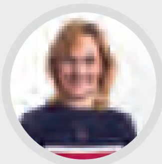
THE MEMBERS OF THE GROUP RISK COMMITTEE ARE


Neeta Atkar
Committee Chair


Guy Bainbridge
Committee Chair


Mark Pain
Independent Non-Executive Director


Gordon Ireland
Independent Non-Executive Director


Alison Hutchinson
Independent Non-Executive Director

As Chair of the Risk Committee, I am satisfied that the Society:

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

Neeta Atkar
Chair of the Risk Committee

OUR ENTERPRISE RISK MANAGEMENT FRAMEWORK

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

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

Three Lines of Defence

The Society operates a three lines of defence approach towards risk management, which seeks to differentiate between those:

- With direct responsibility for the management and control of risk.
- With responsibility for overseeing the effectiveness and integrity of the ERMF.
- Providing independent assurance across the first and second lines.

A summary of these respective responsibilities is set out below:

First Line of Defence

Risk category owners (Colleagues who determine how a particular group of risks should be managed):

- Articulate risk(s) in the Group Risk and Control Library, which is a list of risks that the Society is exposed to.
- Design key controls, which are activities the Society does to manage the risks.
- Direct Society policy, which sets out what colleagues can and cannot do.
- Oversee Society management of specific risks.

Directors / Business functions (Colleagues who are responsible for ensuring risks are effectively managed):

- Identify the risks they are responsible for, from the Group Risk and Control Library, and put them into a risk register.
- Own risks relevant to the business function .
- Operate applicable key controls and develop and operate supplementary controls as necessary.
- Assess risks and controls and determine if further actions are required.

Second Line of Defence

The second line is fulfilled through our Risk Division. It defines our approach towards risk management and supports, coaches, facilitates, independently monitors, challenges, reports and if necessary gives direct instruction to the first line. Second line is responsible for managing our regulatory relationships and for providing independent briefings and insights to the Board.

Third Line of Defence

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

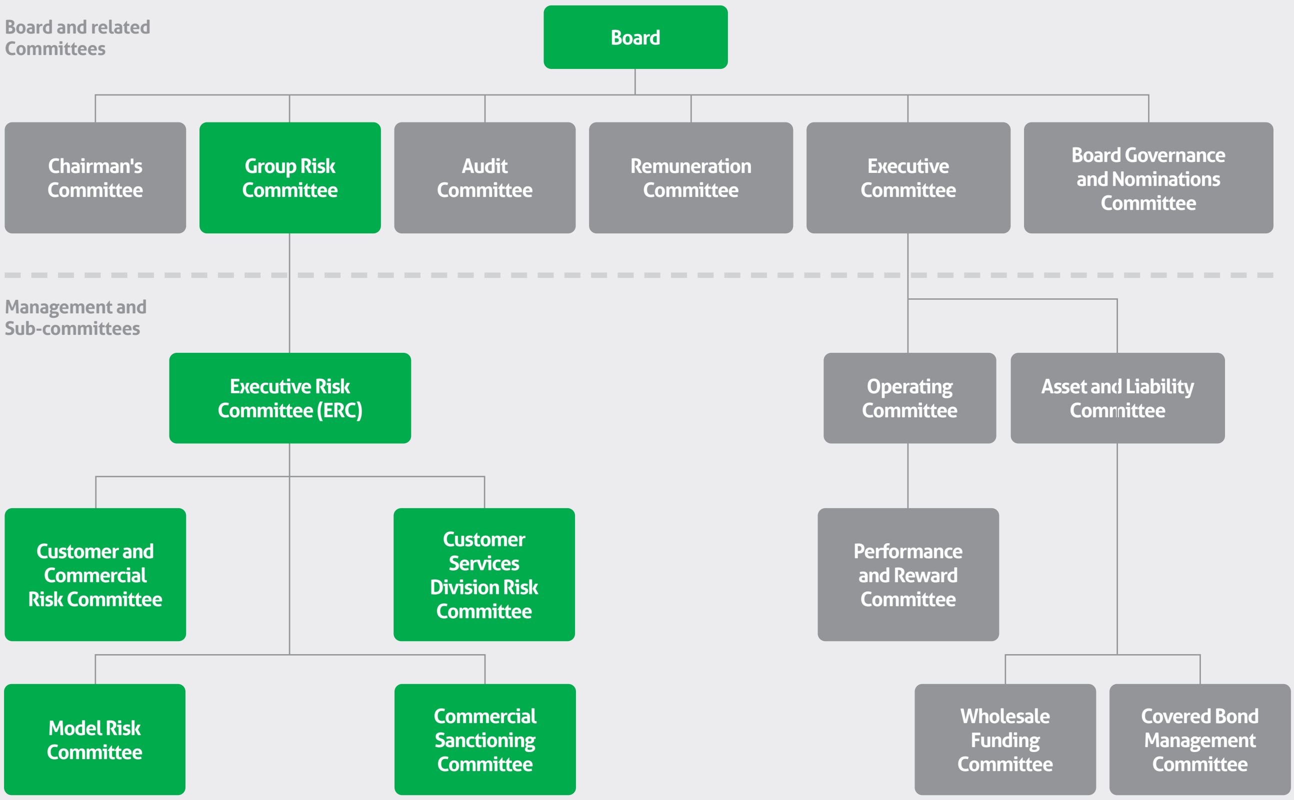
Improving our risk control processes

A Society-wide Risk Management information system was implemented in December 2018 to drive consistency between the three lines of defence in their assessment of risks.

During 2019 this system has been further embedded into our business. This technology has allowed us to simplify our reporting processes and make them more efficient, ensuring our ability to effectively manage and report on risk management and control matters in an appropriate and timely manner.

Governance

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



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

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

The Executive Risk Committee is responsible for the oversight of day-to-day risk management activity including, but not limited to, review of the effectiveness of the Society's risk management framework and system of internal controls. It has authority to direct the business in relation to mitigating actions and to approve or endorse risk acceptance within defined levels.

Below the Society's Board and senior management committee structure is a set of Divisional Risk Committees. These committees oversee risk management activity across the Society's core divisions, acting as a point of escalation for matters of Society level significance. Again, the committees have authority to direct mitigating actions and to approve or endorse risk acceptance for risks within the Division, in accordance with defined levels.

GROUP RISK COMMITTEE (GRC)

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

The Committee's membership comprises five Non-Executive Directors: Neeta Atkar, Mark Pain, Alison Hutchinson, Gordon Ireland and Guy Bainbridge. It is also attended by members of the Executive Team including the Chief Executive, the Chief Operating Officer, the Chief Finance Officer, the Chief Risk Officer and the Chief Internal Audit Officer. The Committee invites certain members of the Leadership Team when it is felt that this would help it discharge its duties. The Committee's Terms of Reference are available from the Corporate Governance section of our website at ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.

The Society maintains an independent second line risk management function (Risk Division) that is responsible for ensuring that appropriate risk management and measurement techniques are used that are commensurate with the Society's strategic aims, its appetite for risk and the risks it faces at any time. The Risk Division ensures that the Group Risk Committee receives a comprehensive programme of decision papers and reviews to ensure that it is fully sighted on such matters. The Society's Chief Risk Officer provides a formal update to the Board and to GRC, via the Executive Risk Committee (ERC) on a quarterly basis, covering all areas of risk management. This includes routine reporting, emerging risks, the results of the Risk Division independent oversight and additional issues that merit escalation.

During 2019 the Committee met four times and considered all of the matters relating to its responsibilities as summarised in its terms of reference.

In addition, a number of specific topics were considered throughout the year, including:

- Reviewing the UK's evolving political and economic landscape in the context of the Society's risk appetite.
- Monitoring the Society's approach to embed compliance with the requirements of the General Data Protection Regulations and the second Payment Services Directive.
- Maintaining an up-to-date awareness of key cyber risk trends and reviewing assurance over the Society's countermeasures.
- Reviewing outcomes from the Society's Operational Risk Task Force Upgrade in respect of Information Technology, Third Party Management, Information Security and Business Continuity risk categories.
- Reviewing and monitoring the Society's approach towards preparing for compliance with applicable regulation arising from the Resolvability Assessment Framework.
- Ongoing monitoring of the impact of significant organisational changes implemented through the year including the review and approval of the Society's Target Operating Model for Risk and associated proportional simplification of the Enterprise Risk Management Framework.

Additionally the Committee undertook a number of Deep Dive sessions covering a wide range of the Society's principal risk exposures including Regulatory Compliance and Conduct Risk, Model Risk and Governance and Credit Risk including Commercial Lending.

Key Risks and how we mitigate

We identify and categorise our key risks into four 'Level 1' risks and 25 'Level 2' risk categories, as illustrated here.

Operational Risk	Compliance and Conduct Risk	Prudential Risk	Business Risk
Business Continuity Risk	Customer Treatment Risk	Market Risk	Legal and Governance Risk
Change Risk	Product Governance Risk	Capital Risk	Balance Sheet Strategy Risk
Financial Reporting and Tax Risk	Sales Suitability Risk	Treasury Dealing Risk	
Financial Management Risk	Complaints and Redress Risk	Funding and Liquidity Risk	
Health and Safety Risk	Reward and Incentivisation Risk	Retail and Commercial Credit Risk	
Information Management Risk	Financial Crime Risk	Model Risk	
Information Security Risk			
IT Risk			
Payments Risk			
People Risk			
Third Party Risk			

Our risks and our risk profile evolve as we move through the economic cycle. Set out below are some of the key risks or risk categories to which the Society is exposed and details of how we manage and measure the risk, along with progress achieved in 2019:

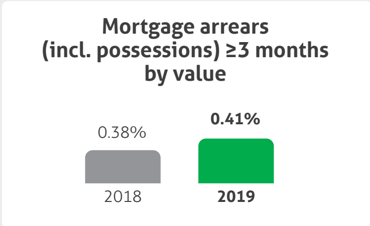
Retail and Commercial Credit Risk

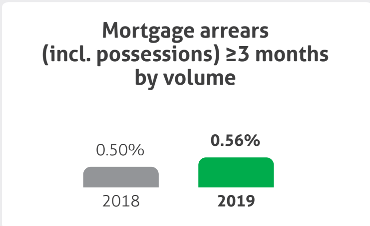
The risk to the Society of credit losses as a result of failure to design, implement and monitor an appropriate credit risk appetite.

Risk mitigation

- Retail and commercial credit risk is constrained by a risk appetite, which is approved by Board and further governed through the Retail and Commercial Lending Policy.
- A robust credit risk framework ensures that lending remains within risk appetite limits and appropriate remedial action is taken if a breach occurs. Adherence is monitored regularly through governance committees.
- Stress testing confirms portfolio resilience.
- A model governance framework ensures that credit risk models are operating as intended.

Key risk indicators





Commentary

- The Society continues to exhibit a low level of mortgages in arrears. The UK finance market average for >3 months arrears by volume is currently 0.76% compared to the Society's rate of 0.56%.
- In 2019, our mortgage book experienced favourable HPI movements overall.
- In 2020, the credit risk focus will continue to be delivery of strong asset quality aligned to responsible growth of the mortgage book.
- The asset quality of our loan portfolio remains strong. The proportion of accounts deemed to have significantly increased in risk (as per IFRS9) is in line with competitors and the impairment provisions the Society holds primarily relate to lending advanced pre-2009 as our lending after the downturn is of a higher credit quality.

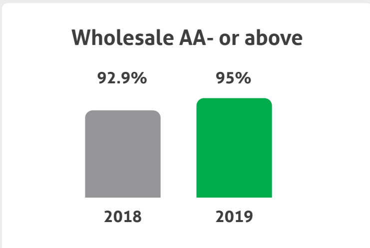
Treasury Risk

The risk of losses following default on exposures arising from balances with other financial institutions, liquid asset holdings and the use of derivative instruments to manage interest rate and foreign exchange risk.

Risk mitigation

- Treasury risk is constrained by a Board approved risk appetite, which is further governed through the Treasury Risk Policy.
- Most of the Liquid Asset Buffer portfolio is invested in the highest quality assets.
- The majority of derivative contracts are subject to centralised clearing to minimise risk exposures to counterparties. Where this is not possible, derivative exposures are restricted to high quality counterparties which are subjected to regular review and scrutiny by the Asset and Liability Committee (ALCO) within overall risk limits.

Key risk indicators



Commentary

- Each wholesale counterparty limit is reviewed at least on an annual basis, or sooner if a risk event occurs in the interim.
- The size of the credit limit allocated per counterparty is driven by their credit status as determined by internal analysis and is calibrated to the size of the Society's capital position to ensure that the financial viability of the Society is not overly exposed to any single counterparty.
- The increase in exposure to 95.0% from 92.9% for AA- or above counterparties is due to an initiative to increase the diversity of the liquid assets, reducing concentration risk and improving earnings whilst maintaining a low risk profile in accordance with Board risk appetite.

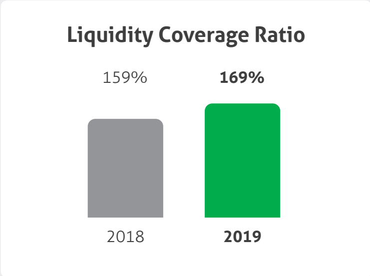
Funding and Liquidity Risk

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

Risk mitigation

- Funding and liquidity risk is constrained by a Board approved risk appetite, which is further governed through the Liquidity and Funding risk Policy.
- The key assumptions, risks and controls around the management of liquidity risk are outlined in the ILAAP document which is approved annually by the Board.
- The Society operates a range of internal stress tests to ensure that sufficient liquidity is available at all times to address stress and business as usual requirements.
- The Society also manages to the external regulatory measure, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).
- The Society is primarily funded through retail savings balances, supported by a strong franchise in key wholesale funding markets.

Key risk indicators



Commentary

- The LCR increased from 159% to 169% during 2019. This was primarily due to higher levels of excess liquidity following successful wholesale issuances in the latter stages of 2019.
- The impact of volatility in the wholesale funding markets as a consequence of the UK leaving the EU have been included in our Corporate Plan and stress testing scenarios and we have concluded we can meet the funding requirements of the Society.

Market Risk

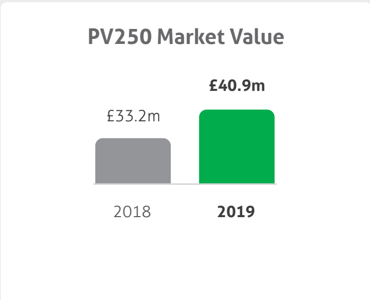
Repricing Mismatch Risk: The risk that the value of, or income derived from the Society's assets and liabilities changes unfavourably due to movements in interest rates and foreign currency rates. This risk arises from the different re-pricing characteristics of the Society's assets and liabilities

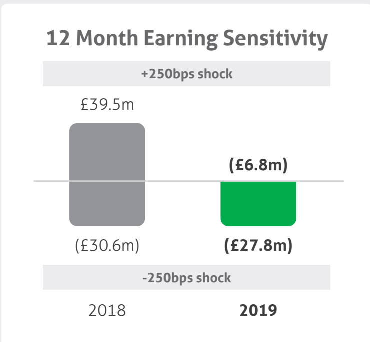
Basis Risk: Basis risk arises from possible changes in spreads where assets and liabilities re-price at the same time, but move in differing amounts causing unfavourable impacts to earnings.

Risk mitigation

- Market Risk is constrained by a Board approved risk appetite, which is further governed through the Market Risk Policy.
- The Society adopts a risk averse approach to interest rate mismatch although some scope for position taking is allowed in line with an agreed in house rate view, subject to the agreed risk appetite.
- The Society operates a wide range of measures and scenarios that review this risk in respect of both earnings and value. Earnings are stressed over a 12 month period for +/- 250bps changes in rates. Rates are assumed to floor at 0%.
- The Society operates a range of internal stress tests to ensure that market risk is within an acceptable range over a series of rate scenarios including negative rates and non-parallel shifts.
- The Society's limits for basis risk include limits for sensitivities around isolated movements in underlying rates (LIBOR/SONIA), for overall mismatch ratios and for ensuring the Society has sufficient levels of margin management capability.

Key risk indicators





Commentary

- The PV250 (Market value change on the Society Balance Sheet of a parallel 250bps increase in interest rates) has increased primarily due to a reduction in Treasury interest rate risk positioning following uncertainty in the market which would have previously provided an offset to the Retail balance sheet exposures. The metric now primarily reflects the natural hedging positions in the retail mortgage portfolios. Further information is included in Note 36.
- The decrease in the 12 month earnings sensitivity for a down 250bps scenario reflects an increase in the amount of fixed rate liabilities repricing at <12 months compared to fixed rates assets repricing < 12 months, this provides a benefit in a down shock. This is also the driver in the up 250bps sensitivity turning negative.
- With respect to LIBOR reform risk, the Society's remaining LIBOR position is not material and is being managed down in line with regulatory expectations. As such, the Society has not adopted the proposed amendments to accounting standards to allow reliefs for the effects of LIBOR reform.

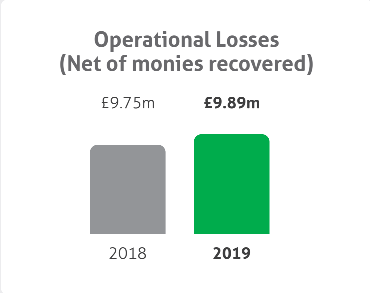
Operational Risk

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

Risk mitigation

- Operational risk is constrained by a Board approved risk appetite, which is further governed through the ERMF.
- The ERMF sets out how colleagues are expected to identify, assess, monitor, manage and report their risk exposures.
- A Risk & Control Self-Assessment (RCSA) process outlines the controls that must be followed and the frequency of assurance in order to determine whether the current set of controls is appropriate to manage its risks going forwards.
- The ERC provides oversight across the Group's operational risk exposures.

Key risk indicators



Commentary

- There has been a moderate increase in the value of Society Operational Losses in 2019 with an underlying increase in PPI payments to £7.5m from £5.7m in 2018.
- During 2019 the Society's Risk Management Information System was further embedded and is now used for Risk & Control Self-Assessment, as well as by Compliance, Legal and Internal Audit functions.
- A taskforce was mobilised in H2-2018 and successfully completed work in 2019 to upgrade operational risk management capability across a number of risk categories including, Information Security risk, Third Party risk, Business Continuity risk and Information Technology risk. Following this activity further work has been planned to continue to address capability needs across the remaining areas from an operational risk perspective.

Model Risk

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

Risk mitigation

- Model Risk is managed within the framework set out in the Society's Model Oversight Policy.
- Compliance with the policy is monitored through the Model Risk Committee (MRC) which is the designated committee for the oversight of Model Risk.
- MRC is chaired by the Chief Risk Officer and is a sub-committee of the ERC.

Key risk indicators

- Number of models governed by model risk framework.
- Individual model ratings which reflect model performance and regulatory policy compliance.

Commentary

- During 2019 Model Risk management has been upgraded through a number of developments, including establishing a Model Risk Appetite, enhanced reporting and policy framework.
- Model Risk has been embedded into the Risk and Control Self-Assessment process which outlines the controls that must be followed to prevent model risk.
- The Society operates an inventory of all models that ensure coverage and compliance with policy.

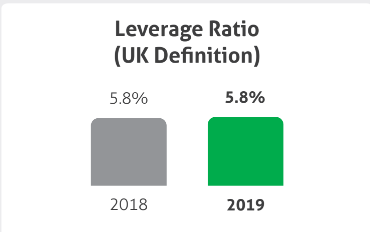
Capital Risk

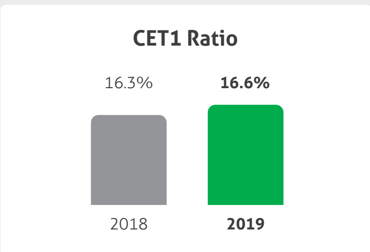
There is a risk that YBS is not able to meet regulatory capital requirements or deliver on its strategic plans due to insufficient capital resources.

Risk mitigation

- Capital risk is constrained by a Board approved risk appetite, which is further governed through the Capital Strategy.
- Current and projected capital positions are regularly monitored and also considered in stress scenarios as part of the ICAAP.
- The Society operates a range of internal stress tests to ensure that sufficient capital is available at all times to allow the Society to maintain its minimum capital requirements even in a stress scenario.
- Specific details on capital management can be seen in the Group's Pillar 3 disclosures (available on the Group's website).

Key risk indicators



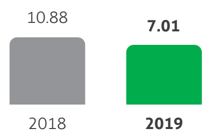
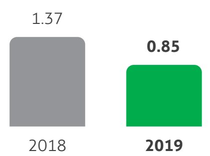


Commentary

- The CET1 ratio has increased from 2018 to 2019 and the Leverage ratio is stable. Both ratios remain above both regulatory requirements and internal risk appetite levels.
- The Leverage ratio presented uses the PRA's revised exposure criteria which excludes central bank deposits from the exposure measure.
- The Society maintains a strong capital position both currently and in forecast.
- The Society is progressing its application to use the advanced IRB approach to calculate capital requirements for credit risk. Once the Society gains IRB permissions, its key capital ratios (notably the CET1 ratio) will better reflect its level of credit risk, with an expected increase in the ratio.
- The Society is subject to end state MREL requirements (double pillar 1 and 2A) plus applicable buffers from 1 January 2020.

Compliance and Conduct Risk

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

Risk mitigation	Key risk indicators	Commentary
■ Compliance and Conduct risk, including financial crime risk, is constrained by a Board approved risk appetite, which is further governed through the ERMF. ■ Key conduct risk metrics are in place to protect customer outcomes in all key areas including sales, service, complaints and collections. ■ Clear responsibilities have been determined in a revised governance model that established defined risk management and oversight accountability within the divisions. ■ A comprehensive programme of independent oversight with reporting to GRC takes place.	**Complaints per 1,000 accounts - Mortgages (H2)**  **Complaints per 1,000 accounts - Banking, Savings and Loans (H2)**  	■ Contributing to a reduction in Banking, Savings and Loans complaints were a number of process improvements around ISA Transfers and the opening and closure of Savings Accounts. Home Finance complaints also reduced with continued improvements delivered through the Mortgage Application journey. ■ A Compliance Monitoring plan, approved by the GRC, has been completed during 2019 allowing robust oversight of the key areas of conduct risk. ■ All oversight findings, whether of a compliance, conduct or financial crime nature are the subject of a formal action plan overseen to closure by the GRC. ■ Key areas prioritised for review in 2019 included: financial crime; data protection and privacy; and, customer treatment. ■ The Society is committed to ensuring that it has effective policies and procedures to counter the risk of bribery and corruption. A formal Anti-Bribery and Corruption Policy is in place and all colleagues are required to undertake appropriate training annually. ■ The pace and extent of external regulatory change continues to be high. The implementation of regulation such as GDPR, PSD2 and the fifth money laundering directive have also increased the requirement for compliance support and oversight.

STRESS TESTING

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

The key uses of stress testing are:

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

It should be noted that unlike other stress tests, reverse stress tests start from the identification of a predefined outcome, that being the point at which the firm's business model becomes unviable, or at which the firm can be considered to be failing because the market has lost confidence in it.

CONCURRENT STRESS TEST

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

FUTURE DEVELOPMENTS

Good progress has been made in 2019 on enhancing the Society's approach to risk management and measurement, including further simplification to the Society's Risk & Control Self-Assessment process, implementing a Society-wide Risk Management System across all three lines of defence and making improvements to the Society's operational risk management capabilities. We will continue to develop the Society's approach to risk management and measurement during 2020. This is a continuing necessity given key changes in technology-driven business models and changing preferences for how customers interact with us.

On behalf of the Board

Neeta Atkar
Chair of the Group Risk Committee

26 February 2020

This report explains the Remuneration Committee's role in overseeing the development and implementation of our remuneration policies, ensuring regulatory compliance and the long-term success of the Society. The report also outlines details of Directors' remuneration during the year and a proposed change to the Directors' Remuneration Policy.

A WORD FROM THE CHAIR OF THE REMUNERATION COMMITTEE

DIRECTORS REMUNERATION REPORT

I am pleased to share the Directors' Remuneration Report, including details of the Directors' pay, for the year ended 31 December 2019. Our role as the Remuneration Committee (the Committee) is to ensure that all of our remuneration policies align with the Board approved strategy to make sure that the business is run safely, successfully and sustainably for our members.

This report includes a summary of the Remuneration Policy as well as the key decisions made by the Committee this year. As in previous years, where possible this report discloses information in line with the Building Societies (Accounts and Related Provisions) Regulations 1998 and the Pillar 3 disclosure requirements under CRD IV relevant to a Proportionality Level 2 firm. The Society also voluntarily complies, where possible, with the disclosure requirements of the Large and Medium-sized Companies (Accounts and Reports) Regulations 2008 and The Companies (Miscellaneous Reporting) Regulations 2018.

LOOKING BACK TO 2019

Looking back at performance in 2019, the Society has delivered a good set of results against key financial and customer metrics. Despite competitive market conditions, together with considerable uncertainty and volatility in the wider economy, we performed better than the stretching objectives we set out in our Corporate Plan. This has been delivered in a sustainable manner in line with the Society's risk appetite.

Full details regarding our 2019 performance can be found on page 48.

During the year, the Committee considered changes to reporting regulations and the revised UK Corporate Governance Code (the Code) which took effect from 1 January 2019. I am pleased to say that we have embraced the changes, and that our remuneration framework and governance are closely aligned with the new Code. We always seek to apply the principles of the Code and will continue to do so, whenever possible.

In 2019 the Committee, alongside colleagues, was heavily involved in the redesign and delivery of the Society's new benefit framework. These changes included the removal of benefits linked to a colleague's position in the organisation's hierarchy, meaning that from now on, all colleagues have access to the same benefits from the day they join the Society. In addition, as I shared last year newly appointed

Executive Directors will receive a pension contribution in line with new colleagues across the Society equal to a maximum of 11% of base salary.

This year, we have also published the ratio of the Chief Executive's pay to the wider colleague population. The pay ratio reflects the nature of the business we operate in, and the range of different roles and skillsets required within the financial services sector, from customer facing colleagues in the branch network and call centre, through to heavily technical specialist roles for example in our Treasury department. We regularly review the market and are committed to paying all our employees the real living wage as a minimum.[29]

The Committee regularly seeks feedback through colleague forums to ensure that Committee members remain connected to their views. Alison Hutchinson, a member of the Committee, also has formal accountability for the 'Voice of the Employee' to ensure that the Board considers this broader perspective in its decision making.

The Society continues to strive to create an inclusive environment where diversity in all forms is encouraged and that the Society's Remuneration Policy is inclusive in both its design and practice. In December 2019, the Society reported a mean gender pay gap of 30.5%, which was marginally higher than 2018, reflecting organisational changes which occurred throughout 2018 and 2019. If the Society were to have an equal (50:50) split of males and females at each level, the gap would be much lower at 2.5%. We are committed to managing our gender pay position, details of actions we are taking are set out in our gender pay report available at ybs.co.uk/your-society/inside-your-society/corporate-governance/policies/gender-pay-gap.

REMUNERATION OUTCOMES FOR 2019

In 2019 we introduced the Building Together bonus scheme, through which all colleagues share in the success of the Society. A collective approach to bonus serves to reinforce our culture, ensuring all colleagues are working towards the same business outcomes. Under the scheme, all colleagues have the opportunity to earn an 'on-target' bonus of 7% of base salary with a maximum potential bonus of 10%.

The Building Together bonus scheme is awarded based on the successful achievement of financial and non-financial performance indicators. The targets to achieve this bonus were the same for all colleagues.

Our Senior Leadership Team, including Executive Directors, has the opportunity to earn a maximum bonus of 50% of base salary. Bonus payments are based on a combination of business and individual performance, measured using stretching financial and non-financial criteria set out in individual balanced scorecards. When setting performance targets, the Committee sought to drive performance that benefits the Society over the long term and creates value for its members and other stakeholders.

In determining bonus awards for Executive Directors, the Committee has carried out a comprehensive review of individual performance and the Society as a whole, with input from the Group Risk and Audit Committees, in relation to both our financial and non-financial performance, including the member and customer experience we have delivered this year. The remuneration of the wider colleague population was also taken into consideration.

The Committee believes that our Executive Directors have continued to deliver real benefits for the Society and helped create value for our members and other stakeholders. Based on this, we have awarded bonuses to our Executive Directors in respect of the 2019 performance year. On average, Executive Directors' achieved 91.6% of their maximum bonus opportunity and all other colleagues received an average of 95.4% of their maximum bonus opportunity. We have included full details of how remuneration is awarded for Executive Directors and the amounts later in this report.

PROPOSED DIRECTORS' REMUNERATION POLICY FOR 2020

We are currently at a critical stage in the Society's transformation journey and are working closely with Executive Directors to deliver a new vision and business strategy. The new business strategy will require significant transformation across all areas of the organisation to deliver strong, sustainable performance and value for our members. Our Executive Directors are highly skilled and experienced, and are critical to delivering the next phase of our business transformation and new business strategy.

Following our annual review of market practices, we recognised that we needed to act to better align the levels of total remuneration for our Executive Directors. Following very careful consideration, the Committee has decided to increase the maximum variable remuneration opportunity for Executive Directors. As such, we will be proposing a revised Directors' Remuneration Policy to members for approval at the AGM in April 2020.

Under the Building Together bonus scheme the maximum bonus opportunity for Executive Directors will increase from 50% to 100% of base salary. Any payments under the scheme will continue to be subject to achieving a stretching Profit Before Tax (PBT) target, as well as other financial and non-financial measures, and personal objectives linked to the Society's key transformation activities and milestones. Any payments will also be subject to regulatory underpins including risk adjustment, deferral, malus and clawback. Further details regarding the Building Together bonus scheme are set out on page 97.

Executive Directors will not receive a pay increase in 2020.

As the Society formalises its new vision and business strategy the Committee will review the Directors' Remuneration Policy to ensure it continues to support the Society's long-term business objectives, represents colleague and member interests, and reflects our vision, purpose and culture. The full Remuneration Policy is available for review on pages 105 to 111.

I strongly believe that the proposed change to Remuneration Policy is right for the Society and hope that members will vote for its approval at the forthcoming AGM.

On behalf of the Board

Guy Parsons,
Chair of the Remuneration Committee

26 February 2020

[29] The Real Living Wage is based on the cost of living and is voluntarily paid by nearly 6,000 UK employers.

OVERVIEW OF OUR DIRECTORS' REMUNERATION IN 2019

The structure of the Society's current bonus scheme, Building Together and the performance measures taken into account to calculate executive directors' bonus awards is outlined below. The Society's performance is used for bonus calculations (in line with the Remuneration Policy approved at the last advisory vote at the 2019 AGM).

How much have our directors earned in 2019?[30]

This summary confirms Executive Director total earnings for the 2019 performance year.

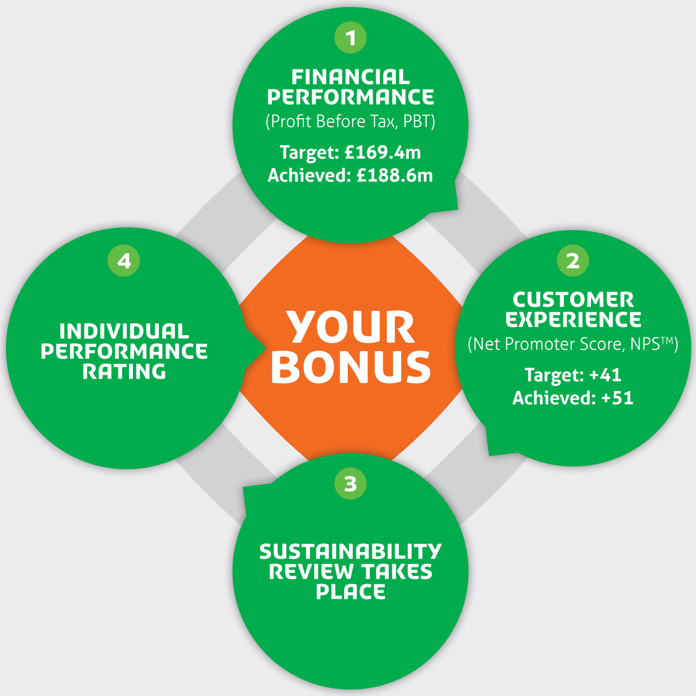
Director	Base Salary £'000	Other Fixed Pay £'000[31]	Bonus £'000	Total Earnings £'000
Mike Regnier, CEO	583	108	280	971
Alasdair Lenman, CFO	356	100	177	633
Stephen White, COO	429	100	186	715

Key
Base Salary £'000 Other Fixed Pay £'000[31] Bonus £'000 Total Earnings £'000

HOW THE SCHEME WORKS

The Building Together bonus scheme is focused around all colleagues sharing in the Society's success. All colleagues have the opportunity to earn an on-target amount of 7% of eligible earnings, with a maximum amount of 10%. This element is awarded based on the same financial and customer performance measures. The senior leadership team had an additional bonus earning opportunity of up to 40%. This element is earned based on overall business performance underpinned by an individual scorecard. This took their total bonus earning opportunity to 50%.

The Committee retains the discretion to make adjustments to the profit figure to ensure that it reflects a true view of the underlying performance of the Society prior to the payment of any bonus. In line with our Directors' Remuneration Policy, the Committee undertakes a risk overlay process (part of the sustainability review) on bonus based on a series of agreed criteria. These are detailed in this report.



[30] The PBT figure for 'achieved' is different to the figure stated on page 48 of the Annual Report and Accounts. This figure is adjusted to reflect underlying profit and is in line with agreed principles which are outlined on page 100 of this report. The NPS™ measures how likely customers are to recommend us and is a combination of customer and broker NPS™, resulting in an achieved NPS™ of +51.

[31] Fixed pay includes pension allowance, any location or additional responsibilities allowance and taxable benefits.

STATEMENT OF MEMBER VOTING

The Society remains committed to ongoing member dialogue and takes an active interest in voting outcomes. The policy has received strong support from members to date.

	2016	2017	2018	2019
To approve the Directors' Remuneration Report	91.88%	89.67%	90.29%	91.86%
To approve the Directors' Remuneration Policy	91.16%	n/a	n/a	90.95%

OVERVIEW OF THE PROPOSED DIRECTORS' REMUNERATION POLICY FOR 2020

The following table sets out the key elements of the proposed Directors' Remuneration Policy and an explanation of the changes being made. Full details of the Directors' Remuneration Policy are set out on page 105 of this report.

Remuneration element		Summary	Proposed change for 2020
Fixed remuneration	Base Salary	Cash salary determined based on a combination of skills, knowledge and experience, on-going performance and demonstration of the Society's behaviours and values.	No change proposed.
	Benefits	Various cash and non-cash benefits including private medical insurance, life assurance, concessionary financial products, sick pay and company car (or cash equivalent).	No change proposed.
	Pension	Current Executive Directors receive a contribution (or cash allowance) equal to a maximum of 16% of base salary. Newly appointed executive directors (appointed after 1 January 2019) will receive a contribution in line with the wider colleague group equal to a maximum of 11% of salary.	No change proposed.
Variable remuneration	Building Together Bonus scheme	Annual incentive plan which rewards Executive Directors' for performance against challenging financial, customer and individual measures. The maximum bonus available for Executive Directors is 100% of base salary. Bonus will be delivered through a combination of cash and Share Equivalent Instruments (SEIs). Bonus payments will also be subject to regulatory underpins including risk adjustment, deferral, malus and clawback.	The maximum bonus available for Executive Directors will increase from 50% to 100% of base salary. Bonus will be delivered through a combination of cash and SEIs.

ANNUAL REPORT ON REMUNERATION

EXECUTIVE DIRECTORS' REMUNERATION

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

The table below shows the single total figure table of remuneration for the Executive Directors of the Society for the years ended 31 December 2019 and 2018. This is a regulatory requirement seeking to provide accessible information outlining the total remuneration of the directors for the previous two performance years.

This information has been audited by our external auditors, PricewaterhouseCoopers LLP (PwC).

Executive Director	Role	Fixed Remuneration			Bonus[32]	Total Remuneration
		Base Salary	Taxable Benefits	Pension/Pension Allowance		
		£'000	£'000	£'000	£'000	£'000
Year ended 31 December 2019						
Mike Regnier	CEO	583	15	93	280	971
Alasdair Lenman	CFO	356	43	57	177	633
Stephen White	COO	429	31	69	186	715
Year ended 31 December 2018						
Mike Regnier	CEO	560	14	90	199	863
Alasdair Lenman[33]	CFO	350	43	56	143	592
Stephen White	COO	418	31	67	149	665

The information below has not been externally audited.

BASE SALARY

Executive Directors' salaries are reviewed each May as part of the annual pay review. The 2019 increases were in line with those received by all colleagues, with increases ranging from 0.5% to 20.2%. Individual increases are based on performance, relative position to market and affordability, with the aim of retaining talent in a challenging environment. As a result, in 2019, the average pay award for all colleagues was 3.0%, including all Executive Directors.

The average pay award for all colleagues of 3.0% is higher than the agreed pay award of 2.7%. This was achieved by distributing the overall pay budget appropriately between colleagues who are already paid higher or above the market average for their roles, to colleagues who were paid a lower salary in relation to the market average.

The table below sets out the increases in base pay levels for Executive Directors following the annual pay review in May 2019.

Executive Director	Base Salary at 1 May 2018	Base Salary at 1 May 2019	Increase
	£'000	£'000	%
Mike Regnier[34]	565	591	4.7%
Alasdair Lenman	350	359	2.5%
Stephen White	422	432	2.5%

[32] The bonus figures illustrated represent the full amount of bonus awarded in respect of the 2019 and 2018 performance year. Mike, Alasdair and Stephen will only receive 20% of this in cash in the first year, with the remainder delivered over seven years. Full details regarding how bonuses are paid are available on 101.

[33] In September 2018, Alasdair assumed the responsibilities of the Chief People Officer and was temporarily receiving an additional non-pensionable supplement of 10% of his salary for this. This uplift ceased in April 2019 and was in line with supplements for the wider colleague group.

[34] Mike received a higher award as a result of his strong sustained performance and position relative to the market for his role. This increase was in line with the broader colleague group who received similar pay awards in the same circumstances.

BONUS

The bonus scheme is delivered in two parts for Executive Directors. 'Building Together' is the first part; all colleagues are invited to participate in this scheme including Executive Directors. The scheme is linked to our financial performance, customer experience and risk management. The scheme design is focused on all colleagues sharing in the success of the Society.

The second part is for Executive Directors and Senior Managers in the Society. They have the opportunity to earn an additional bonus taking the total bonus opportunity up to a maximum of 50% of salary with an on-target opportunity of 30% of salary (combining the two elements).

Payment of this element will be awarded based on a combination of business and individual performance, including a range of financial and non-financial criteria, measured via a stretching individual balanced scorecard. When setting targets for all elements, we always seek to drive performance that benefits the Society over the long-term and creates value for its members and other stakeholders. A risk overlay process is also carried out to ensure the Society has not been exposed to unnecessary risk; this forms part of our 'sustainability review'.

The payment of any bonus is subject to the discretion of the Committee, and all Executive Director bonuses are subject to the relevant deferral periods.

1. FINANCIAL PERFORMANCE

The first performance measure is the Society's profit before tax (PBT). Under the terms of the Building Together scheme, the Committee has scope to make adjustments to the calculation of profit within the bonus scheme.

The following principles are applied when identifying potential adjustments:

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

In line with the above, the overall PBT figure was adjusted to produce an achieved position of £188.6 million against a reported figure of £167.2 million. This represents a performance above target, which was £169.4 million, and sets the financial element of the bonus earning potential. The PBT figure used for the bonus calculations has been verified by the Society's internal audit team.

2. CUSTOMER EXPERIENCE

The second performance measure is the customer 'Net Promoter Score' (NPS™), which unlocks the bonus award. The NPS™ measures how likely our members and customers are to recommend us and we obtain this through customer and broker surveys. The results are combined, at a ratio of 50% mortgages and 50% savings, to create the 'combined NPS™ used for bonus calculations. To pay an 'on-target' bonus, the target NPS™ for the year was +41. The Society outperformed this target throughout 2019 with an average NPS™ of +51.

Contribution from different NPS surveys to the overall combined NPS score for the Building Together bonus scheme

Mortgages: 50%

Broker feedback: **20%**	Buy-to-let feedback: **5%**	Mortgage customer feedback: **25%**

Savings: 50%

Savings customer feedback: **45%**	Shareplans customer feedback: **5%**

3. FINANCIAL SUSTAINABILITY REVIEW

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

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

Payments will be reduced or forfeited if we have not met these targets.

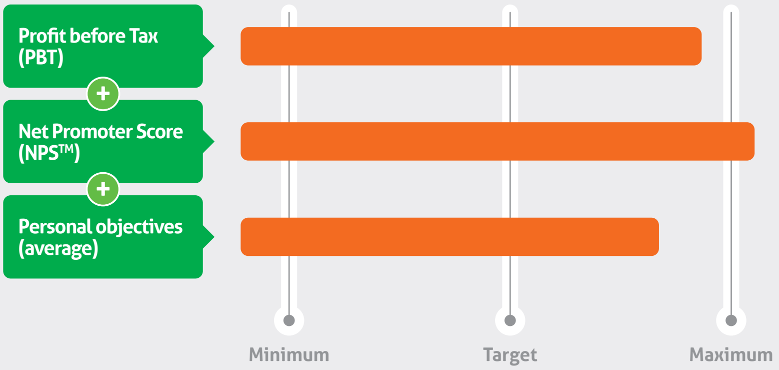
As part of this review, we conducted a risk overlay which considers the management of specific business risk appetite measures, and payment can be amended if we identify material breaches. Following a rigorous review where we assessed business controls processes, we decided that no action was required to adjust the bonus levels for the 2019 performance year.

4. INDIVIDUAL PERFORMANCE FOR SENIOR MANAGERS

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

How bonus is calculated for executive directors

The table below summarises the outcome against the various measures for 'Your Bonus'.



How bonus is awarded for our executive directors

Executive Director	Role	Total Award		Deferral schedule						
		% of salary	£'000	2020	2021	2022	2023	2024	2025	2026
Mike Regnier	CEO	48.08	280	112	-	-	34	34	34	34
Alasdair Lenman	CFO	48.08	177	71	-	-	21	21	21	21
Stephen White	COO	43.31	186	74	-	-	22	22	22	22

For the 2019 performance year, 99.9% of eligible colleagues will receive a bonus. On average an eligible Executive Director achieved 91.6% of their maximum bonus opportunity, with all eligible colleagues on average receiving 95.4% of their maximum bonus opportunity.

Bonuses for Executive Directors remain subject to malus and clawback, with bonus subject to clawback for up to ten years.

BONUS DEFERRAL AND SHARE EQUIVALENT INSTRUMENT (SEI)

In line with the PRA and FCA remuneration regulations and the Senior Managers and Certification Regime, all bonuses payable to Executive Directors designated as Senior Managers are subject to deferral. In addition to regulatory requirements, the Society's Remuneration Policy requires bonuses for all members of the senior management team are subject to an element of deferral. Bonus deferral ensures that the Society delivers variable pay in a manner that prevents unnecessary risk taking, whilst achieving a level of sustainable performance.

In a performance year, where executive directors total remuneration falls below the de-minimis[35] limit, the annual bonus awards will be delivered as cash and paid over three years: 50% of any bonus is paid out in the year following the performance year; the remaining 50% is deferred with 25% released after one year and 25% released after two years.

For Executive Directors whose remuneration is over the de-minimis limit, bonus awards are required to have a longer deferral period and / or a

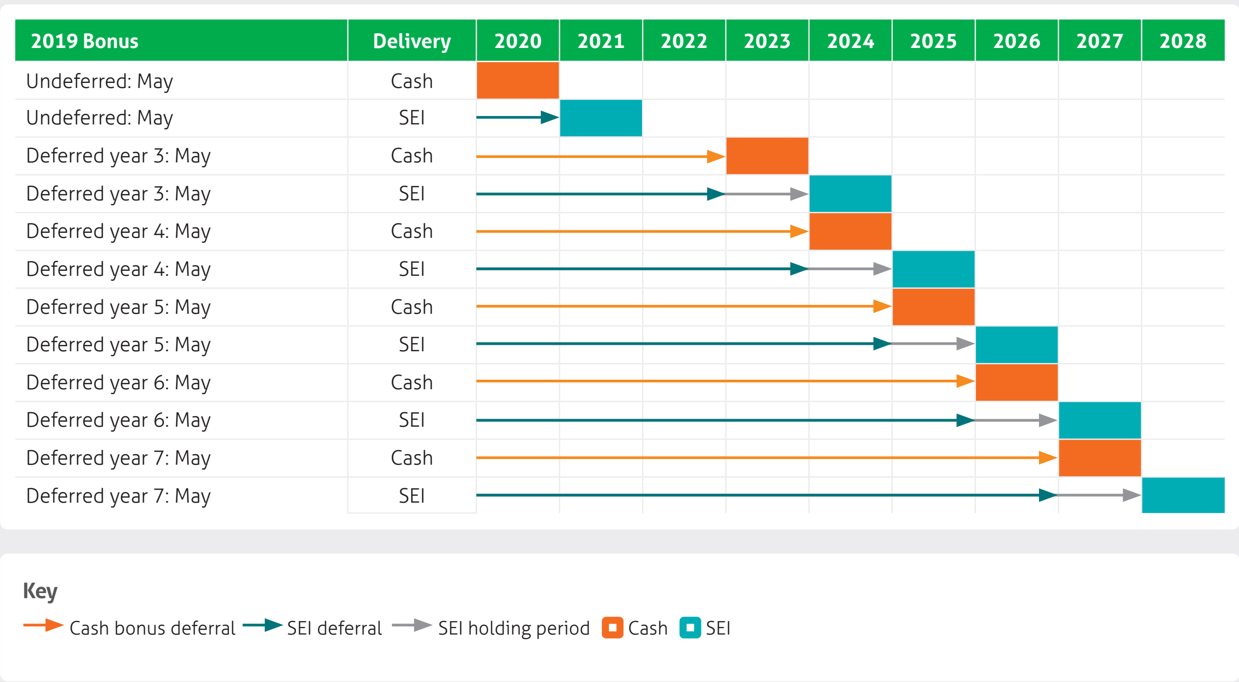
[35] A de-minimis limit level is set by regulation, in relation to the level of bonus deferral applied. It impacts colleagues whose total remuneration is greater than £500,000 per annum and where colleagues' variable remuneration is more than 33% of their total remuneration.

larger percentage deferred in line with regulations. Where also required by regulation, 50% of each bonus payment will be delivered via an SEI and is subject to a retention period. For the 2019 performance year, an Executive Director whose remuneration exceeds the de-minimis limit will receive 40% of their bonus in 2020 with the remaining 60% deferred over seven years, with a one year retention period applying to the SEIs received.

For example:

- **Year 1**
  40% of any bonus earned is paid out in the year following the performance year. Half of this amount is paid in cash and the other half is delivered in a SEI and subject to an additional retention period prior to revaluation and payment.
- **Deferral Years**
  the remaining 60% is deferred for 7 years and paid equally each year from 3 years after the award. Each year, the award is split in two, with half the amount paid in cash and the second half held in a SEI and subject to an additional retention period prior to revaluation and payment. SEI valuations continue every 12 months until the bonus schedule is complete.

Length of time variable pay is at risk



TAXABLE BENEFITS

The taxable benefits awarded to Executive Directors are in line with what we offer to all colleagues, comprising a company car (or equivalent allowance), private medical insurance, permanent health insurance and any location allowances. Executive Directors, like all colleagues, can also participate in a concessionary mortgage scheme which is subject to a maximum concessionary amount of £160,000; no Executive Directors have taken up this mortgage scheme.

No significant changes to the construct of the Executive Directors' benefits entitlement are planned for 2020.

PENSIONS

From 1 January 2018 all Executive Directors are members of the Society's defined contribution scheme; a core contribution of up to 16% of their base salary is paid into the scheme. Where prevailing tax restrictions limit pension contributions, the remainder is paid as a cash allowance.

From 1 January 2019 all newly appointed Executive Directors will be eligible for a core contribution of up to 11% of base salary. This is in line with all other colleagues.

The pension scheme also provides a lump sum of six times' their pensionable salary on death in service. This is in line with all other colleagues.

MOVEMENT IN CEO REMUNERATION RELATIVE TO THE WIDER COLLEAGUE POPULATION

Mike Regnier received a pay increase of 4.7% in May 2019. The average pay increase in 2018 for all colleagues (including Executive Directors) was 3.0%. Mike received a higher award as a result of his strong sustained performance and position relative to the market for his role. This increase was in line with the rest of colleagues who received similar pay awards in the same circumstances.

The overall change in the CEO's pay is 12.5% higher than during the same timeframe in 2018.

CEO PAY RATIO REPORTING

For the first year we are publishing the ratio of the Chief Executive's pay to the wider employee population. This ratio reflects the nature of the Society, in particular the range of different roles and skillsets required to operate within financial services; from a number of customer facing colleagues in the branch network and call centre, through to heavily technical specialist roles in our Treasury department, for example.

To ensure that we get pay right across the organisation, we regularly review the market and commit to paying all our employees the real living wage. We also have a consistent approach to how we manage pay for all colleagues, from our Chief Executive to our most junior roles.

This ratio compares the total remuneration of the Chief Executive against the total remuneration of the median employee and those who sit at the 25th and 75th percentiles (lower and upper quartiles).

Year	Method	25th percentile	50th percentile	75th percentile
2019	Option B	55:1	29:1	19:1

The total remuneration values and salary values for the 25th, 50th and 75th percentile employees for 2019 are:

	25th percentile	50th percentile	75th percentile
Total remuneration	£23,986	£28,134	£44,188
Salary	£19,755	£24,003	£36,879

We have utilised the reporting method of 'Option B', which involves utilising our existing gender pay gap reporting data as the basis for identifying the colleagues at each of the required quartiles. We have chosen to utilise Option B as the data collated as part of the gender pay process is subject to external assurance, and as such provides an accurate basis for the calculation of CEO ratios.

PAYMENTS FOR LOSS OF OFFICE

There were no payments for loss of office in 2019.

PAYMENTS TO PAST DIRECTORS

There were no payments to past directors in 2019 that had not already been disclosed in previous reports.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

In line with the annual review of Chairman and Non-Executive Director fees, the fee levels were reviewed in June 2019 and came into effect on 1 July 2019. Non-Executive Directors' basic fees were increased by 2.2% in July 2019. This change took into account external market data, the skills and the time commitment required for the role as well as wider colleague salary increases. Non-Executive Directors fees are agreed by the Society's Chairman and Executive Directors.

The Remuneration Committee review the fees payable to the Society's Chairman. Despite the Chairman being a member of the Committee, he is not involved in decisions relating to his own remuneration.

Non-executive director fees	Fees at 1 July 2018	Fees at 1 July 2019	Uplift
Annual equivalents	£'000	£'000	%
Chairman basic fees	192.7	196.9	2.2
Vice Chairman basic fees	71.0	72.6	2.2
Non-executive director basic fees	50.6	51.7	2.2
Additional fee for:			
Audit Committee – Chair	21.0	21.9	2.2
Audit Committee – Member	8.7	8.8	2.2
Remuneration Committee – Chair	17.1	17.5	2.2
Remuneration Committee – Member	6.3	6.4	2.2
Group Risk Committee – Chair	21.0	21.5	2.2
Group Risk Committee – Member	8.7	8.8	2.2
Board Governance and Nominations Committee	-	6.4	n/a

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH NON-EXECUTIVE DIRECTOR

The Non-Executive Directors' basic and committee fees earned in 2019 are outlined below. Non-Executive Directors do not receive any benefits, but are reimbursed for any expenses incurred, such as travel and subsistence. Any tax due is the responsibility of individual Non-Executive Directors. This information has been audited by our external auditors, PwC.

Non-executive Director	2018 Basic Fees	2018 Committee Fees	Total	2019 Basic Fees	2019 Committee Fees	Total
Annual equivalents	£000	£000	£000	£000	£000	£000
John Heaps (Chairman)	191	–	191	197	0	197
Neeta Atkar	50	29	79	52	30	82
Alison Hutchinson	50	15	65	52	22	74
Gordon Ireland	50	17	67	52	18	70
Mark Pain (Vice Chairman)	71	29	100	73	30	103
Guy Bainbridge	–	–	–	52	13	65
Guy Parsons	50	17	67	52	18	70

The remainder of this remuneration report has not been externally audited.

2020 REMUNERATION POLICY

OUR REWARD AIMS

Our aim is to build a working environment where colleagues feel engaged and committed to the Society's journey, ensuring they feel valued and respected to give their best. Our reward offering is integral to that, with an approach founded in our mutuality and values.

Our Remuneration Policy is in place to support our colleagues in working together for the benefit of the Society and our members and customers.

OUR REWARD PRINCIPLES

To support us in achieving our aspirations we follow five key principles, which apply for all colleagues within the Society. These help us know when we are doing the right things and set out what we believe good reward practice for all of our colleagues looks like.

Our five reward principles, which we developed with our colleagues are:

1. **Attract and retain talent,** aligned to our mutual values and forward thinking to ensure relevance in a changing world.
2. **Focused on total reward;** recognising that reward is more than just pay, enabling colleagues to make the choices that work for them at different stages in their life.
3. **Flexible within a framework** to ensure a consistent approach whilst responding to different challenges, supported by education to help managers balance doing the right thing for both the Society and their people.
4. **Reward decisions and choices are clear and transparent** for colleagues; delivered through effective and open communication.
5. **Our reward arrangements** are reflective of Society, team and individual achievements, with the ability to recognise the contribution all colleagues have made to our success.

...an approach founded in our mutuality and values

OUR APPROACH TO RISK MANAGEMENT AND GOVERNANCE OF REWARD

Our reward provisions will meet all the requirements of both our internal governance processes and external regulators. Our provision of reward and the associated policies, processes, procedures and practices relating to these will be created in a way which ensures the appropriate level of governance is in place to mitigate any potential risks to the Society, colleagues, members and customers.

OUR COMMITTEES

To ensure our reward policies and procedures are robust and assured we have two main Committees in place to support this; the Remuneration Committee (RemCo) and the Performance and Reward Committee. These Committees play different roles in making sure our approach to reward meets our required levels of compliance, as explained below.

REMUNERATION COMMITTEE (REMCO)

This Committee has specific responsibility for making sure we have the right policies and processes in place for our most senior roles and the overarching Remuneration Policy for the wider organisation. RemCo is made up of Non-Executive Board Directors and its purpose is to oversee the Remuneration Policy in place for the Society, making sure this aligns to our business strategy and any regulatory requirements. Details in relation to the composition and the Terms of Reference of the Remuneration Committee can be accessed on the Society's website.

PERFORMANCE & REWARD COMMITTEE

The Performance & Reward Committee is in place to ensure effective governance and oversight of our reward policy with a focus on regulatory compliance and alignment to our business strategy. This Committee also ensures that any incentive arrangements (such as the bonus) that we offer colleagues drive the right behaviours towards risk taking and safeguard good customer and member outcomes. The Performance & Reward Committee comprises a number of senior leadership team members within the organisation with representation from the Customer, People, Finance and Risk functions.

OUR REGULATORS

As a financial services provider we are regulated by both the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The relationship with our regulators is important to us, and builds trust both inside and outside of the Group. This means that from a performance, reward and benefits perspective we ensure that our pay, bonus and benefits not only meet any necessary obligations of our regulators but are designed and provided in a way which develops a trusted relationship with them.

REMUNERATION COMPONENTS

The remuneration arrangements applicable to our executive directors are made up of four key components:

1. Fixed remuneration (base pay)
2. Short term performance-based remuneration ('variable pay' or 'bonus'
3. Benefits
4. Retirement Benefits

EXECUTIVE DIRECTOR REMUNERATION POLICY

This document details the Society's remuneration policy for its Executive Directors, making comparisons where applicable to the wider colleague group. For executive directors, the remuneration policy is voted on every three years (or sooner if required). It was last approved by members at the 2019 AGM and is subject to advisory vote again at the 2020 AGM due to a policy change.

Fixed Remuneration – Base Pay	
Purpose and link to strategy	To enable the attraction and retention of high performing, experienced Executives by ensuring that they are appropriately rewarded for their role. The level of base pay awarded serves to reflect the contribution of Executive Directors in their role as defined by the combination of: ▪ Skills, knowledge and experience ▪ On-going performance ▪ Demonstration of the Society's behaviours and values. Actual base pay levels are also determined by a review of market conditions to ensure that we offer levels of base pay that are appropriate in the market and enable us to attract and retain talent into the organisation.
In practice	Base pay is typically reviewed annually and determined with reference to: ▪ Role, experience and individual performance. ▪ Affordability – the economic environment and overall financial position of the Society. ▪ Comparison to the external market, supported by reference to the Society's grading structure, the Career Framework. ▪ Internal relativities and wider workforce base pay levels. A consistent set of principles are applied when considering both Executive Directors' base salaries and those of the wider organisation.
Opportunity	There is no 'maximum' base pay opportunity. We seek to target a median position in relation to 'total remuneration'. To ensure that this is achieved base pay ranges are developed with reference to the total package including variable pay. Annual base pay increases will normally be in line with the typical level of increases awarded to the wider workforce and will be a reflection of the individual's performance. The Remuneration Committee may award increases above this level in certain circumstances, for example taking on additional responsibilities.

Short term performance-based remuneration ('variable pay' or 'bonus')	
Purpose and link to strategy	To ensure that an Executive Director's remuneration has a direct link to the success of the Society, motivating delivery of core business metrics in line with our company values. The Society's bonus scheme – Building Together – rewards annual performance against challenging financial and customer measures as well as key individual objectives. **Bonus is driven by 3 key factors:** ■ Financial performance currently measured via Profit Before Tax ■ Customer Experience currently measured via the Society's Net Promoter Score ■ Individual performance measured with reference to an Executive Director's performance against key objectives.
In practice	Key measures within the Corporate Plan have to be achieved for 'on target' pay-out, and considerably exceeded for maximum pay-out. **Bonus is achieved in the following way:** **1.** The development of a bonus pool determined by reference to the Group's financial performance. **2.** The bonus pool is moderated up or down as a result of the Customer Experience received by our Members and customers. **3.** The total individual awards are determined by an executive director's performance against his or her annual objectives. A minimum level of performance across all three metrics is required to activate a bonus payment. Bonus payments are subject to the operation of Business Controls Process that considers a range of key metrics to evidence the robust management of the Society e.g. cost indicators, risk indicators. The Committee retains the discretion to make adjustments to the profit figure to ensure that it reflects a true view of the underlying performance of the Society prior to the payment of any bonus. **Risk Overlay** Bonus payments applicable to Material Risk Takers are subject to a formal risk overlay process where a series of key risk indicators are considered to provide assurance that no inappropriate risk taking behaviours have taken place. In instances where issues are identified the Remuneration Committee reserve the right to apply a malus adjustment (reduce bonus or lapse deferred elements) and to apply clawback (recover bonus payments already made) as applicable. Awards are subject to clawback for up to a maximum of ten years. **Deferral and Share Equivalent Instrument (SEI)** In line with the PRA and FCA remuneration regulations and the Senior Managers and Certification Regime[36] all bonuses payable to Executive Directors designated as 'Senior Managers' are subject to deferral. In addition to regulatory requirements, the Society's Remuneration Policy requires bonuses for all members of the senior management team are subject to an element of deferral. Bonus deferral ensures that the Society delivers variable pay in a manner that prevents unnecessary risk taking, whilst achieving a level of sustainable performance. In a performance year, where executive directors total remuneration falls below the de-minimis limit, the annual bonus awards will be delivered as cash and paid over three years: 50% of any bonus is paid out in the year following the performance year; the remaining 50% is deferred with 25% released after one year and 25% released after two years. For Executive Directors whose remuneration is over the 'de-minimis' limit, bonus awards are required to have a longer deferral period, and/or a larger percentage deferred in line with regulations. Where also required by regulation, 50% of each bonus payment will be delivered via an SEI and is subject to a retention period. For the 2019 performance year, an Executive Director whose remuneration exceeds the de-minimis limit will receive 40% of their bonus in 2020 with the remaining 60% deferred over seven years, with a one year retention period applying to the SEIs received. Bonuses for executive directors will be disclosed in the Annual Report and Accounts.
Opportunity	'On-target' achievement of Society performance criteria results in a bonus of 60% of base salary for the Executive Directors. The maximum bonus available to executive directors is 100% of base salary. Failure to meet organisational or individual performance thresholds can reduce bonus awards to zero. All for Executive Directors are subject to deferral. All of the Society's bonus schemes are underpinned by the same metrics.

[36] A de-minimis limit level is set by regulation, in relation to the level of bonus deferral applied. It impacts colleagues whose total remuneration is greater than £500,000 per annum and where colleagues' variable remuneration is more than 33% of their total remuneration.

Benefits	
Purpose and link to strategy	To provide a total reward package that is in line with market practice and enables the attraction and retention of executive directors of the required calibre.
In practice	Executive Directors are eligible to receive a number of benefits, principally consisting of: ■ Private medical insurance ■ Life assurance (6x salary) ■ Concessionary mortgage and savings account ■ Insured sick pay ■ Provision of a company car, or cash equivalent.
Opportunity	There is no 'maximum' level of benefits – the overall value of benefits to the Society's executive directors is determined by the nature of its benefit offering which is subject to change throughout a given year.

Retirement Benefits	
Purpose and link to strategy	The Society's pension arrangements support the recruitment and retention of executive directors through the provision of competitive retirement benefits.
In practice	The Society operates a single defined contribution pension scheme and all colleagues have the opportunity to participate. Where contributions exceed the annual or lifetime allowance, or participation in the scheme is tax inefficient, colleagues may be permitted to take a cash supplement instead of contributions to the plan.
Opportunity	Current executive directors receive a contribution (or cash allowance) equal to a maximum of 16% of base salary. Future executive directors (appointed after 1 January 2019) will receive a contribution in line with the wider colleague group equal to maximum of 11% of salary.

REMUNERATION ARRANGEMENTS IN RELATION TO SPECIFIC CIRCUMSTANCES

New Hires	
Remuneration package	When agreeing the components of a remuneration package for the appointment of executive directors, the Committee will apply the following principles: ■ The packages will be sufficient to recruit high performing individuals, in a highly competitive market, to lead the business and effectively execute the strategy for members ■ The Committee will look to align the remuneration package offered with the Society's broader remuneration policy ■ Concessionary mortgage and savings account The Committee has discretion within the policy to make remuneration decisions where it considers it appropriate to do so. In determining remuneration arrangements, the Committee will consider similar positions in the market, the structure of the remuneration package and the experience of the candidate. This ensures that arrangements are in the best interests of both the Society and its members without paying in excess of what is necessary to recruit an executive director of the required calibre.
Buy out arrangements	The Committee may make awards on hiring an external candidate to the Board to compensate them for the forfeiture of any award entered into with a previous employer. In determining any such 'buy out', the Committee will consider all the relevant factors including the likelihood of the awards vesting should the candidate have remained in their previous employment, the form in which they were awarded and the time over which they would have vested. ■ The buy-out value may not exceed the aggregate amount of unvested variable remuneration. ■ Consideration is given to the reason for the "firm or relevant business unit suffering material failure of risk management" when considering any reduction of unvested variable remuneration. ■ The Society will provide former colleagues with the details and reasons of any proposed application of malus or clawback to awards in writing, and notify the former colleagues within 14 working days of any amounts of malus or clawback that have been applied. Bonus buyouts will be liable to forfeiture or 'clawback' in the event of early departure and are executed in line with the Remuneration Code.

Leaver Arrangements and Loss of Office

The committee shall apply the policy in relation to leavers, taking into account performance, conduct and commercial justifications, as summarised below:

Notice period	The standard notice period is 12 months from the Society and 12 months from the executive directors. In normal circumstances, executive directors will be required to work their notice period. In the event executive directors are not required to fulfil their notice period, they will receive a payment in lieu of notice, or they may be placed on garden leave. Chief Officers and other Material Risk Takers have notice periods varying between three months and one year, depending on the role undertaken.
Termination payment	Typically, termination payments will consist of basic pay and other contractual benefits for the notice period, the emphasis being to not reward failure.
Annual bonus – leaver provisions	On termination of office, the leaver provisions as set out below will apply. These are also outlined in the Society's bonus plan rules: ■ In the event of retirement or redundancy, ill-health or disability, any bonus will be pro-rated to reflect the time served during the performance period. Any deferred payments due remain subject to future performance conditions and are payable at the end of the corresponding performance periods. There will be no acceleration of payment. They are also subject to the Society's risk overlay process, and therefore subject to the Society's malus and clawback provisions. ■ In the case of death, any bonus payments will be pro-rated to reflect the time served during the performance period. Payment of any deferred amounts, including deferred amounts from previous years, is accelerated and payable at the next payment date. ■ Subject to committee discretion, in the event of resignation, any eligibility to participate in the current year's bonus scheme will cease. Leavers under these circumstances will be eligible to receive deferred bonus payments earned in previous years, subject to the Society's risk overlay process. Subject to committee discretion and the Society's risk overlay process, executive directors who resign from the Society will retain eligibility to any deferred bonus payments earned in previous years. Malus and clawback provisions continue to apply.

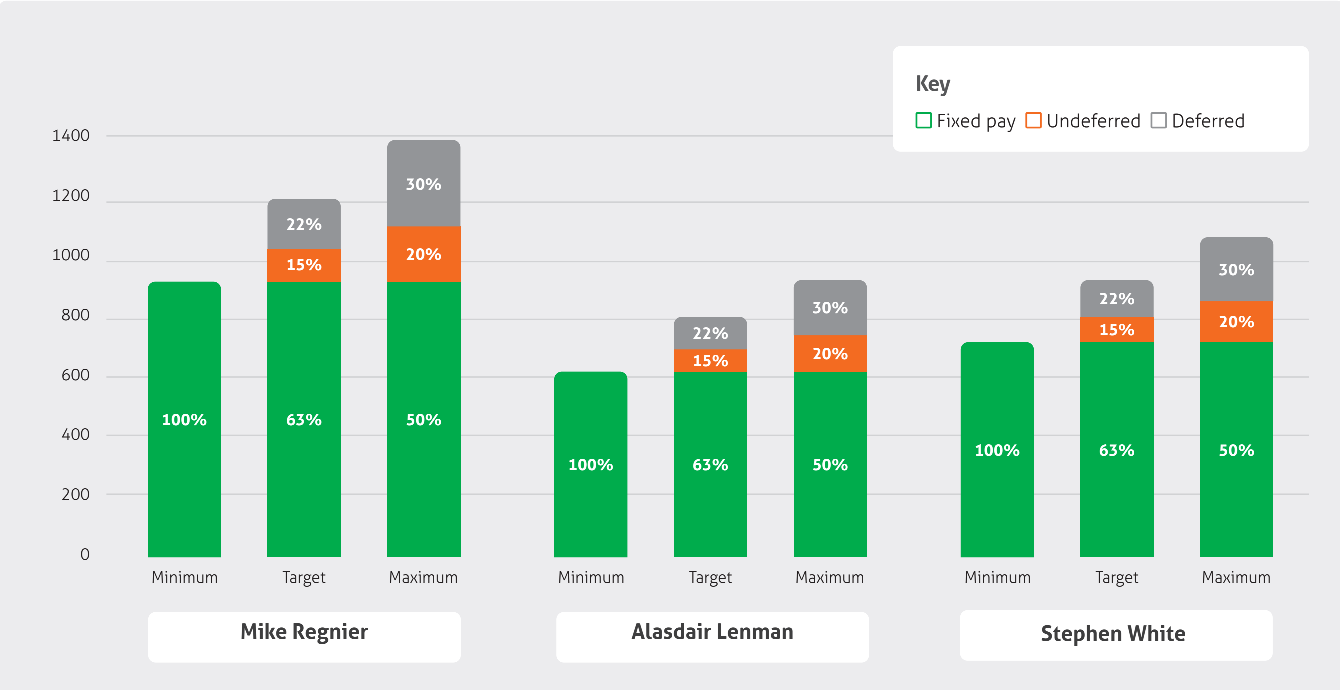
REMUNERATION POLICY IN RELATION TO NON-EXECUTIVE DIRECTORS

Non-Executive Director Fees	
Purpose and link to strategy	Sole element of remuneration set at a level that reflects market conditions and sufficient to attract individuals with appropriate knowledge and experience to provide a meaningful contribution to the Society.
In practice	Fees are based on the level of fees paid to non-executive directors and chairs serving on boards of comparable organisations, the time commitment, and contribution expected from the role. ▪ Non-executive director fees are determined and approved by the Board on recommendation from the CEO. ▪ The Chairman's fees are determined by the committee. ▪ Both the Chairman's and non- executive directors' fees are reviewed periodically, at least annually. ▪ The Chairman's and non-executive directors' fees are not subject to any specific performance measures; however, their overall performance is reviewed on a regular basis. Neither the Chairman nor any of the non-executive directors have any influence over the setting of their own fees.
Opportunity	There is no 'maximum' fee opportunity. Fees are set with reference to the level of fees paid to non-executive directors and chairs serving on boards of comparable organisations, the time commitment, and contribution expected from the role.

Remuneration scenarios in relation to the 2019 Remuneration Policy

The chart below shows the potential split of remuneration between fixed pay (salary, benefits and pension) and variable pay for the CEO and other executive directors under the following scenarios:

- **Minimum** – under certain performance conditions, bonus can be zero.
- **Target** - represents remuneration (30% of base salary) that would be paid if Society and personal performance measures are achieved in 2019.
- **Maximum** – the maximum bonus (50% of base salary) that could be paid assuming Society and personal performance measures are fully realised.



REMUNERATION COMMITTEE

The Remuneration Committee has specific responsibility for ensuring we have the right policies in place for our most senior roles and setting the tone for the wider organisation. Its purpose is to oversee the Remuneration Policy in place for the Society, making sure it aligns to our strategy and any regulatory compliance requirements, with a specific focus on the risks posed by remuneration policies and practices.

The Committee's terms of reference were reviewed and updated in November 2019, they are available on the Society's website ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.

The Committee is supported by the Chief People Officer and the Director of People Performance. Where it is felt to be appropriate, the Chief Executive Officer is invited to attend to provide further background and context to assist the Committee in discharging its duties.

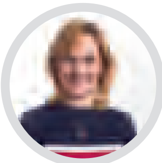
The Committee met seven times during the year and covered the following activities:

- Reviewing the Society's Remuneration Policy for Executive Directors and all colleagues
- Reviewing the Society's Reward strategy
- Reviewing the Society's bonus scheme structure and targets
- Ongoing work in relation to the Prudential Regulation Authority's (PRA) Remuneration Code and how it applies to the Society
- The Society's gender pay gap
- Agreeing the approach for executive base salary increases in 2019
- Supporting the design and implementation of a new benefit framework for all colleagues.

THE MEMBERS OF THE REMUNERATION COMMITTEE CONSIST OF NON-EXECUTIVE DIRECTORS AND INCLUDE A MEMBER OF THE SOCIETY'S RISK COMMITTEE:

Guy Parsons
Committee Chair

John Heaps
Chairman



Alison Hutchinson
Independent Non-Executive Director

The Committee draws on the advice of independent external consultants to support in performing its duties. During the year, the Remuneration Committee sought advice on Executive Director salaries, variable pay structures and regulatory matters from EY.

The Committee is satisfied that the advice received is objective and independent. EY's fees for advice provided to the Committee in 2019 were £40,000 (including irrecoverable VAT).

On behalf of the Board

Guy Parsons
Chair of the Remuneration Committee

26 February 2020

APPENDIX - AGGREGATE REMUNERATION DATA (PILLAR 3)

The main components of Material Risk Taker (MRT) remuneration structures are:

In accordance with the Capital Requirements Regulation (CRR) as part of CRD IV, which requires the disclosure of the aggregate remuneration data for senior managers and MRTs, the Society's data is set out as follows;

	Senior Management[37]	Other MRTs	Total
	£'000	£'000	£'000
Aggregate remuneration data			
Fixed pay	6,362	984	7,346
2019 Variable pay (undeferred)	1,116	140	1,256
2019 Variable pay (deferred)	1,279	100	1,379
2019 Variable pay due via SEI	407	0	407
Deferred variable pay to be paid 2019	612	82	694
Outstanding deferred variable pay from previous years	2,537	134	2,671
Total	**11,906**	**1,440**	**13,346**
Aggregate bonus buyout and severance payments			
Bonus buyout payments - 2019	0	0	0
Severance Payments - 2019	0	118	118
Total	**0**	**118**	**118**

	Senior Management	Other MRT	Total
Number of MRT colleagues at 1.1.19	26	7	33
Number of MRT colleagues at 31.12.19	27	6	33

RATIOS BETWEEN FIXED AND VARIABLE PAY

The Society's fixed:variable pay ratio is not affected by the CRD IV cap on variable pay, as the variable component of total remuneration to the fixed component does not exceed 1:1. The maximum annual bonus award for any colleague is 50% of base pay and therefore variable pay will not exceed the CRD IV cap.

The Society's full Pillar 3 disclosure is available at ybs.co.uk/your-society/financial-results/index.html

[37] Senior managers and colleagues whose actions have a material impact on the risk profile (including executive and non-executive directors). Non-executive directors' fees are included under fixed pay. No variable pay was awarded to non-executive directors.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF YORKSHIRE BUILDING SOCIETY

REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS

OPINION

In our opinion, Yorkshire Building Society's Group annual accounts and Society annual accounts (the "annual accounts"):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2019 and of the Group's and the Society's income and expenditure and the Group's and the Society's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and, as regards the Group annual accounts, Article 4 of the IAS Regulation.

We have audited the annual accounts, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Society balance sheets as at 31 December 2019; the Group and Society income statements and statements of comprehensive income, the Group and Society statements of cash flows, and the Group and Society statements of changes in members' interest and equity for the year then ended and the notes to the annual accounts which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, which includes the FRC's Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group and the Society.

Other than those disclosed in the note 7 to the annual accounts, we have provided no non-audit services to the Group and the Society in the period from 1 January 2019 to 31 December 2019.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

OUR AUDIT APPROACH

Overview

Materiality

- Overall Group materiality: £9.4m, based on 5% of Group profit before tax excluding net gains and losses from financial instruments held at fair value
- Overall Society materiality: £6.9m, based on 5% of Society profit before tax excluding net gains and losses from financial instruments held at fair value and dividends received from subsidiary companies

Audit Scope

- We conducted our audit from Leeds and Bradford;
- We performed audit procedures over all material account balances and financial information of the Society and Accord Mortgages Limited due to their size and significance to the Group; and
- We performed audit procedures over selected specific balances within other Group undertakings where they were significant to the financial performance and position of the Group; and
- Our audit scope covered 99% of the Group's profit before tax and 99% of the Group's total assets.

Key audit matters

The following areas were identified as key audit matters for the Group and Society were:

- The application of judgements and estimates relating to staging and use of multiple economic scenarios as they apply to the expected credit loss allowance on loans and advances to customers (Group and Society);
- The appropriateness of estimates on residual credit related fair value adjustments in respect of previous acquisitions by the Society (Group and Society);
- Risk of material misstatement as a result of incorrect identification of hedge accounting ineffectiveness where spreadsheet based calculations are performed for covered bonds and Medium Term Note ('MTN') hedges (Group and Society);
- Appropriateness of behavioural assumptions within effective interest rate accounting models (Group and Society); and
- Appropriateness of estimates used within the valuation of the defined benefit pension obligation (Group and Society).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the annual accounts.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

OUR AUDIT APPROACH (CONTINUED)

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations include, but are not limited to, the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations, Pensions legislation and the UK tax legislation. We considered the extent to which non-compliance might have a material impact on the financial statements. We also considered those laws and regulations that may have a direct impact on the preparation of the financial statements such as the Building Societies Act 1986. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate manual journal entries to manipulate financial performance, management bias in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures included:

- Enquiries of management and those charged with governance throughout the year including consideration of known or suspected instances of non-compliance with laws and regulations;
- Enquiries of internal legal counsel;
- Review of internal audit reports throughout the year, in so far as they related to the financial statements;
- Review of correspondence with and reports to the regulators;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging estimates and judgements made by management in their significant accounting estimates in particular those as described under the key audit matters below;
- Understanding and validating the appropriateness of user access rights and user functionality within the accounting ledger; and
- Identifying and testing journal entries, in particular those posted by senior management, posted with descriptions indicating higher level of risk, posting to unusual account combinations based on our understanding of business operations and material late adjustments.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.
Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

OUR AUDIT APPROACH (CONTINUED)

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the annual accounts of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	Procedures performed
The application of judgements and estimates relating to staging and use of multiple economic scenarios as they apply to the expected credit loss allowance on loans and advances to customers (Group and Society) The Group held £30.2m of impairment provisions (2018: £28.9m) against total loans and advances to customers of £37,984.4m (2018: £36,702.4m). We focused our audit work on the areas of the accounting methodology that we identified as being most judgmental. These were: ▪ The appropriateness of the 'staging' thresholds selected by management to determine whether a significant increase in credit risk has arisen. This determines whether a 12 month or a lifetime expected loss provision is recorded against each loan; and ▪ The severity and likelihood of alternative downside economic scenarios that form part of the forward economic guidance and their impact on expected credit loss (ECL). Specifically in respect of the N&P commercial loan book, we considered whether customer unlikeliness to pay characteristics are being completely and accurately captured within the loan loss provision when considering significant increases in credit risk and actual observed default behaviour. Other key estimates include probabilities of default and loss rates, their impact on the determination of significant increases in credit risk and the appropriateness of post model adjustments made to reflect model and data limitations. Whilst the credit environment has remained relatively benign as a result of low interest rates and low unemployment, broader economic risks including the impact of the UK withdrawal from the EU remain, which increases the estimation uncertainty in the ECL. The ECL provision for loans and advances has a significant number of data inputs. The Group's disclosures are given in Note 39. Management's associated accounting policies are detailed on pages 135 to 136. Management's judgements in application of accounting policy and critical estimates is disclosed on pages 139 to 140 and the considerations of the effect of the future economic environment are given on given on pages 202 to 204. The Audit Committee's consideration of the matter is described on page 84.	**Matters discussed with the Audit Committee** We discussed the more judgmental decisions made by management, in particular the severity and likelihood of alternative downside economic scenarios that form part of the forward economic guidance including their impact on ECL and consideration of required post model adjustments, including the impact of model limitations. **Procedures performed to support our discussions and conclusions** ▪ Critically assessed the methodology applied in the impairment models, using modelling specialists to check that the implemented methodology was compliant with IFRS 9. ▪ Compared the assessment of 'staging' thresholds to internal credit risk management activities across the Group. We considered whether the criteria set by management in assessing whether a significant increase in credit risk has taken place are capturing unlikeliness to pay characteristics and other indicators of customer delinquency ahead of a default event taking place. ▪ Performed tests to determine whether the definition of default applied by the Group in managing credit risk is applied accurately. ▪ With regards to the N&P commercial loan portfolio, the commercial loan book default and loss experience was compared with the level of loss allowances held. We re-performed the calculation of the allowance. ▪ We performed risk based substantive testing of models, including independent recalculation of the modelling for certain assumptions. ▪ Independently reviewed the model changes made over the course of the year to validate that they reflected approved updates to models, parameters and inputs. ▪ Performed tests over critical data inputs to the staging assessment and tested the model implementation to ensure that loans which have suffered a significant increase in credit risk have a provision calculated based on expected lifetime losses. ▪ Where the modelled output of staging judgements is overlaid with post model adjustments, we tested management's analysis of loan portfolio quality to check that the loans transferred from one stage to another are consistent with the observed customer behaviour. ▪ Tested management's monitoring controls performed throughout the year and independently re-performed monitoring tests to ensure that changes to customer behaviour are reflected in the ECL. ▪ Considered the adequacy of the disclosures in the annual accounts with a specific focus on the disclosure of critical estimates associated with ECL. ▪ We did not identify any material misstatements as a result of these procedures.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

OUR AUDIT APPROACH (CONTINUED)

Key audit matters (continued)

Key audit matter	Procedures performed
The appropriateness of estimates on residual credit related fair value adjustments in respect of previous acquisitions by the Society (Group and Society) The Group holds further provisions of £34.9m (2018: £39.1m) on loans and advances to customers in respect of the residual credit related fair value adjustments that were established upon the merger of the Society with Norwich & Peterborough Building Society ('N&P') and Chelsea Building Society ('CBS') in previous years. Accounting for these provisions is an area that requires significant judgement. The primary judgement relates to the level of lifetime losses that are expected on the acquired books, in particular the level of recovery expected on the CBS interest only portfolio. The future expected credit losses are compared with those anticipated at the dates of the mergers with any reduction in the required provision being reflected in interest income and any additional provision required being reflected as an expected credit loss under IFRS 9. We focussed our audit work on the area of the methodology that we identified as most judgemental. This was in respect of the CBS interest only portfolio and whether customers are likely to have a repayment strategy on term expiry particularly where there has been limited customer contact since acquisition of the portfolio. The estimates made by management depend on previous behaviour observed in these loan portfolios. Management use the results of customer contact exercises on the CBS interest only book to project defaults on the population of customers that have not confirmed the availability of a repayment strategy to the Group. The Group's disclosures are given in Note 39. Management's associated accounting policies are detailed on pages 135 to 136. Management's judgements in application of accounting policy and critical estimates is disclosed on pages 139 to 140. The Audit Committee's consideration of the matter is described on page 84.	**Matters discussed with the Audit Committee** We discussed the judgements made by management in provisioning for the acquired portfolio. We also discussed the estimates made by management regarding the anticipated redemption behaviour of the CBS interest only portfolio and whether recent redemption experience is reflected in provision calculations. **Procedures performed to support our discussions and conclusions:** ■ Critically assessed the methodology applied by management particularly where there have been changes to methodology in the year and performed testing to check that the models were compliant with accounting standards. ■ For the CBS interest only portfolio, substantive testing was performed to test the customer contact exercise data and evidence of repayment vehicles being in place. Where customer repayment vehicles are not considered to be appropriate, we tested the estimate of the additional forecast losses. ■ We did not identify any material misstatements as a result of these procedures.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

OUR AUDIT APPROACH (CONTINUED)

Key audit matters (continued)

Key audit matter	Procedures performed
Risk of material misstatement as a result of incorrect identification of hedge accounting ineffectiveness where spreadsheet based calculations are performed for covered bonds and Medium Term Note ('MTN') hedges (Group and Society) Management has designated several hedge accounting relationships, linked to the Group's mitigation of interest rate and foreign exchange risks. At 31 December 2019, the adjustment relating to the mortgage book gave rise to an asset of £86m (2018: liability of £18m) and an asset in respect of treasury investments of £29m (2018: £9m asset). The adjustment in respect of issued debt is a liability of £44m (2018: liability of £27m). A small number of the hedges related to Covered Bonds and Medium Term Notes. These are considered more complex and are accounted for in spreadsheets. In our judgement there is a significant audit risk that these hedges may be accounted for incorrectly; or errors in the calculation of fair value adjustments or hedge effectiveness are introduced by the use of manual spreadsheets. We focussed our work over Covered Bond and MTN hedges in respect of the following areas: ▪ Assessing whether each hedge comprised a valid hedged item, hedging instrument and was designated in line with the requirements of International Accounting Standard (IAS) 39, "Financial instruments: Recognition and measurement"; ▪ Assessing whether the accounting policy is appropriate and correctly applied; ▪ Assessing the calculations of fair value adjustments and the calculations used by management to demonstrate that hedges were effective throughout the year. The Group's disclosures are given in Note 34. Management's associated accounting policies are detailed on pages 134 to 135. Management's judgements in application of accounting policy and critical estimates is disclosed on pages 139 to 140. The Audit Committee's consideration of the matter is described on page 84.	**Matters discussed with the Audit Committee** We discussed the risks associated with hedge accounting due to the complexity of the application of the accounting standards with the Audit Committee throughout the year. We discussed management's implementation methodology with the Audit Committee as well as the control environment and activities which we tested specifically relating to hedge accounting. **Procedures performed to support our discussions and conclusions:** ▪ Understood the nature of the hedge accounting relationships designated by management in the context of the risk management strategy. ▪ Obtained relevant hedge accounting documentation to evaluate and assess whether each hedge relationship was compliant with the requirements of IAS 39. This included testing a sample of hedge designations and inspection of a sample of hedge documentation. ▪ Reperformed the valuation of a sample of derivatives and underlying hedged items and tested a sample of manual calculations for mathematical accuracy. ▪ Independently performed fair value and hedge effectiveness calculations to gain evidence over the accuracy of the spreadsheet driven calculations, using independent models and independent market data sources. ▪ Re-performed a sample of hedge effectiveness tests, both prospective and retrospective. ▪ From the evidence we obtained, we found that the hedge accounting methodology was compliant with IAS 39 and there were no material misstatements in the underlying hedging calculations.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

OUR AUDIT APPROACH (CONTINUED)

Key audit matters (continued)

Key audit matter	Procedures performed
Appropriateness of behavioural assumptions within the recognition of income under effective interest rate accounting (Group and Society) Loans and advances are recognised at amortised cost, and interest income recognised using the Effective Interest Rate (EIR) method. The majority of interest income is calculated by automated systems and requires little or no judgement. Therefore we focused our work in relation to revenue recognition on EIR accounting and specifically the appropriateness of estimates. The loans and advances to customers line item includes effective interest rate accounting adjustments of £49.2m at the balance sheet date (2018: £37.3m). This relates to the net of fees charged to the Group and fee income received as part of writing mortgage assets which are deferred. This adjustment is released to the income statement in accordance with the forecast behavioural life of the Group's loan book which is a key judgement. Management makes this judgement by considering past repayment behaviour on the loan book. We focussed our work on this area. Management's associated accounting policies are detailed on page 134. Management's judgements in application of accounting policy and critical estimates is disclosed on page 139. The Audit Committee's consideration of the matter is described on page 84.	**Matters discussed with the Audit Committee** We discussed with the Audit Committee how management had made judgements regarding the expected repayment profile of customer balances. We also discussed the refinements made to modelling over the course of the year to use system driven calculations for the majority of the effective interest rate calculations. **Procedures performed to support our discussions and conclusions:** ▪ Confirmed that those fees and charges included within the effective interest rate calculation are implicit in the origination of loan assets. ▪ Performed substantive testing over the transfer of data from the loan book system to the effective interest rate accounting model and tested the mathematical accuracy of the calculations. ▪ Tested the completeness and accuracy of the customer redemption data used to generate the behavioural profile, and assessed whether the current loan book is likely to perform in a similar manner to past experience. ▪ Back tested previous book behaviour and performed a sensitivity analysis on a range of possible outcomes to assess the range of estimation uncertainty within the calculation. ▪ We did not identify any material misstatements as a result of these procedures.
Appropriateness of estimates used within the valuation of the defined benefit pension obligation (Group and Society) The Group and Society operates funded and unfunded defined benefit pension schemes for certain current and former members of staff. The present value of the schemes was £86.4m at 31 December 2019 (2018: £75.9m) which is made up of assets carried at fair value of £983.6m (2018: £891.8m) and the present value of the defined benefit obligation of £897.2m (2018: £815.9m). The present value of the schemes is materially sensitive to a number of judgements including the discount rate, inflation and pensioner mortality. Setting these judgements is complex and small changes can have significant impacts on the valuation. A significant proportion of the assets are invested in an asset liability matching strategy which is expected to reduce the volatility of the difference between the market value of assets and liabilities. A portion of the liabilities are also insured having completed a buy-in in previous years. As such we considered our key audit matter to relate only to the judgements driving the valuation of the liability rather than the fair value of the asset base of the schemes. We focused our work on the judgements made by management, in conjunction with third party actuaries, relating to the discount rate, inflation rate and pensioner mortality. The Group's disclosures are given in Note 26. Management's accounting policies are detailed on page 137. Management's judgements in application of accounting policy and critical estimates are disclosed on page 140. The Audit Committee's consideration of the matter is described on page 84.	**Matters discussed with the Audit Committee** We discussed with the Audit Committee the range of assumptions used by management for the calculation of the present value of the defined benefit obligation including the methodology adopted by management's actuaries. We also discussed the results of our recalculation of the schemes obligation and our work over the fair value of plan assets. **Procedures performed to support our discussions and conclusions:** ▪ Independently assessed, using our actuarial experts, the discount rate, inflation rate and mortality rates and compared to observable market rates at 31 December 2019 and to management's judgement and that of their experts. ▪ Recalculated the value of the defined benefit obligation using the scheme's membership data which we audited. ▪ Considered the independence, objectivity and competence of the third-party actuaries engaged by management to perform their valuation. ▪ We did not identify any material misstatements as a result of these procedures.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

OUR AUDIT APPROACH (CONTINUED)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the annual accounts as a whole, taking into account the structure of the Group and the Society, the accounting processes and controls, and the industry in which they operate.

All of the Group's activities are administered in the United Kingdom and it reports its operating results along retail, non-retail (commercial), secondary (non-prime lending) and central (support function) business lines. The principal activity of the Group is the provision of savings products and mortgage finance to members. The Group's mortgage book is predominantly secured on UK residential and commercial property.

The Group is formed of the Society, Accord Mortgages Limited and several other subsidiary companies which are small in the context of the Group's overall operations.

The Group also consolidates the Brass and Tombac securitisation special purpose vehicles by virtue of the Group's control over these entities as such they are considered to be subsidiaries for accounting purposes.

Materially all of the Group's income for the year is driven by the Society and Accord Mortgages Limited, along with 99% of the Group's total assets. The loan notes and related interest expense issued by the securitisation vehicles are in scope for our Group audit by virtue of these balances being material. We then considered the significance of the other subsidiaries of the Society in relation to primary statement account balances. In doing this we also considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). For one subsidiary, specific audit procedures were performed over selected significant account balances.

For the remainder, the risk of material misstatement was mitigated through group audit procedures including testing of entity level controls and subsidiary level analytical review procedures. We performed audit procedures over all material account balances and financial information of the Society and Accord Mortgages Limited due to their significance to the Group's financial performance and position. Our audit procedures on the Society and its subsidiaries provided us with sufficient audit evidence as a basis for our opinion on the Group annual accounts as a whole.

The accounting records and functions for all entities within the Group are located at the Society's offices in Leeds and Bradford, with the consolidation being performed in Leeds. We perform all of the work to support the Group and Society audit opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

OUR AUDIT APPROACH (CONTINUED)

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the annual accounts as a whole. Based on our professional judgement, we determined materiality for the annual accounts as follows:

	Group annual accounts	Society annual accounts
Overall materiality	**£9.4m**	**£6.9m**
How we determined it	5% of profit before tax adjusted to exclude net gains and losses arising from financial instruments held at fair value; and in the context of the Society's annual accounts, adjusted to also remove dividends received from subsidiary companies.	
Rationale for benchmark applied	Profit before tax is one of the principal considerations when assessing the Group's and Society's performance. We exclude the impact of financial instruments held at fair value as these are more reflective of movements in market rates of interest, predominantly on swaps not yet in hedging relationships, rather than underlying business performance. The performance of the business is assessed relative to 'core operating profit' which is aligned to profit before tax adjusted to exclude fair value gains and losses. In the context of the Society's annual accounts we exclude the impact of dividends from subsidiary companies as these are not reflective of the performance of the Society on a stand alone basis.	

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £4.8m and £8.9m. Certain components were audited to a statutory audit materiality that was less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £470,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Report	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Society's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Society's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the annual accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Building Societies Act 1986 and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Building Society Act 1986 – Opinion on Annual Business Statement and Directors' Report

In our opinion, based on our work undertaken in the course of the audit:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 December 2019 is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

As a result of the directors' reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on page 87 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 54 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the directors' reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 78, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Society's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Society obtained in the course of performing our audit.
- The section of the Annual Report on pages 84, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS (CONTINUED)

RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS AND THE AUDIT

Responsibilities of the directors for the annual accounts

As explained more fully in the Directors' responsibilities in respect of the preparation of the Annual Report and Accounts set out on pages 77 to 78, the directors are responsible for the preparation of the annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the directors are responsible for assessing the Group's and Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and Society or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

A further description of our responsibilities for the audit of the annual accounts is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

OTHER REQUIRED REPORTING

BUILDING SOCIETIES ACT 1986 EXCEPTION REPORTING

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the Society annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the audit committee, we were appointed by the directors on 30 April 2019 to audit the annual accounts for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 31 December 2019.

OTHER VOLUNTARY REPORTING

GOING CONCERN

The directors have requested that we review the statement on page 54 in relation to going concern as if the Society were a premium listed company. We have nothing to report having performed our review.

THE DIRECTORS' ASSESSMENT OF THE PROSPECTS OF THE GROUP AND OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE GROUP

The directors have requested that we perform a review of the directors' statements on page 54 that they have carried out a robust assessment of the principal risks facing the Group and in relation to the longer-term viability of the Group, as if the Society were a premium listed company.

Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the Group and Society and their environment obtained in the course of the audit. We have nothing to report having performed this review.

OTHER CODE PROVISIONS

The directors have prepared a corporate governance statement and requested that we review it as though the Society were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the directors' statement relating to the Society's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

DIRECTORS' REMUNERATION

The Society voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Heather Varley
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
Leeds

26 February 2020

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

		Group		Society	
		2019	2018	**2019**	2018
	Notes	**£m**	£m	**£m**	£m
Interest receivable and similar income:					
Calculated using the effective interest rate method	3	**962.8**	946.7	**940.6**	895.0
Other	3	**40.8**	72.0	**49.7**	68.5
Interest receivable and similar income		**1,003.6**	1,018.7	**990.3**	963.5
Interest payable and similar charges	4	**(539.0)**	(547.0)	**(638.1)**	(617.0)
Net interest income		**464.6**	471.7	**352.2**	346.5
Fees and commissions receivable		**25.4**	29.1	**14.6**	16.5
Fees and commissions payable		**(17.9)**	(21.7)	**(9.8)**	(11.6)
Net fee and commission income		**7.5**	7.4	**4.8**	4.9
Income/(expense) from investments	10	**0.1**	(0.1)	**50.1**	74.8
Net (losses)/gains from financial instruments held at fair value	5	**(22.0)**	20.1	**(18.6)**	20.6
Net realised profits		**6.3**	8.0	**5.5**	8.0
Other operating income	6	**0.9**	3.1	**63.7**	63.7
Total income		**457.4**	510.2	**457.7**	518.5
Administrative expenses	7	**(264.3)**	(291.3)	**(264.3)**	(291.3)
Depreciation and amortisation		**(25.3)**	(19.9)	**(25.3)**	(19.8)
Impairment (charge)/release on financial instruments	9	**(0.2)**	0.4	**2.5**	(2.7)
Provisions for liabilities and charges	28	**(0.4)**	(6.9)	**(0.4)**	(7.0)
Profit before tax		**167.2**	192.5	**170.2**	197.7
Tax expense	11	**(38.3)**	(42.7)	**(25.7)**	(33.2)
Profit for the financial year		**128.9**	149.8	**144.5**	164.5

All profit for the financial year arises from continuing operations and is attributable to members.

The notes on pages 132 to 217 form part of these accounts.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

		Group		Society	
		2019	2018	**2019**	2018
	Notes	**£m**	£m	**£m**	£m
Net profit		**128.9**	149.8	**144.5**	164.5
Items that may subsequently be reclassified to the income statement:					
Assets measured through other comprehensive income:					
Fair value movements taken to equity		**12.0**	(3.7)	**12.0**	(3.7)
Amounts transferred to income statement	42	**(10.2)**	(0.3)	**(10.2)**	(0.3)
Taxation	11	**(0.4)**	1.1	**(0.4)**	1.1
Cash flow hedges:					
Fair value movements taken to equity		**(0.2)**	(0.2)	**(0.2)**	(0.2)
Amounts transferred to income statement	42	**1.9**	2.7	**1.9**	2.7
Taxation	11	**(0.4)**	(0.6)	**(0.4)**	(0.6)
Subtotal		**2.7**	(1.0)	**2.7**	(1.0)
Items that will not be reclassified subsequently to the income statement:					
Remeasurement of net retirement benefit obligations	26	**8.4**	(19.1)	**8.4**	(19.1)
Taxation	11	**(2.3)**	5.2	**(2.3)**	5.2
Effect of change in corporation tax rate	11	**0.3**	(0.4)	**0.3**	(0.4)
Subtotal		**6.4**	(14.3)	**6.4**	(14.3)
Total comprehensive income for the year		**138.0**	134.5	**153.6**	149.2

The notes on pages 132 to 217 form part of these accounts.

BALANCE SHEETS

AS AT 31 DECEMBER 2019

		Group		Society	
		2019	2018	**2019**	2018
	Notes	**£m**	£m	**£m**	£m
Assets					
Liquid assets:					
Cash and cash equivalents	13	**2,528.1**	3,539.8	**2,528.2**	3,539.8
Loans and advances to credit institutions		**526.0**	294.6	**385.0**	169.1
Debt securities	15	**2,548.2**	1,670.3	**7,912.8**	7,083.7
Loans and advances to customers	16	**37,984.4**	36,702.4	**14,288.4**	15,414.6
Derivative financial instruments	34	**367.6**	564.4	**220.6**	330.5
Investments	10	**9.2**	6.8	**27,151.4**	23,594.7
Intangible assets	17	**36.0**	40.1	**36.0**	40.1
Investment properties	18	**15.0**	12.0	**14.9**	11.8
Properties held for sale		**3.1**	–	**3.1**	–
Property, plant and equipment	19	**136.7**	110.6	**136.2**	110.2
Deferred tax assets	20	**4.6**	8.3	**4.5**	8.2
Retirement benefit surplus	26	**86.4**	75.9	**86.4**	75.9
Other assets	21	**32.6**	29.5	**47.3**	38.5
Total assets		**44,277.9**	43,054.7	**52,814.8**	50,417.1
Liabilities					
Shares	22	**30,677.3**	29,558.6	**30,677.3**	29,558.6
Amounts owed to credit institutions		**3,305.0**	4,485.1	**3,305.1**	4,485.1
Other deposits	24	**584.6**	508.6	**10,423.1**	8,863.1
Debt securities in issue	25	**6,034.8**	5,145.9	**4,988.7**	4,398.4
Derivative financial instruments	34	**230.8**	97.8	**232.4**	124.0
Current tax liabilities		**16.3**	19.9	**4.4**	15.9
Deferred tax liabilities	20	**28.5**	29.7	**26.9**	23.1
Other liabilities	27	**96.3**	54.1	**94.7**	51.6
Provisions for liabilities and charges	28	**11.1**	35.4	**11.1**	35.4
Subordinated liabilities	29	**626.4**	585.1	**626.4**	585.1
Subscribed capital	30	**–**	6.1	**–**	6.1
Total liabilities		**41,611.1**	40,526.3	**50,390.1**	48,146.4
Total members' interests and equity		**2,666.8**	2,528.4	**2,424.7**	2,270.7
Total members' interest, equity and liabilities		**44,277.9**	43,054.7	**52,814.8**	50,417.1

Approved by the Board of directors on 26 February 2020 and signed on its behalf by:

John Heaps	**Chairman**
Mark Pain	**Vice Chairman**
Mike Regnier	**Chief Executive**

The notes on pages 132 to 217 form part of these accounts.

STATEMENTS OF CHANGES IN MEMBERS' INTEREST AND EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

		General reserve	Cash flow hedge reserve	Available for sale reserve	Fair value through other comprehensive income	Total reserves
	Notes	£m	£m	£m	£m	£m
Group						
At 1 January 2019		**2,523.9**	**(1.7)**	**–**	6.2	**2,528.4**
IFRS 16 transition adjustments	1	**0.4**	**–**	**–**	**–**	**0.4**
Restated balance at 1 January 2019		**2,524.3**	**(1.7)**	–	**6.2**	**2,528.8**
Profit for the period		**128.9**	**–**	**–**	**–**	**128.9**
Net Remeasurement of defined benefit plan		**6.4**	**–**	**–**	**–**	**6.4**
Net movement in cash flow hedge reserve		**–**	**1.3**	**–**	**–**	**1.3**
Net movement in fair value through other comprehensive income reserve		**–**	**–**	**–**	**1.4**	**1.4**
Total comprehensive income		**135.3**	**1.3**	–	**1.4**	**138.0**
At 31 December 2019		**2,659.6**	**(0.4)**	–	**7.6**	**2,666.8**
At 1 January 2018		2,382.6	(3.6)	10.8	–	2,389.8
IFRS 9 transition adjustments	1	5.8	–	(10.8)	9.1	4.1
Restated balance at 1 January 2018		2,388.4	(3.6)	–	9.1	2,393.9
Profit for the period		149.8	–	–	–	149.8
Net Remeasurement of defined benefit plan		(14.3)	–	–	–	(14.3)
Net movement in cash flow hedge reserve		–	1.9	–	–	1.9
Net movement in fair value through other comprehensive income reserve		–	–	–	(2.9)	(2.9)
Total comprehensive income		135.5	1.9	–	(2.9)	134.5
At 31 December 2018		2,523.9	(1.7)	–	6.2	2,528.4

The notes on pages 132 to 217 form part of these accounts.

STATEMENTS OF CHANGES IN MEMBERS' INTEREST AND EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	General reserve £m	Cash flow hedge reserve £m	Available for sale reserve £m	Fair value through other comprehensive income £m	Total reserves £m
Society						
At 1 January 2019		**2,266.2**	**(1.7)**	**–**	**6.2**	**2,270.7**
IFRS 16 transition adjustments	1	**0.4**	**–**	**–**	**–**	**0.4**
Restated balance at 1 January 2019		**2,266.6**	**(1.7)**	**–**	**6.2**	**2,271.1**
Profit for the period		144.5	–	–	–	144.5
Net Remeasurement of defined benefit plan		6.4	–	–	–	6.4
Net movement in cash flow hedge reserve		–	1.3	–	–	1.3
Net movement in fair value through other comprehensive income reserve		–	–	–	1.4	1.4
Total comprehensive income		**150.9**	**1.3**	**–**	**1.4**	**153.6**
At 31 December 2019		**2,417.5**	**(0.4)**	**–**	**7.6**	**2,424.7**
At 1 January 2018		2,119.0	(3.6)	10.8	–	2,126.2
IFRS 9 transition adjustments	1	(3.0)	–	(10.8)	9.1	(4.7)
Restated balance at 1 January 2018		2,116.0	(3.6)	–	9.1	2,121.5
Profit for the period		164.5	–	–	–	164.5
Net Remeasurement of defined benefit plan		(14.3)	–	–	–	(14.3)
Net movement in cash flow hedge reserve		–	1.9	–	–	1.9
Net movement in fair value through other comprehensive income reserve		–	–	–	(2.9)	(2.9)
Total comprehensive income		**150.2**	**1.9**	**–**	**(2.9)**	**149.2**
At 31 December 2018		**2,266.2**	**(1.7)**	**–**	**6.2**	**2,270.7**

The notes on pages 132 to 217 form part of these accounts.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

		Group		Society	
		2019	2018	**2019**	2018
	Notes	**£m**	£m	**£m**	£m
Cash flows from operating activities:					
Profit before tax		**167.2**	192.5	**170.2**	197.7
Non-cash items included in profit before tax	43	**24.9**	(23.5)	**17.2**	(16.0)
Net increase in operating assets	43	**(953.2)**	(1,665.9)	**(2,207.2)**	(1,615.4)
Net increase in operating liabilities	43	**(167.7)**	755.3	**1,289.6**	1,070.5
Taxation paid		**(42.3)**	(36.2)	**(32.6)**	(21.5)
Net cash flows from operating activities		**(971.1)**	(777.8)	**(762.8)**	(384.7)
Cash flows from investing activities:					
Purchase of property, plant and equipment, investment properties and intangible assets		**(17.5)**	(26.3)	**(17.5)**	(26.3)
Sale of property, plant and equipment		**4.0**	1.8	**4.0**	1.8
Purchase of debt securities		**(2,655.5)**	(1,990.0)	**(3,913.2)**	(4,490.0)
Sale and redemption of debt securities		**1,785.6**	1,173.9	**3,091.4**	3,386.0
Net cash flows used in investing activities		**(883.4)**	(840.6)	**(835.3)**	(1,128.5)
Cash flows from financing activities:					
Redemption of debt securities in issue		**(913.0)**	(1,043.7)	**(691.4)**	(750.0)
Issue of securities		**1,984.3**	1,243.5	**1,490.9**	943.5
Redemption of subordinated debt		**(250.6)**	(5.0)	**(250.6)**	(5.0)
Issue of subordinated liabilities		**280.0**	–	**280.0**	–
Redemption of subordinated capital		**(6.1)**	–	**(6.1)**	–
Interest paid on subordinated liabilities and subscribed capital		**(27.7)**	(25.7)	**(27.7)**	(25.7)
Interest paid on finance lease liabilities		**(1.0)**	–	**(1.0)**	–
Principal elements of lease payments		**(3.6)**	–	**(3.6)**	–
Net cash flows from financing activities		**1,062.3**	169.1	**790.5**	162.8
Net (decrease)/increase in cash and cash equivalents		**(792.2)**	(1,449.3)	**(807.6)**	(1,350.4)
Opening balance		**3,742.4**	5,191.7	**3,616.9**	4,967.3
Total closing cash and cash equivalents		**2,950.2**	3,742.4	**2,809.3**	3,616.9
Cash and cash equivalents:					
Cash in hand and unencumbered deposits	13	**2,424.2**	3,447.8	**2,424.3**	3,447.8
Loans and advances to credit institutions		**526.0**	294.6	**385.0**	169.1
Total closing cash and cash equivalents		**2,950.2**	3,742.4	**2,809.3**	3,616.9

The notes on pages 132 to 217 form part of these accounts.

NOTES TO THE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRICs) in issue, that have been endorsed by the European Union (EU), and are effective at 1 January 2019, and with those parts of the Building Societies Act 1986 and the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended) applicable to societies reporting under IFRS.

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial instruments measured at fair value at the end of each reporting period. The financial statements are presented in sterling, which is the functional currency of the Group, and the separate financial statements of the Society are presented alongside the Group financial statements. The financial statements are presented in millions of pounds and are rounded to the nearest one hundred thousand.

The financial statements have been prepared on the going concern basis as discussed in the Strategic Report on page 54, under the heading, 'Viability and going concern'. The accounting policies have been consistently applied, except where a new accounting standard has been introduced.

The preparation of financial statements under IFRS requires the use of certain critical accounting estimates and judgements. The areas involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are set out in Note 2.

The Statements of Cash Flows has been prepared in compliance with IAS 7 'Statements of Cash Flows' and has been presented under the indirect method. For the purposes of the Statements of Cash Flows, cash and cash equivalents comprise cash and other financial instruments with original maturities of less than three months.

ACCOUNTING DEVELOPMENTS

IFRS 16

IFRS 16 'Leases' was issued in January 2016 and is effective for periods beginning on or after 1 January 2019. This replaced IAS 17, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 eliminates the distinction between operating and finance leases that exists under IAS 17, with virtually all leases recognised on Balance Sheet. Under IAS 17, the cost of operating leases were recorded within administrative expenses, whereas from 2019 the Income Statement entries relating to leases have been depreciation on right-of-use assets and interest on the associated lease liabilities.

For leases previously classified as operating leases the Group recognised a lease liability at the date of initial application measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate at the date of initial application. The right-of-use asset was recognised as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet immediately before the date of initial application.

Given that the Group finances any asset purchase as part of the overall funding strategy, rather than on a lease by lease basis, it was deemed to use the incremental borrowing rate to determine the amounts for the right-of-use assets and lease liabilities. On transition this rate was 2.25%.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is re-measured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is re-measured, the corresponding adjustment is reflected in the right-of-use asset and/or profit and loss.

The Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

The Group elected to use the modified retrospective transition approach, and as a result no prior period balances were restated. On transition the Group recognised the cumulative effect of initially applying this standard as an adjustment to the opening balance of reserves. The gross impact on the Balance Sheet on transition was the recognition of the right-of-use assets of £42.5m, a £0.6m asset that is classified as Investment Property under IAS 40 and lease liabilities of £46.5m. The net impact recorded within general reserves was a credit of £0.4m. Under IAS 17 there would have been no amounts recognised on the balance sheet for operating leases.

Under IFRS 16 the Group has recognised £4.7m depreciation expense and £1.0m interest payable in the P&L. Should IAS 17 have remained applicable in 2019, the Group would have recognised an operating lease expense of £4.6m (£4.5m property and £0.1m vehicles).

The difference between the operating lease commitments at 31 December 2018, per note 32 of the 2018 Annual Report & Accounts, and the IFRS 16 lease liability on transition is due to lease commitments only being for minimum lease commitments, and the lease liability is measured using the expected lease payments over the non cancellable lease term plus available options to terminate the lease. The lease liability was also measured using discounted future cash flows, whereas the operating lease commitments were not discounted.

NOTES TO THE ACCOUNTS (CONTINUED)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING DEVELOPMENTS (CONTINUED)

IFRS 16 (continued)

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 or IFRIC 4.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

The group has elected to use the exemption available for short term leases, where the lease term is less than or equal to 12 months, and for low value assets. The group also chose the option to deem intangibles as not in the scope of IFRS 16. There was no change in the accounting treatment on transition and the cost of these leases will continue to be recorded within administrative expenses on a straight line basis.

When the entity has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment, see note 19 and lease liabilities have been included in other liabilities, see note 27.

As a lessor the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

IAS 1 Amendments

Following the introduction of IFRS 9 in 2018 there were some consequential amendments to 'IAS 1' Presentation of Financial Statements. The amendments require separate disclosure of interest revenue calculated using the effective interest rate method ('EIR'). During the year to 31 December 2019 interest receivable and similar income of £1,003.6m (December 2018: £1,018.7m) was all calculated using the EIR method except for £40.8m (December 2018: £72.0m) of net income on financial instruments. This has resulted in an amendment to presentation only and is reflected in both the current year and the prior year comparative.

Further disclosure on interest on derivatives in hedge relationships and those that are not is detailed in note 34.

Other

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that were mandatorily effective. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- IAS 19 'Employee Benefits – Defined Benefit (DB) Pension Schemes'. This amendment is effective for reporting periods that commence on or after 1 January 2019 and applies to where settlements, curtailments or amendments occur for the pension plan. This amendment clarifies the treatment of past service cost, current service cost and net interest.
- IFRIC 23 'Uncertainty of Income Tax Treatments, and 'Annual Improvements to IFRSs 2015-2017 Cycle: IAS 12 'Income Taxes', IAS 23 'Borrowing Costs', IFRS 3 'Business Combinations', and IFRS 11 'Joint Arrangements'.

The following standards, which have not been adopted in these financial statements, were in issue but not yet effective for the 2019 year end. The adoption of these standards is not expected to have material impact on the financial statements.

- IFRS 17 'Insurance Contracts' is the comprehensive IFRS establishing specific accounting requirements for insurance contracts. It is expected that this standard will be effective for periods beginning on or after 1 January 2022. This replaces IFRS 4 for which entities were permitted to account for insurance contracts differently across jurisdictions.

ACCOUNTING POLICIES

Basis of consolidation

The Group financial statements consolidate the financial statements of the Society and entities controlled by the Society (its subsidiary undertakings). Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated upon consolidation.

Investments in subsidiary undertakings are stated in the Society accounts at cost less any provisions for impairment.

Income from Investments

Dividend income from investments is recognised when the shareholders' rights to receive the payment have been established.

NOTES TO THE ACCOUNTS (CONTINUED)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING POLICIES (CONTINUED)

Interest income and expense

Interest income and expense on all financial instruments are recognised within interest receivable or payable on an effective interest rate basis.

The effective interest rate method is used to calculate the amortised cost of financial instruments and to recognise interest income and expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (excluding credit losses) over the expected life of the instrument to the net carrying amount on initial recognition. The main impact for the Group relates to mortgage advances where fees (such as application and arrangement fees) and costs are incorporated in the calculation. This has the effect of spreading these fees and costs over the expected life of the mortgage. Expected lives are estimated using historical data and management judgement and the calculation is adjusted when actual experience differs from estimates, with changes in deferred amounts being recognised immediately in the income statement.

Fees and commissions

Fees payable and receivable in relation to the provision of loans and origination of funding are accounted for on an effective interest rate basis. Other fees and commissions are recognised on an accruals basis as the relevant service is provided or at a point in time if the service or product provided relates to a one-off action. Insurance and Sharesave income are recognised over the period the service is provided.

Classification of financial instruments

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value.

The Group initially records all of its financial instruments at fair value less directly attributable transaction costs, and subsequently remeasures them as detailed in the paragraph below, except for derivative financial instruments and where an adjustment is made as part of a fair value hedging arrangement.

Under IFRS 9, financial assets are classified as amortised cost, fair value through other comprehensive income, or fair value through profit or loss, depending on the entity's business model and the contractual cash flow characteristics of the instruments.

The financial assets at fair value through other comprehensive income are debt securities held for liquidity and investment purposes. These are recorded at fair value with changes in fair value taken to reserves. Where the asset is disposed of, the cumulative gain or loss previously recognised in reserves is reclassified to the income statement.

Financial assets at fair value through profit and loss comprise equity instruments that have been classified as such at inception and derivative financial instruments. All gains and losses on these financial instruments are recognised in the income statement.

Derivative financial instruments and embedded derivatives

The Group enters into a variety of derivative financial instruments to manage its risk exposure to interest rate, foreign exchange and equity prices. Fair values of derivatives are measured using valuation techniques including discounted cash flow models. Further details of derivative financial instruments are disclosed in Note 34.

Certain derivatives are embedded in other financial instruments. Under IAS 39 these are treated as separate derivatives where the economic characteristics and risks are not closely related to the host instrument and the host instrument was not measured at fair value. These embedded derivatives are measured at fair value with movements in value being recognised in the Income Statement. Where the Group is unable to value the embedded derivative separately, the entire instrument is measured at fair value with changes in value being taken to the income statement.

Hedging

The IFRS 9 hedge accounting requirements aim to simplify hedge accounting and permit application to a wider population of economic hedge relationships. IFRS 9 does not explicitly address macro hedge accounting strategies, which are particularly important for banks and building societies. As a result, IFRS 9 includes an accounting policy choice to continue applying the IAS 39 hedge accounting requirements, which the Group continued throughout 2019.

Adoption of the IFRS 9 hedge accounting requirements has the potential to reduce fair value volatility for the Group in future periods as changes in the valuation of cross currency swaps from movements in foreign currency basis may be recorded in other comprehensive income rather than the income statement. The Group currently has no committed plans to adopt the IFRS 9 hedge accounting requirements but will continue to monitor the adoption decision.

All derivatives entered into by the Group are for the purposes of providing an economic hedge. Full details of hedging strategies are contained in Note 34. Hedge accounting is applied when the specific rules and conditions in IAS 39 are fulfilled. The Group has designated the majority of its derivatives as either fair value or cash flow hedges in order to reduce volatility in the income statement.

NOTES TO THE ACCOUNTS (CONTINUED)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING POLICIES (CONTINUED)

Hedging (continued)

Where the fair value hedging requirements are met, changes in the fair value of the hedged item arising from the hedged risk are taken to the Income Statement thereby offsetting the effect of the related movements in the fair value of the derivative. Where the hedge no longer meets the criteria, or is terminated for any other reason, the adjustment to the hedged item is released to the Income Statement, over its remaining life, using the effective interest rate method.

Where a derivative financial instrument is designated as a cash flow hedge, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity reserves and recycled to the Income Statement over the life of the forecast transaction. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the Income Statement immediately. If the forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss recognised in equity is then recognised immediately in the Income Statement.

Impairment of financial assets

At each reporting date the Group assesses individual financial assets for impairment. Under IFRS 9, this assessment is based on a more forward looking expected credit loss (ECL) approach for financial assets classified as amortised cost and fair value through other comprehensive income, rather than the incurred loss approach applied under IAS 39.

At initial recognition, financial assets are categorised as 'stage 1' and an impairment provision is required for expected credit losses resulting from default events projected within the next 12 months ('12-month ECL'). Subsequently, financial assets are considered to be in 'stage 2' when their credit risk has increased significantly since initial recognition so it is appropriate to recognise lifetime ECL. The Group assesses loans to be in stage 2 when the accounts are more than 30 days past due or there has been a significant relative increase in the lifetime probability of default (PD) compared to initial recognition, and where the PD for retail mortgages is derived based on the customer's credit quality, including analysis of behaviour score and other account characteristics.

The threshold applied to assess whether a significant relative increase has occurred will depend on the credit quality at initial recognition, with a lower percentage change in PD being required for higher risk accounts. For non-retail portfolios, the Group assess a significant increase in credit risk using a combination of individual and collective information, including monitoring through the watch list process.

Financial assets are included in 'stage 3' when there is objective evidence that the loan is credit impaired, with expected credit losses still calculated on a lifetime basis. The objective evidence that is used to determine whether a loan is impaired is whether they are more than 90 days past due, have been renegotiated for credit risk reasons, or otherwise considered to be in default (including possession, insolvency and assets beyond term expiry). The Group's use of forbearance tools remains consistent with 2018 and is detailed on pages 206 to 207. Arrears arrangements, payment holiday, term extension, transfers to interest only and interest capitalisation are factored into the criteria for identifying stage 3 accounts. The impairment provision is determined using the same calculation as stage 2 accounts, but with the PD set to 100%.

ECLs are calculated at the individual loan level using three main components, PD, a loss given default ('LGD') and the exposure at default ('EAD'). The LGD represents losses expected on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default.

The Group have based the ECL calculations for retail portfolios on those used to calculate Basel III expected losses ('EL's) given the similarities in the calculations. However, the IFRS 9 approach has been further developed to meet IFRS 9 requirements, including:

- Calculation of a separate PD, EAD and LGD for every month that a financial assets is due to be outstanding.
- PD is based on a point in time calculation based on current conditions and adjusted to take into account estimates of future conditions that will impact PD. A default backstop of 90+ days past due has also been applied.
- EAD has been modelled based on expected payments over the term and is not floored at the current balance.
- LGD is based on an estimate of loss given default including the expected impact of future economic conditions, such as changes in value of collateral, and does not include any floors. Only costs associated with obtaining/selling collateral are included.
- Discounting of the expected cash flows is performed using the effective interest rate of the loan.

In addition, the IFRS 9 PD and LGD estimates have to be flexed to capture the effects of forward looking macroeconomic variables (including interest rates, unemployment, house prices and inflation). The Group has used existing stress testing models to measure these effects, with the calculated provision having a significant sensitivity to these macroeconomic variables and with the associated scenario weightings applied.

NOTES TO THE ACCOUNTS (CONTINUED)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Financial assets that are considered credit impaired on initial recognition are required to have ECLs measured on a lifetime basis, and cannot be transferred to stage 1 or 2 even if the credit quality of these assets improves. The Group as at the transition date had £683.9m of loans acquired as part of the Chelsea and Norwich & Peterborough mergers which are considered credit impaired on initial recognition, as at 31 December 2019 this balance had decreased to £563.6m. This includes commercial loans, interest only mortgages and mortgage lending in Spain & Gibraltar. The ECL modelling for the acquired credit impaired assets is performed outside of the model used for originated mortgages as these have very different risk characteristics that could not be robustly forecast within this model. The ECL calculations are based on consistent principles with those described for the core mortgage model with the assumptions and inputs tailored to meet the characteristics of these portfolios. Note 2 also considers the estimation uncertainty on interest only mortgages acquired as a result of the merger with Chelsea Building Society.

A forum, supported by Finance, Credit Risk, Balance Sheet Management and economic experts has been established to consider and approve the forward looking macroeconomic assumptions with the objective of developing internally coherent economic scenarios. This forum is charged with ensuring that ECL allowance meets the IFRS 9 measurement principle for unbiased and probability weighted amounts derived by evaluating a range of possible outcomes and assumptions.

Loans are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security.

Derecognition of financial assets and liabilities

Financial assets are only derecognised when the contractual rights to receive cash flows from the financial assets have expired, or when the Group has transferred substantially all risks and rewards of ownership. The Group has not derecognised the loans securing its issue of covered bonds and securitisations because substantially all the risks and rewards are retained. Collateralised borrowing is recognised for the proceeds received. Financial liabilities are only derecognised when the obligation is discharged, cancelled, or has expired.

Segmental reporting

The chief operating decision maker has been identified as the Board of directors, which reviews the Group's internal reporting and is responsible for all significant decisions.

Financial information provided in the segmental reporting note is consistent with that which is presented to the Board. No segmental information is presented on geographical lines due to substantially all of the Group's activities being in the United Kingdom.

Business combinations between mutual organisations

Identifiable assets and liabilities were measured at fair value on acquisition. Intangible assets are amortised through the Income Statement over their estimated useful lives, being between one and 10 years.

Cash and cash equivalents

For the purposes of the Statements of Cash Flows, cash and cash equivalents comprise cash and other financial instruments with less than three months original maturity. The Statements of Cash Flows have been prepared using the indirect method.

Investment properties, property, plant and equipment

Investment properties comprise freehold properties and parts of freehold properties that are not used in the business. These properties are generally flats and offices ancillary to branch premises and earn rental income. Investment properties are stated at cost less accumulated depreciation and any recognised impairment loss.

Buildings, major alterations to office premises, fixtures and fittings, equipment and other tangible fixed assets are stated at cost less accumulated depreciation and any recognised impairment loss. Costs incurred after the initial purchase of assets are expensed unless it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are treated as an expense.

Depreciation is recognised so as to write off the cost (other than land) less the residual value by equal instalments over estimated useful economic lives as follows:

- Freehold/long leasehold buildings (including investment properties) - 50 years
- Short leasehold property and right to use property assets - Life of lease
- Equipment, fixtures, fittings and vehicles - 3 to 20 years
- Freehold land is stated at cost less accumulated impairment losses and is not depreciated.

The carrying values of investment properties and property, plant and equipment are reviewed for impairment where there is an indication that events or circumstances may mean that the carrying amount is not recoverable. Where the recoverable amount of the asset is estimated to be less than the carrying amount, the carrying amount is written down immediately to the recoverable amount.

NOTES TO THE ACCOUNTS (CONTINUED)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING POLICIES (CONTINUED)

Investment properties, property, plant and equipment (continued)

Any impairment in the value of assets is dealt with through the Income Statement as it arises.

Properties held for sale

The Group recognise property as held for sale when management is committed to a plan to sell and the asset is being actively marketed. The value of property recognised as held for sale is the lower of the carrying value and the fair value less costs to sell.

Intangible assets

Computer software includes development costs, purchased software and internally generated assets.

Costs incurred in the development of computer software for internal use are capitalised as intangible assets where the expenditure leads to the creation of an identifiable non-monetary asset and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group. Purchased software is classified as an intangible asset where it is not an integral part of the related hardware. Computer software costs are amortised using the straight line method over their estimated useful lives, which are generally three to five years.

Computer software is tested for impairment at each reporting date or when there is an indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment in the value of these assets is recognised in the Income Statement as it arises.

Other intangibles, which largely represent core deposit intangibles acquired by the Group, are amortised using the straight line method over their estimated useful lives of between one and ten years.

Retirement benefit costs

Payments to defined contribution pension schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

The asset or liability recognised in respect of the defined benefit pension scheme is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised past service costs. An asset is only recognised to the extent that it is recoverable by the Group, being the present value of available refunds and reductions in future contributions to the scheme. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Projected benefit obligations are discounted to present value using the rate of return available on high quality corporate bonds of equivalent currency and term to the obligations. Actuarial gains or losses are recognised in full in the period in which they occur in the Statement of Comprehensive Income. Past service costs are recognised immediately in the Income Statement to the extent that benefits are already vested and otherwise are amortised on a straight line basis over the average period until the benefits become vested.

Tax

Tax comprises current tax and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case the tax is recognised in the Statement of Comprehensive Income.

Current tax is the expected tax payable on the taxable profits for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for temporary differences arising between the carrying amount of certain assets and liabilities for accounting purposes and for taxation purposes. Deferred tax is provided using tax rates enacted or substantively enacted at the reporting date, depending on the date at which they are expected to reverse.

The following temporary differences are not provided for:

- The initial recognition of assets or liabilities that affect neither accounting nor taxable profit.
- Differences relating to investments in subsidiaries, to the extent that the parent is able to control the reversal of temporary differences and it is probable they will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available, against which a temporary difference can be utilised. The carrying amount of the deferred tax asset is reviewed at the reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. The asset is recorded in the balance sheet within property, plant and equipment and is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Depreciation is recorded by the Group to write off the cost over the estimated useful economic life of the asset.

NOTES TO THE ACCOUNTS (CONTINUED)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Rent payable on finance leases is apportioned between the finance element, charged to the Income Statement, and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Following the implementation of IFRS 16 at the beginning of 2019 the distinction between finance and operating leases are eliminated and a lessee recognises all the leases on the balance sheet as Right-of-Use assets and a corresponding Lease Liability. For lessors (including intermediate lessors) leases are still to be classified into finance and operating according to their substance.

All other leases, being leases with a short life or relating to low value assets, are expensed to the Income Statement on a straight line basis over the period of the lease agreement.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan through announcing its main features to those affected by it.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting its contractual obligations exceed the economic benefits expected to be received under it.

Foreign currency

Assets and liabilities denominated in foreign currencies are translated into Sterling at the appropriate rates of exchange prevailing at the reporting date and exchange differences are recognised in the Income Statement as they arise. All income and expense is translated into Sterling at the rate of exchange on the day of receipt or payment.

NOTES TO THE ACCOUNTS (CONTINUED)

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes judgements in applying its accounting policies that have a significant impact on the amounts recognised in the financial statements. In addition estimates and assumptions are used which could affect the reported amounts of assets and liabilities in the next financial year.

The estimates and underlying assumptions are reviewed on an ongoing basis. As explained on page 84, the Audit Committee has confirmed that the accounting judgements and estimates applied are considered to be appropriate.

CRITICAL JUDGEMENTS

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies.

Pensions

International Financial Reporting Interpretations Committee statement 14 (IFRIC 14) requires that a net defined benefit asset should only be recognised to the extent that an entity has the ability to access the pension scheme surplus in the form of a refund or reduction in future contributions. This requires judgement to be made around the legal rights to which the scheme trustees could unilaterally act in order to restrict the ability of the entity to seek a refund or reduction in future contributions. The Group operates a defined benefit pension scheme for which it has received a legal opinion that it can recover in full any surplus of the scheme. The Group has recognised an asset in respect of the surplus as at both December 2018 and 2019. Whilst the Group is unable to release funds from the scheme and the asset would not be crystallised in full if the pension obligations were settled immediately, the asset has been recognised based on the obligations being settled as they fall due and the surplus being used to reduce future contributions or be repaid after all settlements have occurred.

This includes an assessment that the pension scheme trustees are unable to act, without the Society's support, to amend the scheme rules and ultimately prevent the Society accessing the surplus.

Effective interest rate

IFRS 9 requires that all of the cash flows directly associated with financial instruments held at amortised cost must be recognised in the Income Statement through the interest income or expense using the effective interest rate method. The group have included the following cash flows: arrangement fees, introducer fees, incentive arrangements and early repayment charges. For prudential reasons, SVR income after the end of the fixed rate deal have not been brought forward.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below.

Impairment of loans and advances to customers

The calculation of impairment provisions for a portfolio of mortgage loans is inherently uncertain. Provisions are calculated using historical default and loss experience but require judgement to be exercised in predicting future economic conditions (e.g. interest rates and house prices) and customer behaviour (e.g. default rates). The most critical sources of estimation uncertainty are:

- The economic scenarios and associated weightings, further details of which can be found in Note 39. The committee established to set the forward looking macroeconomic assumptions, has assessed the uncertainty associated with the UK's upcoming trade negotiation with the EU, and determined that applying a combined 40% weighting to downside and stress scenarios as at the balance sheet date represents the best estimate of there being a significant impact on the UK economy. The Group has applied a 20% weighting to upside, 40% to core, 25% to downside and 15% to stress. The Group considered alternative sets of weightings in reaching these results. The most severe applied a 5% movement from downside to stress scenario weightings, which would give rise to a £3.0m (2018: £4.4m) increase in provisions, the least severe applied a 5% movement from stress to upside, which would give rise to a £5.0m (2018: £7.3m) decrease in provisions. These changes in weightings have been fully modelled and been allowed to impact staging.
- The threshold applied to assess whether a significant relative increase in credit risk has occurred. If 10% of the accounts in stage 1, on a proportional basis, were to be transferred to stage 2 and subject to a calculation of full lifetime expected credit losses, this would result in a £4.2m (2018: £6.2m) increase in the provision.
- The calculation of the probability of default (PD) for accounts in stage 2 and the probability of possession (PP) for accounts in stage 3. A 10% relative increase or decrease in these probabilities would give rise to a £5.2m (2018: £4.7m) increase or decrease in the provision, respectively.

NOTES TO THE ACCOUNTS (CONTINUED)

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Impairment of loans and advances to customers (continued)

- The assessment of staging for customers who are currently in arrears on their unsecured lending with other lenders but allocated to stage 1. The majority of these accounts were originated at high credit risk, so whilst there has been an increase in credit risk this has not been sufficiently high to breach the transfer criteria for classification as stage 2. For these accounts, if this was treated as a hard indicator of increased credit risk and these loans were transferred to stage 2, there would be a £9.0m (2018: £11.8m) increase in provisions.

The group continues to refine its approach to staging to better align with what is becoming generally accepted practice. As part the regular review process there is a cohort of customers identified where the group does not consider them to have increased risk and the level of risk is aligned to that on origination. A post model adjustment (PMA) has been applied transferring them back to stage 1. If this PMA had not been in place then provisions would be £0.2m (2018: n/a) higher and stage 2 balances would be £695m (2018: n/a) higher. This PMA is expected to be released during 2020 following a recalibration of the PD model.

The factors above apply to all loans underwritten by the Group. There is additional uncertainty associated with the PD and LGD for certain interest only mortgages acquired from Chelsea Building Society. The Group has only been able to substantiate the existence of an appropriate repayment vehicle for 28% (2018: 26%) of these customers and there is a risk that the Group will be unable to collect the full amount due at maturity (average maturity being 2028).

The Group applies a model to estimate the probability that accounts will reach the end of the term without being recovered, with the average probability across these accounts being 8% (2018: 10.4%), generating expected credit losses of £18.7m (2018: £18.0m). The Group uses two alternative PDs dependent on whether we have been unable to contact the customer or whether they have been contacted and it has been confirmed that they do not have an appropriate repayment vehicle in place. If we assumed that all customers with whom we have been unable to make contact do not have an appropriate repayment vehicle, expected credit losses would increase by £7.9m (2018: £9.8m).

Pensions

Significant estimation uncertainty (on areas such as future interest, salary escalation and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the defined benefit scheme, and hence of its net surplus/deficit. These are outlined in Note 26. The impact of a 0.5% pa increase in the rate used to discount the future value of liabilities (from 1.4%pa to 1.9%pa) would result in a decrease of a liability by around 10%. The impact of a 0.5%pa increase in inflation assumption would increase liabilities by around 4%. The percentage changes used to calculate these sensitivities have been set based on analysis of previous annual movements in these inputs. The impact of a one year increase in each of the quoted life expectancies at age 60 would be to increase the liabilities by around 4%.

Regulatory and other provisions

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligations at the reporting date, taking into account the risks and uncertainties surrounding the obligations. Note 28 provides details of regulatory and other provisions which include amounts provided in relation to customer redress claims related to past sales of Payment Protection Insurance (PPI) totalling £4.7m (2018: £12.6m). This provision is calculated using management's best estimate of the complaint volumes, average redress payments, referral rates to the Financial Ombudsman Service, complaint handling costs and other costs.

NOTES TO THE ACCOUNTS (CONTINUED)

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Calculated using the effective interest rate method:				
Loans secured on residential property	**885.4**	883.0	**372.2**	418.8
Loans to connected undertakings	**–**	–	**423.0**	360.1
Other loans	**23.5**	22.5	**23.5**	22.5
Liquid assets	**27.4**	24.2	**26.9**	23.7
On debt securities	**26.5**	17.0	**95.0**	69.9
Interest receivable calculated using the effective interest rate method	**962.8**	946.7	**940.6**	895.0
Other:				
Derivatives in hedge relationships	**16.1**	36.4	**16.1**	31.1
Derivatives not included in hedge relationships	**24.4**	35.4	**33.3**	37.2
Investments held at fair value	**0.3**	0.2	**0.3**	0.2
Other interest receivable	**40.8**	72.0	**49.7**	68.5
Total interest receivable and similar income	**1,003.6**	1,018.7	**990.3**	963.5

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Shares held by individuals	**330.4**	316.1	**330.4**	316.1
Deposits from banks	**38.6**	49.5	**38.6**	49.5
Deposits from connected undertakings	**–**	–	**115.4**	82.7
Other deposits	**2.0**	0.9	**2.0**	0.9
Debt securities in issue	**63.5**	70.7	**51.1**	62.0
Subordinated liabilities	**27.6**	25.4	**27.6**	25.4
Subscribed capital	**0.1**	0.3	**0.1**	0.3
Other interest payable	**0.1**	–	**0.1**	–
Derivatives in hedge relationships	**60.9**	62.9	**47.2**	54.8
Derivatives not included in hedge relationships	**14.8**	21.2	**24.6**	25.3
Interest expense for leasing arrangements	**1.0**	–	**1.0**	–
Total interest payable	**539.0**	547.0	**638.1**	617.0

NOTES TO THE ACCOUNTS (CONTINUED)

5. NET (LOSSES)/GAINS FROM FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Investments held at fair value	**3.8**	1.7	**3.8**	1.7
Structured credit assets	**1.6**	6.9	**1.6**	6.9
Hedge accounting ineffectiveness	**(11.1)**	(0.2)	**(7.6)**	3.2
Derivatives not included in hedge relationships	**(16.3)**	11.7	**(16.4)**	8.8
Net gains from financial instruments held at fair value	**(22.0)**	20.1	**(18.6)**	20.6

6. OTHER OPERATING INCOME

Other operating income primarily comprises income from fixed assets; specifically profits on disposal, rental income from investment property and software licensing income. Also in respect of the Society included within other operating income is the recharge of administrative expenses from subsidiaries.

7. ADMINISTRATIVE EXPENSES

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Staff costs				
Salaries and wages	**119.2**	127.5	**119.2**	127.5
Social security costs	**12.2**	12.9	**12.2**	12.9
Pension costs – defined benefit plans	**(0.6)**	1.7	**(0.6)**	1.7
Pension costs – defined contribution plans	**10.1**	10.7	**10.1**	10.7
Other staff costs	**1.3**	1.3	**1.3**	1.3
Operating lease rentals	**0.8**	7.8	**1.0**	8.0
Professional consultancy costs	**19.5**	24.1	**19.5**	24.1
Other expenses	**101.8**	105.3	**101.6**	105.1
	264.3	291.3	**264.3**	291.3

Included within other expenses are costs for IT, marketing, rent, utilities, repairs and maintenance, non payroll related staff costs and any other expenses.

The Society operates a salary sacrifice scheme whereby the employee agrees to a reduction in salary in return for the Society making pension contributions that were previously paid by the employee. The amount shown in the table above under salaries and wages includes the headline salary (i.e. before the salary sacrifice deduction) and pension costs exclude the additional contributions made by the Society as a result of the salary sacrifice scheme.

NOTES TO THE ACCOUNTS (CONTINUED)

7. ADMINISTRATIVE EXPENSES (CONTINUED)

The Society's operating lease rentals include payments it makes to subsidiary companies which own properties and equipment. With the implementation of IFRS 16 amounts related to property and car leases included previously under administrative expenses are shown under finance costs and depreciation.

Remuneration of the auditor and their associates

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Audit Fees for the Group and Society statutory audit	**572**	499	**472**	499
Fees payable for other services:				
Audit of Group Subsidiaries	**200**	72	**–**	–
Audit related assurance services	**165**	172	**120**	172
Total audit and audit related assurance services	**937**	743	**592**	671
Other non-audit services	**46**	4	**46**	4
	983	747	**638**	675

Following approval at the AGM in 2019, PricewaterhouseCoopers LLP (PwC) were appointed as auditors of the Group and Society. Remuneration of the auditor reported in 2019 above wholly represents fees paid to PwC. The fees presented for 2018 represent the amounts paid to previous auditors' Deloitte LLP only.

The above figures, relating to auditor's remuneration, exclude value added tax. Details of the Society's policy on non-audit work, which is implemented by the Audit Committee, is given in the Audit Committee Report on page 85.

Staff numbers

The average number of persons employed by the Group and Society during the year (including executive directors) was as follows:

	2019		2018	
	Full time	**Part time**	Full time	Part time
Central administration	**2,011**	**467**	2,300	525
Branches	**547**	**511**	591	490
	2,558	**978**	2,891	1,015

8. REMUNERATION OF AND TRANSACTIONS WITH DIRECTORS

Full details of directors' remuneration, bonuses and pensions are given in the Directors' Remuneration Report on pages 95 to 112. In addition, past directors' pensions in respect of services as directors (closed scheme) amounted to £20,961 (2018: £20,240).

None of the directors had any interest in the shareholdings or debentures of any connected undertaking of the Society at any time during the financial year. Details of transactions with directors and loans held by directors and connected persons are disclosed in Note 41.

A register is maintained at the head office of the Society containing details of loans, transactions and arrangements between the Society and its directors and connected persons. A statement containing the details for 2019 will be available for inspection at the principal office by members for a period of 15 days up to and including the Annual General Meeting.

NOTES TO THE ACCOUNTS (CONTINUED)

9. IMPAIRMENT

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
At 1 January	**29.1**	29.3	**15.0**	10.6
Amounts written off during the year	**(2.0)**	(3.0)	**(0.6)**	(0.2)
Reduction in discounting	**1.7**	1.6	**1.3**	1.3
Impairment adjustment for the year	**1.7**	1.2	**(1.7)**	3.3
At 31 December	**30.5**	29.1	**14.0**	15.0
The charge for the year comprises:				
Impairment adjustment	**1.7**	1.2	**(1.7)**	3.3
Recoveries relating to amounts previously written off	**(1.5)**	(1.6)	**(0.8)**	(0.6)
Net provision (release)/charge for the year	**0.2**	(0.4)	**(2.5)**	2.7

Income on impaired stage 3 assets is calculated using the effective interest rate method based on the amortised cost of the asset after adjusting for expected credit losses, and not the gross carrying value. This gives rise to a reduction in the interest income recorded on impaired assets, but also an offsetting reduction in the impairment charge for the year due to the reduction in discounting on the future credit losses (as shown in the table above).

Detailed analysis of provision movements by stage are included in Note 39. The table above includes treasury impairments of £0.3m that are excluded from Note 39.

10. INVESTMENTS

Income/(Expense) from investments

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Income from subsidiary undertakings	**–**	–	**50.0**	74.9
Other	**0.1**	(0.1)	**0.1**	(0.1)
	0.1	(0.1)	**50.1**	74.8

During 2019, Accord made a dividend payment of £50.0m to the Society (2018: £75.0m).

Other income relates to the revaluation of the Visa shareholding to reflect the change of share price throughout the year.

NOTES TO THE ACCOUNTS (CONTINUED)

10. INVESTMENTS (CONTINUED)

Investments

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Equities	**9.2**	6.8	**9.2**	6.8
Subsidiaries	**–**	–	**27,142.2**	23,587.9
	9.2	6.8	**27,151.4**	23,594.7

Investment in equities

The Group holds equity investments relating to participation in banking and credit card service operations. The investments are held at fair value through profit or loss and the valuation technique is detailed in Note 40.

This includes shares received as part of the consideration from the sale of Visa Europe to Visa Inc. where the Group had a small percentage holding as a result of being a member of Visa Europe through our trading activities, and a residual shareholding of VocaLink shares.

Investment in joint venture

The Society had a 50% interest in a joint venture, MutualPlus Ltd, a branch sharing company incorporated in the United Kingdom and registered in England and Wales. The investment was dissolved on 22 September 2018.

The Society has a 22.2% joint venture investment in Arkose Funding Limited. The carrying value of the investment at 31 December 2019 is nil (2018: nil).

Investment in subsidiaries

Society	Shares	Loans	Total
	£m	**£m**	**£m**
Cost			
At 1 January 2019	**105.4**	**23,483.3**	**23,588.7**
Additions	**–**	**3,875.5**	**3,875.5**
Repayments	**–**	**(321.2)**	**(321.2)**
At 31 December 2019	**105.4**	**27,037.6**	**27,143.0**
Impairment losses			
At 1 January 2019 and 31 December 2019	**(0.5)**	**(0.3)**	**(0.8)**
Net Book Value			
At 31 December 2019	**104.9**	**27,037.3**	**27,142.2**
Cost			
At 1 January 2018	105.4	20,994.2	21,099.6
Additions	0.1	3,475.8	3,475.9
Repayments	(0.1)	(986.7)	(986.8)
At 31 December 2018	105.4	23,483.3	23,588.7
Impairment losses			
At 1 January 2018 and 31 December 2018	(0.5)	(0.3)	(0.8)
Net book value			
At 31 December 2018	104.9	23,483.0	23,587.9

All shares held are equity shares. All loans are charged interest which is included within net interest income.

NOTES TO THE ACCOUNTS (CONTINUED)

10. INVESTMENTS (CONTINUED)

The Society directly or indirectly holds 100% of the ordinary share capital for each of the following subsidiary undertakings, all of which are audited and consolidated.

Subsidiary	Principal activity
Accord Mortgages Limited	Mortgage lending
YBS Properties (Edinburgh) Limited	Property holding
Yorkshire Building Society Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds
Brass No.5 PLC	Funding vehicle
Brass No.5 Mortgage Holdings Limited	Holding company
Brass No.6 PLC	Funding vehicle
Brass No.6 Mortgage Holdings Limited	Holding company
Brass No.7 PLC	Funding vehicle
Brass No.7 Mortgage Holdings Limited	Holding company
Brass No.8 PLC	Funding vehicle
Brass No.8 Mortgage Holdings Limited	Holding company
Norwich and Peterborough Insurance Brokers Limited	Non-trading
Norwich and Peterborough (LBS) Limited	Mortgage finance
Tombac No.2 PLC	Funding vehicle
Tombac No.2 Mortgage Holdings Limited	Holding company

For certain subsidiaries, the Group has taken advantage of the audit exemptions available for small and dormant subsidiaries under Sections 479 and 480 of the Companies Act 2006. The Group has adopted such audit exemptions for the following subsidiary undertakings which are largely non-trading for the year ended 31 December 2019:

- BCS Loans and Mortgages Limited
- Brass No.3 PLC*
- Brass No.3 Mortgage Holdings Limited*
- Brass No.4 PLC
- Brass No.4 Mortgage Holdings Limited
- Chelsea Mortgage Services Ltd
- Tombac No.1 PLC*
- Tombac No.1 Mortgage Holdings Limited*
- YBS Ltd
- YBS Covered Bonds Finance (Holdings) Limited
- YBS Covered Bonds Finance Limited
- Yorkshire Direct Ltd
- YBS Group Ltd
- YBS Pension Trustees Limited
- Yorkshire Group Ltd
- Yorkshire Guernsey Ltd *
- Yorkshire Life Assurance Services Ltd
- Yorkshire Mortgage Services Ltd
- Yorkshire Personal Financial Services Ltd
- Yorkshire Property Services Ltd
- Yorkshire Services Ltd
- Yorkshire Key Services Limited

All subsidiaries have an accounting period of the 31 December. All the companies are registered in England and operate in the United Kingdom, and the registered office of all the wholly owned subsidiary companies is Yorkshire Drive, Bradford, BD5 8LJ, except Yorkshire Guernsey Ltd which is registered in Guernsey (in liquidation c/o Collas Crill Trust Limited, Glategny Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3HW) and is non-trading.

All the entities are wholly owned except for YBS Covered Bonds Finance Limited (Wilmington Trust Sp Services (London) Limited, Third Floor,1 King's Arms Yard, London, EC2R 7AF) which is owned 20% by the Society and 80% held by YBS Covered Bond Finance (Holdings) Limited (Wilmington Trust Sp Services (London) Limited, Third Floor,1 King's Arms Yard, London, EC2R 7AF) which is deemed to be controlled by the Group as stated below.

The following entities are deemed to be controlled as the Group has the right to variable returns from its involvement in the entity: Brass No. 4 PLC; Brass No. 4 Mortgage Holdings Limited; Brass No. 5 PLC; Brass No. 5 Mortgage Holdings Limited; Brass No. 6 PLC; Brass No. 6 Mortgage Holdings Limited; Brass No.7 PLC; Brass No.7 Mortgage Holdings Ltd; Brass No.8 PLC; Brass No.8 Mortgage Holdings Ltd; Tombac No. 1 PLC (in liquidation); Tombac No. 1 Mortgage Holdings Limited (in liquidation); Tombac No. 2 PLC and Tombac No. 2 Mortgage Holdings Limited (where the registered office is Third Floor, 1 King's Arms Yard, London, EC2R 7AF); Yorkshire Building Society Covered Bonds LLP (registered office Yorkshire Drive, Bradford, BD5 8LJ); YBS Covered Bonds Finance (Holdings) Limited. The Society's interests in these entities are, in substance, no different than if they were 100% held subsidiary undertakings and consequently they are consolidated in the Group accounts.

The Society has a 22.2% joint venture investment in Arkose Funding Limited. The carrying value of the investment at 31 December 2019 is nil (2018: nil).

* In liquidation

NOTES TO THE ACCOUNTS (CONTINUED)

11. TAX EXPENSE

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Current tax:				
UK corporation tax at 19.00% (2018: 19.00%)	**43.0**	40.0	**28.9**	36.0
Corporation tax – adjustment in respect of prior periods	**(3.7)**	(2.1)	**(7.1)**	(1.9)
Total current tax	**39.3**	37.9	**21.8**	34.1
Deferred tax (Note 20):				
Current year	**1.5**	5.4	**1.7**	(0.3)
Adjustment in respect of prior periods	**(2.5)**	(0.6)	**2.2**	(0.6)
Total tax expense in Income Statement	**38.3**	42.7	**25.7**	33.2

The actual tax expense for the year differs from that calculated using the standard rate of corporation tax in the UK. The differences are explained below:

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Profit before tax	**167.2**	192.5	**170.2**	197.7
Tax calculated at a tax rate of 19.00% (2018: 19.00%)	**31.8**	36.6	**32.3**	37.5
Effects of:				
Income not subject to tax	**(1.2)**	(0.7)	**(11.3)**	(15.5)
Fair value movements on securitisation	**5.1**	–	**–**	–
Expenses not deductible for tax purposes	**1.2**	0.7	**2.0**	4.5
Banking surcharge	**7.7**	9.2	**7.7**	9.2
Adjustment to tax charge in respect of previous periods	**(6.2)**	(2.7)	**(4.9)**	(2.5)
Change in tax rate	**(0.1)**	(0.4)	**(0.1)**	–
Total tax expense in Income Statement	**38.3**	42.7	**25.7**	33.2
Tax (credit)/expense recognised directly in equity:				
Tax on financial instruments held at fair value through other comprehensive income	**0.4**	(1.1)	**0.4**	(1.1)
Effect of change in tax rate	**–**	–	**–**	–
Tax on Remeasurement of net retirement benefit obligations	**2.3**	(5.2)	**2.3**	(5.2)
Effect of change in tax rate	**(0.2)**	0.4	**(0.2)**	0.4
Deferred tax on cash flow hedges	**0.4**	0.6	**0.4**	0.6
Effect of change in tax rate	**–**	–	**–**	–
	2.9	(5.3)	**2.9**	(5.3)

NOTES TO THE ACCOUNTS (CONTINUED)

11. TAX EXPENSE (CONTINUED)

The main rate of corporation tax reduced to 19% on 1 April 2017. The Finance Act 2016, substantively enacted on 6 September 2016, further reduced the main rate of corporation tax to 17% from April 2020. Following announcements made in the run up to the December 2019 Election, the reduction in the tax rate to 17% is not expected to occur. The rates which are substantively enacted are reflected in this note.

The difference in rates is reflected in the financial statements resulting in a credit of £0.1m (2018: £0.4m credit) to the Income Statement and a credit of £0.2m (2018: £0.4m debit) to Other Comprehensive Income in the period, giving an overall credit of £0.3m (2018: £0.0m) in respect of the Group's net deferred tax liability.

The effective tax rate for the year is 22.91% (2018: 22.18%) which is higher than the statutory corporation tax rate of 19.00% (2018: 19.00%). The effective rate is increased due to a charge of £7.7m (2018: £9.2m) in respect of the banking surcharge which is charged at a rate of 8.00% (2018: 8.00%) on the Society's taxable profits above £25m.

The rate for the year is also affected by the prior year adjustment of £6.2m. This credit is mainly attributable to the de-recognition of deferred tax on the basis rate swaps held in the Group's securitisation vehicles.

12. SEGMENTAL REPORTING

This section analyses the Group's performance by business segment.

The chief operating decision maker has been identified as the Board, which reviews the Group's internal reporting and is responsible for all significant decisions. The Group's reportable segments under IFRS 8 'Operating Segments', based on the information reviewed by the Board, have been determined according to similar economic characteristics and the nature of the products and service. Details of the reportable segments are listed below:

Segment	Description	Basis of aggregation
Retail	Prime residential owner occupied lending, prime intermediary lending and non-owner occupied lending. Traditional member savings, non-traditional savings and sale of general insurance, protection and investment products provided by third parties.	These are the core activities and focus of the Group.
Non-retail	Prime commercial lending portfolio (including social housing).	These ongoing parts of the business support the Group's financial stability and primary businesses but are not considered core and have a non-retail customer base.
Secondary	Non-prime residential owner occupied lending, consumer banking, personal lending, non-prime commercial lending and non-owner occupied lending acquired through mergers.	These elements, originated and acquired through merger, are closed to new business and are historic areas in which the Group no longer operates.
Central	Supporting business units, the Treasury function and other head office Group functions which have not been apportioned across the aforementioned segments.	These operations are not directly customer related.

No segmental information is presented on geographical lines, because substantially all of the Group's activities are in the United Kingdom.

The majority of the Group's revenues are in the form of interest and the Board monitors the Group's net interest income, to assess performance and direct the Group. Therefore interest receivable and similar income has been shown net of interest payable and similar expense.

Recharging of funding across the Group has been included using the Group's internal funds transfer pricing methodology, which includes the cost of raising external funds.

Income and directly attributable costs have been allocated to each segment as applicable, with support costs being apportioned based on employee numbers.

The accounting policies for the reported segments are consistent with the Group's accounting policies outlined in Note 1.

NOTES TO THE ACCOUNTS (CONTINUED)

12. SEGMENTAL REPORTING (CONTINUED)

2019		Retail	Non-retail	Secondary	Central	Total
	Notes	£m	£m	£m	£m	£m
Net interest income		314.1	23.8	15.6	111.1	464.6
Non-interest income (net)	a	15.1	–	–	(6.7)	8.4
Net realised profits and fair value		–	–	–	(15.8)	(15.8)
Management expenses	b	(192.2)	(5.3)	(1.2)	(90.7)	(289.4)
Operating profit before provisions		137.0	18.5	14.4	(2.1)	167.8
Impairment and other provisions		3.0	(2.7)	(0.4)	(0.5)	(0.6)
Profit/(loss) before tax		140.0	15.8	14.0	(2.6)	167.2
Total assets		36,194.8	1,156.8	546.8	6,379.5	44,277.9
Total liabilities		31,027.9	–	–	10,583.2	41,611.1
Equity		–	–	–	2,666.8	2,666.8

2018		Retail	Non-retail	Secondary	Central	Total
	Notes	£m	£m	£m	£m	£m
Net interest income		319.9	22.8	21.5	107.5	471.7
Non-interest income (net)	a	15.7	–	–	(5.2)	10.5
Net realised profits and fair value		–	–	–	28.0	28.0
Management expenses	b	(183.5)	(2.4)	(1.4)	(123.9)	(311.2)
Operating profit/(loss) before provisions		152.1	20.4	20.1	6.4	199.0
Impairment and other provisions		0.5	0.3	0.6	(7.9)	(6.5)
Profit/(loss) before tax		152.6	20.7	20.7	(1.5)	192.5
Total assets		34,930.3	1,168.9	621.2	6,334.3	43,054.7
Total liabilities		29,914.4	–	–	10,611.9	40,526.3
Equity		–	–	–	2,528.4	2,528.4

a Non-interest income (net) includes fees and commissions receivable, fees and commissions payable, other operating income and income from investments.
b Management expenses include administrative expenses, depreciation and amortisation.

NOTES TO THE ACCOUNTS (CONTINUED)

12. SEGMENTAL REPORTING (CONTINUED)

Total income for the reportable segments can be analysed as follows:

2019	Retail	Non-retail	Secondary	Central	Total
	£m	£m	£m	£m	£m
External income	**521.0**	**47.8**	**24.8**	**(120.6)**	**473.0**
Income from other segments	**(191.8)**	**(23.9)**	**(9.4)**	**225.1**	**–**
Total income	**329.2**	**23.9**	**15.4**	**104.5**	**473.0**

2018	Retail	Non-retail	Secondary	Central	Total
	£m	£m	£m	£m	£m
External income	527.4	43.5	31.5	(120.2)	482.2
Income from other segments	(191.8)	(20.7)	(10.0)	222.5	–
Total income	335.6	22.8	21.5	102.3	482.2

13. CASH AND CASH EQUIVALENTS

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Cash in hand	**9.1**	9.8	**9.2**	9.8
Unencumbered deposits with the Bank of England	**2,415.1**	3,438.0	**2,415.1**	3,438.0
Cash in hand and unencumbered deposits	**2,424.2**	3,447.8	**2,424.3**	3,447.8
Cash ratio deposit with the Bank of England	**103.9**	92.0	**103.9**	92.0
Cash and cash equivalents	**2,528.1**	3,539.8	**2,528.2**	3,539.8

Cash ratio deposits are mandatory requirements of the Bank of England. They are considered to be encumbered assets as they are not available for use in the Group's day-to-day operations. These balances are non-interest-bearing, whereas other deposits are at variable money market rates.

14. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Included within loans and advances to credit institutions are balances held in collateral accounts relating to swap agreements, and bank account balances held in the Group's Covered Bond and Securitisation programmes. Such items are considered to be encumbered assets as they are not available for use in the Group's day-to-day operations. The cash collateral placed related to swap agreements of £388.6m is subject to legally enforceable netting agreements. The cash collateral and derivative fair value are presented gross in the balance sheet as the requirements for offset in IAS 32 are not met.

NOTES TO THE ACCOUNTS (CONTINUED)

15. DEBT SECURITIES

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Debt securities issued by:				
Public bodies	**879.6**	820.0	**879.6**	820.0
Other borrowers	**1,668.6**	850.3	**1,668.6**	850.3
Group companies	**–**	–	**5,364.6**	5,413.4
	2,548.2	1,670.3	**7,912.8**	7,083.7

Debt securities issued by Group companies comprise retained investments in the Group's Brass and Tombac securitisation vehicles.

Group	Held at fair value	Fair value through Other Comprehensive Income	Amortised cost	Total
	£m	**£m**	**£m**	**£m**
Movements in debt securities during the year were:				
At 1 January 2019	**143.1**	**1,527.2**	**–**	**1,670.3**
Additions	**–**	**2,655.4**	**–**	**2,655.4**
Disposals and repayments	**(144.4)**	**(1,665.3)**	**–**	**(1,809.7)**
Exchange translation	**(0.1)**	**(1.2)**	**–**	**(1.3)**
Other changes in value	**1.4**	**32.1**	**–**	**33.5**
At 31 December 2019	**–**	**2,548.2**	**–**	**2,548.2**
Movements in debt securities during the year were:				
At 1 January 2018	3.8	847.0	–	850.8
Additions	136.3	1,853.7	–	1,990.0
Disposals and repayments	(6.7)	(1,174.3)	–	(1,181.0)
Exchange translation	0.1	–	–	0.1
Other changes in value	9.6	0.8	–	10.4
At 31 December 2018	143.1	1,527.2	–	1,670.3

NOTES TO THE ACCOUNTS (CONTINUED)

15. DEBT SECURITIES (CONTINUED)

Society	Held at fair value	Fair value through Other Comprehensive Income	Amortised cost	Total
	£m	£m	£m	£m
Movements in debt securities during the year were:				
At 1 January 2019	**143.1**	**1,527.2**	**5,413.4**	**7,083.7**
Additions	**0.0**	**2,655.4**	**1,257.7**	**3,913.1**
Disposals and repayments	**(144.4)**	**(1,665.3)**	**(1,306.3)**	**(3,116.0)**
Exchange translation	**(0.1)**	**(1.2)**	**(0.8)**	**(2.1)**
Other changes in value	**1.4**	**32.1**	**0.6**	**34.1**
At 31 December 2019	**0.0**	**2,548.2**	**5,364.6**	**7,912.8**
Movements in debt securities during the year were:				
At 1 January 2018	3.8	847.0	5,125.4	5,976.2
Additions	136.3	1,853.7	2,500.0	4,490.0
Disposals and repayments	(6.7)	(1,174.3)	(2,220.0)	(3,401.0)
Exchange translation	0.1	–	–	0.1
Other changes in value	9.6	0.8	8.0	18.4
At 31 December 2018	143.1	1,527.2	5,413.4	7,083.7

16. LOANS AND ADVANCES TO CUSTOMERS

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Loans and advances to customers comprise:				
Loans secured on residential property				
Loans fully secured on residential property	**37,395.9**	36,169.7	**13,690.1**	14,875.6
Other loans secured on residential property	**11.2**	12.8	**4.4**	5.0
Loans secured on commercial property	**521.4**	566.8	**521.4**	566.8
Fair value hedging adjustments	**86.1**	(18.0)	**86.1**	(18.0)
Impairment provisions	**(30.2)**	(28.9)	**(13.6)**	(14.8)
	37,984.4	36,702.4	**14,288.4**	15,414.6

Fair value hedging adjustments of £86.1m debit (2018: £18.0m credit) have been made to certain fixed rate mortgages that are in fair value hedging relationships.

NOTES TO THE ACCOUNTS (CONTINUED)

17. INTANGIBLE ASSETS

Group	Development costs	Purchased software	Internally generated assets	Other	Total
	£m	£m	£m	£m	£m
Cost					
At 31 December 2018 as previously reported	**21.5**	**39.3**	**24.6**	**18.5**	**103.9**
Reallocations	**(1.1)**	**1.6**	**(3.9)**	**(11.4)**	**(14.8)**
Revised balance at 31 December 2018	**20.4**	**40.9**	**20.7**	**7.1**	**89.1**
Additions	**8.5**	**1.8**	**0.7**	**–**	**11.0**
Disposals	**(1.9)**	**(9.5)**	**–**	**–**	**(11.4)**
Transfers	**(25.1)**	**25.1**	**–**	**–**	**–**
Cost at 31 December 2019	**1.9**	**58.3**	**21.4**	**7.1**	**88.7**
Amortisation					
At 31 December 2018 as previously reported	**1.1**	**26.4**	**18.5**	**17.8**	**63.8**
Reallocations	**(1.1)**	**1.1**	**(3.5)**	**(11.3)**	**(14.8)**
Revised balance at 31 December 2018	**–**	**27.5**	**15.0**	**6.5**	**49.0**
Charge in year	**–**	**6.0**	**3.0**	**0.5**	**9.5**
Disposals	**–**	**(5.8)**	**–**	**–**	**(5.8)**
Amortisation at 31 December 2019	**–**	**27.7**	**18.0**	**7.0**	**52.7**
Net book value					
At 31 December 2019	**1.9**	**30.6**	**3.4**	**0.1**	**36.0**
Cost					
At 1 January 2018	7.3	38.5	25.6	18.5	89.9
Additions	14.5	2.5	–	–	17.0
Disposals	(0.3)	(1.7)	(1.0)	–	(3.0)
At 31 December 2018	21.5	39.3	24.6	18.5	103.9
Amortisation					
At 1 January 2018	1.1	26.1	13.2	17.3	57.7
Charged in year	–	3.0	5.3	0.5	8.8
Disposals	–	(2.7)	–	–	(2.7)
At 31 December 2018	1.1	26.4	18.5	17.8	63.8
Net book value:					
At 31 December 2018	20.4	12.9	6.1	0.7	40.1

The Group purchased software cost carried forward and depreciation carried forward include £1m which relates to Yorkshire Key Services Limited software licence. This is not included in the Society accounts.

Other intangible assets primarily comprise the intrinsic value of items acquired on mergers (retail savings and brands) and an amount paid for the transfer of a number of employee sharesave schemes to the Society.

NOTES TO THE ACCOUNTS (CONTINUED)

17. INTANGIBLE ASSETS (CONTINUED)

Transfers relate to the reclassification of assets from development costs to purchased software and internally generated assets.

The additions under development costs relate mainly to the Society's investment in a new mortgage processing systems with market leading technology required to meet the future needs of the business. To the extent that these new systems are not yet ready for use by the business, no amortisation has been charged.

18. INVESTMENT PROPERTIES

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Cost				
At 31 December 2018 as previously reported	**16.0**	16.4	**15.8**	16.2
Reallocations	**1.0**	–	**1.0**	–
Revised balance at 31 December 2018	**17.0**	16.4	**16.8**	16.2
On transition to IFRS 16	**0.6**	–	**0.6**	–
Additions	**0.4**	0.3	**0.4**	0.3
Disposals	**(0.4)**	(0.4)	**(0.4)**	(0.4)
Transfers	**2.7**	(0.3)	**2.7**	(0.3)
At 31 December	**20.3**	16.0	**20.1**	15.8
Depreciation				
At 31 December 2018 as previously reported	**4.0**	4.0	**4.0**	4.0
Reallocations	**0.3**	–	**0.2**	–
Revised balance at 31 December 2018	**4.3**	4.0	**4.2**	4.0
Charged in year	**0.3**	0.3	**0.3**	0.3
Impairment	**–**	–	**–**	–
Disposals	**(0.3)**	(0.3)	**(0.3)**	(0.3)
Transfers	**1.0**	–	**1.0**	–
At 31 December	**5.3**	4.0	**5.2**	4.0
Net book value				
At 31 December	**15.0**	12.0	**14.9**	11.8
Fair value				
At 31 December	**18.5**	17.3	**18.1**	16.9

Investment properties are generally flats and offices ancillary to branch premises and not used by the Group. Rental income of £1.5m on investment properties has been included within other operating income (2018: £1.5m).

Transfers relate to the reclassification of assets between investment properties and property, plant and equipment, usually due to changes in occupancy.

The fair value of the Group's investment properties at 31 December 2019 has been arrived at predominantly on the basis of external valuations provided by Gerald Eve surveyors, the remaining properties have been valued internally by the Group's Estates Manager, an appropriately qualified surveyor.

NOTES TO THE ACCOUNTS (CONTINUED)

19. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings	Equipment, fixtures, fittings and vehicles	Right of Use Property	Right of Use Motor Vehicles	Total
	£m	£m	£m	£m	£m
Cost					
At 31 December 2018 as previously reported	**126.6**	**76.7**	**–**	**–**	**203.3**
Reallocations	**(5.6)**	**(6.0)**	**–**	**–**	**(11.6)**
Revised balance at 31 December 2018	**121.0**	**70.7**	**–**	**–**	**191.7**
On transition to IFRS 16	**–**	**–**	**42.5**	**–**	**42.5**
Additions	**2.1**	**3.2**	**1.1**	**0.9**	**7.3**
Disposals	**(1.4)**	**(4.0)**	**–**	**–**	**(5.4)**
Assets transferred to held for sale	**(8.8)**	**–**	**–**	**–**	**(8.8)**
Transfers	**(2.7)**	**–**	**(1.1)**	**–**	**(3.8)**
At 31 December 2019	**110.2**	**69.9**	**42.5**	**0.9**	**223.5**
Depreciation					
At 31 December 2018 as previously reported	**37.8**	**54.9**	**–**	**–**	**92.7**
Reallocations	**(4.7)**	**(6.2)**	**–**	**–**	**(10.9)**
Revised balance at 31 December 2018	**33.1**	**48.7**	**–**	**–**	**81.8**
Charged in year	**4.6**	**6.1**	**4.8**	**0.1**	**15.6**
Disposals	**(0.3)**	**(3.4)**	**(0.2)**	**–**	**(3.9)**
Assets transferred to held for sale	**(5.7)**	**–**	**–**	**–**	**(5.7)**
Transfers	**(1.0)**	**–**	**–**	**–**	**(1.0)**
At 31 December 2019	**30.7**	**51.4**	**4.6**	**0.1**	**86.8**
Net book value					
At 31 December 2019	**79.5**	**18.5**	**37.9**	**0.8**	**136.7**
Cost					
At 1 January 2018	124.3	75.4	–	–	199.7
Additions	4.1	4.9	–	–	9.0
Disposals	(2.1)	(3.6)	–	–	(5.7)
Transfers	0.3	–	–	–	0.3
At 31 December 2018	126.6	76.7	–	–	203.3
Depreciation					
At 1 January 2018	34.8	51.6	–	–	86.4
Charged in year	4.0	6.8	–	–	10.8
Disposals	(1.0)	(3.5)	–	–	(4.5)
At 31 December 2018	37.8	54.9	–	–	92.7
Net book value					
At 31 December 2018	88.8	21.8	–	–	110.6

NOTES TO THE ACCOUNTS (CONTINUED)

19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Society	Land and buildings	Equipment, fixtures, fittings and vehicles	Right of Use Property	Right of Use Motor Vehicles	Total
	£m	£m	£m	£m	£m
Cost					
At 31 December 2018 as previously reported	**120.5**	**76.6**	**–**	**–**	**197.1**
Reallocations	**(0.1)**	**(6.3)**	**–**	**–**	**(6.4)**
Revised balance at 31 December 2018	**120.4**	**70.3**	**–**	**–**	**190.7**
On transition to IFRS 16	**–**	**–**	**42.5**	**0.9**	**43.4**
Additions	**2.0**	**3.2**	**–**	**–**	**5.2**
Disposals	**(1.4)**	**(4.0)**	**–**	**–**	**(5.4)**
Assets transferred to held for sale	**(8.8)**	**–**	**–**	**–**	**(8.8)**
Transfers	**(2.7)**	**–**	**–**	**–**	**(2.7)**
At 31 December 2019	**109.5**	**69.5**	**42.5**	**0.9**	**222.4**
Depreciation					
At 31 December 2018 as previously reported	**32.3**	**54.6**	**–**	**–**	**86.9**
Reallocations	**0.6**	**(6.4)**	**–**	**–**	**(5.8)**
Revised balance at 31 December 2018	**32.9**	**48.2**	**–**	**–**	**81.1**
Charged in year	**4.6**	**6.1**	**4.6**	**0.2**	**15.5**
Disposals	**(0.3)**	**(3.4)**	**–**	**–**	**(3.7)**
Assets transferred to held for sale	**(5.7)**	**–**	**–**	**–**	**(5.7)**
Transfers	**(1.0)**	**–**	**–**	**–**	**(1.0)**
At 31 December 2019	**30.5**	**50.9**	**4.6**	**0.2**	**86.2**
Net book value					
At 31 December 2019	**79.0**	**18.6**	**37.9**	**0.7**	**136.2**
Cost					
At 1 January 2018	118.2	75.3	–	–	193.5
Additions	4.1	4.9	–	–	9.0
Disposals	(2.1)	(3.6)	–	–	(5.7)
Transfers	0.3	–	–	–	0.3
At 31 December 2018	120.5	76.6	–	–	197.1
Depreciation					
At 1 January 2018	29.4	51.3	–	–	80.7
Charged in year	3.9	6.8	–	–	10.7
Impairment	–	–	–	–	–
Disposals	(1.0)	(3.5)	–	–	(4.5)
At 31 December 2018	32.3	54.6	–	–	86.9
Net book value					
At 31 December 2018	88.2	22.0	–	–	110.2

NOTES TO THE ACCOUNTS (CONTINUED)

20. DEFERRED TAX ASSETS AND LIABILITIES

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
The movement on the net deferred tax (liability)/asset is as follows:				
At 1 January as originally presented	**(21.4)**	(20.9)	**(14.9)**	(21.9)
Remeasurement due to IFRS 9	**(0.1)**	(0.3)	**(0.1)**	1.5
At 1 January under IFRS 9	**(21.5)**	(21.2)	**(15.0)**	(20.4)
Income Statement (expense)/credit (Note 11)	**1.0**	(4.8)	**(3.9)**	0.9
Tax credit/(expense) recognised directly in equity	**(3.4)**	4.6	**(3.5)**	4.6
At 31 December	**(23.9)**	(21.4)	**(22.4)**	(14.9)
Deferred tax assets and liabilities are attributable to the following items:				
Deferred tax assets				
Depreciation in excess of capital allowances	**1.8**	2.9	**1.8**	2.9
Other temporary differences	**0.2**	0.4	**0.1**	0.3
Implementation of IAS 39 – mortgages and hedging	**–**	0.6	**–**	0.6
Deferred remuneration	**0.9**	0.9	**0.9**	0.9
Cash flow hedging	**0.2**	0.6	**0.2**	0.6
Restructuring costs	**0.3**	1.5	**0.3**	1.5
Transitional adjustment arising following implementation of IFRS 9*	**1.2**	1.4	**1.2**	1.4
	4.6	8.3	**4.5**	8.2
Deferred tax liabilities				
Pensions and other post-retirement benefits	**21.6**	19.0	**21.6**	19.0
Other temporary differences	**1.1**	1.1	**1.0**	1.0
Implementation of IAS 39 – mortgages and hedging	**0.2**	–	**0.2**	–
Fair value volatility on financial instruments in securitisation entities	**–**	4.8	**–**	–
Financial Instruments held at fair value through profit and loss	**1.6**	1.0	**1.6**	1.0
Financial Instruments held at fair value through other comprehensive income	**2.5**	2.1	**2.5**	2.1
Transitional adjustment arising following implementation of IFRS 9*	**1.5**	1.7	**–**	–
	28.5	29.7	**26.9**	23.1

The deferred tax assets have not been discounted. The Group considers that sufficient future taxable trading profits will be available to utilise the Group's trading deferred tax assets and the Group has therefore recognised such deferred tax assets where they have arisen.

* IFRS 9 took effect as at 1 January 2018 and gave rise to changes in the methodology of calculation of impairment of financial assets. A deferred tax asset of £1.6m and deferred tax liability of £1.9m were created on transition as a result of this change.

NOTES TO THE ACCOUNTS (CONTINUED)

20. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

The deferred tax charge/(credit) in the Income Statement comprise the following temporary differences:

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Pensions and other post-retirement benefits	**0.2**	(0.5)	**0.2**	(0.5)
Depreciation in excess of capital allowances	**1.1**	0.1	**1.1**	0.1
Other temporary differences	**(0.1)**	0.2	**(0.2)**	(0.6)
Implementation of IAS 39 – mortgages and hedging	**0.8**	–	**0.8**	–
Fair value volatility on financial instruments in securitisation entities	**(4.8)**	5.0	**–**	–
Financial instruments held at fair value through profit and loss	**0.6**	0.4	**0.6**	0.4
Restructuring costs	**1.2**	(0.4)	**1.2**	(0.4)
Transitional adjustment arising following implementation of IFRS 9*	**–**	–	**0.2**	0.1
	(1.0)	4.8	**3.9**	(0.9)

21. OTHER ASSETS

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Prepayments and accrued income	**25.8**	22.7	**25.9**	22.7
Due from subsidiary undertakings	**–**	–	**16.0**	10.4
Other assets	**6.8**	6.8	**5.4**	5.4
	32.6	29.5	**47.3**	38.5

Included in 2019 Other assets are finance lease receivables. The Group has entered into agency sublease arrangements as an intermediate lessor that are considered to be finance leases. The Group leases the former branch properties and as substantially all risks and reward are passed over as the subleases match the payment terms and duration of the headline leases they are classified as finance leases.

* IFRS 9 took effect as at 1 January 2018 and gave rise to changes in the methodology of calculation of impairment of financial assets. A deferred tax asset of £1.6m and deferred tax liability of £1.9m were created on transition as a result of this change.

NOTES TO THE ACCOUNTS (CONTINUED)

21. OTHER ASSETS (CONTINUED)

The maturity analysis of lease receivables, including the undiscounted lease payments to be received are as follows:

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Less than 1 year	**0.2**	–	**0.2**	–
1-2 years	**0.2**	–	**0.2**	–
2-3 years	**0.2**	–	**0.2**	–
3-4 years	**0.2**	–	**0.2**	–
4-5 years	**0.2**	–	**0.2**	–
More than 5 years	**0.1**	–	**0.1**	–
Total undiscounted lease payments receivable	**1.1**	–	**1.1**	–
Unearned finance income	**0.1**	–	**0.1**	–
Net investment in the lease	**1.0**	–	**1.0**	–

Finance income on net investment in the lease in 2019 has been £8k.

22. SHARES

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Shares comprising balances held by individuals	**30,696.1**	29,590.8	**30,696.1**	29,590.8
Fair value adjustments	**(18.8)**	(32.2)	**(18.8)**	(32.2)
	30,677.3	29,558.6	**30,677.3**	29,558.6

23. AMOUNTS OWED TO CREDIT INSTITUTIONS

Included within amounts owed to credit institutions are amounts deposited by counterparties under swap collateralisation agreements.

24. OTHER DEPOSITS

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Amounts owed to:				
Subsidiary undertakings	**–**	–	**10,180.8**	8,667.7
Other customers	**584.6**	508.6	**242.3**	195.4
	584.6	508.6	**10,423.1**	8,863.1

NOTES TO THE ACCOUNTS (CONTINUED)

25. DEBT SECURITIES IN ISSUE

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Covered bonds	**3,398.7**	2,309.0	**3,357.1**	2,309.0
Medium term notes	**1,502.1**	2,089.4	**1,502.1**	2,089.4
Residential mortgage backed securities	**1,004.5**	747.5	**–**	–
Certificate of deposits	**129.5**	–	**129.5**	–
	6,034.8	5,145.9	**4,988.7**	4,398.4

Debt securities in issue include amounts secured on certain loans and advances to customers - Group £4.4bn (2018: £3.1bn) and Society £3.4bn (2018: £2.3bn).

26. RETIREMENT BENEFIT OBLIGATIONS

The Group operates one main employee benefit scheme (the Scheme), the costs of which are borne by the Society, with both defined benefit and defined contribution sections.

In addition, the Group operates unfunded defined benefit pension schemes for certain current and former members of staff. The present value at 31 December 2019 of the defined benefit obligation in relation to these schemes was £9.8m (2018: £8.9m) and the relevant disclosures have been aggregated with those of the main employee benefits scheme.

Net defined benefit asset

As at 31st December 2019 the defined benefit asset is £86.4m, this is an increase of £10.5m from 31st December 2018.

Pensioner buy-in

In mid-November 2018 the Scheme entered into a pensioner buy-in with PIC. The premium of c£248m was paid for out of the Scheme's assets, with no additional funding required from the Society. The asset loss from the buy-in was approximately £25m on an accounting basis. The transaction covered around £250m of the Scheme's pensioner liabilities, based on the Technical Provisions basis. As such, some pensioners remain uninsured and not covered by the buy-in. At 31 December 2019, we have valued the YBS Scheme insurance contract with PIC to be equal to the corresponding IAS19 defined benefit obligation in respect of the insured members. This was calculated using a methodology consistent with the approach used to calculate the total pension benefit.

Defined contribution post-employment benefits

In addition to the defined benefit section (see below), the Group operates a defined contribution section of the main scheme. This includes a section which covers auto-enrolled employees. The total expense recognised for these defined contribution benefits is £10.0m (2018: £10.7m). This excludes the additional contributions made by the Society as a result of the salary sacrifice scheme.

NOTES TO THE ACCOUNTS (CONTINUED)

26. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Defined benefit post-employment benefits

The Group operates a funded defined benefit scheme for certain employees, providing benefits based on final salary. However, benefits earned by members of the defined benefit section of the main scheme from, with the exception of N&P Section members, 1 April 2010 are based on career average revalued earnings. N&P Section members' benefits are based on their Final Pensionable Salary (following the removal of the 31 March 2010 freeze). The defined benefit section was closed to new employees in 2000 and to future accrual on 31 December 2015. The assets of the scheme are held in a separate trustee-administered fund. Contributions are assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

The defined benefit section of the Scheme has a weighted average maturity of around 20 years. This weighted average duration of a pension scheme is the average discounted term until benefit payments are due, weighted by the size of the payment. A breakdown of the scheme liabilities by members is included below.

	31 Dec 2019	31 Dec 2018
	£m	£m
Deferred in service liability	**188.9**	166.5
Deferred liability	**265.9**	236.6
Pensioner liability	**442.4**	411.1
GMP Equalisation	**–**	1.7
Total Liabilities	**897.2**	815.9

GMP equalisation

On 26 October 2018, the High Court ruled that the Lloyds schemes had to equalise pension scheme benefits between males and females for the effects of Guaranteed Minimum Pension (GMP) and identified acceptable methods as to how this can be achieved. As a result the Group included £1.7m allowance for GMP equalisation in the determination of the defined benefit obligation in the 31st December 2018 accounting disclosures.

Scheme specific risks

The ultimate cost of the Scheme to the Society will depend upon actual future events rather than the assumptions made. Many of the assumptions made are unlikely to be borne out in practice and, as such, the cost of the schemes may be higher or lower than disclosed. In general, the risk to the Society is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to the Society is higher than expected. This could result in higher contributions being required from the Society and a higher deficit being disclosed. This may also impact the Society's ability to grant discretionary benefits or other enhancements to members.

The assumptions not being borne out in practice could include:

i. The investment return on the Scheme's assets being lower than assumed, resulting in an unaffordable increase in the contributions required from the Society. The level of bond returns will be a key determinant of overall investment return; the investment portfolio is also subject to a range of other risks typical of the asset classes held, in particular equity returns, credit risk on bonds and exposure to the property market.

ii. Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities. This risk has been mitigated to some degree by the implementation of an asset liability matching investment strategy which is designed to match a proportion of the Scheme's interest rate exposure.

iii. Future levels of inflation being higher than assumed, resulting in higher than anticipated annual increases to benefits in payment, revaluations of benefits prior to retirement and salary increases. This risk has been mitigated to some degree by the implementation of an asset liability matching investment strategy which is designed to match a proportion of the Scheme's inflation exposure.

iv. Unanticipated improvements in the longevity of members leading to an increase in the Scheme's liabilities.

NOTES TO THE ACCOUNTS (CONTINUED)

26. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Assets

The Scheme's investment strategy, with a significant proportion of the assets invested in liability driven investments (consisting of index-linked government and corporate bonds and swaps), is expected to reduce the volatility of the difference between the market value of the assets and the IAS 19 liabilities.

Disaggregation of assets

	31 Dec 2019	31 Dec 2018
	%	%
Equities	**3**	9
Index-linked bonds	**45**	32
Corporate and other bonds	**14**	20
Cash and other	**7**	6
Swaps	**7**	8
Pensioner buy-in insurance contract	**24**	25
	100	100

The majority of the Scheme's investments are in quoted assets, with the exception of the liability matching assets classified as 'Swaps' and reinsurance assets included in 'Cash and other', where a proportion of these will be invested in unquoted assets and 'Buy in'.

Scheme investment strategy

The Trustees set the investment strategy for the DB Section taking into account considerations such as the strength of the employer covenant, the long-term liabilities of the DB Section and the funding agreed with the Employer.

The Scheme's investment strategy had been to sought to reduce investment risk over time, within an agreed 'journey plan' that anticipates a managed transition to assets that carry lower risk albeit with expectations of lower investment returns. This transition would occur when the funding level met pre-agreed de-risking levels. The investment objective of the Defined Benefit ('DB') Section was to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the DB Section payable under the Trust Deed and Rules as they fall due.

During 2018, the Trustees agreed to implement a long term, lower risk portfolio targeting a return of gilts + 1% pa. It was agreed that this portfolio should incorporate Secure Income Assets, Diversified Return Seeking Assets and Long Term Credit. The Trustees also agreed to implement a buy-in policy, the size of which was carefully considered and positioned in the context of the Scheme's investment objective.

As part of these changes the Trustees agreed that the investment objectives for the DB Section should be:

- To achieve a return on the Scheme's assets that is consistent with the long-term assumptions in determining the funding of the Scheme, whilst at the same time balancing risk.
- To aim for the assets to exceed the liabilities as determined in the event of the Scheme winding up on the basis of cash equivalent transfer values.
- To minimise the requirement for the Society to make further deficit recovery plan contributions.

The investment strategy is set out in its Statement of Investment Principles (SIP). The new strategy is to hold:

- A range of instruments that provide a better match both to changes in liability values and expected cash flows, including (but not limited to) gilts, corporate bonds, derivatives, secure income assets and insurance policies.
- A diversified range of return-seeking assets, including (but not limited to) equities, corporate bonds, reinsurance and secure income assets, which may be provided through a multi-asset diversified growth fund.
- Passive and actively managed portfolios as appropriate, following consideration of efficiency, liquidity and level of transaction costs likely to prevail within each market as well as the impact of the investment managers' fees on future expected returns.

NOTES TO THE ACCOUNTS (CONTINUED)

26. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Summary of assumptions

	31 Dec 2019	31 Dec 2018
	% pa	% pa
Retail Prices index (RPI) Inflation	3.15	3.40
Consumer price index (CPI) inflation	2.25	2.40
Discount rate	1.90	2.70
Rate of increase in pay	1.05	1.25
	Above CPI	Above CPI
Rate of increase of pensions in payment*		
in line with RPI, subject to a min of 3% and a max of 5% pa	3.75	3.80
in line with RPI, subject to a min of 0% and a max of 5% pa	2.95	3.10
in line with RPI, subject to a min of 0% and a max of 2.5% pa	1.90	2.00
in line with CPI, subject to a min of 0% and a max of 3% pa	1.90	2.00

The most significant non-financial assumption is the assumed rate of longevity. The assumptions made are equivalent to the following life expectancies for scheme members at age 60:

	2019	2018
	Years	Years
For a current 60 year old male	28.3	28.4
For a current 60 year old female	29.7	29.7
For a current 45 year old male	29.7	29.9
For a current 45 year old female	31.1	31.3

Reconciliation of funded status

	31 Dec 2019	31 Dec 2018
	£m	£m
Present value of defined benefit obligation	(897.2)	(815.9)
Assets at fair value	983.6	891.8
Funded status/defined benefit asset	86.4	75.9

* Term dependent inflationary increases have been adopted to reflect expected inflation in each future year. Illustrative inflationary assumptions have been provided which have been calculated to reflect the broad profile of the Society's pension obligations.

NOTES TO THE ACCOUNTS (CONTINUED)

26. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Statement of comprehensive income (SCI)

	2019	2018
	£m	£m
Cumulative actuarial gains recognised at 1 January	**22.4**	41.5
Gain/(Loss) due on change in financial assumptions	**(107.7)**	48.4
Gain/(Loss) due to demographic assumptions	**9.9**	5.7
(Loss) / Gain due to experience	**3.2**	(1.8)
(Loss) / Gain due to investment return different from return implead by discount rate	**103.0**	(71.4)
Total actuarial (loss) / gain recognised in SCI	**8.4**	(19.1)
Cumulative actuarial gains recognised at 31 December	**30.8**	22.4

The actuarial loss due to change in Financial assumptions is the result of a c£140m increase in liabilities due to the 80bps fall in the discount rate, This is offset by inflation reduction which reduces liabilities c£30 million.

Components of pension expense as shown in the Income Statement

	2019	2018
	£m	£m
Past Service cost – plan amendments	**0.0**	1.7
Administrative expenses	**1.5**	2.3
Interest on net defined benefit surplus	**(2.1)**	(2.3)
Total pension expense	**(0.6)**	1.7

Past service cost 2018 is in relation to GMP equalisation.

Reconciliation of present value of defined benefit obligation

	2019	2018
	£m	£m
Present value of defined benefit obligation at 1 January	**815.9**	899.1
Past service cost – plan amendments for GMP	**0.0**	1.7
Administrative expenses	**1.5**	2.3
Interest cost	**21.5**	20.9
Actuarial gain/(loss)	**94.6**	(52.3)
Defined benefit actual benefits paid	**(36.3)**	(55.8)
Present value of defined benefit obligation at 31 December	**897.2**	815.9

NOTES TO THE ACCOUNTS (CONTINUED)

26. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Movement in defined benefit fair value of assets

	2019	2018
	£m	£m
Fair value of assets at 1 January	891.8	994.3
Interest income on scheme assets	23.6	23.2
Return on plan assets (less) / greater than discount rate	103.0	(71.4)
Defined benefit actual Society contributions	1.5	1.5
Defined benefit actual benefits and costs paid	(34.3)	(53.5)
Admin costs paid	(2.0)	(2.3)
Fair value of plan assets at 31 December	983.6	891.8

Changes in market conditions generate an actuarial gain (increase in liabilities) and a return on plan greater than discount rate (increase in assets) which broadly offset.

Defined benefit actual contributions paid wholly relate to contributions made by the Society.

Sensitivities

The IAS19 liability measurement and the service cost are sensitive to the assumptions made about future inflation and salary growth levels, as well as the assumptions made about life expectation. They are also sensitive to the discount rate, which depends on market yields on Sterling-denominated high quality corporate bonds. A decrease in corporate bond yields will increase the liabilities although this will be partially offset by an increase in matching assets.

The table below shows the sensitivity of the defined benefit obligation and Scheme assets to changes in these assumptions. The final assumptions are chosen by the Society.

Principal Sensitivity Illustrations

	Defined benefit obligation	Assets	Net effect
	£m	£m	£m
Total as at 31 December 2019	(897.2)	983.6	86.4
Change in defined benefit obligation / assets given the following change of assumption;			
Discount Rate[1]: 1.00% decrease	(206.3)	237.0	31.0
Salary Escalation: 0.75% increase	(7.6)	–	(7.6)
Inflation[2]: 0.50% increase	(43.1)	51.1	8.0
Life Expectancy: 1 year average increase	(35.9)	9.5	(26.4)

The asset liability matching strategy implemented for the Scheme means that a change in discount rate or inflation assumption has a broadly similar impact on the liabilities and the assets, reducing the volatility of the net impact. It should be noted that this strategy is based on liabilities on the self-sufficiency basis, i.e. higher liabilities than on an accounting basis. As such, on an accounting basis, for the sensitivities above, the assets increase by more than the liabilities, resulting in an improvement in the accounting balance sheet position.

1 The change in the discount rate is assumed to be equivalent to a 1% decrease in gilt, swap and credit based interest rates.
2 The sensitivity illustrations above are calculated changing each assumption in isolation, keeping all other assumptions constant. In practice this is unrealistic as it ignores the impact from correlation between assumptions.

NOTES TO THE ACCOUNTS (CONTINUED)

27. OTHER LIABILITIES

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Accruals and deferred income	**38.0**	44.1	**36.7**	41.6
Finance Lease Liabilities	**45.0**	–	**45.0**	–
Other	**13.3**	10.0	**13.0**	10.0
At 31 December 2019	**96.3**	54.1	**94.7**	51.6

The lease liabilities are secured by the related underlying assets. The underlying maturity analysis of lease liabilities at 31 December 2019 for the Group is as follows:

	Buildings Lease payments	Finance charges	NPV	Vehicles Lease payments	Finance charges	NPV
	£m	£m	**£m**	£m	£m	£m
Within 1 year	5.6	0.9	**4.7**	0.2	0.0	0.2
1-2 years	5.2	0.8	**4.4**	0.2	0.0	0.2
2-3 years	4.6	0.7	**3.9**	0.2	0.0	0.2
3-4 years	3.6	0.7	**3.0**	0.2	0.0	0.2
4-5 years	3.1	0.6	**2.5**	0.0	0.0	0.0
5-10 years	11.9	2.3	**9.7**	0.0	0.0	0.0
10-15 years	9.9	1.3	**8.6**	0.0	0.0	0.0
Over 15 years	8.4	1.0	**7.4**	0.0	0.0	0.0
Total at 31 Dec 2019	**52.4**	**8.3**	**44.2**	**0.8**	**0.0**	**0.8**

The Group has elected not to recognize a lease liability for short term leases and leases of low value assets which consist entirely of printing equipment. Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of the lease liability has been £0.5m during 2019. At 31 December 2019 the Group was committed to short term leases and the total commitment at that date was £0.5m.

NOTES TO THE ACCOUNTS (CONTINUED)

28. PROVISIONS FOR LIABILITIES AND CHARGES

Movements in provisions during the year were as follows:

Group	Customer redress	Restructuring	Property related provision	FSCS levy	Other	Total
	£m	£m	£m	£m	£m	£m
2019						
At 1 January 2019	**14.9**	**13.9**	**5.3**	**0.5**	**0.8**	**35.4**
Amounts utilised during the year	**(9.6)**	**(11.4)**	**(0.3)**	**(0.6)**	**0.0**	**(21.9)**
Provision (release)/charge during the year	**0.5**	**0.5**	**(1.0)**	**0.1**	**(0.5)**	**(0.4)**
(Release)/charge on transition to IFRS 16	**–**	**–**	**(2.0)**	**–**	**–**	**(2.0)**
At 31 December 2019	**5.8**	**3.0**	**2.0**	**0.0**	**0.3**	**11.1**
2018						
At 1 January 2018	24.9	9.2	8.1	2.5	1.1	45.8
Amounts utilised during the year	(8.7)	(5.8)	(1.6)	(1.1)	(0.1)	(17.3)
Provision charge during the year	(1.3)	10.5	(1.2)	(0.9)	(0.2)	6.9
At 31 December 2018	14.9	13.9	5.3	0.5	0.8	35.4

Society	Customer redress	Restructuring	Property related provision	FSCS levy	Other	Total
	£m	£m	£m	£m	£m	£m
2019						
At 1 January 2019	**14.9**	**13.9**	**5.3**	**0.5**	**0.8**	**35.4**
Amounts utilised during the year	**(9.6)**	**(11.4)**	**(0.3)**	**(0.6)**	**0.0**	**(21.9)**
Provision (release) / charge during the year	**0.5**	**0.5**	**(1.0)**	**0.1**	**(0.5)**	**(0.4)**
(Release)/charge on transition to IFRS 16	**–**	**–**	**(2.0)**	**–**	**–**	**(2.0)**
At 31 December 2019	**5.8**	**3.0**	**2.0**	**0.0**	**0.3**	**11.1**
2018						
At 1 January 2018	24.8	9.2	8.1	2.5	1.1	45.7
Amounts utilised during the year	(8.7)	(5.8)	(1.6)	(1.1)	(0.1)	(17.3)
Provision charge during the year	(1.2)	10.5	(1.2)	(0.9)	(0.2)	7.0
At 31 December 2018	14.9	13.9	5.3	0.5	0.8	35.4

NOTES TO THE ACCOUNTS (CONTINUED)

28. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Customer redress

Provisions have been made in respect of various potential customer claims and represent management's best estimate of the likely costs. The largest provision of £4.7m (2018: £12.6m) relates to sales of Payment Protection Insurance (PPI) and is calculated using management's estimate of complaint volumes, referral levels to the Financial Ombudsman Service (FOS), claim rates upheld internally and by FOS, redress payments and complaint handling costs. The provision reflects the Financial Conduct Authority's (FCA) finalised guidance (CP18/33) on how firms should handle complaints about regular premium payment protection insurance (PPI) in light of recurring non-disclosure(s) of the existence of, or level of, commission and/or profit share.

Restructuring

A restructuring provision of £3.0m (2018: £13.9m) is held in relation to business and organisational changes announced during 2019 and earlier periods. The majority of the restructuring costs are due to be paid in 2020.

Property related provision

A property related provision of £2.0m (2018: £5.3m) is held in respect of onerous leases for branch premises that are no longer in use. This will be utilised over the remaining term of the unoccupied leasehold branches.

29. SUBORDINATED LIABILITIES

Group and Society	2019	2018
	£m	£m
6⅜% Subordinated Bonds 2024	4.1	4.1
4⅛% Subordinated Bonds 2024	–	250.6
13½% Convertible Tier 2 Capital Notes 2025	26.4	26.3
3⅜% Subordinated Bonds 2028	300.6	300.3
3% Senior Non-Preferred Bonds 2025	280.0	–
Fair value hedging adjustments	15.3	3.8
	626.4	585.1

All subordinated liabilities are denominated in Sterling. The following notes are repayable at the dates stated or earlier at the option of the Society and with the prior consent of the PRA under the following conditions:

- Redemption of all (but not some only) of the 3⅜% Notes at par on 13 September 2027 after giving not less than thirty nor more than sixty days' notice to the holders. In the event the Society does not redeem the notes on 13 September 2027 the fixed rate of interest will become the sum of the six month mid-swap rate plus 2.3175%.
- Redemption of all (but not some only) of the 13½% Convertible Tier 2 Capital Notes will occur on 1 April 2025 unless the notes are converted to Profit Participating Deferred Shares (PPDS). The 'Conversion Trigger' shall occur if on any Calculation Date the Society's Common Equity Tier 1 Capital Ratio, as confirmed in a report of the auditor to the Society and addressed to the Board of Directors of the Society, is less than 5%. Should the Conversion Trigger occur on the 13½% Convertible Notes and these notes convert into PPDS, the PPDS will be perpetual in nature.
- Redemption of all (but not some only) of the 3% Notes at par on 18 April 2024 after giving not less than thirty nor more than sixty days' notice to the holders. In the event the Society does not redeem the notes on 18 April 2024 the fixed rate of interest will become the sum of the yield on the relevant 1-year UK gilt-edged reference bond plus 2.15%.
- The 4⅛% Notes were redeemed at par on 20 November 2019.

The rights of repayment of the holders of subordinated liabilities are subordinated to the claims of all depositors, creditors and members holding shares in the Society, as regards the principal of their shares and interest due on them.

NOTES TO THE ACCOUNTS (CONTINUED)

30. SUBSCRIBED CAPITAL

Group and Society	2019	2018
	£m	£m
5.649% Permanent Interest Bearing Shares	0.0	6.1
	0.0	6.1

In March 2019, the Society exercised its option to repay the 5.649% Permanent Interest Bearing Shares (PIBS). The PIBS were repaid in full. PIBS were unsecured and denominated in sterling.

31. CAPITAL MANAGEMENT

The Society is subject to regulatory capital requirements enforced in the United Kingdom (UK) by the Prudential Regulation Authority (PRA). Regulatory capital resources include general reserves, fair value through other comprehensive income reserves and subordinated liabilities; these are subject to regulatory adjustments and IFRS9 transitional arrangements. MREL resources such as Secondary Non-Preferential Liabilities (SNP) are not included as part of regulatory capital, but have been disclosed to show the impact on resources.

The Society has complied with the PRA's regulatory capital requirements during the year, further details of the Society's capital position can be found in the 2019 Pillar 3 Disclosures. The ratios, deductions and definitions below are in accordance with CRD IV regulations.

	2019	2018
	£m	£m
Tier 1		
Common Equity Tier 1 (CET1)		
General reserve	2,644.9	2,518.5
Fair value through other comprehensive income reserve	7.5	6.2
Cash flow hedge reserve	(0.5)	(1.8)
Common Equity Tier 1 prior to regulatory adjustments	**2,651.9**	2,522.9
Common Equity Tier 1 regulatory adjustments		
IFRS 9 transitional arrangements[1]	0.0	0.4
Pension fund adjustments[2]	(64.8)	(56.9)
Intangible fixed assets[3]	(35.9)	(39.8)
Prudent valuation adjustment[4]	(3.2)	(2.3)
Cash flow hedge reserve[5]	0.5	1.8
Low rated securitisations[6]	0.0	(3.2)
Total Common Equity Tier 1 capital	**2,548.5**	2,422.9

1 Following the implementation of IFRS 9, any increase in impairment provisions may be added back to CET1 capital resources on a reducing basis, over five years. As at December 2019, 85% of the increase in provisions is added back to CET1.
2 CRD IV requires a pension fund surplus, net of any associated deferred tax liabilities, to be deducted from CET1 capital. CRD IV does not permit a pension fund deficit to be added back to regulatory capital.
3 CRD IV requires intangible fixed assets, net of any associated deferred tax liabilities, to be deducted from CET1.
4 A regulatory deduction applied to CET1 capital as calculated in accordance with Article 105 of the CRR. The purpose of the Prudential Valuation Adjustment is to ensure that the valuation of financial instruments for capital reporting is at the more conservative end of any range of plausible valuations.
5 The cash flow hedge reserve does not form part of regulatory capital, net of associated deferred tax.
6 Under CRD IV, low rated securitisations can either be deducted from CET1 resources, or risk weighted at 1,250%.

NOTES TO THE ACCOUNTS (CONTINUED)

31. CAPITAL MANAGEMENT (CONTINUED)

	2019	2018
	£m	£m
Additional Tier 1 Capital (AT1)		
Subscribed Capital[7]	**0.0**	2.5
Total Tier 1 Capital	**2,548.5**	2,425.4
Tier 2		
Subordinated liabilities[8]	**342.0**	585.1
Total Tier 2 Capital	**342.0**	585.1
Total capital	**2,890.5**	3,010.5
MREL Resources		
SNP[10]	**283.9**	–
Tier 2 MREL Eligible	**0.5**	–
Total MREL Resources	**3,174.9**	3,010.5
Risk weighted assets (unaudited)	**15,380.1**	14,841.3
Common Equity Tier 1 capital ratio (unaudited)	**16.6%**	16.3%
Tier 1 ratio (unaudited)	**16.6%**	16.3%
Total capital ratio (unaudited)	**18.8%**	20.3%
Total MREL Resources ratio (unaudited)	**20.6%**	20.3%
CRR Leverage ratio (unaudited)	**5.5%**	5.4%
UK Leverage ratio (excluding claims on central banks)[10] (unaudited)	**5.8%**	5.8%

The Executive Risk Committee reviews the Group's capital position and regulatory developments under CRD IV.

For a detailed analysis of the Group's capital position and disclosures please refer to the Pillar 3 Disclosure for 2019 which can be found on our website **ybs.co.uk**

[7] Under CRD IV, subscribed capital is being phased out as qualifying for regulatory Tier 1 capital over a ten year period. In March 2019, the Society executed the call option for the remaining outstanding PIBS.
[8] Subordinated liabilities with less than five years to maturity are adjusted for amortisation in the regulatory capital value of instruments.
[9] In April 2019, the Society conducted a Liability Management Exercise (LME) inviting holders of the Society's £250m 4.12% Tier 2 to exchange any and all of their securities for cash.
[10] In April 2019, the Society issued £275m of Secondary Non-Preferential Liabilities. The issuance of Secondary Non-Preferential Liabilities will contribute to meeting forthcoming Minimum Requirements for Own Funds and Eligible Liabilities (MREL).
[11] This ratio is based on the calculation as stipulated in PS21/17. Currently, this calculation does not apply to the Society, although PRA rules concerning the leverage ratio come into effect in 2021.

NOTES TO THE ACCOUNTS (CONTINUED)

32. FINANCIAL COMMITMENTS

	Group and Society	
	2019	2018
	£m	£m
Committed undrawn standby facilities	**421.0**	383.1

The Society has an obligation under the Building Societies Act 1986 to discharge the liabilities incurred up to 11 June 1996 of all subsidiaries in so far as those subsidiaries are unable to discharge the liabilities out of their own assets. The Society has given undertakings whereby it has agreed to discharge the liabilities incurred after 11 June 1996 by certain subsidiaries, in the event that these subsidiaries are unable to discharge them out of their own assets. In addition, the Society guarantees certain Accord mortgage buyback obligations regarding the Group's securitisation entities (discussed in Note 35) in the event that Accord is unable to discharge these obligations.

The Society accounts for these guarantees in accordance with IFRS 4 'Insurance Contracts'.

Future minimum lease payments under non-cancellable operating leases are as follows:

Group and Society	2019		2018	
	Land and buildings	**IT Equipment**	Land and buildings	IT Equipment
	£m	**£m**	£m	£m
Within one year	**–**	**0.1**	5.0	0.4
Between one and five years	**–**	**–**	15.9	0.1
Over five years	**–**	**–**	4.6	–
	–	**0.1**	25.5	0.5

Following the implementation of IFRS 16 at the beginning of 2019, the distinction between finance and operating leases was eliminated and a lessee recognises all of the leases on the Balance Sheet as Right-of-Use assets and corresponding lease liabilities which are initially recognised as the present value of the minimum lease payments at inception of the lease. Rent payable on finance leases is apportioned between the finance element, charged to the Income Statement, and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Note 1 details the impact of the new standard and leads to a lease liability of £46.5m for leased properties that were previously held via operating leases.

The difference between the operating lease commitments at 31 December 2018 and the IFRS 16 lease liability on transition is due to the 2018 operating lease commitments being calculated as the minimum lease payment commitments, and the IFRS 16 lease liability is measured using the expected lease payments over the non cancellable lease term plus available options to terminate the lease.

NOTES TO THE ACCOUNTS (CONTINUED)

33. FINANCIAL INSTRUMENTS

The table below summarises the main non-derivative financial instruments, their significant terms and conditions and the accounting treatment adopted.

Financial instrument	Significant terms and conditions	Accounting treatment
Cash in hand and balances with the Bank of England	Cash balances and statutory deposits with variable and non-interest bearing interest rates	Amortised cost
Loans and advances to credit institutions	Fixed and variable interest rates	Originated under a hold to collect business model and recognised at amortised cost.
Debt securities	Fixed, variable and indexed linked interest rates	Held at fair value through other comprehensive income.
Loans and advances to customers	Primarily mortgage products offering a variety of fixed and variable interest rates	Amortised cost*
Intercompany deposit from Covered Bond Limited Liability Partnerships	Fixed and variable interest rates	Amortised cost
Investments	Share and loan investments in subsidiary companies Investments in equities	Cost/Amortised cost Fair value through profit and loss
Shares	Deposits made by individuals with a variety of fixed and variable interest rates	Amortised cost
Amounts owed to credit institutions	Primarily Time Deposits	Amortised cost
Debt securities in issue	Fixed and variable interest rates	Amortised cost*
Subordinated liabilities	Fixed interest rates	Amortised cost*
Subscribed capital	Fixed interest rates	Amortised cost*

34. DERIVATIVE FINANCIAL INSTRUMENTS

Instruments used for the management of market risk include derivative financial instruments (derivatives) which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

Derivatives are only used by the Group in accordance with the Building Societies Act 1986. This means that such instruments are not used in trading activity or for speculative purposes and are only used to reduce the risk of loss on core assets or liabilities arising from changes in interest rates, currency rates or other factors of a prescribed description.

The principal derivatives used in balance sheet risk management are interest rate swaps, interest rate options, cross currency interest rate swaps and foreign exchange contracts. These are used to hedge Group exposures arising from fixed rate mortgage lending and savings products, funding and investment activities.

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the type of derivatives which are typically used in managing such risks after considering any offsetting risk from other activities.

* Except where hedge accounting allows a fair value adjustment to be made for interest rate risk.

NOTES TO THE ACCOUNTS (CONTINUED)

34. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Activity	Risk	Type of hedge
Management of the investment of reserves and other net non-interest bearing liabilities	Sensitivity to changes in interest rates	Interest rate swaps
Fixed rate savings products and debt issuance	Sensitivity to changes in interest rates	Interest rate swaps
Fixed rate mortgage lending	Sensitivity to changes in interest rates	Interest rate swaps
Management of the interest basis risk arising from differences in the underlying pricing basis of assets and liabilities	Sensitivity to changes in relationships between interest rate basis	Interest rate swaps
Equity linked investment products	Sensitivity to changes in equity indices	Equity linked interest rate swaps
Management of foreign currency risk arising from investment and funding	Sensitivity to changes in foreign exchange rates	Cross currency interest rate swaps and foreign exchange contracts

The Group's objective is to manage risk within its risk tolerance, irrespective of the accounting treatment.

Whilst all derivatives have been entered into for hedging purposes, only certain ones have been designated as such for accounting purposes. In some cases a natural offset can be achieved without applying the hedge accounting requirements of IAS 39. The Group only designates accounting hedges where a high degree of effectiveness can be achieved.

The following table shows the balance sheet categories covered by hedge accounting relationships:

Hedge Relationship	Balance Sheet Line Item
Fair value hedge for interest rate risk	
Fixed rate mortgages Fixed rate debt securities held Fixed rate debt securities issued	Loans and advances to customers Liquid assets – Debt securities Debt securities in issue
Fair value hedge for interest rate and FX risk	
Fixed rate debt securities issued	Debt securities in issue
Cash flow hedge for interest rate risk	
Floating rate liquid assets Floating rate deposits	Liquid assets – Loans and advances to credit institutions Amounts owed to credit institutions

Interest rate risk on fixed rate mortgages and purchased debt securities (fair value hedge)

The Group holds portfolios of long-term fixed rate mortgages and debt securities. These portfolios expose the Group to changes in fair value due to movements in market interest rates. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term fixed rate mortgages arising solely from changes in SONIA (the benchmark rate of interest). Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the hedged item attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

NOTES TO THE ACCOUNTS (CONTINUED)

34. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk on fixed mortgages and purchased debt securities (fair value hedge) (continued)

Possible sources of ineffectiveness are as follows:

(i) differences between the expected and actual volume of prepayments for mortgage portfolios, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;

(ii) difference in timing of cash flows between the mortgage loans and the hedging interest rate swaps;

(iii) difference in the designated coupon rate % of the hedged asset and the hedging derivative; and

(iv) hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument.

The exposure from the mortgage portfolio frequently changes due to new loans being originated, contractual repayments and early prepayments made by customers in each period. As a result, the Group adopts a portfolio hedging strategy to hedge the exposure by closing and entering into new swap agreements. The Group uses the portfolio fair value hedge of interest rate risk to recognise fair value changes related to changes in interest rate risk in the mortgage portfolio, and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone. This hedge relationship is updated on a monthly basis for changes in the portfolio.

Foreign Exchange and Interest rate risk on fixed rate debt issuance (fair value hedge)

The Group accesses international markets in order to obtain effective sources of funding. As part of this process, the Group issues fixed rate debt in both GBP and EUR. The foreign currency and interest rate risk associated with the EUR debt is mitigated by the use of cross currency swaps, which exchange fixed interest payments in the foreign currency for floating interest payments in GBP. The interest rate risk associated with the GBP debt is mitigated by the use of interest rate swaps which exchange fixed interest payments with variable payments. These instruments are entered into to match the maturity profile of the Group's debt instruments.

The foreign currency risk component is determined as the change in cash flows of the foreign currency debt arising solely from changes in the relevant foreign currency exchange rate. The interest rate risk component is determined as the change in fair value of the debt arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the debt attributable to changes in the hedged risk(s) with changes in the fair value of the hedging derivatives.

Possible sources of ineffectiveness are as follows:

(i) differences in discounting approach between the hedged item and hedging instrument, including the cross currency basis spread applied in the valuation of cross currency swaps;

(ii) hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument;

(iii) difference in the designated coupon rate % of the hedged liability and the hedging derivative; and

(iv) counterparty credit risk which impacts the value of uncollateralised cross currency swaps but not the hedged items.

Interest rate risk on floating rate deposits and investments (cash flow hedge)

Historically, the Group have transacted interest rate swaps to mitigate the interest rate risk between its fixed rate assets and liabilities and those which pay or receive a floating rate of interest. Cash flow hedges were designated where interest rate swaps are used to convert the interest rate variability on floating rate financial instruments into fixed rates.

In 2019, all remaining cash flow hedges were terminated as ineffective. There are currently no plans to designate further cash flow hedges but the group will maintain the option to do so in future should this help to effectively manage risk.

Ineffectiveness has been recognised in the financial statements in 2019 up to the point of termination, primarily relating to the tear up of swaps. Other sources of ineffectiveness can include:

(i) differences in the floating rate basis of interest between the hedged item and hedging instrument;

(ii) hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument; and

(iii) difference in the designated fixed coupon rate % of the hedged item and the hedging derivative;

Ineffectiveness

All ineffectiveness is recorded in the income statement classification titled Net gains from fair value volatility on financial instruments. The following table shows the ineffectiveness in relation to the hedging relationships designated by the Group. The primary sources of ineffectiveness in the year relate to foreign currency basis on our treasury assets with further losses relating to the unwind of gains from prior years.

NOTES TO THE ACCOUNTS (CONTINUED)

34. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	2019	2018
	£m	£m
Fair value hedges		
Fixed rate mortgages	**2.0**	(4.8)
Fixed rate debt securities held	**(0.6)**	3.2
Fixed rate debt securities issued	**(10.7)**	0.7
Cash flow hedges		
Floating rate debt securities issued	**(1.8)**	0.7
Floating rate loans	**–**	–
Total	**(11.1)**	(0.2)

The following tables summarise the notional and fair value of all derivative financial instruments and the hedging designations in place at that date. The change in fair value used for calculating ineffectiveness is based on all derivatives held during the year.

	Contract/ Notional amount	Fair values		Change in fair value used for calculating ineffectiveness
		Assets	Liabilities	
	£m	£m	£m	£m
Group				
At 31 December 2019				
Interest rate swaps designated as fair value hedges	**21,673.9**	**52.0**	**158.0**	**(93.1)**
Interest rate swaps designated as cash flow hedges	**–**	**–**	**–**	**–**
Cross currency interest rate swaps designated as fair value hedges	**3,190.9**	**278.7**	**25.4**	**(8.7)**
Derivatives not designated as hedges:				
Interest rate swaps	**9,909.7**	**34.4**	**47.4**	**n/a**
Equity linked interest rate swaps	**–**	**–**	**–**	**n/a**
Foreign exchange	**50.9**	**2.5**	**–**	**n/a**
Total derivative financial instruments	**34,825.4**	**367.6**	**230.8**	**(101.8)**
Society				
At 31 December 2019				
Interest rate swaps designated as fair value hedges	**21,673.9**	**52.0**	**158.0**	**(93.1)**
Interest rate swaps designated as cash flow hedges	**–**	**–**	**–**	**(0.1)**
Cross currency interest rate swaps designated as fair value hedges	**1,063.6**	**108.1**	**19.8**	**(11.7)**
Derivatives not designated as hedges:				
Interest rate swaps	**23,880.7**	**58.0**	**54.6**	**n/a**
Equity linked interest rate swaps	**–**	**–**	**–**	**n/a**
Foreign exchange	**50.9**	**2.5**	**–**	**n/a**
Total derivative financial instruments	**46,669.1**	**220.6**	**232.4**	**(104.9)**

The Society table above includes transactions between Group subsidiaries which are eliminated in the Group accounts.

NOTES TO THE ACCOUNTS (CONTINUED)

34. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

For collateralised derivatives, the expected future cash flows have been discounted using the Overnight Indexed Swap (OIS) curve, and for non-collateralised derivatives the LIBOR curve has been used for discounting. Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA) are incorporated into the fair value of derivative valuations to reflect the impact of counterparty credit risk and the Group's own credit quality respectively for uncollateralised derivatives.

Credit risk on derivative exposures is significantly mitigated within the Group by the existence of a Credit Support Annex (CSA) with the vast majority of our derivative counterparties. Under a CSA, cash is passed between parties to mitigate the counterparty risk inherent in the outstanding positions. Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within amounts owed to credit institutions. Where cash collateral is given, it is included as an asset in loans and advances to credit institutions. Credit risk is also mitigated by the use of central counterparties (CCPs) for eligible derivatives.

	Contract/ Notional amount	Fair values		Change in fair value used for calculating ineffectiveness
		Assets	Liabilities	
	£m	£m	£m	£m
Group				
At 31 December 2018				
Interest rate swaps designated as fair value hedges	21,996.0	68.3	55.7	(25.0)
Interest rate swaps designated as cash flow hedges	45.0	–	3.2	3.2
Cross currency interest rate swaps designated as fair value hedges	3,446.3	452.7	–	11.3
Derivatives not designated as hedges:				
Interest rate swaps	9,953.0	35.8	38.7	n/a
Equity linked interest rate swaps	34.2	7.6	–	n/a
Foreign exchange	28.7	–	0.2	n/a
Total derivative financial instruments	35,503.2	564.4	97.8	(10.5)
Society				
At 31 December 2018				
Interest rate swaps designated as fair value hedges	21,996.0	68.3	55.7	(25.0)
Interest rate swaps designated as cash flow hedges	45.0	–	3.2	3.2
Cross currency interest rate swaps designated as fair value hedges	1,656.0	192.5	–	11.6
Derivatives not designated as hedges:				
Interest rate swaps	23,045.8	62.1	64.9	n/a
Equity linked interest rate swaps	34.2	7.6	–	n/a
Foreign exchange	28.7	–	0.2	n/a
Total derivative financial instruments	46,805.7	330.5	124.0	(10.2)

NOTES TO THE ACCOUNTS (CONTINUED)

34. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The following tables show the maturity profile of the hedging instruments designated in hedge relationships by notional used in the Group's hedging strategies:

	Repayable up to three years	In more than three years but not more than five years	Over five years	Total
	£m	£m	£m	£m
Group				
As at 31 December 2019				
Interest rate swaps (pay fixed)	**12,416.7**	**6,435.0**	**1,016.1**	**19,867.8**
Interest rate swaps (receive fixed)	**–**	**700.5**	**1,105.6**	**1,806.1**
Cross currency interest rate swaps	**1,914.5**	**1,276.4**	**–**	**3,190.9**
Total Fair value hedges	**14,331.2**	**8,411.9**	**2,121.7**	**24,864.8**
Interest rate swaps (pay fixed)	**–**	**–**	**–**	**–**
Interest rate swaps (receive fixed)	**–**	**–**	**–**	**–**
Total Cash flow hedges	**–**	**–**	**–**	**–**

The notional for cross currency interest rate swaps in the table above is greater than the exposure detailed in the hedged item table as for certain hedged items multiple swaps are transacted in order to separately mitigate different components of the risk. The Society hedge relationships are consistent with above except for cross currency interest rate swaps where there is an additional £1.8bn of swap notional (2018: £1.8bn).

	Repayable up to three years	In more than three years but not more than five years	Over five years	Total
	£m	£m	£m	£m
Group				
As at 31 December 2018				
Interest rate swaps (pay fixed)	13,325.0	5,559.7	1,058.1	19,942.8
Interest rate swaps (receive fixed)	500.1	447.5	1,105.6	2,053.2
Cross currency interest rate swaps	1,432.2	2,014.1	–	3,446.3
Total Fair value hedges	15,257.3	8,021.3	2,163.7	25,442.3
Interest rate swaps (pay fixed)	–	–	45.0	45.0
Interest rate swaps (receive fixed)	–	–	–	–
Total Cash flow hedges	–	–	45.0	45.0

NOTES TO THE ACCOUNTS (CONTINUED)

34. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the average price/rate of the hedging instruments by maturity used in the Group's hedging strategies:

	2019			2018		
	Repayable up to three years	In more than three years but not more than five years	Over five years	Repayable up to three years	In more than three years but not more than five years	Over five years
Group and Society						
Average fixed interest rate – Fair value hedges						
Interest rate swaps (pay fixed)	**0.76**	**1.00**	**0.99**	0.69	0.91	1.20
Interest rate swaps (receive fixed)	**–**	**0.88**	**1.80**	1.80	0.88	1.81
Cross currency interest rate swaps	**0.97**	**0.21**	**–**	1.34	0.72	–
Average fixed interest rate – Cash flow hedges						
Interest rate swaps (pay fixed)	**–**	**–**	**–**	–	–	2.18
Interest rate swaps (receive fixed)	**–**	**–**	**–**	–	–	–
Average EUR:GBP FX rate – Fair value hedges						
Cross currency interest rate swaps	**1.35**	**1.15**	**–**	1.26	1.28	–

The following tables show the fair value hedge exposures covered by the Group's hedging strategies. The change in fair value of the hedged item for calculating ineffectiveness is based on all hedge relationships designated during the year.

	Carrying amount of hedged item		Accumulated fair value adjustments on the hedged item		Change in fair value of the hedged item for calculating ineffectiveness
	Assets	Liabilities	Assets	Liabilities	
	£m	£m	£m	£m	£m
Group					
At 31 December 2019					
Fixed rate mortgages (interest rate risk)	**18,624.3**	**–**	**86.1**	**–**	**104.0**
Fixed rate debt securities held (interest rate risk)	**1,392.3**	**–**	**29.2**	**–**	**20.4**
Fixed rate debt securities issued (interest rate risk)	**–**	**999.3**	**–**	**(11.4)**	**(27.0)**
Fixed rate debt securities issued (interest rate and FX risk)	**–**	**3,206.1**	**–**	**(32.3)**	**(4.9)**
Society					
At 31 December 2019					
Fixed rate mortgages (interest rate risk)	**18,624.3**	**–**	**86.1**	**–**	**104.0**
Fixed rate debt securities held (interest rate risk)	**1,392.3**	**–**	**29.2**	**–**	**20.4**
Fixed rate debt securities issued (interest rate risk)	**–**	**999.3**	**–**	**(11.4)**	**(27.0)**
Fixed rate debt securities issued (interest rate and FX risk)	**–**	**1,072.8**	**–**	**(10.3)**	**1.6**

NOTES TO THE ACCOUNTS (CONTINUED)

34. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	Carrying amount of hedged item		Accumulated fair value adjustments on the hedged item		Change in fair value of the hedged item for calculating ineffectiveness
	Assets	Liabilities	Assets	Liabilities	
	£m	£m	£m	£m	£m
Group					
At 31 December 2018					
Fixed rate mortgages (interest rate risk)	18,957.3	–	(18.0)	–	2.5
Fixed rate debt securities held (interest rate risk)	1,185.3	–	8.7	–	10.5
Fixed rate debt securities issued (interest rate risk)	–	969.7	–	(1.8)	9.4
Fixed rate debt securities issued (interest rate and FX risk)	–	3,471.0	–	(24.8)	(9.6)
Society					
At 31 December 2018					
Fixed rate mortgages (interest rate risk)	18,957.3	–	(18.0)	–	2.5
Fixed rate debt securities held (interest rate risk)	1,185.3	–	8.7	–	10.5
Fixed rate debt securities issued (interest rate risk)	–	969.7	–	(1.8)	9.4
Fixed rate debt securities issued (interest rate and FX risk)	–	1,674.7	–	(10.0)	(6.5)

The accumulated amount of fair value hedge adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses is £113.3m (2018: (£35.3m)).

The following tables show the cash flow hedge exposures (gross of tax) covered by the Group's hedging strategies:

	Assets	Liabilities	Change in fair value of hedged item used for calculating ineffectiveness	Cash flow hedge reserve	
				Continuing hedges	Dis(continued) dges
	£m	£m	£m	£m	£m
Group and Society					
At 31 December 2019					
Floating rate debt securities issued	**–**	**–**	**(1.7)**	**–**	**0.7**
Floating rate loans	**–**	**–**	**–**	**–**	**–**
Group & Society					
At 31 December 2018					
Floating rate debt securities issued	–	45.0	(2.5)	0.9	1.5
Floating rate loans	–	–	–	–	–

NOTES TO THE ACCOUNTS (CONTINUED)

34. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the movements in the cash flow hedge reserve during the year:

	2019	2018
	£m	£m
Group and Society		
At 1 January	**(1.7)**	(3.6)
Effective portion of changes in fair value of interest rate swaps		
Floating rate debt securities issued	**(0.2)**	(0.2)
Floating rate loans	**–**	–
Amounts reclassified from reserves to Income Statement		
Floating rate debt securities issued	**1.8**	2.7
Floating rate loans	**–**	–
Taxation	**(0.4)**	(0.6)
At 31 December	**(0.5)**	(1.7)

Gains/(losses) reclassified into P&L are either recorded within interest receivable or interest payable dependent on the nature of the hedged item. During 2019 & 2018, no amounts have been reclassified to the P&L as a result of a re-assessment of whether hedged future cash flows are no longer expected to occur.

35. LIQUIDITY RISK

Liquidity risk is an intrinsic part of the Group's business as long-term mortgages are funded by short-term retail customer balances. Most mortgages have a contractual maturity date of around 25 years but in practice are frequently repaid early; currently the estimated average life of a mortgage is approximately five years. Conversely, experience shows that retail deposits, nominally repayable on demand or with short notice periods, actually remain with the Society for relatively long periods. It is this inherent mismatch in the maturity profiles of retail assets and liabilities that creates liquidity risk.

The Group's liquidity management policy is designed to ensure the maintenance of adequate investments in liquid assets to cover statutory, regulatory and operational requirements. The primary function of liquidity is the provision of sufficient assets in realisable form to ensure the Group is able to meet its liabilities as they arise and to absorb potential cash flow requirements created by the maturity mismatches referred to above or by a liquidity stress scenario.

The Group's liquidity management comprises the following key areas:

- At the highest level, the Group manages its liquidity levels to ensure compliance with the Overall Liquidity Adequacy Rule, as set out by the PRA in Chapter 2 of the Internal Liquidity Adequacy Assessment part of the PRA Rulebook (ILAA rules).
- Limits are established by the Board that govern the quantity, quality and marketability of and returns from the Group's portfolio of liquidity investments. The portfolio is managed by the Treasury function, monitored by the first and second line risk functions and overseen by the Asset and Liability Committee (ALCO) under a series of delegated authorities.
- The Group conducts a series of daily stress tests that are designed to ensure that its liquidity is sufficient to meet its cash flow needs under any one of a number of adverse scenarios should they arise. The scenarios include ones caused by both Group specific and general market events, and incorporate both severe retail savings outflows and the unavailability of wholesale funding. They are constructed on various timescales as far out as three months. These scenarios are updated and approved by the Board annually through the Internal Liquidity Adequacy Assessment Process (ILAAP).
- The Group also manages liquidity in line with prevailing regulatory requirements, which has been the Liquidity Coverage Ratio (LCR) as prescribed under the European Capital Requirements Directive IV (CRD IV) as part of the Capital Requirements Regulation (CRR) element, since 1 October 2015. The LCR measures the quantity of High Quality Liquid Assets (HQLA) against net liquidity outflows over a 30 day period. YBS currently reports to the PRA on a monthly basis at a Group and Society-only level.

NOTES TO THE ACCOUNTS (CONTINUED)

35. LIQUIDITY RISK (CONTINUED)

- The Group has also implemented internal backstop limits for liquidity, to mitigate the potential risk of liquidity levels under a risk-based approach being able to be reduced to below what is considered a minimum appropriate level for the Group. These are linked to balance sheet size, and also take account of sources of contingent liquidity, including the ability of the Group to access funding through the various Bank of England facilities.
- The liquidity position of the Group is forecast across the next two years and measured against forecasts of the requirements on both a regulatory and internal basis. This is to ensure that the short-term plans of the Group do not lead to liquidity limits being breached and the financial sustainability of the organisation being threatened.

The above metrics are the key elements of the suite of measures by which the Group actively seeks to manage its liquidity position, along with other complimentary metrics which are included within the Group's risk appetite framework.

Liquidity risk in subsidiary companies, with the exception of other deposits, is mitigated by the use of appropriate intercompany loans and deposits.

Pledged assets

The Group's asset backed funding programmes, reported within debt securities in issue (see Note 25) are secured against certain loans and advances to customers.

In addition, as part of its liquidity management, the Group enters into sale and repurchase agreements whereby the Group sells but agrees to repurchase assets at a future date. Typically this is for up to three months and for UK government securities and listed transferable debt securities. Proceeds of these sale and repurchase agreements are included within amounts owed to credit institutions (see Note 23).

Assets pledged are as follows:

	Carrying amounts of encumbered assets	Carrying amounts of unencumbered assets	Total
	£m	£m	£m
2019			
Liquid assets	**1,308.8**	**4,293.5**	**5,602.3**
Loans and advances to customers	**10,282.6**	**27,701.8**	**37,984.4**
Other assets	**–**	**691.2**	**691.2**
Total assets	**11,591.4**	**32,686.5**	**44,277.9**

	Carrying amounts of encumbered assets	Carrying amounts of unencumbered assets	Total
	£m	£m	£m
2018			
Liquid assets	1,144.2	4,360.5	5,504.7
Loans and advances to customers	9,127.8	27,574.6	36,702.4
Other assets	–	847.6	847.6
Total assets	10,272.0	32,782.7	43,054.7

NOTES TO THE ACCOUNTS (CONTINUED)

35. LIQUIDITY RISK (CONTINUED)

All of the assets pledged as security are shown in the Statement of Financial Position as the Group has retained substantially all the risk and rewards of ownership.

The Society established Yorkshire Building Society Covered Bonds LLP in November 2006. The LLP provides security for issues of covered bonds made by the Society to external counterparties. As at 31 December 2019 the Society had in issue £1,250m and €2,500m of covered bonds.

The Group established its first securitisation programme in 2011. This year the latest securitisation structure, Brass No.8 PLC was established and in September 2019 issued £1,240m and $316m of listed debt securities secured against certain loans of Accord Mortgages Ltd. Of these debt securities, £1,000m were retained by the Group to be used as collateral for use in sale and repurchase agreements or central bank operations. As at 31 December 2019, the Group had in issue £6,646m of listed securitisation notes, of which £5,550m were retained.

Whole mortgage loan pools are pre-positioned at the Bank of England under the Funding for Lending Scheme (FLS) and the Term Funding Scheme (TFS). The whole loan pool is pledged and drawings are made directly against the eligible collateral. However, values shown are the whole mortgage loan pool balances.

The tables below provide an analysis of gross contractual cashflows. The sum of the balances depicted in the analysis do not reconcile with the carrying value of the liabilities as disclosed in the consolidated statement of financial position. This is because they include estimated future interest payments calculated using balances outstanding at the balance sheet date. Amounts are allocated to the relevant maturity band based on the timing of individual contractual cashflows.

	Repayable on demand and up to three months	In more than three months but not more than one year	In more than one year but not more than five years	Over five years	Total
	£m	£m	£m	£m	£m
Group					
As at 31 December 2019					
Shares	**19,323.9**	**7,143.2**	**4,227.1**	**0.7**	**30,694.9**
Amounts owed to credit institutions	**404.5**	**16.3**	**2,921.6**	**–**	**3,342.5**
Other deposits					
Society	**154.6**	**88.8**	**–**	**–**	**243.4**
Subsidiaries	**342.3**	**–**	**–**	**–**	**342.3**
Debt securities in issue	**151.2**	**482.1**	**5,258.4**	**428.0**	**6,319.7**
Subordinated liabilities	**–**	**22.1**	**367.2**	**369.6**	**758.9**
Subscribed capital*	**–**	**–**	**–**	**–**	**–**
Operating lease payments	**–**	**0.1**	**–**	**–**	**0.1**
Derivative financial liabilities	**9.6**	**49.0**	**167.1**	**21.1**	**246.8**
Total	**20,386.1**	**7,801.6**	**12,941.5**	**819.4**	**41,948.6**

* The table includes interest payments on subscribed capital for 10 years.

NOTES TO THE ACCOUNTS (CONTINUED)

35. LIQUIDITY RISK (CONTINUED)

	Repayable on demand and up to three months	In more than three months but not more than one year	In more than one year but not more than five years	Over five years	Total
	£m	£m	£m	£m	£m
Group					
As at 31 December 2018					
Shares	17,769.7	7,300.7	4,518.2	0.4	29,589.0
Amounts owed to credit institutions	997.5	598.4	2,943.5	–	4,539.4
Other deposits					
Society	125.7	70.1	–	–	195.8
Subsidiaries	312.9	–	–	–	312.9
Debt securities in issue	565.4	123.2	4,259.1	442.0	5,389.7
Subordinated liabilities	–	24.1	96.6	647.6	768.3
Subscribed capital*	0.2	0.2	1.3	1.7	3.4
Operating lease payments	–	5.4	16.0	4.6	26.0
Derivative financial liabilities	15.5	34.5	104.2	2.9	157.1
Total	19,786.9	8,156.6	11,938.9	1,099.2	40,981.6

* The table includes interest payments on subscribed capital for 10 years.

NOTES TO THE ACCOUNTS (CONTINUED)

35. LIQUIDITY RISK (CONTINUED)

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings, based on the remaining period between the date of the Statement of Financial Position and the contractual maturity date.

	Repayable on demand	Less than three months	In more than three months but not more than one year	In more than one year but not more than five years	Over five years	Total
	£m	£m	£m	£m	£m	£m
Group						
As at 31 December 2019						
Financial assets						
Cash in hand and balances with the Bank of England	2,528.1	–	–	–	–	2,528.1
Loans and advances to credit institutions	526.0	–	–	–	–	526.0
Debt securities	–	82.6	274.8	1,230.6	960.1	2,548.1
Loans and advances to customers	–	41.0	68.6	1,145.9	36,728.9	37,984.4
Derivatives financial instruments	–	0.6	65.1	269.4	32.5	367.6
Total financial assets	3,054.1	124.2	408.5	2,645.9	37,721.5	43,954.2
Financial liabilities						
Shares	16,590.8	2,715.5	7,143.2	4,227.1	0.7	30,677.3
Amounts owed to credit institutions	119.7	269.9	10.0	2,905.4	–	3,305.0
Other deposits	350.6	125.5	108.5	–	–	584.6
Debt securities in issue	–	90.4	465.7	4,057.4	1,421.3	6,034.8
Derivative financial liabilities	–	0.8	11.0	168.4	50.6	230.8
Subordinated liabilities	–	–	–	–	626.4	626.4
Subscribed capital	–	–	–	–	–	–
Total financial liabilities	17,061.1	3,202.1	7,738.4	11,358.3	2,099.0	41,458.9

[1] Exposures are measured and reported equivalent to those under CRR 575/2013: Part Four.

NOTES TO THE ACCOUNTS (CONTINUED)

35. LIQUIDITY RISK (CONTINUED)

	Repayable on demand	Less than three months	In more than three months but not more than one year	In more than one year but not more than five years	Over five years	Total
	£m	£m	£m	£m	£m	£m
Group						
As at 31 December 2018						
Financial assets						
Cash in hand and balances with the Bank of England	3,539.8	–	–	–	–	3,539.8
Loans and advances to credit institutions	294.6	–	–	–	–	294.6
Debt securities	–	–	–	642.1	1,028.2	1,670.3
Loans and advances to customers	–	42.3	77.6	1,055.3	35,527.2	36,702.4
Derivatives financial instruments	–	55.8	13.2	483.6	11.8	564.4
Investments	–	–	–	–	6.8	6.8
Total financial assets	3,834.4	98.1	90.8	2,181.0	36,574.0	42,778.3
Financial liabilities						
Shares	16,146.8	1,592.5	7,300.7	4,518.2	0.4	29,558.6
Amounts owed to credit institutions	206.4	793.0	580.3	2,905.4	–	4,485.1
Other deposits	321.9	116.9	69.8	–	–	508.6
Debt securities in issue	–	547.3	–	3,443.3	1,155.3	5,145.9
Derivative financial liabilities	–	6.9	1.7	59.6	29.6	97.8
Subordinated liabilities	–	–	–	–	585.1	585.1
Subscribed capital	–	–	–	–	6.1	6.1
Total financial liabilities	16,675.1	3,056.6	7,952.5	10,926.5	1,776.5	40,387.2

[1] Country risk exposures for structured and RMBS are based on the country of origination for the asset.

NOTES TO THE ACCOUNTS (CONTINUED)

36. MARKET RISK

Market risk is the risk to earnings and capital arising from changes in interest rates, foreign currency exchange rates, structural mismatches within the Statements of Financial Position and the price of financial instruments.

Value at Risk (VaR)

VaR is a risk management tool which evaluates the potential losses that may be incurred as a result of movements in market conditions over a specified holding period and to a given level of confidence. The model used is based on a 10 day holding period and a 99% confidence level.

The VaR model calculates potential movements in market prices by reference to market data from the last 252 days and incorporates underlying risk factors based on historic interest rate volatilities and correlations.

VaR for the Treasury portfolios is calculated and reported on a daily basis and for the Group on a monthly basis. A back test of the VaR model is performed to test the validity of the assumptions and parameters within the model.

A number of limitations should be considered in relation to the VaR model:

1. Historic data is not necessarily a good guide to future events.
2. The model, by definition, does not capture potential losses outside the 99% confidence level, i.e. those events that are extreme in nature.
3. VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intra-day exposures.

VaR measures below are based upon Treasury positions.

Structural risk analysis (basis risk)

An analysis of interest bearing items by rate type is performed to illustrate key areas of structural mismatch. It identifies mismatches between administered rates, fixed rates and other rates including those linked to Bank Base Rate, SONIA and LIBOR. The effect of LIBOR and SONIA mismatches within the Balance Sheet is measured as the impact on net interest income (for a 12 month rolling period) of an isolated increase in LIBOR/SONIA of one basis point (0.01%). A one basis sensitivity measure is an industry standard approach to quantify the quantum and direction of the interest rate exposure within the Group.

Basis Point value (BP) sensitivity

These measures calculate the change in value of the assets and liabilities resulting from both a one basis point (PV01) and 250 basis points (PV250) parallel upward shift in interest rates. Within the Treasury portfolio this is calculated and reported on a daily basis separately for each currency and at the full Statement of Financial Position level on a monthly basis. The PV250 measure aligns with the latest BCBS standards.

Repricing gap analysis

Repricing dates are analysed primarily to avoid repricing risk concentrations, i.e. the situation where too great a proportion of the Group's assets and liabilities see the interest rates earned or charged on them resetting within a given time period. The aim is to prevent excessive volatility in the net interest margin that could arise if rates shifted adversely within a given time period, and since the Group cannot dictate interest rate movements themselves, the best approach is to limit the amount of assets or liabilities that are exposed in this way. The analysis identifies the net asset/liability repricing position across a series of time intervals. Positions are calculated using nominal amounts and exclude interest flows. General reserves, fixed assets and other liabilities are classified as having 'non-specific' repricing characteristics with a zero rate of interest. The measure is calculated as a reverse cumulative gap. The repricing gap is prepared on a cumulative basis i.e. the greater than one year category includes all balances greater than one year.

NOTES TO THE ACCOUNTS (CONTINUED)

36. MARKET RISK (CONTINUED)

Repricing gap analysis (continued)

All market risk is managed in the Society on behalf of the Group, hence the tables below apply to the Group. With respect to LIBOR reform risk, the Society's remaining LIBOR position is not material and is being managed down in line with regulatory expectations As such, the Society has not adopted the proposed amendments to accounting standards to allow reliefs for the effects of LIBOR reform.

	Year end	Average	Maximum	Minimum
	£000	£000	£000	£000
2019				
LIBOR basis	**100**	**70**	**100**	**54**
SONIA basis	**1,281**	**1,429**	**1,569**	**1,281**
PV01 sensitivity	**178**	**307**	**462**	**176**
PV250 sensitivity	**40,920**	**71,732**	**107,909**	**40,920**
Treasury VaR	**3,490**	**2,133**	**3,423**	**1,002**

	Greater than one year	Greater than five years	Greater than 10 years
	£m	£m	£m
Repricing gap	**1,567**	**(159)**	**(12)**

	Year end	Average	Maximum	Minimum
	£000	£000	£000	£000
2018				
LIBOR basis	54	33	54	1
SONIA basis	1,484	1,413	1,527	1,258
PV01 sensitivity	140	(85)	140	(263)
PV250 sensitivity	33,150	(20,087)	33,150	(61,879)
Treasury VaR	2,980	4,633	8,559	1,499

	Greater than one year	Greater than five years	Greater than 10 years
	£m	£m	£m
Repricing gap	407	(108)	(2)

Details of how the Group manages its interest rate risk is included in the Risk Management Report on pages 87 to 94.

NOTES TO THE ACCOUNTS (CONTINUED)

37. CURRENCY RISK

Currency exchange risk is monitored daily and the Group seeks to minimise its net exposure to assets and liabilities denominated in currencies other than Sterling. In particular the Group's existing non-Sterling Liquidity portfolio and Wholesale Funding exposures are swapped back into Sterling. Maximum positions throughout the year represented less than 0.01% of total assets.

Actual exposures were:

	2019	2018
	£m	£m
Year end	**1.0**	1.6
Maximum	**1.3**	1.6

38. WHOLESALE CREDIT RISK

The Group's wholesale credit risk arises principally from assets held for liquidity purposes. The risk is that counterparties with whom the Group invests liquid assets fail to repay those investments when they fall due. The Group, through the Treasury function, undertakes its own internal rating of all its counterparties and sets individual limits accordingly. These limits are regularly reviewed internally and against the external rating agencies, with revocation or suspension taking place where considered appropriate.

Limits are in place governing the types of instrument in which the Group will invest, as well as geographic limits designed to prevent over-exposure to a given country.

The Group uses an internal credit ratings process to identify potential risks and wholesale related credit risks are reported and discussed monthly at the Asset and Liability Committee.

Whilst recognising that exposures will be maintained across a spectrum of counterparties the Board has maintained a low risk appetite for wholesale credit risk resulting in our inter-bank exposures being limited to operational requirements. A diversified range of counterparties is in place to meet business and regulatory requirements in order to meet the Board approved strategies with no credit risk exposures being undertaken by Treasury to counterparties that have not been through an internal approvals process including a formal second LoD function.

NOTES TO THE ACCOUNTS (CONTINUED)

38. WHOLESALE CREDIT RISK (CONTINUED)

The following tables break down wholesale Group exposures[1] by type using the composite external ratings[2].

	Aaa-Aa3	A1-A3	Baa1-Baa3	Ba1-B3	Caa1-C3	Unrated	Total
	£m	£m	£m	£m	£m	£m	£m
2019							
Central Bank and Sovereigns	**5,468.3**	**–**	**–**	**–**	**–**	**–**	**5,468.3**
Financial Institutions	**1,237.4**	**361.0**	**31.9**	**–**	**–**	**–**	**1,630.3**
Multilateral & Government Development Banks	**775.9**	**–**	**–**	**–**	**–**	**–**	**775.9**
Structured	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**7,481.6**	**361.0**	**31.9**	**–**	**–**	**–**	**7,874.5**

	Aaa-Aa3	A1-A3	Baa1-Baa3	Ba1-B3	Caa1-C3	Unrated	Total
	£m	£m	£m	£m	£m	£m	£m
2018							
Central Bank and Sovereigns	6,412.4	–	–	–	–	–	6,412.4
Financial Institutions	629.2	558.4	6.8	–	–	–	1,194.4
Multilateral & Government Development Banks	414.2	–	–	–	–	–	414.2
Structured	0.4	–	–	–	3.1	–	3.5
Other	–	–	–	–	–	–	–
Total	7,456.2	558.4	6.8	–	3.1	–	8,024.5

1 Exposures are measured and reported equivalent to those under CRR 575/2013: Part Four.
2 The composite rating is derived from an average external rating.

NOTES TO THE ACCOUNTS (CONTINUED)

38. WHOLESALE CREDIT RISK (CONTINUED)

The Group has a low risk appetite to exposures[1] outside the UK. This is reflected in the country exposures[1] by type shown in the tables below.

	Central Banks and Sovereigns	Financial Institutions	Multilateral & Government Development Banks	Structured	Other	Total
2019	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
United Kingdom	**5,468.3**	**1,486.1**	–	–	–	**6,954.4**
France	–	**88.1**	–	–	–	**88.1**
United States	–	**25.4**	–	–	–	**25.4**
Germany	–	–	**322.7**	–	–	**322.7**
International	–	–	**389.4**	–	–	**389.4**
Switzerland	–	–	–	–	–	–
Canada	–	**20.0**	–	–	–	**20.0**
Australia	–	–	–	–	–	–
Netherlands	–	–	**63.8**	–	–	**63.8**
Belgium	–	**10.7**	–	–	–	**10.7**
Cayman Islands	–	–	–	–	–	–
Total	**5,468.3**	**1,630.3**	**775.9**	–	–	**7,874.5**

	Central Banks and Sovereigns	Financial Institutions	Multilateral & Government Development Banks	Structured	Other	Total
2018	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
United Kingdom	6,412.4	995.6	–	–	–	7,408.0
France	–	123.1	–	–	–	123.1
United States	–	45.2	–	–	–	45.2
Germany	–	–	219.4	–	–	219.4
International	–	–	194.8	–	–	194.8
Switzerland	–	2.0	–	–	–	2.0
Canada	–	20.0	–	–	–	20.0
Australia	–	0.1	–	–	–	0.1
Netherlands	–	–	–	0.4	–	0.4
Denmark	–	–	–	–	–	–
Spain	–	–	–	–	–	–
Belgium	–	8.4	–	–	–	8.4
Cayman Islands	–	–	–	3.1	–	3.1
Total	6,412.4	1,194.4	414.2	3.5	–	8,024.5

[1] Country risk exposures for structured and RMBS are based on the country of origination for the asset

NOTES TO THE ACCOUNTS (CONTINUED)

38. WHOLESALE CREDIT RISK (CONTINUED)

The Group's main Sovereign exposure is to the UK which had an average external rating of 'AA'. At the year end, UK Sovereign exposure was £4,588.6m (2018: £5,592.4m) to the Bank of England and £879.7m (2018: £820.0m) in UK Government bonds. The largest exposure to a single institution (other than the UK Government) was £282.8m (2018: £299.3m) in both instances to a UK clearing bank (Rated A+).

None of the wholesale exposures is either past due or impaired and there are no assets that would otherwise be past due or impaired whose terms have been renegotiated.

The key trigger events used to evaluate impairments are set out in Note 1 on pages 135 to 136.

Wholesale credit risk is recorded in the following Statement of Financial Position as below and represents the group's maximum exposure to credit risk:

	2019	2018
	£m	£m
Cash in hand and balances with the Bank of England	**2,528.0**	3,539.8
Loans and advances to credit institutions	**526.0**	294.6
Debt securities	**2,548.2**	1,670.3
Derivative financial instruments	**345.3**	564.4
Investments	**9.6**	6.8
Total wholesale credit risk	**5,957.1**	6,075.9

Debt securities, which are shown after fair value and impairment adjustments, can be further analysed as:

	2019	2018
	£m	£m
UK Government securities	**879.7**	820.0
Financial institutions	**1,668.5**	846.8
Structured	**–**	3.5
Other	**–**	–
	2,548.2	1,670.3

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS

The Group's exposure to credit risk on loans and advances to customers can be broken down as follows:

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Retail mortgages	**36,804.1**	35,650.0	**13,157.8**	14,401.3
Commercial lending	**1,178.0**	1,183.0	**1,176.0**	1,180.9
Unsecured lending	**0.1**	1.1	**0.1**	1.1
Total gross exposure (contractual amounts)	**37,982.2**	36,834.1	**14,333.9**	15,583.3
Impairment, fair value, EIR and hedging adjustments	**2.2**	(131.7)	**(45.5)**	(168.8)
Total net exposure	**37,984.4**	36,702.4	**14,288.4**	15,414.5

Lending by type

	2019	2018
	%	%
Residential Prime	**85.3**	85.2
Residential Sub-Prime/Self-Cert	**0.9**	1.4
Retail Buy-To-Let	**10.7**	10.2
Social Housing	**0.8**	0.7
Commercial lending (exc. Social Housing)	**2.3**	2.5
	100.0	100.0

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

CREDIT RISK MANAGEMENT

The Retail and Commercial Credit Risk section of the Risk Management Report describes how the Group manages credit risk via a robust risk appetite, credit risk framework, governance framework and through stress testing.

The Group's exposure to mortgage related credit risk is monitored closely by the Customer and Commercial Risk team. Reporting on risk exposures is provided regularly to the Group's risk committees and includes analysis of mortgages in arrears as well as monitoring of the characteristics of the loan portfolios (e.g. geographic location and loan-to-value).

Arrears Status	2019		2018	
	Retail	**Commercial**	Retail	Commercial
	%	**%**	%	%
No arrears	**97.8**	**98.6**	97.7	98.8
Less than three months	**1.9**	**1.2**	2.0	1.1
Equal to or more than three months, less than six months	**0.2**	**0.1**	0.2	–
Equal to or more than six months, less than twelve months	**0.1**	**–**	0.1	–
Twelve months or more	**–**	**–**	–	–
In possession/collections	**–**	**0.1**	–	0.1
Total gross exposure (contractual amounts)	**100.0**	**100.0**	100.0	100.0
Number of properties in possession at the year end	**63**	**4**	85	5

The percentage of retail mortgages with arrears of three months or more (as a % of outstanding balances, including possessions) has risen during 2019 from 0.38% to 0.41%. The UK Finance industry average ratio for mortgage arrears is measured using the number of accounts (including possessions). On this basis, the Group's retail mortgage arrears ratio of 0.56% (2018: 0.50%) is below the comparable UK Finance ratio 0.75% (Q4 2019, Q4 2018: 0.80%). Arrears on more recent lending are minimal, reflecting the Group's credit risk appetite. The arrears is also lower for the buy-to-let portfolio within retail with an arrears ratio of 0.21% (2018: 0.14%).

Society Retail Arrears Status	Society	
	2019	2018
	%	%
No arrears	**97.3**	97.3
Less than three months	**2.2**	2.3
Equal to or more than three months, less than six months	**0.3**	0.3
Equal to or more than six months, less than twelve months	**0.1**	0.1
Twelve months or more	**–**	–
Property in possession	**0.1**	–
Total	**100.0**	100.0
Number of properties in possession at the year end	**52**	54

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

RETAIL MORTGAGE LENDING

The Group's retail mortgage exposure can be broken down by customer type and geographical region as follows:

Retail Mortgage Customer Type	Book		New Lending	
	2019	2018	**2019**	2018
	%	%	**%**	%
First time buyer	**18.6**	18.4	**19.3**	16.8
Other buyers e.g. movers	**37.2**	37.9	**33.9**	33.1
Remortgage	**33.0**	33.1	**36.0**	41.5
Buy-to-let	**11.1**	10.6	**10.7**	8.6
Other	**0.1**	–	**0.1**	–
	100.0	100.0	**100.0**	100.0

Retail Mortgage Geographical Distribution	Book	
	2019	2018
	%	%
Group		
Scotland	**6.7**	6.6
North East	**3.1**	3.0
Yorkshire & Humberside	**8.9**	8.9
North West	**10.2**	9.8
Midlands	**12.8**	12.4
East	**10.8**	11.0
South West	**7.2**	7.1
Greater London	**19.0**	19.9
South East	**17.4**	17.6
Wales & Northern Ireland	**3.8**	3.6
Non-UK	**0.1**	0.1
	100.0	100.0

The Group's retail mortgages are secured on property. The value of these properties is updated on a quarterly basis using the ONS regional property price indices which comprise relative house price movements across the UK. These indexed valuations provide senior management with a view of the value and risk of the properties on which retail mortgages are secured.

Note: The customer type distribution for new lending is based on year end balances.

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

RETAIL MORTGAGE LENDING (CONTINUED)

Loan-to-value distribution of retail mortgages (including split for new lending)	Book		New Lending	
	2019	2018	**2019**	2018
	%	%	**%**	%
100% or greater	**0.1**	0.1	**–**	–
95 to 100%	**0.2**	0.2	**–**	–
90 to 95%	**2.3**	1.8	**7.3**	5.9
85 to 90%	**5.7**	4.8	**17.2**	15.9
80 to 85%	**8.7**	7.6	**19.0**	16.8
75 to 80%	**8.4**	8.1	**10.0**	10.6
70 to 75%	**10.2**	8.9	**14.4**	13.7
60 to 70%	**17.6**	18.1	**12.9**	15.5
Less than 60%	**46.8**	50.4	**19.2**	21.6
	100.0	100.0	**100.0**	100.0
Average LTV (all retail)	**50.4**	48.4	**71.4**	69.9
Average LTV (buy-to-let)	**57.8**	57.0	**65.2**	63.9

Loan-to-value distribution of retail mortgages (including split for whether impaired)	**2019**		2018	
	Not impaired	**Impaired**	Not impaired	Impaired
	%	**%**	%	%
100% or greater	**0.1**	**–**	0.1	–
95 to 100%	**0.1**	**–**	0.2	–
90 to 95%	**2.1**	**–**	1.7	0.1
85 to 90%	**6.0**	**0.1**	4.7	0.1
80 to 85%	**9.3**	**0.1**	7.5	0.1
75 to 80%	**8.8**	**0.2**	7.9	0.2
70 to 75%	**9.5**	**0.2**	8.7	0.2
60 to 70%	**15.8**	**0.5**	17.6	0.5
Less than 60%	**45.9**	**1.3**	49.0	1.4
	97.6	**2.4**	97.4	2.6

The definition of default includes accounts that are 90 days past due, interest only accounts past term end, certain forbearance measures and other unlikeliness to pay indicators. Full alignment has been achieved between the credit risk and IFRS 9 definitions of default. IFRS 9 requires that, for accounts considered to be credit impaired at the time of business combinations that these loans will continue to be classed as impaired until derecognition. More information about accounts purchased or originated credit impaired (POCI) can be found on pages 207 to 208.

Note: For new lending, the origination loan to value is used, and the distribution is based on year end balances.

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

COMMERCIAL LENDING

In 2019 the Group relaunched commercial lending though the YBS brand, providing loans to commercial owner occupiers and corporate entity landlords of commercial and residential property. The majority of loans are advanced against commercial properties using a vacant possession valuation to mitigate against future losses. Loans against specialist properties are strictly limited and no lending is given against land only.

The valuations of commercial properties are updated on a quarterly basis using MSCI's commercial property price indices based on region and property type. Residential valuations are indexed using the regional ONS house price indices. The indexed valuations are used to assess the risk of loss on individual loans and to monitor whether loan-to-value covenants are met. Where borrowers are more than two months in arrears, consideration is given to obtaining a professional valuation of the property.

	2019	2018
Average Loan to Value (%)	**49.7**	48.6
Average loan size (£m)	**0.3**	0.3
Value of Security held (£m)	**1,901**	2,067
Balance of loans >100% LTV (£m)	**3.8**	3.9
Largest exposure to a single counterparty (£m)	**11.2**	11.8

Only 0.21% of commercial accounts were more than three months in arrears (as a % of outstanding balances, including repossessions) as at the year-end (2018: 0.16%).

Loans monitored on the "watch list" include those where there are circumstances which could impact on the quality and safety of the loan. Examples include borrowers requesting forbearance or reporting trading losses. Loans on the watch list total increased to £44.3m in 2019 (2018: £5.1m) as a result of the increased controls implemented on the watch list. Our appetite and approach to the provision of commercial lending is to provide amortising term loans, typically over 10 – 25 years. We do not provide short-term, interest only facilities which require repayment on expiry through refinance. Where a period of interest only is agreed, it will be for a short period following which the loan will be structured to amortise over the remaining term. Corporate buy-to-let loans are mainly interest only (£339m, 2018: £349m). These loans are continuously monitored to ensure that full repayment is made on the expiry of the loan term.

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

COMMERCIAL LENDING (CONTINUED)

Commercial mortgage balances by geographical region	Book	
	2019	2018
	%	%
Group		
Scotland	**–**	–
North East	**0.8**	0.9
Yorkshire & Humberside	**4.0**	4.1
North West	**4.6**	4.9
Midlands	**7.5**	7.5
East	**4.9**	4.7
South West	**5.2**	5.3
Greater London	**45.5**	45.1
South East	**26.3**	26.1
Wales & Northern Ireland	**1.2**	1.4
Total gross carrying amount	**100.0**	100.0

Commercial mortgage balances by lending type	2019	2018
	%	%
Commercial owner occupied	**13.4**	17.1
Commercial investment property	**46.3**	43.9
Corporate Buy-To-Let	**39.4**	38.1
Social Housing	**0.9**	0.9
	100.0	100.0

In addition to the commercial lending book, the Group has an active business lending to housing associations, in England and Wales, via the Yorkshire Building Society brand, properly known as 'Registered Providers'. This sector has particularly robust credit characteristics and the lending is low risk albeit at low margins. We have an opportunistic approach to attracting new business, within the constraints of the Board's wider risk appetite, and do so when returns and capital efficiency contribute to financial sustainability. At 31 December 2019 the loan book was £315.2m (2018: £265.1m). The Group has written further undrawn term loan facilities in the region of £195m (2018: £169m) and these are expected to draw down over the next three years.

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

IMPAIRMENT

The following table shows as at the year end, all expected credit exposures on loans, both impairment and fair value credit adjustments, as well as a prudent assessment of collateral held against total loans and advances. The collateral is calculated as the lower of the value of the property and the outstanding loan amount. It is not the overall value of properties secured against the loans. The credit fair value adjustment is a reserve generated on the acquisition of loans as part of business combinations that is used to fund future credit losses. Credit fair value adjustments are distinct from impairment provisions as the loss has already been incurred on acquisition, but together they represent the group's total coverage to fund any expected credit losses, and have been disclosed together to aid transparency.

Group balances as at	Gross exposures		Collateral Held	
	31 Dec 19	31 Dec 18	**31 Dec 19**	31 Dec 18
	£m	£m	**£m**	£m
Stage 1	**34,401.2**	31,937.4	**34,399.8**	31,935.3
Stage 2	**2,710.4**	3,933.4	**2,709.0**	3,931.2
Less than 30 days past due	**2,569.0**	3,792.8	**2,567.6**	3,790.7
More than 30 days past due	**141.4**	140.6	**141.4**	140.5
Stage 3	**307.0**	346.2	**306.0**	345.1
Less than 30 days past due	**102.4**	132.7	**102.2**	132.6
30- 90 days past due	**74.7**	96.6	**74.6**	96.3
More than 90 days past due	**129.9**	116.9	**129.2**	116.2
POCI	**563.6**	617.1	**562.6**	614.6
Less than 30 days past due	**491.5**	545.4	**490.7**	544.5
30- 90 days past due	**49.6**	51.1	**49.7**	51.0
More than 90 days past due	**22.5**	20.6	**22.2**	19.1
Total	**37,982.2**	36,834.1	**37,977.4**	36,826.2

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

IMPAIRMENT (CONTINUED)

Group balances as at	Impairment Provision		Credit Fair Value Adjustment	
	31 Dec 19	31 Dec 18	**31 Dec 19**	31 Dec 18
	£m	£m	**£m**	£m
Stage 1	**3.2**	1.7	**0.1**	0.1
Stage 2	**17.3**	21.7	**1.7**	4.9
Less than 30 days past due	**14.8**	19.8	**1.5**	4.5
More than 30 days past due	**2.5**	1.9	**0.2**	0.4
Stage 3	**9.5**	6.7	**5.1**	2.8
Less than 30 days past due	**1.1**	1.0	**0.9**	0.4
30- 90 days past due	**1.4**	0.7	**0.6**	0.5
More than 90 days past due	**7.0**	5.0	**3.6**	1.9
POCI	**0.2**	(1.2)	**28.0**	31.3
Less than 30 days past due	**(0.7)**	(1.4)	**22.9**	25.7
30- 90 days past due	**0.5**	0.2	**2.4**	2.0
More than 90 days past due	**0.4**	0.0	**2.7**	3.6
Total	**30.2**	28.9	**34.9**	39.1

Society balances as at	Gross exposures		Collateral Held	
	31 Dec 19	31 Dec 18	**31 Dec 19**	31 Dec 18
	£m	£m	**£m**	£m
Stage 1	**11,777.7**	12,195.1	**11,777.2**	12,194.4
Stage 2	**1,860.8**	2,620.4	**1,860.2**	2,619.6
Less than 30 days past due	**1,794.7**	2,543.9	**1,794.1**	2,543.1
More than 30 days past due	**66.1**	76.5	**66.1**	76.5
Stage 3	**136.0**	151.5	**135.8**	151.3
Less than 30 days past due	**51.9**	62.0	**51.7**	62.0
30- 90 days past due	**33.3**	43.8	**33.4**	43.7
More than 90 days past due	**50.8**	45.7	**50.7**	45.6
POCI	**559.4**	616.4	**558.3**	614.0
Less than 30 days past due	**490.9**	544.7	**490.1**	543.8
30- 90 days past due	**46.0**	51.1	**46.0**	51.1
More than 90 days past due	**22.5**	20.6	**22.2**	19.1
Total	**14,333.9**	15,583.4	**14,331.5**	15,579.3

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

IMPAIRMENT (CONTINUED)

Society balances as at	Impairment Provision		Credit Fair Value Adjustment	
	31 Dec 19	31 Dec 18	**31 Dec 19**	31 Dec 18
	£m	£m	**£m**	£m
Stage 1	**1.3**	0.8	**0.1**	0.1
Stage 2	**11.3**	14.6	**1.7**	4.9
Less than 30 days past due	**10.1**	13.4	**1.5**	4.5
More than 30 days past due	**1.2**	1.2	**0.2**	0.4
Stage 3	**1.2**	0.6	**5.1**	2.8
Less than 30 days past due	**0.2**	0.1	**0.9**	0.5
30- 90 days past due	**0.1**	0.1	**0.6**	0.4
More than 90 days past due	**0.9**	0.4	**3.6**	1.9
POCI	**0.2**	(1.2)	**28.0**	31.3
Less than 30 days past due	**(0.7)**	(1.4)	**22.9**	25.2
30- 90 days past due	**0.5**	0.2	**2.4**	2.5
More than 90 days past due	**0.4**	0.0	**2.7**	3.6
Total	**14.0**	14.8	**34.9**	39.1

All accounts in stage 1 are less than 30 days past due. Stage 2 balances have reduced as a result of a post model adjustment (PMA); details of the PMA can be found in Note 2.

Assets acquired on the merger with N&P and CBS were recognised at the fair value, this included accounts considered to be purchased or originated credit impaired (POCI) at the point of acquisition. The discount was recognised as a day 1 fair value credit adjustment. On subsequent re-measurement, the recoverable value of POCI assets can rise or fall with changes in expected credit losses. If there is a reduction in expected credit losses, instead of adjusting the fair value discount the IFRS 9 accounting standard requires a negative impairment provision to be recorded.

Risk Assessment

The following tables are included to give an overview of the Group's credit risk. This includes analysis of exposures by 12month probability of default ranges and origination year.

The risk models cover the majority of loans underwritten by the Group, with exceptions for portfolios subject to bespoke modelling requirements including Accord BTL, Registered Social Landlords (RSL), Commercial lending and POCI accounts. These portfolios are shown within the 'Other' line of the tables. The Accord BTL population currently has very strict underwriting criteria and limited behavioural history, with only a single possession to date. Commercial lending has highly different behavioural characteristics to the retail mortgages.

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

IMPAIRMENT (CONTINUED)

Lending by Risk Grade

Group	2019 Stage 1	2019 Stage 2	2019 Stage 3	2019 POCI	2019 Total	2019 Impairment Provision	2019 Credit Fair Value Adjustment	2018 Balance
	£m	£m	£m	£m	£m	£m	£m	£m
PD Band								
0.00% – <0.15%	27,760.5	1,083.4	–	–	28,843.9	1.1	–	27,640.1
0.15% – <0.25%	1,130.1	236.4	–	–	1,366.5	0.6	0.1	1,333.0
0.25% – <0.50%	177.8	78.9	–	–	256.7	0.5	0.1	337.1
0.50% – <0.75%	425.6	304.1	–	–	729.7	1.1	0.2	864.5
0.75% – <1.00%	243.2	209.0	–	–	452.2	1.2	0.2	497.4
1.00% – <2.50%	298.6	337.9	–	–	636.5	4.6	0.5	701.0
2.50% – <10.0%	114.1	202.9	–	–	317.0	4.6	0.5	354.3
10.0% – <100%	17.5	120.7	–	–	138.2	3.8	0.3	149.1
Default	0.2	–	307.0	71.8	379.0	9.8	32.9	970.5
Other	4,233.6	137.1	–	491.8	4,862.5	2.9	0.1	3,987.1
Total	34,401.2	2,710.4	307.0	563.6	37,982.2	30.2	34.9	36,834.1

Society	2019 Stage 1	2019 Stage 2	2019 Stage 3	2019 POCI	2019 Total	2019 Impairment Provision	2019 Credit Fair Value Adjustment	2018 Balance
	£m	£m	£m	£m	£m	£m	£m	£m
PD Band								
0.00% – <0.15%	9,538.2	731.2	–	–	10,269.4	0.3	–	11,540.8
0.15% – <0.25%	525.7	176.6	–	–	702.3	0.4	0.1	648.3
0.25% – <0.50%	99.8	57.8	–	–	157.6	0.3	0.1	197.5
0.50% – <0.75%	227.1	225.6	–	–	452.7	0.9	0.2	481.7
0.75% – <1.00%	112.7	146.8	–	–	259.5	0.9	0.2	250.0
1.00% – <2.50%	136.5	230.3	–	–	366.8	2.8	0.5	339.5
2.50% – <10.0%	39.4	117.8	–	–	157.2	2.4	0.5	150.1
10.0% – <100%	7.7	65.6	–	–	73.3	1.8	0.3	45.9
Default	0.1	–	136.0	71.3	207.4	1.7	32.9	343.4
Other	1,090.5	109.1	–	488.1	1,687.7	2.5	0.1	1,586.2
Total	11,777.7	1,860.8	136.0	559.4	14,333.9	14.0	34.9	15,583.4

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

IMPAIRMENT (CONTINUED)

The table below shows balances and expected credit losses, captured within both impairment provisions and fair value credit adjustments, by origination year for retail loans. The table shows that the credit quality of newly written business is of significantly higher quality than that written before 2009 or acquired as part of business combinations.

Lending by Origination Year

Group	2019 Stage 1	2019 Stage 2	2019 Stage 3	2019 POCI	2019 Balance	2019 ECL	2018 Balance	2018 ECL
	%	%	%	%	£m	£m	£m	£m
Origination year								
2019	**99.8**	**0.2**	**–**	**–**	**7,473.7**	**0.7**	–	–
2018	**99.7**	**0.2**	**0.1**	**–**	**7,936.3**	**1.1**	8,533.3	0.3
2017	**98.6**	**1.1**	**0.3**	**–**	**5,367.9**	**1.9**	7,258.4	0.9
2016	**97.4**	**2.3**	**0.3**	**–**	**3,514.0**	**1.6**	4,197.0	0.6
2013 – 2015	**93.8**	**5.9**	**0.3**	**–**	**6,230.1**	**0.7**	8,075.3	0.4
2009 – 2012	**86.2**	**13.2**	**0.6**	**–**	**1,848.4**	**0.2**	2,245.6	0.4
Pre-2009	**53.8**	**40.1**	**6.1**	**–**	**2,628.9**	**15.1**	3,176.3	14.8
Acquired loans	**50.2**	**28.0**	**3.1**	**18.7**	**2,982.9**	**43.8**	3,348.2	50.6
Total gross carrying amount	**90.5**	**7.1**	**0.9**	**1.5**	**37,982.2**	**65.1**	36,834.1	68.0

Economic Scenarios

As outlined in notes 1 & 2, the economic scenarios are a key input into the calculation of expected credit losses under IFRS 9. The Group use 4 economic scenarios including a stressed scenario. The scenarios are generated internally using external data, statistical methodologies, and senior management judgement, to span a wide range of plausible economic conditions. The core scenario represents the most likely economic forecast and is aligned with the central scenario used in the Group's financial planning processes.

In the determination of upside and downturn scenarios, the group have considered a range of scenarios of varying degrees of severity or optimism. Of these options, the group have elected to use scenarios at the upper and lower bounds of the range deemed reasonable. This decision was taken in order to better capture the significant non-linearities associated with the model; more adverse scenarios effect staging, LGD and PD and generate substantially larger provisions. The stress scenario is aligned to the PRA stress used as part of stress testing. 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. Furthermore, no economic post model adjustments have been applied for low probability scenarios. These have been fully incorporated into the model.

The following table shows the average values of the key economic variables used by economic scenario for the period until December 2024. The table includes the three key parameters used to predict PD – Unemployment, HPI, Bank Rate. GDP is also presented as it is the key input for determining the economic parameters used and provides context to the nature of the overall scenario. The values in the table are calculated as either a simple average of the rate across the 5 year forecasting window (Unemployment and Bank Rate) or as the compound annual growth rate from start to finish (HPI and GDP). For downturn and stress scenarios, a peak to trough or peak forecast rate has been provided where this would aid understanding. The downturn scenario is assumed to have sufficient headroom to provide monetary stimulus so no peak parameters are provided for Bank Rate as these are assumed to fall to zero to stimulate growth. The group monitors the impact of CPI on provisioning, but this continues to be immaterial so no CPI scenarios have been provided.

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

IMPAIRMENT (CONTINUED)

2019	GDP[1] %	HPI[1] %	Unemployment[2] %	Bank Rate[2] %
Upturn	**2.4**	**6.4**	**2.5**	**4.1**
Core	**1.8**	**3.1**	**3.9**	**0.3**
Downturn				
average	**1.2**	**(4.4)**	**6.4**	**0.0**
peak	**(2.0)**	**(21.9)**	**7.1**	**n/a**
Stress				
average	**(0.2)**	**(5.4)**	**7.8**	**3.4**
peak	**(5.0)**	**(32.8)**	**9.2**	**4.0**
Long term average	**2.0**	**3.0**	**5.5**	**2.0**
Weighted average	**1.5**	**0.6**	**4.8**	**1.5**

2018	GDP[1] %	HPI[1] %	Unemployment[2] %	Bank Rate[2] %
Upturn	2.4	6.2	3.0	4.0
Core	2.0	3.2	4.0	1.4
Downturn				
average	0.9	(4.4)	6.8	0.0
peak	(2.9)	(22.2)	7.8	n/a
Stress				
average	(0.2)	(9.2)	8.3	3.8
peak	(1.7)	(38.4)	11.5	4.0
Long term average	–	–	–	–
Weighted average	1.5	0.0	5.2	1.9

The group have made a number of changes to scenarios over the course of the year. Critically, the stress scenario has been fully aligned to the stress testing process. The 2018 stress scenario was intended to model a sustained contraction arising from a disorderly Brexit. The 2019 stress scenario instead considers the impact of a sudden contraction in GDP of 5% with recovery afterwards and is provided to the group by the Bank of England. The upside, core and downside scenarios were determined using fundamentally similar GDP assumptions in each year, with the only substantial difference in the core bank rate, which reflects current market sentiment about the likelihood of future rate cuts.

The group's 2018 scenarios did not include any long term average assumptions. Over the course of 2019, as this has emerged as part of industry best practice, these have been incorporated into the model. These long term averages were determined on historic performance overlaid with senior management judgement where the long term average was deemed inconsistent with current economic conditions. Of these metrics, Unemployment varies furthest from both current experience and long term averages as current unemployment is at historic lows, whilst long term averages vary from 6 – 7.4% depending on the period taken.

[1] Calculated as the compound annual growth rate from start to finish.
[2] Calculated as a simple average of the rate across the 5 year forecasting window.

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

IMPAIRMENT (CONTINUED)

The following table shows the expected credit loss by economic scenario, with the impact of applying multiple economic scenarios giving rise to a 117% increase in provision over that calculated using the core scenario. The total expected credit losses of £65.1m is split between impairment provisions £30.2m and fair value credit adjustments £34.9m. The ECL under each scenario assumes a 100% probability of that scenario occurring allowing the scenario to fully impact staging.

	December 2019		December 2018	
	Weighting	**ECL**	Weighting	ECL
	%	**£m**	%	**£m**
Upside scenario	**20%**	**28.9**	20%	28.6
Core scenario	**40%**	**30.0**	40%	37.0
Downturn scenario	**25%**	**109.7**	25%	94.1
Stress scenario	**15%**	**158.3**	15%	204.7
Probability weighted scenario		**65.1**		68.0

Movement Analysis

The following tables analyse the movements in IFRS 9 gross balances and impairment provision during the year by stage. The changes to carrying value include both contractual and early repayments.

Group	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Gross balance at 31 December 2018	**31,937.4**	**3,933.4**	**346.2**	**617.1**	**36,834.1**
Transfers:					
Transfers from stage 1 to 2	(418.5)	418.5	–	–	–
Transfers from stage 1 to 3	(38.2)	–	38.2	–	–
Transfers from stage 2 to 1	1,021.4	(1,021.4)	–	–	–
Transfers from stage 2 to 3	–	(55.3)	55.3	–	–
Transfers from stage 3 to 1	15.8	–	(15.8)	–	–
Transfers from stage 3 to 2	–	47.0	(47.0)	–	–
Changes to carrying value	(1,293.6)	(145.6)	(5.8)	(3.8)	(1,448.8)
New financial assets originated or purchased	8,018.7	–	–	–	8,018.7
Financial assets derecognised during the period	(4,841.8)	(466.2)	(53.7)	(47.8)	(5,409.5)
Write-offs	–	–	(10.4)	(1.9)	(12.3)
Gross balance at 31 December 2019	**34,401.2**	**2,710.4**	**307.0**	**563.6**	**37,982.2**

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

IMPAIRMENT (CONTINUED)

Movement Analysis (continued)

Society	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Gross balance at 31 December 2018	**12,187.0**	**2,621.8**	**153.0**	**621.6**	**15,583.4**
Transfers:					
Transfers from stage 1 to 2	(251.3)	251.3	–	–	–
Transfers from stage 1 to 3	(13.6)	–	13.6	–	–
Transfers from stage 2 to 1	602.1	(602.1)	–	–	–
Transfers from stage 2 to 3	–	(31.4)	31.4	–	–
Transfers from stage 3 to 1	4.0	–	(4.0)	–	–
Transfers from stage 3 to 2	–	21.0	(21.0)	–	–
Changes to carrying value	(516.5)	(104.1)	(5.2)	(12.5)	(638.3)
New financial assets originated or purchased	1,401.7	–	–	–	1,401.7
Financial assets derecognised during the period	(1,635.7)	(295.7)	(26.6)	(47.8)	(2,005.8)
Write-offs	–	–	(5.2)	(1.9)	(7.1)
Gross balance at 31 December 2019	**11,777.7**	**1,860.8**	**136.0**	**559.4**	**14,333.9**

Group	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Impairment provision at 31 December 2018	**1.7**	**21.7**	**6.7**	**(1.2)**	**28.9**
Transfers:					
Transfers from stage 1 to 2	(0.2)	3.4	–	–	3.2
Transfers from stage 1 to 3	(0.2)	–	1.4	–	1.2
Transfers from stage 2 to 1	0.1	(4.6)	–	–	(4.5)
Transfers from stage 2 to 3	–	(1.1)	1.1	–	–
Transfers from stage 3 to 1	–	–	(0.1)	–	(0.1)
Transfers from stage 3 to 2	–	0.3	(1.0)	–	(0.7)
Changes in PDs/LGDs/EADs	0.4	4.5	(1.5)	0.6	4.0
New financial assets originated or purchased	0.8	–	–	–	0.8
Changes to model assumptions and methodologies	0.8	(6.3)	4.3	(0.5)	(1.7)
Unwind of discount	–	1.1	0.4	1.2	2.7
Financial assets derecognised during the period	(0.2)	(1.7)	(0.4)	0.2	(2.1)
Write-offs	–	–	(1.4)	(0.1)	(1.5)
Impairment provision at 31 December 2019	**3.2**	**17.3**	**9.5**	**0.2**	**30.2**

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

IMPAIRMENT (CONTINUED)

Movement Analysis (continued)

Society	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Impairment provision at 31 December 2018	**0.8**	**14.6**	**0.6**	**(1.2)**	**14.8**
Transfers:					
Transfers from stage 1 to 2	–	3.3	–	–	3.3
Transfers from stage 1 to 3	(0.1)	–	1.5	–	1.4
Transfers from stage 2 to 1	0.1	(3.5)	–	–	(3.4)
Transfers from stage 2 to 3	–	(0.7)	1.1	–	0.4
Transfers from stage 3 to 1	–	–	–	–	–
Transfers from stage 3 to 2	–	–	(1.0)	–	(1.0)
Changes in PDs/LGDs/EADs	0.2	3.9	(2.5)	0.6	2.2
New financial assets originated or purchased	0.1	–	–	–	0.1
Changes to model assumptions and methodologies	0.3	(6.0)	1.8	(0.5)	(4.4)
Unwind of discount	–	0.8	0.1	1.2	2.1
Financial assets derecognised during the period	(0.1)	(1.1)	(0.1)	0.2	(1.1)
Write-offs	–	–	(0.3)	(0.1)	(0.4)
Impairment provision at 31 December 2019	**1.3**	**11.3**	**1.2**	**0.2**	**14.0**

Changes to methodologies and assumptions include a revised approach for loss given default modelling to better model behaviour in a downturn, PMA adjustments to high credit quality stage 2 balances and the incorporation of mean reversion assumptions into economic scenarios. Further information on the stage 2 PMA can be found in Note 2 on page 140.

FORBEARANCE

The Group uses forbearance tools where they are deemed appropriate for an individual customer's circumstances, in line with industry guidance. Forbearance tools, which the Group may offer, include capitalisation, interest only concessions, arrears arrangements and term extensions. The use of account management tools are either fully recognised within provisioning or are low in materiality.

During 2019, the Group has tightened its forbearance classification to only include customers experiencing financial distress prior to the granting of forbearance measures as per guidance from the EBA. The definition now excludes customers with term extensions and also those with arrangements granted whilst the customer was not in arrears.

The table below shows the accounts that are forborne under the new definition (excluding commercial loans). These accounts have been further classified as non-performing forbearance, where an account meets the definition of default at the point it is granted a forbearance measure, and probationary, for accounts that have exited forbearance measures and been re-classed from non-performing. Accounts are captured as probationary for 2 years after reclassification from non-performing. The group has fully aligned its definition of non-performing and Stage 3 such that no accounts in stage 2 are classed as non-performing. Any accounts that were previously in default have a cure period of 12 months, after which they are able to move into stage 2 or 1. Prior year results have been included using the updated definition for comparison.

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

FORBEARANCE (CONTINUED)

2019 (£m)	Arrangements		Other Concessions		Term extension		Interest Only	
	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL
Probation	**97.1**	**1.5**	**2.4**	**0.0**	**4.1**	**0.0**	**0.2**	**0.0**
Stage 1	32.1	0.1	0.2	0.0	0.9	0.0	–	–
Stage 2	65.0	1.4	2.2	0.0	3.2	0.0	0.2	0.0
Non-performing	**226.3**	**11.4**	**10.9**	**0.8**	**8.3**	**0.2**	**0.0**	**0.0**
Stage 3	170.5	7.9	7.1	0.3	3.9	0.0	0.0	0.0
POCI	55.8	3.5	3.7	0.5	4.5	0.2	–	–
Total	**323.5**	**12.9**	**13.3**	**0.8**	**12.4**	**0.2**	**0.2**	**0.0**

2018 (£m)	Arrangements		Other Concessions		Term extension		Interest Only	
	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL
Probation	118.7	1.4	2.6	0.0	5.4	0.1	0.1	0.0
Stage 1	39.3	0.1	0.5	0.0	0.8	0.0	–	–
Stage 2	79.5	1.3	2.0	0.0	4.6	0.1	0.1	0.0
Non-performing	280.3	10.0	10.4	0.8	7.7	0.2	0.2	0.0
Stage 3	210.2	6.2	6.8	0.3	3.5	0.0	0.2	0.0
POCI	70.2	3.8	3.6	0.5	4.3	0.2	–	–
Total	399.1	11.4	13.0	0.8	13.1	0.3	0.3	0.0

All requests for forbearance on commercial loans are subject to full credit risk appraisal and are predominantly for a period of interest only, which allows the borrower to improve income from a trading or rent receipts, or pending the sale of the property. The appraisal process considers the likelihood of a loss being substantiated from any borrower granted a concession and ensures that the concession is in the interests of both the borrower and the Group. In 2019 there were 21 accounts in the commercial loans portfolio subject to forbearance (2018: 0), with a total balance of £3.26m. The significant increase in loans classed as forborne arises from improved controls in the provisions watchlist. There has been no underlying increase in the risk of the portfolio.

POCI

Given the size of the Group's POCI population, further information has been provided below showing current performance of these loans and how they are currently distributed across LTV bands. A substantial proportion of POCI balances, were they not classified as POCI, would transfer to other stages. The table shows that 71.8% (2018: 70.0%) of balances have been fully up to date for the 24 months and only 12.7% (2018: 13.2%) of balances would be classified as in default.

NOTES TO THE ACCOUNTS (CONTINUED)

39. CREDIT RISK ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

POCI (CONTINUED)

	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m
2019				
Balance (£m)	**404.9**	**86.9**	**71.8**	**563.6**
Impairment Provision	**0.2**	**0.3**	**(0.3)**	**0.2**
Credit Fair Value Adjustment	**17.2**	**6.1**	**4.7**	**28.0**
2018				
Balance (£m)	432.1	103.2	81.7	617.1
Impairment Provision	(1.5)	0.2	0.1	(1.2)
Credit Fair Value Adjustment	19.3	6.6	5.4	31.3
2019 LTV Split				
Less than 60%	**61.6%**	**53.1%**	**34.2%**	**56.8%**
From 60% to 70%	**18.7%**	**23.1%**	**28.7%**	**20.6%**
From 70% to 80%	**12.2%**	**13.2%**	**24.0%**	**13.8%**
From 80% to 90%	**5.0%**	**5.9%**	**10.5%**	**5.8%**
90% or greater	**2.6%**	**4.6%**	**2.6%**	**2.9%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Year on year reduction, the levels of impairment provision have changed with changes in our approach to modelling. The incorporation of long term averages into our economic scenarios has particularly reduced expected losses on confirmed fraud cases, all of which are considered to meet the definition of default, whilst other changes like the change to the LGD model have equally impacted all models.

40. FAIR VALUES

Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where external market prices are available they have been used to determine fair value. Otherwise, internal pricing models using external market data have been used. The Group measures fair value using the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE ACCOUNTS (CONTINUED)

40. 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.

Group	Carrying Value	Fair Values			Total Fair Value
		Level 1	Level 2	Level 3	
	£m	£m	£m	£m	£m
At 31 December 2019					
Assets					
Cash and balances with the Bank of England	**2,528.0**	**–**	**2,528.0**	**–**	**2,528.0**
Loans and advances to credit institutions	**526.0**	**–**	**526.0**	**–**	**526.0**
Loans and advances to customers	**37,984.4**	**–**	**–**	**38,286.5**	**38,286.5**
Liabilities					
Shares	**30,677.3**	**–**	**30,672.4**	**–**	**30,672.4**
Amounts due to credit institutions	**3,305.1**	**–**	**3,305.1**	**–**	**3,305.1**
Other deposits	**584.6**	**–**	**584.6**	**–**	**584.6**
Debt securities in issue	**6,034.8**	**5,094.5**	**1,008.1**	**–**	**6,102.5**
Subordinated liabilities	**626.4**	**596.8**	**40.9**	**–**	**637.7**

Society	Carrying Value	Fair Values			Total Fair Value
		Level 1	Level 2	Level 3	
	£m	£m	£m	£m	£m
At 31 December 2019					
Assets					
Cash and balances with the Bank of England	**2,528.0**	**–**	**2,528.0**	**–**	**2,528.0**
Loans and advances to credit institutions	**385.0**	**–**	**385.0**	**–**	**385.0**
Debt securities	**5,364.6**	**–**	**5,545.6**	**–**	**5,545.6**
Loans and advances to customers	**14,288.4**	**–**	**–**	**14,381.7**	**14,381.7**
Liabilities					
Shares	**–**	**–**	**–**	**–**	**–**
Amounts due to credit institutions	**30,677.3**	**–**	**30,672.4**	**–**	**30,672.4**
Other deposits	**3,305.1**	**–**	**3,305.1**	**–**	**3,305.1**
Debt securities in issue	**10,423.1**	**–**	**10,423.1**	**–**	**10,423.1**
Subordinated liabilities	**4,988.7**	**5,094.5**	**–**	**–**	**5,094.5**
Subscribed capital	**626.4**	**596.8**	**40.9**	**–**	**637.7**

NOTES TO THE ACCOUNTS (CONTINUED)

40. FAIR VALUES (CONTINUED)

Group	Carrying Value	Fair Values			Total Fair Value
		Level 1	Level 2	Level 3	
	£m	£m	£m	£m	£m
At 31 December 2018					
Assets					
Cash and balances with the Bank of England	3,539.8	–	3,539.8	–	3,539.8
Loans and advances to credit institutions	294.6	–	294.6	–	294.6
Loans and advances to customers	36,702.4	–	–	37,026.2	37,026.2
Liabilities					
Shares	29,558.6	–	29,555.9	–	29,555.9
Amounts due to credit institutions	4,485.1	–	4,485.1	–	4,485.1
Other deposits	508.6	–	508.6	–	508.6
Debt securities in issue	5,145.9	4,388.0	745.3	–	5,133.3
Subordinated liabilities	585.1	513.3	41.4	–	554.7
Subscribed capital	6.1	–	6.2	–	6.2

Society	Carrying Value	Fair Values			Total Fair Value
		Level 1	Level 2	Level 3	
	£m	£m	£m	£m	£m
At 31 December 2018					
Assets					
Cash and balances with the Bank of England	3,539.8	–	3,539.8	–	3,539.8
Loans and advances to credit institutions	169.1	–	169.1	–	169.1
Debt securities	5,413.4	–	5,357.6	–	5,357.6
Loans and advances to customers	15,414.6	–	–	15,590.4	15,590.4
Liabilities					
Shares	29,558.6	–	29,555.9	–	29,555.9
Amounts due to credit institutions	4,485.1	–	4,485.1	–	4,485.1
Other deposits	8,863.1	–	8,863.1	–	8,863.1
Debt securities in issue	4,398.4	4,388.0	–	–	4,388.0
Subordinated liabilities	585.1	513.3	41.4	–	554.7
Subscribed capital	6.1	–	6.2	–	6.2

NOTES TO THE ACCOUNTS (CONTINUED)

40. FAIR VALUES (CONTINUED)

The fair values of all cash in hand, balances with the Bank of England and loans and advances to credit institutions have been measured at par as they are all due in under one year.

The fair value of loans and advances to customers uses a Level 3 method and is assessed as the value of the expected future cash flows. Future cash flows are projected using contractual interest payments, contractual repayments and the expected prepayment behaviour of borrowers. Prudent assumptions are applied regarding expected levels of customer prepayments and the risk of defaults. The resulting expected future cash flows are discounted at current market rates to determine fair value.

For SVR mortgage products, the interest rate on such products is equivalent to a current market product rate and as such the Group considers the fair value of these mortgages to be equal to their carrying value.

Fixed rate mortgages have been discounted using current market product rates. The difference between book value and fair value results from market rate volatility relative to the fixed rate at inception of the loan; in addition to assumptions applied in relation to redemption profiles, which are regularly reviewed and updated where necessary.

As these redemption profiles are not considered to be observable by the market, then the fair value of loans and advances to customers continues to be a Level 3 valuation technique.

Society exercised its option to fully redeem its subscribed capital during 2019. Further detail provided in Note 30.

Overall the fair value is higher than the carrying value by £302.1m (2018: £323.8m), which arises primarily due to the product rates being above prevailing market rates.

All of the Group's financial liabilities are initially recorded at fair value less directly attributable costs and are subsequently measured at amortised cost, other than derivative financial instruments or where an adjustment is made to certain fixed rate shares balances that are in hedging relationships. The fair value of shares and deposits that are available on demand approximates to the carrying value. The fair value of fixed term shares and deposits is determined from the projected future cash flows from those deposits, discounted at the current market rates. In 2019, the estimated fair value of share balances, using a Level 2 method remains lower than the carrying value by £5.0m (2018: £2.7m).

Society accounts include debt securities and subordinated liabilities classified as level 2. These instruments are calculated using a Level 2 method based on observable market prices. The fair value of subordinated liabilities is higher than carrying value by £11.3m (2018: -£30.4m) and debt securities in issue saw a similar rise of £67.8m (2018: -£12.5m). These movements have arisen primarily due to the significant movement in market rates over the course of the year.

NOTES TO THE ACCOUNTS (CONTINUED)

40. FAIR VALUES (CONTINUED)

The table below classifies all financial instruments held at fair value on the face of the Group's Statement of Financial Position according to the method used to establish the fair value.

Group	Fair Values			Total Fair Value
	Level 1	Level 2	Level 3	
	£m	£m	£m	£m
At 31 December 2019				
Assets				
Debt securities – fair value through OCI	**2,548.2**	**–**	**–**	**2,548.2**
Derivative financial instruments	**–**	**365.2**	**2.4**	**367.6**
Investments	**–**	**–**	**9.2**	**9.2**
Liabilities				
Derivative financial instruments	**–**	**214.1**	**16.4**	**230.5**
At 31 December 2018				
Assets				
Debt securities – fair value	139.6	–	3.5	143.1
Debt securities – fair value through OCI	1,527.2	–	–	1,527.2
Derivative financial instruments	–	554.2	10.2	564.4
Investments	–	–	6.8	6.8
Liabilities				
Derivative financial instruments	–	97.8	–	97.8

The Group's Level 1 portfolio of available for sale debt securities comprises liquid securities for which traded prices are readily available.

Derivative financial instruments are also included and derivative assets and liabilities within level 2 are valued from discounted cash flow models using yield curves based on observable market data.

Level 3 instruments

Debt Securities – fair value in 2018 relates to investments in structured and liquid assets. During 2019, these assets were sold and £5.8m recognised as realised profit in the income statement.

Derivative financial instruments within level 3 are interest rate swaps relating to subsidiary Tombac 2. These are valued using the same valuation technique as Level 2 derivatives, namely present value calculations using interest rate curves. The interest rate swaps are balance tracking and the swap notional is projected, and changes over time to match the balance of the underlying mortgage portfolio.

The changes in the fair value of these instruments from movements in level 3 parameters related to prepayment risk will largely offset across the interest rate swaps as the Group is hedged across these positions. Sensitivity analysis to the individual level 3 parameters has not been disclosed on the basis that the Group does not have a significant exposure to these.

Fair values of derivative financial instruments are disaggregated further in Note 34.

Investments relate to equity shares in industry wide banking and credit card service operations. They are valued based on the discounted future cash flows of the deferred cash consideration the Group is due on sale of their shareholding and the underlying market value of the shares.

NOTES TO THE ACCOUNTS (CONTINUED)

40. FAIR VALUES (CONTINUED)

Level 3 instruments (continued)

A discount is applied to the valuation to reflect the marketability of the shares. A change in this assumption of 10% would change the value of the investment by £1.4m.

Changes in derivative financial instruments during the year are due to maturities of PCA Swaps and Brass 4 derivatives.

The following table analyses movements in Level 3 portfolio.

	As at 31 December 2018	Items recognised in the income statement	Net repayments in the period	Gains and losses recognised in other comprehensive income	Transfers into/ (out of) Level 3 portfolio	As at 31 December 2019
	£m	£m	£m	£m	£m	£m
Assets						
Debt Securities – Fair value	3.5	–	(3.5)	–	–	**–**
Derivative financial instrument	10.2	0.8	(8.6)	–	–	**2.4**
Investments	6.8	2.4	–	–	–	**9.2**

Transfers between fair value hierarchies

Transfers between hierarchies are due to a change in market activity levels or the significance of unobservable inputs, meaning it is no longer possible to value the financial instrument using the current method.

41. RELATED PARTIES

Identity of related parties

The Group and Society have related party relationships with their subsidiaries, joint venture, the pension schemes and key management personnel. The Group considers its key management personnel to be its directors.

Contributions to the pension scheme

The Society paid contributions of £14.4m to the pension scheme (2018: £17.8m).

Key management compensation

The key management personnel compensations are as follows:

	No. of key management personnel	Compensation	No. of key management personnel	Compensation
	2019		2018	
		£000		£000
Short-term employee benefits		**2,761**		2,476
Post-employment benefits		**219**		213
Total key management personnel compensation	**10**	**2,980**	9	2,689

Key management compensation in 2019 includes amounts paid to key management personnel who both retired and joined the Society during 2019. The number of key management personnel at 31 December 2019 totalled 10.

NOTES TO THE ACCOUNTS (CONTINUED)

41. RELATED PARTIES (CONTINUED)

Transactions with key management personnel

Key management personnel and their close family members have undertaken the following transactions with the Society under normal business terms.

	No. of key management personnel	Amounts in respect of key management personnel and their close family members	No. of key management personnel	Amounts in respect of key management personnel and their close family members
	2019		2018	
		£000		£000
Mortgage loans				
At 1 January		**446**		468
Net movements in the year		**(212)**		(22)
At 31 December	**2**	**234**	2	446
Deposit accounts and investments				
At 1 January		**821**		491
Net movements in the year		**165**		330
At 31 December	**10**	**986**	9	821

Amounts relating to directors who joined or left during the year are included in net movement in the year.

Mortgage loans made to key management personnel and their close family members were granted in the ordinary course of business and are subject to repayment under normal lending terms. The maximum outstanding balances during the year were £445,532 (2018: £467,640).

Amounts deposited by key management personnel and their close family members earn interest at the same rates offered to the public.

Key management personnel and their close family members paid interest totalling £7,499 (2018: £7,032), received interest totalling £11,999 (2018: £2,683), and paid no fees and commissions during the year. Interest paid includes amounts relating to 'offset' mortgages where savings balances are used to reduce the interest bearing balance of mortgage loans.

NOTES TO THE ACCOUNTS (CONTINUED)

41. RELATED PARTIES (CONTINUED)

Transactions with subsidiaries

The Society enters into a number of transactions with its subsidiaries in the normal course of business. These include loans and shares. The value of related party transactions, outstanding balances at the year end and related income and expense for the financial year are as follows:

	2019	2018
	£m	£m
Shares in subsidiaries		
At 1 January	104.9	104.9
Net movements	–	–
At 31 December	104.9	104.9
Loans to subsidiaries		
At 1 January	23,483.0	20,993.9
Net movements	3,554.4	2,489.1
At 31 December	27,037.4	23,483.0
Deposits from subsidiaries		
At 1 January	8,667.7	8,332.3
Net movements	1,513.1	335.4
At 31 December	10,180.8	8,667.7
Interest receivable on loans	423.0	360.1
Interest payable on deposits	(115.4)	(82.7)
Fees and expenses receivable	55.6	55.2
Fees and expenses payable	(0.2)	(0.2)

Other

The Society has an investment in Arkose Funding Limited. In 2014, a loan of £4.0m to Arkose Funding Limited was fully impaired.

The Society has no further related party matters to report.

42. FAIR VALUE THROUGH COMPREHENSIVE INCOME AND HEDGING RESERVE

Amounts within the fair value through comprehensive income reserve are transferred to the Income Statement upon the disposal of debt securities. During the year a gain of £10.2m (2018: £0.3m) was recognised in net realised gains.

The cash flow hedge reserve relates to fair value adjustments on derivative financial instruments designated as cash flow hedges. The Group applies cash flow hedge accounting to a portfolio of interest rate swaps which are economically hedging either floating rate assets, floating rate liabilities or highly probable forecast issuance of debt. Amounts within the cash flow hedging reserve are transferred to the income statement upon the de-designation of these hedge relationships. During the year a £1.9m loss (2018: £2.7m) was transferred to net gains from fair value volatility on financial instruments in the income statement.

NOTES TO THE ACCOUNTS (CONTINUED)

43. NOTES TO THE CASH FLOW STATEMENTS

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Working capital adjustments:				
Depreciation and amortisation	**25.3**	19.9	**25.3**	19.8
Loss/(Profit) on sale of assets	**3.4**	(0.2)	**3.4**	(0.2)
Interest on subordinated liabilities and subscribed capital	**27.8**	25.7	**27.7**	25.7
Provisions	**0.6**	6.5	**(2.1)**	9.7
Fair value of subordinated liabilities and subscribed capital	**11.9**	(3.9)	**11.9**	(3.9)
(Gain)/Loss on realisation of debt securities	**(6.3)**	(8.0)	**(5.5)**	(8.0)
Increase in other assets	**(17.3)**	(37.7)	**(23.0)**	(37.5)
Decrease in other liabilities	**(20.5)**	(25.8)	**(20.5)**	(21.6)
Working capital adjustments	**24.9**	(23.5)	**17.2**	(16.0)
(Increase)/decrease in operating assets:				
Loans and advances to credit institutions	**(0.1)**	0.1	**–**	–
Loans and advances to customers	**(1,282.2)**	(1,636.3)	**1,128.7**	913.8
Investments	**(2.4)**	(0.5)	**(3,555.9)**	(2,489.3)
Derivative financial instruments	**331.5**	(29.2)	**220.0**	(39.9)
Net increase in operating assets	**(953.2)**	(1,665.9)	**(2,207.2)**	(1,615.4)
Increase/(decrease) in operating liabilities:				
Shares	**1,118.7**	620.6	**1,118.7**	620.6
Amounts owed to credit institutions	**(1,180.0)**	33.5	**(1,180.0)**	42.2
Non cash movements on debt securities	**(182.4)**	12.8	**(209.1)**	12.8
Other deposits	**76.0**	88.4	**1,560.0**	394.9
Net increase in operating liabilities	**(167.7)**	755.3	**1,289.6**	1,070.5

The following table reconciles liabilities arising from financing activities.

Group	2018	Cash flows		Non-cash changes caused by:			2019
		Redemption	Issue	Foreign exchange movement	Accrued interest	Fair value adjustments and other movements	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities in issue	5,145.9	**(913.0)**	**1,984.3**	**(192.0)**	**(5.8)**	**15.4**	**6,034.8**
Subordinated liabilities	585.1	(250.0)	275.0	–	4.6	11.7	**626.4**
Subscribed capital	6.1	(6.1)	–	–	–	–	**–**
Total liabilities from financing activities	5,737.1	**(1,169.1)**	**2,259.3**	**(192.0)**	**(1.2)**	**27.1**	**6,661.2**

NOTES TO THE ACCOUNTS (CONTINUED)

43. NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

Group	2017	Cash flows		Non-cash changes caused by:			2018
		Redemption	Issue	Foreign exchange movement	Accrued interest	Fair value adjustments and other movements	
	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	4,933.3	(1,043.7)	1,243.5	30.2	(21.0)	3.6	5,145.9
Subordinated liabilities	593.7	(5.0)	–	–	–	(3.6)	585.1
Subscribed capital	6.4	–	–	–	–	(0.3)	6.1
Total liabilities from financing activities	**5,533.4**	**(1,048.7)**	**1,243.5**	**30.2**	**(21.0)**	**(0.3)**	**5,737.1**

Society	2018	Cash flows		Non-cash changes caused by:			2019
		Redemption	Issue	Foreign exchange movement	Accrued interest	Fair value adjustments and other movements	
	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	4,398.4	(691.4)	1,490.9	(175.8)	(8.0)	(25.4)	**4,988.7**
Subordinated liabilities	585.1	(250.0)	275.0	–	4.6	11.7	**626.4**
Subscribed capital	6.1	(6.1)	–	–	–	–	**–**
Total liabilities from financing activities	**4,989.6**	**(947.5)**	**1,765.9**	**(175.8)**	**(3.4)**	**(13.7)**	**5,615.1**

Society	2017	Cash flows		Non-cash changes caused by:			2018
		Redemption	Issue	Foreign exchange movement	Accrued interest	Fair value adjustments and other movements	
	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	4,192.1	(750.0)	943.5	30.2	(21.7)	4.2	4,398.3
Subordinated liabilities	593.7	(5.0)	–	–	0.0	(3.6)	585.1
Subscribed capital	6.4	–	–	–	–	(0.3)	6.1
Total liabilities from financing activities	**4,792.2**	**(755.0)**	**943.5**	**30.2**	**(21.7)**	**0.3**	**4,989.5**

ANNUAL BUSINESS STATEMENT

1. STATUTORY PERCENTAGES

	2019	2018	Statutory Limit
	%	%	%
Lending limit	**2.6**	3.3	25.0
Funding limit	**24.4**	25.5	50.0

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The Lending limit measures the proportion of business assets not in the form of loans fully secured on residential property.

The Funding limit measures the proportion of shares and borrowings not in the form of shares.

The statutory limits are as laid down under the Building Societies Act 1986 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. OTHER PERCENTAGES

	2019	2018
	%	%
As a percentage of shares and borrowings:		
Gross capital	**8.11**	7.86
Free capital	**7.64**	7.45
Liquid assets	**13.80**	13.87
Profit after taxation for the financial year as a percentage of mean total assets	**0.30**	0.35
Management expenses as a percentage of mean total assets	**0.66**	0.73

The above percentages have been prepared from the Group accounts and further details on the above percentages can be found in the glossary on page 224.

ANNUAL BUSINESS STATEMENT (CONTINUED)

3. INFORMATION RELATING TO THE DIRECTORS AT 31 DECEMBER 2019

Director Name and Date of Birth	Business Occupation	Date of Appointment	Other Directorships
J R Heaps, LLB 8 July 1953	Chairman	20 November 2014	TheCityUK Limited The Garden Bridge Trust
N A K Atkar, BSc 11 November 1965	Non Executive Director	25 April 2017	British Business Bank plc British Business Finance Ltd British Business Financial Services Ltd National Financial Services Skills Academy Nomura Bank International plc Nomura Europe Holdings plc Nomura Financial Products Europe Nomura International plc
G L T Bainbridge, MA (Cantab), ACA 13 September 1960	Non Executive Director	1 January 2019	ICE Clear Europe Ltd Manulife Financial Corporation The Manufacturers Life Insurance Company
A E Hutchinson, CBE, BSc 5 February 1967	Charity Chief Executive	4 February 2015	DFS Furniture plc Liverpool Victoria Friendly Society Ltd Your Penny Ltd
G R Ireland, BSc, FCA 17 May 1953	Non Executive Director	1 September 2015	Aspen Insurance Holdings Ltd Aspen Insurance UK Ltd Iccaria Insurance ICC Ltd
A B Lenman, MA, ACMA 25 December 1969	Chief Finance Officer and Executive Director	4 December 2017	None
M A Pain, BSc, FCA 15 June 1961	Non Executive Director	1 August 2013	Axa Insurance UK plc Axa PPP Healthcare Ltd Axa UK plc Empiric Student Property plc Empiric Student Property Trustees Ltd London Square Developments (Holdings) Ltd London Square Ltd LSQ Management Ltd
G P C Parsons, BA 31 July 1963	Non Executive Director	1 May 2013	None
M C Regnier, MEng, MBA 30 September 1971	Chief Executive and Executive Director	3 June 2014	BCS Loans and Mortgages Ltd
S C White, BComm 4 April 1971	Chief Operating Officer and Executive Director	24 February 2016	Accord Mortgages Ltd YBS Properties (Edinburgh) Ltd Yorkshire Key Services Ltd

Mr MC Regnier entered into a contract when he was appointed to the Board as Chief Commercial Officer and Executive Director on 3 June 2014. He entered into a new contract on 25 November 2016 and became Chief Executive on 1 January 2017. Mr SC White entered into a contract on 1 February 2016 and was appointed to the Board on 24 February 2016. The mutual contractual notice period for Mr MC Regnier and Mr SC White is one year. The mutual contractual notice period for Mr AB Lenman is six months and he entered into a contract on 28 September 2017 and was appointed to the Board on 4 December 2017.

Documents may be served on the above named directors: Ref. 'Yorkshire Building Society' c/o PricewaterhouseCoopers LLP at the following address: Central Square, 29 Wellington Street, Leeds, LS1 4DL.

4. REGISTERED OFFICE

Yorkshire Building Society is a building society incorporated and domiciled in the United Kingdom. The address of the principal office is Yorkshire House, Yorkshire Drive, Bradford, BD5 8LJ.

COUNTRY-BY-COUNTRY REPORTING

DISCLOSURE REQUIREMENTS UNDER CRD IV COUNTRY-BY-COUNTRY REPORTING

We are required to disclose the following information in our Annual Integrated Report & Accounts to comply with the Regulations of Article 89 of the Capital Requirements Directive IV (CRD IV) country-by-country reporting (CBCR). This regulation requires us to disclose financial information by country. Yorkshire Building Society has a number of subsidiaries; these can be found in Note 10 on page 146.

All Group companies operate in the United Kingdom except Yorkshire Guernsey Ltd which is registered in Guernsey and is in the process of liquidation. Therefore, total income and profit before tax shown in the income statement and corporation tax paid shown in the Statement of Cash Flows, as well as the average number of employees disclosed in Note 7, are related to the United Kingdom. No public subsidies were received in 2019.

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF YORKSHIRE BUILDING SOCIETY

REPORT ON THE AUDIT OF THE COUNTRY-BY-COUNTRY INFORMATION

Opinion

In our opinion, Yorkshire Building Society Limited's country-by-country information for the year ended 31 December 2019 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2019 in the Country-by-Country Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the fact that the country-by-country information is prepared by the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is not appropriate; or
- the directors have not disclosed in the country-by-country information any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the country-by-country information is authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations and for determining that the basis of preparation and accounting policies are acceptable in the circumstances.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the directors are responsible for assessing the company'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 company or to cease operations, or have no realistic alternative but to do so.

COUNTRY-BY-COUNTRY REPORTING (CONTINUED)

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF YORKSHIRE BUILDING SOCIETY (CONTINUED)

REPORT ON THE AUDIT OF THE COUNTRY-BY-COUNTRY INFORMATION (CONTINUED)

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this country-by-country information.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the company's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

26 February 2020

CARBON FOOTPRINT REPORT

Since 2012 we've achieved a carbon reduction of 48% using the location-based calculation (UK average emission factors) and a reduction of 81% using the market-based calculation (taking into account our purchase of electricity from renewable sources). All figures are in tCO_2e[1].

TABLE 1 – LOCATION-BASED CARBON FOOTPRINT (tCO_2e)

YBS carbon emissions 2012-2019 (in tCO_2e) calculated using the location-based methodology as verified by Ricardo AEA Limited.

Scope 1	2012	2013	2014	2015	2016	2017	2018	2019
Natural gas and diesel consumption*	1,466	1,480	1,315	1,290	1,233	1,133	1,235	**1,019**
Delivery vehicles fuel consumption	–[2]	–	–	–	–	–	–	**9**
Company and hire cars fuel consumption	196	223	344	441	523	444	403	**262**
Total scope 1	**1,662**	**1,703**	**1,659**	**1,731**	**1,756**	**1,577**	**1,638**	**1,290**

Scope 2	2012	2013	2014	2015	2016	2017	2018	2019
Electricity consumption	7,868	8,076	8,439	7,465	6,530	5,190	4,064	**3,051**
Company cars electricity consumption	–	–	–	–	–	–	–	**0**
Total scope 2	**7,868**	**8,076**	**8,439**	**7,465**	**6,530**	**5,190**	**4,064**	**3,051**

Scope 3	2012	2013	2014	2015	2016	2017	2018	2019
Transmission and distribution - Electricity consumption	622	691	738	616	591	485	347	**259**
Transmission and distribution - Electric cars	–	–	–	–	–	–	–	**0**
Business travel - Aviation (includes RF Factors)**	–	–	–	37	34	31	56	**82**
Business travel - Rail	–	–	–	104	106	91	78	**80**
Business travel - Cars	–	–	–	121	221	124	84	**84**
Business travel - Hotel	–	–	–	–	–	–	–	**77**
Water supply and treatment	28	39	39	42	33	34	42	**33**
Waste disposal - Recycling	–	–	–	–	–	–	–	**6**
Waste disposal - Recovery***	–	–	–	15	17	12	45	**2**
Waste disposal - Landfill	–	–	–	5	9	11	3	**0**
Well-to-tank - Natural gas and diesel	–	–	–	–	–	–	–	**137**
Well-to-tank - Electricity consumption	–	–	–	–	–	–	–	**36**
Well-to-tank - Delivery vehicles	–	–	–	–	–	–	–	**2**
Well-to-tank - Aviation (includes RF Factors)**	–	–	–	–	–	–	–	**9**
Well-to-tank - Rail	–	–	–	–	–	–	–	**15**
Well-to-tank - Cars	–	–	–	–	–	–	–	**88**
Total scope 3	**650**	**730**	**777**	**940**	**1,011**	**788**	**655**	**912**
Total carbon footprint	**10,180**	**10,509**	**10,875**	**10,136**	**9,297**	**7,555**	**6,357**	**5,253**

[1] Tonnes of carbon dioxide equivalent (tCO_2e) is a measure that allows the comparison of emissions from other greenhouse gases relative to one unit of CO_2. It is calculated by multiplying the greenhouse gas' emissions by its 100-year global warming potential.
[2] In TABLE 1 and 2 '-' denotes no data available , '0' represents 0 carbon footprint

CARBON FOOTPRINT REPORT (CONTINUED)

TABLE 2 – MARKET-BASED CARBON FOOTPRINT (tCO_2e)

YBS carbon emissions 2012-2019 (in tCO_2e) calculated using the market-based methodology as verified by Ricardo AEA Limited. Market-based emissions were not calculated for 2012 - 2014, therefore the location-based methodology is used for those years.

Scope 1	2012	2013	2014	2015	2016	2017	2018	2019
Natural gas and diesel consumption*	1,466	1,480	1,315	1,290	1,233	1,133	1,235	**1,019**
Delivery vehicles fuel consumption	–	–	–	–	–	–	–	**9**
Company and hire cars fuel consumption	196	223	344	441	523	444	403	**262**
Total scope 1	**1,662**	**1,703**	**1,659**	**1,731**	**1,756**	**1,577**	**1,638**	**1,290**

Scope 2	2012	2013	2014	2015	2016	2017	2018	2019
Electricity consumption	7,868	8,076	8,439	0****	0****	0****	0****	**0********
Company cars electricity consumption	–	–	–	–	–	–	–	**0********
Total scope 2	**7,868**	**8,076**	**8,439**	**0********	**0********	**0********	**0********	**0********

Scope 3	2012	2013	2014	2015	2016	2017	2018	2019
Transmission and distribution - Electricity consumption	622	691	738	0****	0****	0****	0****	**0********
Transmission and distribution - Electric cars	–	–	–	–	–	–	–	**0**
Business travel - Aviation (includes RF Factors)**	–	–	–	37	34	31	56	**82**
Business travel - Rail	–	–	–	104	106	91	78	**80**
Business travel - Cars	–	–	–	121	221	124	84	**84**
Business travel - Hotel	–	–	–	–	–	–	–	**77**
Water supply and treatment	28	39	39	42	33	34	42	**33**
Waste disposal - Recycling	–	–	–	–	–	–	–	**6**
Waste disposal - Recovery***	–	–	–	15	17	12	45	**2**
Waste disposal - Landfill	–	–	–	5	9	11	3	**0**
Well-to-tank - Natural gas and diesel	–	–	–	–	–	–	–	**137**
Well-to-tank - Electricity consumption	–	–	–	–	–	–	–	**36**
Well-to-tank - Delivery vehicles	–	–	–	–	–	–	–	**2**
Well-to-tank - Aviation (includes RF Factors)**	–	–	–	–	–	–	–	**9**
Well-to-tank - Rail	–	–	–	–	–	–	–	**15**
Well-to-tank - Cars	–	–	–	–	–	–	–	**88**
Total scope 3	**650**	**730**	**777**	**324**	**420**	**303**	**308**	**653**
Total carbon footprint	**10,180**	**10,509**	**10,875**	**2,055**	**2,176**	**1,880**	**1,946**	**1,943**

* Diesel was only used as generators fuel in 2019. Radiative forcing (RF) is a measure of the additional environmental impact of aviation.
** These include emissions of nitrous oxides and water vapour when emitted at high altitude.
*** 2012-2018 figures included recovery and recycling data.
**** Zero due to the purchase of green electricity.

GLOSSARY

The following glossary defines terminology used within the Annual Report and Accounts:

Additional Tier 1 (AT1) capital	Capital that meets certain criteria set out in CRD IV. In particular, the criteria require that upon the occurrence of a trigger event, the AT1 capital instrument converts to a form of Common Equity Tier 1 capital or the principal is written down on a permanent basis; or grandfathered instruments such as Permanent Interest Bearing Shares (PIBS).
Arrears	Amounts unpaid at their contractual date. A customer is in arrears when they fall behind in meeting their obligations to pay their mortgage.
Basel III	The Basel Committee on Banking Supervision's statement of best practice that defines the methods by which firms should calculate their regulatory capital requirements to retain enough capital to protect the financial system against unexpected losses. Enacted in the European Union via capital requirements directives.
Basel IV	The final regulatory proposals on the Reform of Basel III published by the Basel Committee for Banking Supervision in December 2017. These proposals include reforms of the standardised approach for credit risk, the quantification of CVA risk, operational risk approaches and final calibration and design of the output floor for IRB models. The proposals are to be implemented on a phased basis from January 2022.
Buy-to-let (BTL) mortgages	Lending on property that is rented out to individuals.
Capital Requirements Directive (CRD) & Capital Requirements Regulation	European legislation giving force to the Basel regulatory capital framework in the UK. The latest legislation – the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) (together commonly referred to as CRD IV) came in to effect from 1 January 2014.
Collateral (for loans and advances to customers)	Security (property) pledged for the repayment of a loan. Collateral is valued as the lower of the value of the property or the outstanding loan amount.
Commercial lending	Secured loans to a commercial borrower.
Common Equity Tier 1 (CET1) capital	The highest quality regulatory capital resources, comprising retained earnings less regulatory adjustments, as defined under CRD IV. Equivalent to Core Tier 1 defined under previous CRD legislation.
Contractual maturity	The final payment date of a loan or financial instrument, at which all the outstanding loan and interest is repayable.
Council of Mortgage Lenders (CML)	A not-for-profit organisation and trade association for the mortgage lending industry.
Covered bonds	A type of wholesale funding backed by cash flows from mortgages that are segregated from the issuer's other assets to be solely for the benefit of the holders of the covered bonds.

GLOSSARY (CONTINUED)

Credit Valuation Adjustment (CVA)	The risk of financial loss arising from a failure of a customer or counterparty to settle their financial and contractual obligations as they fall due. These are adjustments applied to the fair values of derivatives to reflect the creditworthiness of the counterparty.
Cross currency interest rate swap	An arrangement in which two parties exchange equivalent principal amounts of different currencies at inception and subsequently exchange interest payments on the principal amounts. At the maturity of the swap, the principal amounts are re-exchanged at the original rates.
Currency risk	The exposure to risk from assets and liabilities denominated in currencies other than Sterling.
Debt securities in issue	Transferable certificates of indebtedness including certificates of deposits and fixed and floating rate notes.
Debit Valuation Adjustment (DVA)	These are adjustments applied to the fair values of derivatives to reflect the entity's own credit risk.
Defined Benefit Obligation	The present value of expected future benefit payments resulting from past service of employees in the defined benefit pension plan.
Derivative financial instruments	Contracts or agreements whose value is derived from one or more underlying prices, rates or indices inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices. Examples of derivatives include interest rate swaps, forward rate agreements and futures.
Effective interest rate	The method used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows (excluding credit losses) to zero, through the expected life of the instrument.
Encumbered assets	Assets on the balance sheet which are pledged in order to secure, collateralise or credit-enhance a financial transaction from which they cannot be freely withdrawn.
Expected loss	An estimate of the potential losses on current exposures due to potential defaults.
Exposure	The maximum loss that a financial institution might suffer if a borrower or counterparty fails to meet its obligations to the Group.
Exposure at default (EAD)	An estimation of the amount of exposure that will be outstanding at the time of default.

GLOSSARY (CONTINUED)

Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.
Financial Conduct Authority (FCA)	The UK conduct regulator which is responsible for regulation of conduct in retail, as well as wholesale, financial markets and the infrastructure that supports those markets. The FCA's objective is to protect consumers, promote competition and enhance market integrity.
Financial Ombudsman Service (FOS)	An independent service which provides a service for settling disputes between financial services providers and their customers.
Financial Services Compensation Scheme (FSCS)	A protection fund for depositors of failed institutions. This is funded by the financial services industry and each firm, including the Society, is obliged to pay an annual levy.
Forbearance	The Group grants concessions to assist borrowers who experience difficulties in meeting their obligations to pay their mortgage. Examples of forbearance tools are described in Note 39.
Free capital	The aggregate of gross capital and collective impairment provision less property, plant and equipment, intangible assets and investment properties.
Funding for Lending Scheme (FLS)	A scheme launched by the Bank of England and HM Treasury designed to boost lending to households and businesses. Banks and building societies participating in the scheme can access funding at rates below the natural market rate.
Gross capital	The aggregate of general reserve, hedging reserve, available for sale reserve, subordinated liabilities and subscribed capital.
Impaired loans	Loans which have been assessed and there is evidence to suggest a measurable decrease in the present value of cash flows expected from the loans that have occurred after initial recognition of the asset, but before the statement of financial position date.
Individual Liquidity Adequacy Assessment Process (ILAAP)	The Group's internal assessment of the levels of liquidity that need to be held by the Society to meet its regulatory liquidity requirements.
Interest rate swap	An arrangement under which two counterparties agree to exchange periodic interest payments based on a predetermined notional principal amount.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's internal assessment of the levels of capital that need to be held by the Society to meet its regulatory capital requirements.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

GLOSSARY (CONTINUED)

Level 1 High Quality Liquid Assets (HQLA)	Assets which can be easily and immediately converted into cash at little or no loss of value.
Liquidity Coverage Ratio (LCR)	A liquidity metric which aims to ensure that a firm maintains an adequate level of liquidity to meet its needs for a 30 calendar day time horizon under a severe stress scenario.
LIBOR (London Interbank Offered Rate)	A benchmark interest rate which banks can borrow funds from other banks in the London interbank market.
Liquid assets	The total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities and other liquid assets.
Liquidity risk	The risk that the Group does not hold sufficient liquidity, in terms of quantity and quality, to meet its liabilities as they fall due.
Loan loss provisions	A provision which is held against loans and advances to customers, representing management's best estimate of losses in the loan portfolio at the reporting date.
Loan-to-value (LTV)	A ratio showing outstanding loan balance as a percentage of the value of the security.
Loss given default (LGD)	An estimate of the difference between exposure at default (EAD) and the net amount of the expected recovery expressed as a percentage of EAD.
Loss given possession	The loss that is expected to crystallise when a repossessed property is sold.
Management expenses	The aggregate of administrative expenses, depreciation and amortisation.
Market Risk	The risk that the value of, or income derived from, the Group's assets and liabilities changes unfavourably due to movements in interest rates or foreign currency rates.
Mean total assets	The amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
Medium-term notes (MTN)	Corporate notes continuously offered by a company to investors through a dealer. Investors can choose from differing maturities.
Member	A person who has a share account or a mortgage loan with the Society.
Minimum Requirement for Eligible Liabilities (MREL)	The minimum requirements a financial institution must hold to meet the loss absorption and recapitalisation components if an institution were to fail.

GLOSSARY (CONTINUED)

Net interest income	The difference between the interest received on assets and the interest paid on liabilities.
Net interest margin	The ratio of net interest income as a percentage of mean total assets.
Operational risk	The risk of direct and indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.
Other income	The income received from selling non-mortgage and savings products (e.g. home and contents insurance, investment products and other insurances).
Permanent Interest Bearing Shares (PIBS)	Unsecured, Sterling denominated Tier 1 capital instruments repayable at the option of the Society.
PRA Remuneration Code	Guidance provided by the PRA on directors' remuneration.
Probability of default (PD)	An estimate of the probability that a borrower will default on their credit obligations.
Probability of possession	The likelihood of an account moving into possession. This is used when calculating loan loss provisions.
Prudential Regulation Authority (PRA)	The UK prudential regulator, which is a part of the Bank of England and alongside the FCA has responsibility for the oversight of building societies, banks and insurers. The PRA's objective is to promote the safety and soundness of regulated firms.
Repossessions	Property taken into ownership by the Society as a result of the borrower's failure to make contractual loan repayments.
Residential Mortgage Backed Securities (RMBS)	An asset backed security that represents a claim on the cash flows from residential mortgage loans through a process known as securitisation.
Risk appetite	The level of risk that the Group is willing to take (or not take) in order to safeguard the interests of members whilst achieving business objectives.
Risk weighted assets	A regulatory measure that adjusts the value of assets to reflect their level of risk when calculating capital requirements.
Securitisation	A process by which a group of assets, usually loans, are aggregated into a pool which is used to back the issuance of debt securities in issue. A firm transfers these assets to a special purpose vehicle which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities and uses residential mortgages as the asset pool.

GLOSSARY (CONTINUED)

Shares	Money deposited by members in a retail savings account with the Society and held as a liability in the balance sheet.
Shares and borrowings	The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.
SONIA (Sterling Overnight Interbank Average)	An index that tracks actual market overnight funding rates calculated as a weighted average overnight deposit rate for each business day.
Subordinated liabilities	Tier 2 capital that is subordinated to the claims of all depositors, creditors and members holding shares in the Society (other than holders of PIBS).
Term Funding Scheme (TFS)	A scheme launched by the Bank of England designed to boost lending to households and businesses by providing term funding to banks and building societies participating in the scheme at rates close to Bank Rate.
Tier 1 (T1) capital	The sum total of Common Equity Tier 1 and Additional Tier 1 capital.
Tier 1 capital ratio	The ratio of Tier 1 capital to risk weighted assets.
Tier 2 (T2) capital	A measure of regulatory capital that includes subordinated liabilities and provisions for collective impairment, less regulatory adjustments.
Total capital	The total capital resources, including retained earnings, PIBS and subordinated liabilities, less regulatory adjustments.
Total capital ratio	The ratio of total capital to risk weighted assets.
UK Corporate Governance Code	The UK code on corporate governance, published by the Financial Reporting Council in October 2012, which sets out standards of good practice in relation to Board leadership and effectiveness, accountability and remuneration.
Value at Risk (VaR)	A risk management tool which evaluates the potential losses that may be incurred as a result of movements in market conditions over a specified holding period and to a given level of confidence.
Watch list	The watch list is used by the N&P commercial lending team to flag those loans where there are circumstances which could impact on the quality and safety of the loan.
Wholesale funding	The funding that is available between banks and other financial or commercial institutions. Examples of wholesale funding include covered bonds, deposits and government guarantees.

GLOSSARY (CONTINUED)

The following glossary defines Alternative Performance Measures (APM) used within the Annual Report and Accounts:

APM	Closest equivalent statutory measure/ Calculation of measure	Reconciling items to statutory measure	Definition and purpose
Income Statement measures			
Core operating profit	Profit before tax.	A full reconciliation between profit before tax as shown in the income statement and core operating profit is shown in the Strategic Report on page 49.	Profit before tax excluding the impact of non-core items, both positive and negative, such as timing differences that reverse over time (e.g. fair value adjustments) or items of a one-off nature (e.g. asset sales). The Group considers this to be an important measure of underlying financial sustainability, and provides readers with helpful additional information on the underlying performance of the business across periods. It is consistent with how business performance is reported to and assessed by the Board.
Cost:income ratio	Management expenses (the aggregate of administrative expenses, depreciation and amortisation) as a percentage of total income.	Administrative expenses and depreciation and amortisation (management expenses) and total income are as shown in the Income Statements on page 126.	This is an industry-standard measure of the Group's costs in relation to its income. This is used by the Group to monitor and manage its overall cost position and understand how efficient the Group is at generating income.
Cost:core income ratio	Management expenses (the aggregate of administrative expenses, depreciation and amortisation) as a percentage of 'core income'. Where core income is total income excluding fair value volatility.	Administrative expenses and depreciation and amortisation (management expenses), net (losses)/ gains from financial instruments held at fair value fair value and total income are as shown in the Income Statements on page 126.	This is a measure of the Group's costs in relation to its income excluding fair value volatility. This is used by the Group to monitor and manage its overall cost position and understand how efficient the Group is at generating income on an underlying basis.
Management expense ratio	Management expenses (the aggregate of administrative expenses, depreciation and amortisation) as a percentage of mean total assets.	Administrative expenses and depreciation and amortisation (management expenses) are as shown in the Income Statements on page 126. Mean total assets are calculated by taking the average of the value of the opening balance for the year and the value of the closing balance, as shown in the Balance Sheets on page 128.	This is an industry-standard ratio of the Group's costs as a proportion of its mean assets during the year, and is used to measure how efficient the Group is at maintaining its asset base.
Net interest margin	Net interest income as a percentage of mean total assets.	Net interest income is as shown in the Income Statements on page 126. Mean total assets are calculated by taking the average of the value of the opening balance for the year and the value of the closing balance, as shown in the Balance Sheets on page 128.	This is an industry-standard measure of the relationship between net interest income (the difference between the interest received on assets and the interest paid on liabilities) and assets. This is a key measure used by the Board to monitor how the Group manages income from its assets and interest paid on funding.

GLOSSARY (CONTINUED)

APM	Closest equivalent statutory measure/ Calculation of measure	Reconciling items to statutory measure	Definition and purpose
Balance Sheet items			
Asset growth	Total assets at the end of the year less total assets at the start of the year.	Total assets are as shown in the Balance Sheets on page 128.	Movement in total asset over the period.
Average savings rate differential	None	Not applicable	Calculates the average savings rate applied to the Group's savings accounts during the period versus the average UK savings interest rates for the rest of the market, based on savings stock from CACI's Current Account and Savings Database (CSDB), covering 86% of retail savings market (based on stock value). This is used to assess how much the Group is paying out in interest in comparison to peers.
Gross lending	None	Not applicable	The total value of mortgage loans advanced by the Group in the period, including loans for house purchase, further advances, remortgages etc.
Lending to first time buyers	None	Not applicable	The total value of mortgage loans advanced by the Group in the period to first time home buyers. This measure displays how the Group is helping people overcome the challenge of buying their first property.
Liquidity ratio	Cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities as a percentage of shares and borrowings.	Cash in hand, balances with the Bank of England, loans and advances to credit institutions, debt securities, and shares are as shown in the Balance Sheets on page 128. Borrowings comprise amounts owed to credit institutions, other deposits and debt securities in issue, also as shown in the Statements of Financial Position on page 128.	The liquidity ratio measures those assets available to meet requests by savers to withdraw their money, to fund mortgage advances and to fund general business activities. It expresses cash and assets easily converted into cash as a percentage of the Group's liabilities to investors.
Mortgages funded by retail savings and retained profits	Shares and total reserves as a percentage of loans and advances to customers.	Shares, total reserves and loans and advances to customers are as shown in the Balance Sheets on page 128.	The retail savings and reserves to mortgages ratio shows the extent to which the Group is dependent on financing from the wholesale markets.
Mortgage balance growth	Loans and advances to customers at the end of the year less loans and advances to customers at the start of the year.	Loans and advances to customers are as shown in the Balance Sheets on page 128.	Movement in mortgage balances including impairment provisions and fair value accounting adjustments over the period.
Net lending	Loans and advances to customers at the end of the year less loans and advances to customers at the start of the year, excluding movements in provisions and accounting adjustments detailed in Note 16.	Mortgage growth less movements in provisions and accounting adjustments detailed in Note 16.	Net lending represents gross lending less repayment of principal and redemptions, and is a key measure to monitor the Group's overall lending performance. This measures our effectiveness in both new mortgage lending and in retaining borrowers.

GLOSSARY (CONTINUED)

APM	Closest equivalent statutory measure/ Calculation of measure	Reconciling items to statutory measure	Definition and purpose
Number of accounts more than three months in arrears	None	Not applicable	The number of mortgage accounts where the amount of arrears is greater than three monthly payments, or the account is in possession, as a proportion of the total number of mortgage accounts. The industry average for mortgage arrears is measured as the number of accounts more than three months in arrears (including possessions). We produce this KPI to assess how our level of mortgage arrears compares to the market.
Percentage of outstanding retail mortgage balances in arrears by three months or more	None	Not applicable	The percentage of mortgage account balances where the amount of arrears is equal to or greater than three monthly payments, or the account is in possession, as a proportion of the entire mortgage book. This measures the overall quality of our mortgage book.
Retail Savings balance growth	Shares at the end of the year less shares at the start of the year.	Shares are as shown in the Balance Sheets on page 128.	Movement in overall savings balances over the period, including capitalised interest and accounting adjustments.
Savings inflow/ outflow	None	Not applicable	Displays the cash in/out of savings accounts held, excluding capitalised interest. The Group uses this to monitor its main funding source throughout the year.
Share of the gross mortgage market	None	Not applicable	Displays the Group's total gross lending as a percentage of the gross lending in the UK housing market by banks, building societies and other lenders as measured by the Council of Mortgage Lenders (CML), which represents 97% of the UK mortgage market. From 1 July 2017 the Council of Mortgage Lenders integrated into a new trade association, UK Finance.
Regulatory Measures			
Common Equity Tier 1 (CET1) capital ratio	None	Common equity tier 1 capital as defined in Note 31 as a percentage of risk weighted assets. The full calculation of CET1 ratio is shown in Note 31.	This ratio represents the relationship between the strongest form of capital (primarily accumulated profits that have built up over time) and assets, weighted by the level of risk they carry. It is a regulatory-defined ratio whose purpose is to ensure that institutions are able to absorb unexpected losses. It is a key measure of financial sustainability.
Leverage ratio	Reserves as a percentage of total assets.	Tier 1 capital as defined in Note 31 as a percentage of total assets adjusted for certain off-balance sheet exposures.	The leverage ratio is also a regulatory-defined ratio used to assess capital adequacy, but removes the risk-weighting element of assets. It is therefore a more simplified measure of financial sustainability.
Total capital ratio	None	Total capital as defined in Note 31 as a percentage of risk weighted assets. The full calculation of total capital ratio is shown in Note 31.	This measure is used to assess the total amount of capital the Group retains compared to its risk weighted assets, hence it includes externally issued capital. It is also defined by the regulatory authorities.

GLOSSARY (CONTINUED)

APM	Closest equivalent statutory measure/ Calculation of measure	Reconciling items to statutory measure	Definition and purpose
Non-financial measures			
Absenteeism	None	Not applicable	This indicator is for measuring the average absenteeism rate, as a % of the total working days. This KPI can be an indicator of colleague motivation as a high absence rate may indicate poor motivation and engagement.
Peakon survey result	None	Not applicable	This is an external benchmarking exercise conducted by Peakon, involving an employee survey and a culture audit. The Group uses this measure to understand how successful we are at delivering our vision as a workplace where our people can give their best and thrive. This is monitored annually and reported to the Board as a colleague engagement measure.
Net Promoter Score (NPS)	None	Not applicable	NPS is a measure of how willing customers are to recommend the Group to others. It measurers the difference between the percentage of 'promoters' (those willing to recommend the Group to others) and 'detractors' (those unwilling to recommend the Group). The score can range from -100 if all customers are 'detractors' to +100 if all customers are 'promoters'. The Group uses this as a key measure of customer satisfaction with our products and service.
Resignation rate	None	Not applicable	This measures the number of colleagues who resign from the Group as a proportion of the total number of colleagues. This measure is used to assess whether colleagues feel satisfied working at YBS Group.
KPMG Nunwood customer experience survey result	None	Not applicable	The KPMG Nunwood survey ranks UK brands based on their customer experience, and is used by the Group to assess the experience we deliver our customers in relation to other UK organisations in various industries.
Colleague engagement score	None	Not applicable	Our annual colleague engagement survey is used to calculate an engagement score which helps to understand our people's needs and what will lead to their enjoyment and commitment in work.
End Youth Homelessness fundraising	None	Not applicable	Creating a partnership with organisations that have the same purpose, values and ethics as us is a key part of our Society Matters strategy. As a building society one of our core purposes is to help people into a home at every stage in their life, and this is reflected through our partnership with End Youth Homelessness.
Colleagues participating in volunteering	None	Not applicable	We aim to be an active member of the communities we serve. We measure our impact in the community by assessing the proportion of our colleagues who made use of their volunteering allowance to share their skills and make a difference to charities and other good causes.

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