Half-Yearly Financial Report
30 June 2024

LET'S GET THERE TOGETHER

YORKSHIRE BUILDING SOCIETY

Contents

Interim Management Report

Introduction from the Chief Executive

Welcome to the 2024 Half-Yearly Financial Report for Yorkshire Building Society. Over the first six months of the year, I have seen first-hand a clear commitment from our colleagues to deliver on our purpose. We have continued to offer above-market savings rates, launched new, purpose-aligned propositions to help first-time buyers, and delivered a solid financial performance.

Though the degree of uncertainty remains elevated, there are indications that the UK economy may have cause for cautious optimism. The rate of price inflation – a primary driver for the increasing interest rates over the past few years – appears to be under greater control, and some aspects of the cost-of-living pressures have eased somewhat. That said, household finances for many remain more strained than they once were, and those seeking a mortgage still face borrowing costs much higher than a few years ago.

Our purpose at YBS has been constant across our 160-year history. We are here to provide *Real Help with Real Life* and that means supporting our members and customers through the good times and the bad. The recent years have provided no shortage of challenges, making the support we provide even more important.

Helping First Homes Happen

The prospect of home ownership is, for some, further out of reach than ever. One of the most significant challenges faced by first-time buyers is saving for their deposit. To provide direct support for this challenge, we launched two innovative additions to our range of mortgage and savings products.

Our *First Home Saver* provides a regular savings tool which is specifically targeted to help aspiring first-time buyers reach their goal. The benefits of saving extend far beyond the financial. Recent research sponsored by YBS[1] found that not only are those who save on a regular basis much more likely to go on to become homeowners in the future, but also that there is a strong, positive relationship between the act of saving and mental wellbeing.

Our *£5k Deposit Mortgage* serves to bring this savings goal closer within reach and makes the prospect of home ownership much more achievable for a greater number of people, including some who may have thought they would never own their own home.

This is a brilliant demonstration of how mortgage and savings propositions can work in harmony, and the positive response from customers has been a real highlight of this year. I am proud that our teams were able to bring these innovative, purpose-aligned products to market and we will continue to focus on ways to make home ownership a reality for more people.

Supporting the Financial Resilience of Our Communities

We play a key role in strengthening financial resilience within the wider community. Our community programmes operate both locally and nationally, and they place the issues of financial hardship, financial education, and employability skills front and centre. Our partnerships with FareShare and Citizens Advice are two particular highlights.

Until June 2026, money raised by YBS will fund FareShare's *Building Skills for the Future* employability programme. Our aim is to raise £1 million to help lift over 2,500 people out of financial hardship and into the world of work. We are delighted with the progress we have already made toward this goal. So far, almost 200 people have been reached through the programme.

Our award-winning partnership with Citizens Advice funds advisers to hold free, confidential appointments in our branches for members and non-members alike. Beginning as a trial in a small number of our branches, this was quickly expanded after observing the genuine, positive difference the service makes to people's lives. To date, the programme has assisted over 8,100 people. This is a key example of how the ways we use our face-to-face retail network are evolving as we seek out opportunities to take full advantage of our national presence.

1 https://www.ybs.co.uk/w/saving-small-amount-can-help-financial-and-mental-wellbeing

Interim Management Report (continued)

Introduction from the Chief Executive (continued)

Moving *Our Strategy* Forward

I am delighted to see so much momentum building behind *Our Strategy* in its first year since being refreshed. Our near-term priorities are progressing well, and our plan for the next five years is taking shape.

We want to deliver the best possible experience for our members and customers, whether that is face to face, online or over the phone. We continue to evolve our digital customer journeys, which includes continually expanding the features available through our app.

As our organisation continues to mature, and the risks that we face evolve, we will keep investing in our capabilities. This includes investing in our colleagues to ensure that they have the appropriate skills and expertise needed to meet future challenges.

Focusing on Delivering for our Members and Customers

Achieving our strategic objectives will not be possible without fostering an ambitious culture. Our people set us apart, and I would like to extend a big thank-you to all of the Society's colleagues for their unwavering efforts. The energy and enthusiasm with which *Our Strategy* has been embraced has been fantastic to see. It is no surprise to me that our colleagues continue to feature so highly in the feedback we receive from customers and brokers. This supports our achievement of an overall Net Promoter Score (NPS) of +64 (2023: +63)[2] in this period.

We hold ourselves to high standards when serving our members and customers. An area that remains a priority for us is complaints handling, where actions taken to improve outcomes are now evidencing improvements. Delivering good outcomes to our customers remains of great importance to us.

An Update on our Performance

Our core markets of mortgages and savings continue to be influenced by external factors, including the interest rate environment and the intensity of competition.

The level of demand in the mortgages market has been stronger than expected in 2024 so far, and house prices have proven more resilient than some previous expectations. Coupled with the larger application pipeline as we entered 2024, the Society's gross mortgage lending in the period increased, reaching £5.2 billion (2023 H1: £4.2 billion); net lending also increased, to £2.0 billion (2023 H1: £0.7 billion). In line with the more challenging economic environment, we have observed an increase in the level of mortgage arrears, though levels remain significantly more favourable than the industry average (0.49% at 30 June 2024 vs. industry average 0.97%)[3]. We will continue to offer support for our members who are experiencing difficulty in meeting their repayments.

The savings market in the first half of the year again saw a lot of activity aligned to the new tax year and the renewal of individual savings account (ISA) allowances. Understandably, ISA products have become much more popular in this environment, and the Society used our member loyalty programme to ensure that our long-standing members had a good-value option available to them.

The savings rates we offer continue to compare very favourably to the market average. Over 2024 so far, we delivered savings rates that were on average 0.91 percentage points higher than the market average (1.01 percentage points higher over 2023)[4]. Members value our rewarding rates, our network of branches and the substantial investment we have made in our digital capabilities over the last few years. This has led to savings balances continuing to grow strongly. Balances increased by £2.6 billion in the period (2023 H1: £3.7 billion increase), now standing at £50.3 billion[5].

The set of financial results delivered in the first six months of 2024 are robust. As a mutual, it is vitally important that we operate a responsible and sustainable business on behalf of our members. We hold levels of capital and liquidity that comfortably exceed regulatory minimums, and continued profitability will aid our resilience and provide optionality to weather uncertainties that future periods may bring.

Statutory profit before tax for the period was £158.1 million (2023 H1: £180.6 million) and core operating profit was £149.2 million (2023 H1: £246.4 million). Lower levels of profit are largely a result of an anticipated reduction in net interest income following a compression in both mortgage and savings margins, this trend stabilised in quarter two and we expect this to continue in to half two. Management expenses have increased against last year in line with inflationary pressures as well as making further investment in our colleagues and our ongoing transformation programme.

Net interest margin remains under pressure across the industry, and the prospect of a reducing interest rate environment adds to this dynamic. In this context, it is increasingly important that the investments we make toward our future are made purposefully, and in a disciplined manner, ensuring that they translate into benefits for our members and customers.

In the first half of this year, we welcomed Annemarie Durbin as our new Chair of the Board and Tom Ranger as our new Chief Financial Officer. I, and our committed leadership team, are determined to build on our strong foundations and deliver against our clear strategy to ensure Yorkshire Building Society continues to benefit its members long into the future.

Susan Allen, OBE

Chief Executive

[2] *Net Promoter Score* and *NPS* are trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc. Data period January – June 2024. Following a change in the calculation methodology for Group NPS, the comparative period has been restated on a consistent basis.

[3] Retail 3m+ in arrears including possessions by number of accounts. Industry average sourced from UK Finance: Retail, 3m+ in arrears. Latest data available is as at March 2024.

[4] CACI's Current Account and Savings Database (CSDB), Stock. Data period January – April 2024.

[5] Refer to Summary Balance Sheet on page 8.

Interim Management Report (continued)

Performance at a glance

Member value

Statutory profit before tax	Core operating profit[6]	Cost to core income ratio	Common Equity Tier 1 ratio
£158.1m	**£149.2m**	**53.1%**	**17.8%**
£180.6m 30 June 2023	**£246.4m 30 June 2023**	**39.0% 30 June 2023**	**16.7% 31 December 2023**
This is the profit we earned from our ongoing business operations, excluding taxes.	This is the profit we earned, excluding taxes, fair value volatility and one-time charges.	This ratio is a measure of efficiency, showing how much we are spending to generate every pound of our income.	Maintaining this ratio above a certain minimum helps to protect the Society against unexpected losses.

UK Leverage ratio	Liquidity coverage ratio	Average savings rate differential[7]	Net Promoter Score (NPS®)[8]
6.3%	**173.4%**	**0.91pp** higher than the market	**+64**
6.2% 31 December 2023	**156.4% 31 December 2023**	**1.01pp higher over 2023**	**+63 in 2023**
This ratio highlights the capital we hold compared to our assets, showing our ability to cope with unexpected events.	A liquidity metric which aims to ensure that an adequate level of liquidity is maintained to meet a severe, 30-day stress scenario.	This shows how much higher the rates we paid our customers were compared to the rest of market average.	This measures how willing our customers are to recommend us to others.

Place to call home

Gross lending	Gross mortgage lending market share[9]	Growth in mortgage balances[10]	New residential mortgages provided
£5.2bn	**4.8%**	**4.3%**	**23,000**
£4.2bn 30 June 2023	**3.9% 31 December 2023**	**1.5% 30 June 2023**	**21,000 30 June 2023**
This represents the amount we have provided to customers to help finance properties over the period.	This represents our share of all mortgage lending in the UK housing market.	This represents the growth in our overall mortgage balances over the period.	The number of new residential mortgages advanced in the period, helping our customers to have a place to call home.

Financial wellbeing

Savings accounts opened	Savings balance market share[11]	Growth in shares balances	Average savings rate paid[12]
290,000	**2.4%**	**5.5%**	**4.21%**
320,000 30 June 2023	**2.3% 31 December 2023**	**8.6% 30 June 2023**	**3.43% over 2023**
The number of accounts opened by new and existing members over the period, helping them save for the future.	This reflects our share of the UK savings market.	This shows the total deposits from members. We use these balances to fund the mortgages we offer to our customers.	This shows the benefit we are giving back to our members.

More detail on business performance can be found in the *Business highlights* on page 5.

6 Definitions of alternative performance measures are provided in the glossary for the 2023 Annual Report and Accounts.

7 YBS Group average savings rate compared to rest of market average rates. Data source: CACI's Current Account and Savings Database (CSDB), Stock. Data period: January – April 2024 (latest data available). Comparative period: January – December 2023.

8 *Net Promoter Score* and *NPS* are trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc. Following a change in the calculation methodology for Group NPS, the comparative period has been restated on a consistent basis.

9 Based on Bank of England total industry gross lending. Data period January – May 2024.

10 Growth in mortgage balances excludes fair value adjustments for hedged risk on loans and advances to customers.

11 Based on analysis of BSA deposits Held by Households. Data period: May 2024.

12 CACI's Current Account and Savings Database (CSDB), Stock. Data period January – April 2024.

Interim Management Report (continued)

Business highlights

This section provides a brief overview of the Society's key activities in the first six months of the year, as well as updates on the environments in which YBS operates.

Economic environment overview

Much focus within the UK economy remains on the rate of price inflation and what this may mean for the future path of Bank Rate, set by the Monetary Policy Committee (MPC). According to the Office for National Statistics, the Consumer Price Index (CPI) increased by 2.0% in the 12 months to May 2024, down from 2.3% in the 12 months to April 2024. This is much lower than the peak that CPI reached, which was 11.1% in the 12 months to October 2022[13]. Price inflation has been reported to be moderating across most goods categories whilst services inflation is proving more persistent, remaining elevated despite having declined from its previous position.

Bank Rate has stood at 5.25% since August 2023, and the MPC elected to hold rates at each of its meetings in the year to June, with the March 2024 meeting being the first where no members voted for an increase since the 5.25% rate was set. The MPC is clear that it remains prepared to adjust monetary policy to return inflation to the 2% target rate, informed by the close monitoring of the economy as a whole.

Market expectations for the future path of interest rates have continued to be dynamic in the first half of 2024. Expectations remain sensitive to the periodic releases of key economic data, each of which provide the markets an opportunity to revise assumptions on when and by how much Bank Rate may change.

Some of the cost-of-living pressures have begun to show signs of easing, with real earnings growth having emerged as the rate of inflation fell across the second half of 2023 and into 2024. Positive growth in earnings should result in a greater ability to save and spend; that said, many domestic households and landlords are yet to be impacted by refinancing to more expensive mortgages after their current fixed-rate product term comes to an end.

The UK mortgages market

In 2024 so far, the UK housing market has performed more strongly than some previous expectations. Increasing levels of demand have been observed, with higher residential mortgage application volumes recorded than those over the same period in 2023. House price indices have also shown resilience; average UK house prices increased 1.8% in the 12 months to March 2024, according to the Office for National Statistics[14].

The interest rates available to mortgage customers have been subject to volatility across the period. Customer rates reduced sharply at the beginning of January 2024, reacting to a downward shift in funding costs over the Christmas period, though this reduction mostly unwound in the months that followed as Bank Rate expectations again shifted. The cost of borrowing remains much higher than in recent years, and meeting affordability requirements remains a constraint on the market, especially for first-time buyers. Existing mortgage holders remain strongly incentivised to seek the best product available to them and their circumstances given the scale of the differential between their previous rate and the rate that they will lock in for the coming years.

The current environment for borrowers is therefore a challenging one. At YBS, we leverage our common-sense approach to lending and our product development to support those borrowers who are underserved by the wider market. This year we have bolstered our *Cascade Score* proposition, which allows us greater flexibility in our lending decisions, to now accommodate a loan-to-value of up to 95%. March also saw the launch of our *£5k Deposit Mortgage*, specifically targeted to support first-time buyers. We are delighted to have assisted over 310 customers in securing accepted applications within the first three months of the launch of this proposition. These enhancements open up opportunities for more aspiring homeowners.

The Society achieved gross lending of £5.2 billion in the first six months of 2024 (2023 H1: £4.2 billion), with the year-on-year increase owing to carrying a larger pipeline of mortgage applications into the year, in addition to capturing a larger share of the market in 2024. A higher year-on-year net mortgage lending position is predominantly driven by this increase in completions; net lending in H1 2024 was £2.0 billion, compared to £0.7 billion over the same period in 2023.

The UK savings market

In contrast to the preceding year, Bank Rate has remained constant so far in 2024 resulting in a shift in the dynamic within the retail savings market. Competition has been observed to ease as market-leading rates have slowly reduced since the peak of market activity in the second half of 2023, and customer rates have also been subject to fewer and less material changes. The market currently expects Bank Rate to begin reducing in the second half of the year which, if it comes to pass, will likely bring about changes in the competitive landscape as well as impacting customer preferences.

Aligned to the beginning of the new tax year, the opening part of the year is a time when many look to take advantage of renewed Individual Savings Account (ISA) allowances. This period was a successful one for the Society, driven by our range of competitively priced fixed- and variable-rate products, including our Loyalty ISA which carried a preferential rate for our long-standing members. ISAs have proven to be especially valuable for customers in this high interest rate environment, with stronger net flows than last year across the market.

The range of products we offer can help our members to save in the way that suits them, whether they need ready access to their funds, are looking for a fixed-term option, or simply want to build healthy savings habits. We know that reaching savings goals can be challenging, especially for aspiring homeowners.

[13] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/may2024
[14] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/privaterentandhousepricesuk/may2024

Interim Management Report (continued)

Business highlights (continued)

The UK savings market (continued)

This is why we launched a new savings proposition in March, exclusively designed to support first-time buyers: our *First Home Saver* product, which offers a rewarding interest rate on deposits of up to £500 per month. In tandem with our *£5k Deposit Mortgage* product, launched at the same time, these propositions aim to address the challenges faced by prospective borrowers. We will continue to explore similar opportunities to deepen the impact we have on the lives of our members and customers.

The rates of return we offered continued to outperform the market average; our variable rates were 0.91 percentage points higher (1.01 percentage points higher over 2023). The minimum variable rate we offered, 3.45%, was 0.16 percentage points higher than the average in this period (3.00% average minimum rate over 2023, 0.57 percentage points higher)[15]. Our competitively priced products, combined with continued strength in retention performance, and our transformational changes, has contributed to the growth achieved in retail savings balances over the period. Balances increased by £2.6 billion, reaching £50.3 billion (2023 H1: £3.7 billion growth).

Outlook

The UK economy experienced growth in the first quarter of 2024; gross domestic product (GDP) increased by 0.7%, which comes after two consecutive quarters of falling GDP over the second half of 2023[16]. Looking ahead, the economy is expected to continue to grow, albeit modestly. CPI inflation had fallen to the 2% MPC target in the 12 months to May 2024, and is currently expected to remain around the 2.0% to 2.5% range until the year is out; the rate of unemployment is also expected to remain relatively low. With inflationary pressures showing signs of subsiding and the cost-of-living picture starting to improve, attention has now turned to when the Monetary Policy Committee may begin to lower interest rates.

With our core markets of mortgages and savings being so intrinsically linked to the interest rate environment, central bank policy can have a material bearing on the prevailing dynamics for both competition within the market, and for customer behaviours. If and when the Bank of England begin to loosen monetary policy, this will bring both challenges and opportunities. A general increase in consumer confidence should result from lower living and borrowing costs. This will include those seeking a mortgage, whether for the first time or refinancing, who will be provided more optionality as affordability and monthly payment obligations will be within closer reach. Savers, however, are likely to see the rates of return available to them decrease alongside Bank Rate, and a changing preference between fixed and variable rate products could emerge.

For the wider banking industry, a declining Bank Rate environment has the effect of pressurising earnings. Intensifying competition could exacerbate this pressure and amplify the challenges, whether this stems from the market requirement to repay TFSME funding, actions taken to retain balances following the high levels of maturities, or other external factors.

Risks continue to be posed by geopolitical factors such as the recent tensions in the Middle East and the possible disruptive impact this could have on oil supply and prices. Additionally, with the result of the UK general election being a change to the governing party, this could in turn bring changes to economic policy. Impacts may also be felt from more global political changes, with a US election later in the year, and growing signs of shifting political sentiments in the Eurozone.

The Society will continue to prioritise the strength of our position, financial and otherwise, so as to ensure that we continue to be here to serve our members. The environments in which we operate are monitored closely in order that challenges and threats are identified as they emerge, and action taken where appropriate.

Our financial performance

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

The table on page 7 presents the results of Yorkshire Building Society ('YBS' or 'the Society') and its controlled entities (collectively 'the Group' or 'YBS Group') for the half-year ended 30 June 2024. See note 1 to the condensed interim financial statements for more information on the basis of preparation.

Income Statement

The rising Bank Rate environment has served to elevate levels of profitability across the industry over the past two years. This dynamic has been absent from the first six months of 2024, as Bank Rate appears to have reached its peak rate, and income performance and profitability have stepped down accordingly.

Net interest income was £340.8 million in the period, a decrease from the same period last year (2023 H1: £417.2 million). A primary driver of the reduction is the repricing of our mortgage and savings books, particularly the maturity of mortgages written in 2021, as prevailing new business margins are narrower in comparison. No changes were made to Bank Rate in the period, which contrasts with the 2023 comparative, where the four rate increases supported income. These impacts were partially offset by the continued growth in the balance sheet; growth was achieved in both mortgages and savings balances. Management expenses have increased year on year, owing to a higher than typical pay award for all colleagues, an increase in headcount, and inflationary pressures on costs such as IT and utilities. We have also made additional investment in our transformation programme.

[15] CACI's Current Account and Savings Database (CSDB), Stock. Data period January – April 2024.

[16] GDP quarterly national accounts, UK - Office for National Statistics (ons.gov.uk).

Interim Management Report (continued)

Business highlights (continued)

Our financial performance (continued)

Income Statement (continued)

Our financial performance is monitored by our Board who, in addition to looking at statutory profit before tax, look at core operating profit. Core operating profit excludes items such as fair value volatility and one-time charges that are either temporary in nature or reverse over time and so do not reflect the Group's day-to-day activities. In this reporting period, core operating profit was £149.2 million, a decrease of £97.2 million on the equivalent period last year (30 June 2023: £246.4 million).

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

		Half-year ended 30 June 2024			Half-year ended 30 June 2023			Year ended 31 December 2023		
		Statutory	**Remove non-core items**	**Core**	Statutory	Remove non-core items	Core	Statutory	Remove non-core items	Core
	Notes	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Net interest income	i	**340.8**	**(1.8)**	**339.0**	417.2	(1.4)	415.8	786.0	(2.4)	783.6
Fair value gains and losses	ii	**7.1**	**(7.1)**	**–**	(71.3)	67.4	(3.9)	(5.5)	2.2	(3.3)
Net realised gains		**–**	**–**	**–**	1.5	–	1.5	1.6	–	1.6
Other income		**1.2**	**–**	**1.2**	1.8	–	1.8	4.3	–	4.3
Total income/core income		**349.1**	**(8.9)**	**340.2**	349.2	66.0	415.2	786.4	(0.2)	786.2
Management expenses		**(180.5)**	**–**	**(180.5)**	(161.9)	–	(161.9)	(332.7)	–	(332.7)
Impairment of financial assets		**(10.7)**	**–**	**(10.7)**	(7.5)	–	(7.5)	(4.0)	–	(4.0)
Movement in provisions	iii	**0.2**	**–**	**0.2**	0.8	(0.2)	0.6	0.6	(0.2)	0.4
Profit before tax/core operating profit		**158.1**	**(8.9)**	**149.2**	180.6	65.8	246.4	450.3	(0.4)	449.9

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

i. Historical fair value credit adjustments on acquired loans.

ii. Removed fair value volatility i.e. gains and losses on derivatives not qualifying for hedge accounting, and on non-core equity investments. See note 5 to the condensed interim financial statements for more information.

iii. Non-core elements of the restructuring provision.

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

- Net interest income for the year to June is £340.8 million (2023 H1: £417.2 million), representing a net interest margin of 1.09%, a decrease of 0.29 percentage points compared to the equivalent period last year.
- Other income of £1.2 million relates to fees, commissions, and other operating income (2023 H1: £1.8 million).
- Management expenses were £180.5 million, an increase of £18.6 million against the same period in 2023. The increase is driven by the full-year impact of a higher than typical colleague pay award and an increase in headcount, partially to accommodate the increase in operational scale in addition to bolstering strategically important roles such as change and risk. Investment in our portfolio of change has also increased year on year as we look to accelerate the delivery of enhancements to customer experience. Also impacting 2024 costs is the recognition of the Bank of England Levy Framework which replaces the previous Cash Ratio Deposit scheme.
- Movements in management expenses and net interest income have resulted in an increase in cost to core income ratio from 39.0% to 53.1%.
- An impairment charge of £10.7 million has been recorded in the period (2023 H1: £7.5 million). See note 8 to the condensed interim financial statements for more information on expected credit losses, including the economic scenarios used.

As a mutual we do not pay dividends to external shareholders; profit requirements are driven solely by our need for ongoing capital to support our activities. Profit remains sufficient to provide capital for our growth aspirations and ensure we are resilient to severe economic stresses.

The Group's business activities are focused within the UK and predominantly relate to mortgage lending which is funded primarily through domestic deposits. We continue to have a cautious approach to liquidity management and as at 30 June 2024, the majority of our liquidity portfolio consisted of exposures to the Bank of England and the UK Government.

Interim Management Report (continued)

Business highlights (continued)

Our financial performance (continued)

Balance Sheet

The balance sheet presented below is rounded to the nearest point one of a billion. Any figures or measures quoted are based on the consolidated balance sheet on page 17.

	Half-year ended 30 June 2024 £bn	Half-year ended 30 June 2023 £bn	Year ended 31 December 2023 £bn
Liquid assets	**13.7**	14.9	12.8
Loan and advances to customers	**48.8**	45.9	46.8
Fair value adjustment for hedged risk on loans and advances to customers	**(0.7)**	(1.8)	(0.6)
Other assets	**2.1**	3.2	2.0
Total assets	**63.9**	62.2	61.0
Shares – retail savings	**49.6**	45.6	47.1
Wholesale funding and other deposits[17]	**8.1**	10.8	7.8
Subordinated liabilities	**1.5**	1.2	1.6
Other liabilities	**0.9**	1.1	0.8
Total liabilities	**60.1**	58.7	57.3
Members' interest and equity	**3.8**	3.5	3.7
Total members' interest, equity and liabilities	**63.9**	62.2	61.0

Overall balance sheet growth in the year to June was 4.8% (2023 H1: 5.8%).

Growth in shares balances was £2.6 billion (2023 H1: £3.6 billion), with net savings flows contributing £1.8 billion (2023 H1: £3.1 billion). This growth has been supported by the strength of our product propositions, maintaining a significant rate differential to the market, and enhancements in our digital savings offering.

Net mortgage lending increased compared to last year, reaching £2.0 billion in the first half of this year (2023 H1: £0.7 billion). Completion volumes in early 2023 were impacted by the disruption to the mortgage market in the Autumn of 2022 which resulted in a smaller application pipeline being carried forward. The pipeline volumes were more typical as 2024 began, further supported by strong in-year completion volumes.

The asset quality of our loan book remains high, though arrears levels have been observed to have increased year on year. The value of loans more than three months in arrears represents 0.41% of our mortgage book at 30 June 2024 (31 December 2023: 0.39%). The number of accounts which are more than three months in arrears (including possessions) is 0.49% at 30 June 2024 (31 December 2023: 0.50%), which remains significantly better than the industry average, the latest data for which is 0.97% (31 December 2023: 0.94%)[18]. A number of indicators are used in assessing the credit quality of our loan book, which are continually monitored. We also continue to consider our lending criteria carefully.

The Society maintained our active presence in the wholesale funding markets. In the first six months of 2024, we issued two Covered Bonds, one Euro and one Sterling, with the latter also accompanied by a liability management exercise to repurchase a proportion of an existing Covered Bond issuance. In May, we made a £0.5 billion repayment in respect of TFSME funding, the outstanding balance of which now stands at £0.5 billion (2023 H1: £2.2 billion outstanding).

Levels of liquidity remain robust and sufficient headroom to regulatory requirements has been maintained. As at 30 June 2024, our liquidity ratio stands at 23.7% (2023: 23.3%), and our liquidity coverage ratio was 173.4% (2023: 156.4%).

Key capital ratios also demonstrate significant headroom against regulatory minimums. As part of the Society's work to strengthen its governance, risk, and control capabilities, we have been undertaking focused work to improve the maturity of our control environment in respect of disclosures and regulatory reporting. Work has now concluded regarding the Society's approach to reporting Mortgage Risk-Weighted Assets (RWAs), the implementation of which results in a reduction in the Society's Mortgage RWAs at half-year, and supports an increase in the Common Equity Tier 1 (CET1) ratio.

Our CET 1 ratio, which represents the relationship between the strongest form of capital (predominantly retained profits) and risk-weighted assets, is 17.8% (2023: 16.7%). Our UK leverage ratio, which compares Tier 1 capital with total assets, stands at 6.3% (2023: 6.2%).

The Society is anticipating the publication of the final Basel 3.1 rules and, as such, only has an initial assessment of the impacts that the rules may have upon the Society's capital position. Whilst the final outcome of the rules is unknown, it is currently expected that the Basel 3.1 rules will not have a significant impact upon the Society's capital position. The Society will undertake a full assessment of the final rules once published.

[17] Within 'wholesale funding and other deposits' are £0.7 billion of retail savings deposits not classed as shares (2023 H1: £0.5 billion, 2023: £0.6 billion).

[18] Industry average sourced from UK Finance: Retail, 3m+ in arrears. Latest data available is as at March 2024.

Interim Management Report (continued)

Risk overview

The environment within which we operate and the nature of the threats we face are continually evolving. A description of the principal risks and uncertainties to which we are exposed is included in the table below, and further commentary on how these risks have evolved is included after the table.

We have performed stress tests to assess the impact of a range of risk scenarios. It is our assessment that, while they each bring their individual challenges, we are well placed to manage them.

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

We have a robust risk management framework, strong capital position, diverse funding sources and high liquidity levels; we are confident in our ability to deliver good outcomes for our members and customers; and we remain confident in the financial resilience, operational resilience and the sustainability of the Group.

Risk	Description	Approach
Strategic risk	The risk to the Group's earnings or sustainability arising from changes in the business environment or from the effectiveness of decisions and actions in our strategic response to those changes. Sources: ▪ The business environment we operate in could change unexpectedly ▪ The decisions we make and actions we take could prove ineffective	▪ We perform regular horizon scanning, corporate planning, scenario analysis, competitor analysis and business performance monitoring to mitigate risks arising from the economic environment and our strategic choices ▪ We have defined risk attitudes, risk appetites and risk metrics for all our other principal risks ▪ Our business model is relatively simple, but we operate in a highly competitive market. Our hedging strategy therefore mitigates the risks arising from our focused range of products in this market
Capital risk	The risk that the Group is not able to meet regulatory capital requirements or deliver on its strategic plans due to insufficient capital resources. Sources: ▪ Principal risks could crystallise, causing losses and depleting capital ▪ Regulatory requirements for capital could increase	▪ Capital risk is constrained by a Board-approved risk appetite and the Board-approved capital risk policy ▪ Current and projected capital positions are regularly monitored and considered in stress scenarios as part of the internal capital adequacy assessment process ▪ We conduct internal tests to ensure sufficient capital is available for the Group to maintain its minimum capital requirements, even in a stress scenario ▪ Further information on our capital management can be found in the Group's Pillar 3 disclosures on our website
Funding and liquidity risk	The risk of having inadequate cash flow to meet current or future requirements and expectations. Sources: ▪ Members can withdraw their deposits at short- or no-notice ▪ Wholesale investors may lose confidence in the Group	▪ We are primarily funded through retail savings balances, supported by a strong franchise in key wholesale funding markets ▪ Funding and liquidity risk is constrained by a Board-approved risk appetite and the Board-approved funding and liquidity risk policy ▪ The Board annually approves the key assumptions and controls for managing liquidity risk as part of the internal liquidity adequacy assessment process ▪ We conduct internal tests to ensure sufficient liquidity is available to meet business-as-usual and stressed requirements ▪ We manage to the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) external regulatory measures

Interim Management Report (continued)

Risk overview (continued)

Risk	Description	Approach
Market risk	The risk to the Group's earnings or the value of its assets and liabilities due to changes in external market rates. Source: ■ Our earnings or the value of our assets and liabilities deteriorate because of adverse changes in market interest rates	■ Market risk is constrained by a Board-approved risk appetite and the market risk policy ■ We adopt a risk-averse approach to interest rate mismatches, although some position-taking is allowed, subject to the risk appetite ■ We conduct internal tests to ensure market risk is within an acceptable range over a series of interest rate scenarios ■ Our limits for basis risk include limits for sensitivities around isolated movements in underlying rates (SONIA), for overall mismatch ratios, and for ensuring the Group has sufficient levels of margin management capability
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. Source: ■ Transacting with other financial market participants when managing market risk who then fail to fulfil their obligations	■ Treasury risk is constrained by a Board-approved risk appetite and the treasury risk policy ■ Most of our liquid asset buffer portfolio is invested in the highest quality assets ■ The majority of derivative contracts are subject to mandatory 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. These bi-lateral positions have daily margining requirements in place via a Credit Support Annex (CSA).
Model risk	The risk that the Society's models that are used to manage the business are inaccurate, perform inadequately or are incorrectly used. Sources: ■ Models may be incorrectly designed or contain coding errors ■ Models may use logic and assumptions based on the past which are no longer relevant	■ We maintain an inventory of models which are governed by our model risk policy and model governance framework ■ We have a process to identify and monitor new models to bring these into governance ■ Compliance with the policy is monitored by the Model Risk Committee (MRC), which is chaired by the Chief Risk Officer
Retail and commercial credit risk	The risk of credit losses from a failure to design, implement and monitor an appropriate credit risk appetite. Source: ■ Loans to retail and commercial customers may not be fully repaid	■ Retail and commercial credit risk is constrained by a Board-approved risk appetite and the commercial lending policy ■ Our robust credit risk framework ensures lending remains within limits and appropriate remedial action is taken if a breach occurs. Adherence is monitored through governance committees ■ We regularly use stress testing to assess the resilience of our portfolio ■ Our credit risk models are overseen by the model governance framework

Interim Management Report (continued)

Risk overview (continued)

Risk	Description	Approach
Operational risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events. Sources: ■ Our technology may fail ■ Our suppliers may fail to meet their contractual obligations ■ We may not be able to recruit and retain the right people ■ Criminals may use the Society for illegal activity ■ Other external events	■ Operational risk is constrained by a Board-approved risk appetite and a number of risk-specific policies ■ The ERMF defines how colleagues are expected to identify, assess, monitor, manage and report their operational risk exposures ■ Directors must regularly attest to the effectiveness of the controls they are responsible for through the risk and control self-assessment process
Compliance and conduct risk	The risk of direct or indirect loss from a failure to comply with regulation or to ensure good customer outcomes. Sources: ■ Developing new products for our customers ■ Marketing our products ■ Serving our customers	■ Compliance and conduct risk is constrained by a Board-approved risk appetite and a number of risk-specific policies ■ We monitor conduct risk metrics for a number of areas including sales, service, complaints and collections ■ The second line of defence provides compliance support on all regulatory matters to the first line, for both day-to-day operations and change programmes

Evolution of principal risk exposures

Our principal risks and uncertainties continue to evolve. The key areas of focus during the first half of 2024 were the continued effects on our customers and members of higher interest rates and cost-of-living concerns; mitigating financial crime and cyber security threats; improving our operational resilience; attracting and retaining skills and talent for in-demand areas; and strengthening our risk management capabilities to support the next phase of our growth.

The political and economic environment (retail and commercial credit risk, market risk and funding and liquidity risk)

Although the rate of inflation in the UK has fallen in the first half of 2024, the impact of higher interest rates and an uncertain economic outlook continue to add pressure to household incomes. This has reduced affordability for both mortgage borrowers and tenants of buy-to-let landlords.

We assess affordability for new lending using a sophisticated model which uses a stressed interest rate, and is reviewed at least every six months. Our lending criteria aim to balance the level of purposeful risk we take with lending responsibly to deliver good customer outcomes, minimise arrears, and comply with the Consumer Duty regulations.

We ensure that our products are carefully priced, and we are disciplined in our approach to hedging, so that we do not exceed the Board-approved risk appetite. We stress test our liquidity position regularly and our liquidity ratios continue to remain significantly within the Board-approved risk appetite.

Attracting and retaining skills and talent in high demand areas (operational risk)

Employer competition continues for in-demand skills, such as those relating to change, cybersecurity, digital, and data. Coupled with low levels of unemployment and higher wage inflation, attracting and retaining the right people to deliver our strategy is vital and challenging.

Effective resource planning, forecasting, and succession planning remain priorities. We have also strengthened our risk management capabilities for people risk and have improved our people policies, particularly for working families.

The use of sophisticated models (model risk)

We use sophisticated models to help manage our financial risks. These use historical data and assumptions based on the past, to provide future estimates to assist with running the business and in understanding our risks. Any approach that seeks to predict the future carries inherent risk.

Our Model Risk Committee reviews the specific risks associated with the models regularly. We also ensure that our model risk framework meets regulatory requirements.

Interim Management Report (continued)

Risk overview (continued)

Evolution of principal risk exposures (continued)

The regulatory environment (compliance and conduct risk)

Following the implementation of the FCA's new Consumer Duty requirements for open products last year, we are on track to meet the requirements for closed products by 31 July 2024.

We continue to have open and constructive dialogue with our regulators, and work with them and industry bodies to contribute to the regulatory agenda. Monitoring and maintaining our actual regulatory compliance positions is of the highest priority across management.

Climate change risk (retail and commercial credit risk and operational risk)

The main risks from climate change for the Society arise in the physical risks to our customers' properties, such as from flooding, subsidence, and coastal erosion, and those posed by the transition to a lower-carbon economy, such as changes in energy efficiency regulation.

We continue to develop our environmental and climate change risk management capabilities, to ensure that we align with industry good practice and meet reporting and disclosure requirements.

Financial crime threats (compliance and conduct risk)

Financial crime threats arise both from customers falling victim to fraud attempts, particularly through digital channels, as well as from individuals attempting to use the Society for unlawful reasons such as to launder money or evade sanctions. These threats are heightened in the uncertain economic and geopolitical environment.

Our continued focus on our financial crime capability remains paramount, and we continue to invest to deliver proportionate and effective monitoring and prevention controls.

New and evolving cyber security threats (operational risk)

The increasing use of technology and digital services means the UK financial services sector is exposed to increasing cyber security risks. These are heightened further because of geopolitical tensions, such as the war in Ukraine.

Resilience to such threats, and an ability to respond effectively in the event of an attack, remains essential to protect the Society and our customers, and to maintain the confidence of regulators. We have significantly enhanced our cyber threat monitoring and response capability and our plans to continue doing so in 2024 are on track.

IT resilience (operational risk)

As IT components age, their health and value can deteriorate. This poses a risk to our customers who increasingly rely on our digital channels, and our colleagues who use our systems to deliver services to our customers.

We are continually modernising and simplifying our IT estate to improve its resilience so we can deliver the services our customers expect.

Continued risk management effectiveness

The Group always wishes to proactively ensure that risk management capability is equal to or ahead of that which is necessary. Having now passed the regulatory threshold of holding £50 billion of retail deposits, and with the possibility of being designated a category one firm in the future, the Group is therefore strengthening its governance, risk and control capabilities and further maturing its regulatory reporting framework. This activity includes enhancing subject matter expertise in key areas; leveraging the latest technology and data to deliver automation and efficiencies, particularly for regulatory reporting; improving the risk and control self-assessment process; refining the standard library controls; and further encouraging challenge and learning.

Interim Management Report (continued)

Regulatory environment

The Society places emphasis on operating the Society in a responsible and sustainable way in the long-term interests of our members. As part of this we monitor the regulatory environment and take steps to ensure compliance with all existing and upcoming regulation. Relevant updates from the regulatory environment include:

Financial Conduct Authority (FCA) Consumer Duty

The FCA Consumer Duty (the Duty) came into force for all on-sale products (defined by the FCA as open book) in July 2023. A second deadline of 31 July 2024 is now approaching, by which time firms must ensure that all products no longer on sale but still being serviced (closed book) are compliant with the Duty. Firms must ensure the same, higher standards of consumer protection are in place for both open and closed book products.

The impact of the Duty is far-reaching with firms expected to embed a 'consumer first' approach into how they run their organisations, how they price and service products, how they communicate with their customers, and how support is provided.

The FCA recently wrote to firms to highlight the key themes that they expect to be considered before the 31 July 2024 implementation deadline. These include making sure that vulnerable customers are not adversely impacted by aspects of a product or design of a service, and that firms should respond flexibly to meet the needs of these customers. In addition, firms should consider the fair value of closed products and services on a forward-looking basis, this includes ensuring that there is a reasonable relationship between the price paid by customers and the benefits they receive from the product or service.

Borrowers In Financial Difficulty

On 4 November 2024, stronger protections for borrowers in financial difficulty will come into force. The new rules, implemented by the FCA, will require lenders to provide more tailored support to borrowers who are facing financial difficulties. In effect making permanent the measures introduced during the pandemic, as well as additional changes designed to improve outcomes for these customers.

Under these new rules, the FCA has widened the scope of their regulations to include customers at risk of payment difficulty as well as those already experiencing difficulties. They have also highlighted a requirement for firms to consider the information it receives from customers and take appropriate action where there are signs of potential repayment difficulties. New guidance is also being introduced requiring firms to be transparent about the full range of support options that it 'may' consider, rather than those it 'will' consider. Firms must make it clear these are potential options and that the specific support available will depend on the customer's individual circumstances. YBS has a programme of change underway to ensure these new rules are implemented by the regulatory deadline.

It is important to note that these new rules are in addition to the options available to customers through the Mortgage Charter which was introduced in June 2023 with the support of the UK Government, the FCA, and lenders.

Help and support for customers experiencing difficulty paying their mortgage is available via the YBS website and through our helpline 0800 138 2402.

Advice Guidance Boundary Review

On 8 December 2023, HM Treasury (HMT) and the FCA published a joint discussion paper (Advice Guidance Boundary Review) to examine the regulatory boundary between financial advice and guidance. The review is seen as providing a key opportunity to rethink the way that advice and support is provided to financial services consumers.

The review highlights that a lack of appropriate financial advice may be leading consumers to make decisions which are not in their best interests. Whilst not everyone will need or want support, consumers could be missing out on the value that support can provide, known as the 'advice gap'.

The review sets out initial proposals which are designed to close the 'advice gap' and hopes to address the issues as to why consumers are not choosing to access financial advice. The issues include an unwillingness to pay for advice and a perception that they will not benefit from it, for example, holding savings in a low interest cash account which may decline in value over time in comparison to being invested. The aim of the review is to ensure that a broader range of consumers are empowered to proactively manage their finances. The outcome of the review is awaited, however, YBS does not currently offer investments-based products.

Authorised Push Payment Scams (APP)

A directive from the Payment Systems Regulator (PSR) to reimburse customers who have fallen victim and made payments to scammers goes live on 7 October 2024. The policy is seen by the regulator as a step-change in fraud prevention and will see consumers who fall victim to APP scams reimbursed in most cases. This forms part of the PSR's wider work on reducing fraud in the payment system and follows the introduction of Confirmation of Payee checks for customers sending payments, which YBS implemented in 2023. Currently the proposals cover payments made using the Faster Payment System, but the PSR are consulting on extending the proposal to cover CHAPS payments as well.

Interim Management Report (continued)

Changes to the Board

A complete list of the board of directors can be found in the 2023 Annual Report and Accounts (ARA) on the YBS website at www.ybs.co.uk.

As reported in the 2023 ARA, John Heaps stepped down following the Annual General Meeting on 23 April 2024 after nine years as Chair of the Board. He was succeeded by Annemarie Durbin, who joined the YBS Board as Chair of the Board Designate in December 2023.

In January 2024, we announced that Alasdair Lenman intended to retire from his role as Chief Finance Officer. Alasdair stepped down from the Society's Board following the Annual General Meeting on 23 April 2024; he continued to work for the Society as Chief Finance Officer until his retirement on 30 June 2024.

Following a comprehensive recruitment process, we announced in February 2024 that he would be succeeded by Tom Ranger who joined the Society as Chief Financial Officer on 18 June 2024, subject to regulatory approval.

Signed on behalf of the Board by

Susan Allen, OBE

Chief Executive Officer

24 July 2024

Tom Ranger

Chief Financial Officer

24 July 2024

Condensed Interim Financial Statements

Consolidated Income Statement
(Unaudited)

	Notes	**Half-year to 30 June 2024 £m**	Half-year to 30 June 2023 £m	Year to 31 December 2023 £m
Interest revenue calculated using the effective interest rate method	3	**1,186.3**	874.3	1,954.6
Other interest revenue	3	**473.0**	467.8	1,011.7
Interest revenue	3	**1,659.3**	1,342.1	2,966.3
Interest expense	4	**(1,318.5)**	(924.9)	(2,180.3)
Net interest income		**340.8**	417.2	786.0
Fee and commission revenue		**9.0**	9.6	20.0
Fee and commission expense		**(8.1)**	(8.1)	(16.6)
Net fee and commission income		**0.9**	1.5	3.4
Net gains/(losses) from financial instruments held at fair value	5	**7.1**	(71.3)	(5.5)
Net realised gains on disposal of financial instruments		**–**	1.5	1.6
Other operating income		**0.3**	0.3	0.9
Total income		**349.1**	349.2	786.4
Administrative expenses		**(170.5)**	(152.2)	(312.3)
Depreciation and amortisation		**(10.0)**	(9.7)	(20.4)
Impairment of financial assets	6	**(10.7)**	(7.5)	(4.0)
Movement in provisions		**0.2**	0.8	0.6
Profit before tax		**158.1**	180.6	450.3
Tax expense	7	**(41.6)**	(47.7)	(118.6)
Profit for the period		**116.5**	132.9	331.7

Condensed Interim Financial Statements (continued)

Consolidated Statement of Comprehensive Income (Unaudited)

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m	Year to 31 December 2023 £m
Profit for the period	**116.5**	132.9	331.7
Items that may be subsequently reclassified through profit or loss			
Cash flow hedges:			
Fair value movements taken to equity	**–**	(6.5)	–
Amounts transferred to the income statement	**(0.1)**	(7.5)	(13.2)
Tax on amounts recognised in equity	**–**	3.9	3.7
Effect of change in corporation tax rate	**–**	–	–
Financial assets measured through other comprehensive income:			
Fair value movements taken to equity	**18.6**	1.8	(18.0)
Amounts transferred to the income statement	**0.3**	–	1.2
Tax on amounts recognised in equity	**(5.3)**	(0.5)	4.7
Effect of change in corporation tax rate	**–**	–	–
Items that will not be reclassified through profit or loss			
Remeasurement of retirement benefit obligations	**2.2**	(12.1)	(11.2)
Tax on remeasurement of retirement benefit obligations	**(0.6)**	3.4	3.1
Effect of change in corporation tax rate	**–**	–	–
Total other comprehensive income/(expense)	**15.1**	(17.5)	(29.7)
Total comprehensive income for the period	**131.6**	115.4	302.0

Condensed Interim Financial Statements (continued)

Consolidated Balance Sheet
(Unaudited)

	Notes	As at 30 June 2024 £m	As at 30 June 2023 £m	As at 31 December 2023 £m
Assets				
Cash and balances with the Bank of England		**5,274.8**	7,563.7	4,839.1
Loans and advances to credit institutions		**568.9**	450.5	397.4
Debt securities		**7,864.3**	6,887.0	7,561.9
Loans and advances to customers	8	**48,840.2**	45,868.1	46,815.9
Fair value adjustment for hedged risk on loans and advances to customers		**(689.9)**	(1,792.1)	(615.5)
Derivative financial instruments		**1,793.0**	2,983.9	1,755.0
Investments		**3.2**	3.0	3.3
Intangible assets		**16.3**	16.5	18.3
Investment property		**15.7**	15.9	15.7
Property held for sale		**0.6**	0.9	0.6
Property, plant and equipment		**98.8**	97.7	99.5
Current tax assets		**16.2**	22.7	–
Retirement benefit surplus	9	**40.3**	36.5	38.6
Other assets		**33.5**	27.0	38.9
Total assets		**63,875.9**	62,181.3	60,968.7
Liabilities				
Shares		**49,637.6**	45,632.8	47,056.7
Amounts owed to credit institutions		**1,885.1**	4,375.8	1,886.3
Other deposits		**1,201.4**	1,027.3	983.6
Debt securities in issue		**5,035.3**	5,409.8	4,919.4
Derivative financial instruments		**677.5**	908.6	697.4
Current tax liabilities		**–**	–	–
Deferred tax liabilities		**45.7**	17.7	22.5
Other liabilities		**67.6**	64.4	70.5
Retirement benefit obligations	9	**7.6**	7.2	8.1
Provisions		**2.9**	4.0	4.0
Subordinated liabilities		**1,485.1**	1,221.8	1,621.7
Total liabilities		**60,045.8**	58,669.4	57,270.2
Members' interests and equity		**3,830.1**	3,511.9	3,698.5
Total members' interest, equity and liabilities		**63,875.9**	62,181.3	60,968.7

Condensed Interim Financial Statements (continued)

Consolidated Statement of Changes in Members' Interest and Equity (Unaudited)

	General reserve £m	Cash flow hedge reserve £m	Fair value through other comprehensive income £m	Total £m
Half-year to 30 June 2024				
At 1 January 2024	**3,708.3**	**0.4**	**(10.2)**	**3,698.5**
Profit for the period	**116.5**	**–**	**–**	**116.5**
Net remeasurement of defined benefit obligations	**1.6**	**–**	**–**	**1.6**
Net movement in cash flow hedges	**–**	**(0.1)**	**–**	**(0.1)**
Net movement in fair value through other comprehensive income	**–**	**–**	**13.6**	**13.6**
Total comprehensive income	**118.1**	**(0.1)**	**13.6**	**131.6**
At 30 June 2024	**3,826.4**	**0.3**	**3.4**	**3,830.1**
Half-year to 30 June 2023				
At 1 January 2023	3,384.7	9.9	1.9	3,396.5
Profit for the period	132.9	–	–	132.9
Net remeasurement of defined benefit obligations	(8.7)	–	–	(8.7)
Net movement in cash flow hedges	–	(10.1)	–	(10.1)
Net movement in fair value through other comprehensive income	–	–	1.3	1.3
Total comprehensive income	124.2	(10.1)	1.3	115.4
At 30 June 2023	3,508.9	(0.2)	3.2	3,511.9
Year to 31 December 2023				
At 1 January 2023	3,384.7	9.9	1.9	3,396.5
Profit for the period	331.7	–	–	331.7
Net remeasurement of defined benefit obligations	(8.1)	–	–	(8.1)
Net movement in cash flow hedges	–	(9.5)	–	(9.5)
Net movement in fair value through other comprehensive income	–	–	(12.1)	(12.1)
Total comprehensive income	323.6	(9.5)	(12.1)	302.0
At 31 December 2023	3,708.3	0.4	(10.2)	3,698.5

Condensed Interim Financial Statements (continued)

Consolidated Statement of Cash Flows
(Unaudited)

	Notes	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m	Year to 31 December 2023 £m
Cash flows from operating activities				
Profit before tax		**158.1**	180.6	450.3
Non-cash items included in profit before tax	11	**64.1**	5.2*	147.0
Net change in operating assets	11	**(1,822.1)**	(1,037.7)*	(1,937.2)
Net change in operating liabilities	11	**2,719.5**	2,913.9*	1,744.7
Tax paid		**(35.5)**	(58.5)	(101.0)
Net cash flow from operating activities		**1,084.1**	2,003.5	303.8
Cash flows from investing activities				
Purchase of property, plant and equipment, and intangible assets		**(7.2)**	(2.4)	(15.0)
Proceeds from sale of property, plant and equipment		**–**	–	(0.2)
Purchase of debt securities		**(1,671.7)**	(2,035.1)	(3,412.9)
Redemption and other movements of debt securities		**1,388.2**	836.2	1,520.6
Net cash flow from investing activities		**(290.7)**	(1,201.3)	(1,907.5)
Cash flows from financing activities				
Redemption of debt securities in issue	11	**(1,006.4)**	(796.3)	(1,423.7)
Issue of debt securities	11	**1,178.6**	1,005.3	999.2
Redemption of subordinated liabilities	11	**(142.5)**	(136.4)	(136.4)
Issue of subordinated liabilities	11	**–**	350.0	650.0
Interest paid on subordinated liabilities		**(37.4)**	(17.2)	(51.5)
Interest paid on lease liabilities		**0.2**	(0.3)	(0.6)
Capital repayments on lease liabilities		**(2.2)**	(1.6)	(3.6)
Net cash flow from financing activities		**(9.7)**	403.5	33.4
Net change in cash and cash equivalents		**783.7**	1,205.7	(1,570.3)
Opening balance		**5,060.0**	6,630.3	6,630.3
Closing cash and cash equivalents		**5,843.7**	7,836.0	5,060.0
Cash and cash equivalents				
Cash and cash equivalents		**5,274.8**	7,563.7	4,839.1
Less Bank of England cash ratio deposit		**–**	(178.2)	(176.5)
Loans and advances to credit institutions		**568.9**	450.5	397.4
Closing cash and cash equivalents		**5,843.7**	7,836.0	5,060.0

* Please see Note 11 *Notes to the consolidated statement of cashflows* for restatement details.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements

1. Basis of preparation

These condensed interim financial statements present the results of Yorkshire Building Society ('YBS') and its controlled entities (collectively 'the Group' or 'YBS Group') for the half-year ended 30 June 2024.

The accounting policies, presentation and measurement applied during the period are consistent with those applied by the Group in the 31 December 2023 audited annual financial statements being International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the International Accounting Standards Board (IASB) endorsed by the UK Endorsement Board (UKEB) and effective as at 1 January 2024. The presentation applied in the period is consistent with the presentation applied in the 31 December audited annual financial statements.

The Group is required under the Building Societies Act 1986 to apply 'UK-adopted international accounting standards' as endorsed by the UKEB. The condensed interim financial statements have therefore been prepared in accordance with UK-adopted IAS 34 Interim Financial Reporting and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

The Group operates solely within the retail financial services sector and within the United Kingdom. As such, no segmental analysis is presented.

During the half-year to 30 June 2024 there have been no changes to the composition of the Group. The condensed interim financial statements have been subject to a review and have not been audited.

Accounting developments

The information on future accounting developments and their potential effect on the financial statements are provided on page 153 of the 2023 Annual Report and Accounts.

Going concern

The YBS Board of Directors undertake regular assessments of whether the Group is a going concern in light of changing economic and market conditions, using all available information about future risks and uncertainties. Details of the review undertaken to support the 31 December 2023 financial statements are given on pages 133-134 of the 2023 Annual Report and Accounts.

The directors confirm that, based on the latest formal review undertaken in July 2024, and stress tests performed throughout the period, they consider the Group has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these condensed interim financial statements.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

2. Critical accounting judgements and key sources of estimation uncertainty

In applying its accounting policies, the Group makes judgements that have a significant impact on the amounts recognised in the condensed interim financial statements.

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

Other than the specific changes highlighted below, the key sources of estimation uncertainty remain unchanged since those disclosed on pages 159 to 160 of the 2023 Annual Report and Accounts.

Impairment of loans and advances to customers

The impairment calculation of expected credit loss (ECL) for a portfolio of mortgage loans is inherently uncertain. ECLs are calculated using historical default and loss experience but require judgement to be applied in predicting future economic conditions (e.g. interest rates and house prices) and customer behaviour (e.g. default rates). The most critical judgements that lead to estimation uncertainty are as follows.

Economic scenario and weightings

The UK Economy technically entered recession at the end of 2023, attributed to the ongoing cost-of-living crisis and higher interest rate environment. Since then, the UK economy has started growing again modestly, this trend is expected to continue throughout 2024.

Headline inflation has fallen back to its 2% target, for the first time since July 2021, however there are elements of the inflation data which continue to prove persistent, with services inflation still above 5%. It is therefore likely that headline inflation will creep back up again throughout H2 2024. Interest rate expectations have remained volatile, as the market anticipates the timing for the first interest rate cut.

Unemployment has been rising steadily since the start of the year, indicating the labour market is loosening, albeit gradually and as expected throughout H1 2024, this trend is likely to continue throughout 2024.

Scenarios are generated internally using external data, statistical methodologies, and senior management judgement, to span a range of plausible economic conditions. The Group continues to use four scenarios: an upside scenario that assumes more benign economic conditions; our core or central best estimate scenario; a downturn scenario that assumes more adverse economic conditions; and a more Severe Downturn scenario.

The key driver of changes in ECL is the House Price Index (HPI), sourced from the quarterly Office of National Statistics (ONS) updates. For the first half of 2024 these updates have been negative and so have increased the provision by £4.9 million.

The Group considered the sensitivity to an alternative set of weightings which shifted 10% from Downturn and Severe scenarios to Core. This led to an increase in ECL of £22.5 million when compared to 31 December 2023. This change in weightings has been fully modelled and been allowed to impact staging and post model adjustments (PMA).

In terms of sensitivity to key changes in economic variables within the model, the HPI forecast within the core scenario was fully replaced with the forecast from the downturn and severe scenarios. With no other changes to inputs or weightings ECL increased by £5.3 million and £40.9 million respectively (December 2023: £5.3 million and £28.4 million). Below are the percentage changes in HPI forecast for both scenarios for the next 5 years in relation to the core scenario.

	June 2024 Scenario (% change)				
	2024	**2025**	**2026**	**2027**	**2028**
HPI					
Downturn	**(3.9)**	**(7.0)**	**(0.5)**	**(3.0)**	**(2.8)**
Severe	**(10.9)**	**(17.4)**	**(8.2)**	**(5.6)**	**(3.5)**
	December 2023 Scenario (% change)				
	2024	2025	2026	2027	2028
HPI					
Downturn	(3.5)	(6.0)	(0.5)	(3.0)	(2.8)
Severe	(8.0)	(14.5)	(9.0)	(4.5)	(3.5)

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

3. Interest revenue

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m	Year to 31 December 2023 £m
Calculated using the effective interest rate method:			
Loans secured on residential property	**884.1**	616.8	1,366.2
Other loans	**23.4**	20.8	44.7
Other interest income/(expense)*	**(24.9)**	(26.6)	(61.5)
Liquid assets	**147.3**	168.9	364.0
On debt securities	**156.4**	94.4	241.2
Interest revenue calculated using the effective interest rate method	**1,186.3**	874.3	1,954.6
Other:			
Derivatives in hedge relationships	**431.4**	434.8	926.4
Derivatives not included in hedge relationships	**40.7**	32.2	82.7
Investments held at fair value	**0.9**	0.8	2.6
Other interest revenue	**473.0**	467.8	1,011.7
Total interest revenue	**1,659.3**	1,342.1	2,966.3

4. Interest expense

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m	Year to 31 December 2023 £m
Shares held by individuals	**992.3**	627.5	1,509.6
Deposits from banks	**31.1**	72.2	126.8
Other deposits	**11.1**	11.8	24.2
Debt securities in issue	**84.6**	71.0	164.6
Subordinated liabilities	**37.4**	17.2	51.5
Other interest payable	**0.1**	0.1	0.2
Derivatives in hedge relationships	**99.0**	62.0	174.4
Derivatives not included in hedge relationships	**62.7**	62.8	128.4
Interest expense for leasing arrangements	**0.2**	0.3	0.6
Total interest expense	**1,318.5**	924.9	2,180.3

* Includes net interest income on clearing collateral agreements.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

5. Net gains/(losses) from financial instruments held at fair value

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m	Year to 31 December 2023 £m
Derivatives and debt securities not included in hedge relationships	**(9.9)**	(55.5)	23.1
Hedge accounting ineffectiveness	**17.1**	(16.0)	(29.1)
Equity investments held at fair value	**(0.1)**	0.2	0.5
Net gains/(losses) from financial instruments held at fair value	**7.1**	(71.3)	(5.5)

Derivatives and hedging

The Society enters into interest rate swaps to hedge their exposure to interest rate risk. All interest rate swaps are transacted for economic hedging purposes, however not all are designated into accounting hedges. Those interest rate swaps not designated into accounting hedges are recorded at fair value through profit and loss within derivatives and debt securities not included in hedge relationships. This portfolio consists of interest rate swaps that receive fixed cash flows (receive fix) and that pay fixed cash flows (pay fix).

Interest rates used to determine fair values which are linked to BoE base rate have remained high but stable in the first half of 2024. This has led to a reduction in fair value volatility, in the designated and unmatched portfolios, compared to prior periods.

Hedge accounting ineffectiveness includes the ineffective portion of the accounting hedges and amortisation adjustments relating to the inception and de-designation of these hedges.

Investments held at fair value include the fair value gains and losses on equity shares investment.

6. Impairment of financial assets

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

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m	Year to 31 December 2023 £m
Impairment charge on loans and advances to customers	**11.2**	7.6	4.5
Recoveries relating to loans and advances previously written off	**(0.4)**	(0.4)	(0.8)
Impairment (release)/charge of other financial assets	**(0.1)**	0.3	0.3
Impairment charge on financial assets	**10.7**	7.5	4.0

7. Tax expense

On 1 April 2023 the UK corporation tax rate increased from 19% to 25%. This measure was substantively enacted on 24 May 2021 and deferred tax assets and liabilities at 30 June 2024, at 31 December 2023 and at 30 June 2023 have all been calculated based on the 25% rate.

On 1 April 2023 the banking surcharge decreased from 8% (on taxable profits in excess of £25 million) to 3% (on taxable profits in excess of £100 million). This change was substantively enacted on 2 February 2022. Deferred tax assets and liabilities at 30 June 2024, at 31 December 2023 and at 30 June 2023 have all been calculated based on the 3% rate.

The Group has an effective tax rate of 26.3%, which is higher than the UK statutory corporation tax rate of 25.0% for the year. This is mainly due to the effects of the banking surcharge on the taxable profits of the Society.

On 11 July 2023, the government enacted legislation to implement the G20-OECD Inclusive Framework Pillar Two rules in the UK. The intention of the legislation is to ensure that UK-headquartered multinational enterprises pay a minimum tax rate of 15% on UK and overseas profits arising after 31 December 2023. The rules include a Qualified Domestic Minimum Top-Up Tax, which aims to ensure that large UK groups pay a minimum tax rate of 15% on their UK profits.

The Group has carried out an assessment of the expected impact of the Pillar Two rules and the impact is expected to be immaterial.

The tax expense arising from Pillar Two is £nil for the period ended 30 June 2024.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

8. Credit risk on loans and advances to customers

Gross contractual exposure

The table below splits the loans and advances to customers balance into its constituent parts and reconciles to the gross exposures used in the Expected Credit Loss (ECL) model.

Effective Interest Rate (EIR) is the measurement method used for financial assets held at amortised cost which spreads income and fees over the life of the asset.

The fair value rate adjustment reflects the market value adjustment on acquired portfolios of mortgage assets in respect of interest rates on the underlying products. This is amortised over the expected life of the acquired portfolio.

The fair value credit adjustment is the fair value discount applied on purchased or originated credit impaired (POCI) mortgage assets acquired as part of the Norwich & Peterborough Building Society (N&P) and Chelsea Building Society (CBS) acquisitions. Impairment represents the difference between the total ECL and the fair value credit adjustment.

ECL is calculated using models that take historical default and loss experience and apply predictions of future economic conditions (e.g. unemployment and house prices) and customer behaviour (e.g. default rates). In certain circumstances, the core models may not fully reflect other factors that could result in a change in credit risk. When this happens, a post model adjustment (PMA) is overlaid to reflect the impact on ECL. The economic scenarios and the PMAs applied at 30 June 2024 are described below.

	30 June 2024 £m	30 June 2023 £m	31 December 2023 £m
Gross contractual exposures	**48,902.8**	45,923.8	46,868.6
EIR and other adjustments	**33.6**	43.7	39.5
Fair value rate adjustment	**(26.7)**	(35.0)	(32.2)
Gross loans and advances to customers	**48,909.7**	45,932.5	46,875.9
Impairment	**(49.1)**	(40.7)	(37.7)
Fair value credit adjustment	**(20.4)**	(23.7)	(22.3)
ECL	**(69.5)**	(64.4)	(60.0)
Loans and advances to customers	**48,840.2**	45,868.1	46,815.9

Analysis of changes in ECL

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

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m	Year to 31 December 2023 £m
Opening impairment	**37.7**	33.1	33.1
Amounts written off in the period	**(0.7)**	(0.7)	(1.3)
Discounting recognised in net interest income	**0.9**	0.7	1.4
Charge for the period recognised in the income statement	**11.2**	7.6	4.5
Impairment	**49.1**	40.7	37.7

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m	Year to 31 December 2023 £m
Opening fair value credit adjustment	**22.3**	25.3	25.3
Release recognised in the income statement through net interest	**(1.7)**	(1.5)	(2.3)
Write-offs	**(0.2)**	(0.1)	(0.7)
Fair value credit adjustment	**20.4**	23.7	22.3

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

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

Expected credit loss (ECL)

Economic Scenarios

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

These scenarios are generated internally using external data, statistical methodologies, and management judgement, to span a range of plausible economic conditions. The Group continues to use four scenarios: an upside scenario that assumes more benign economic conditions; our core or central best estimate scenario; a downturn scenario that assumes more adverse economic conditions; and a more severe downturn scenario.

Scenarios are projected over a 5-year window, reverting to long-term averages past that point. The Group allows all macro-economic scenarios to impact staging.

Current Macroeconomic Conditions

After technically entering recession at the end of 2023 the UK economy has begun to grow modestly and is expected to continue growing through 2024. Inflation has fallen back to its 2% target; however, some elements are still high – services inflation remains above 5%.

Interest rate cuts expected in 2024 have not materialised and the timing of the first cut is still unknown. Unemployment is steadily rising with this trend set to continue. 2024 has been relatively stable, with base rate remaining at 5.25% after an increase of 1.75% across 2023. BoE is expected to now ease policy and interest rates are likely to fall in 2024.

Upside

This assumes inflation returns to the 2% target by the end of 2024 and unemployment remains low with house prices growing at a moderate rate. The BoE note the slowdown of inflation and cut rates to more sustainable levels, to stimulate economic growth.

Core

The Core scenario is the Group's best estimate of how the UK economy will evolve and is aligned with the central scenario used in the Group's financial planning processes.

It assumes the economy will grow modestly in 2024 and 2025 with inflation falling to around 2% at the end of H1 2024, then increasing moderately towards the end of 2024. Unemployment rises slowly throughout 2024, remaining at sustainable levels. Small increase in house prices in 2024, and a recovery in 2025 due to easing affordability pressures and cheaper mortgage rates.

Downturn

This can be described as a stagflation scenario, persistent inflation and low growth. The UK re-enters recession in H2 2024. Domestic inflationary pressures persist, including wage growth, BoE keep rates stagnant throughout 2024. Unemployment increases and house prices fall as a result.

Severe downturn

Geopolitical tensions escalate, materially impacting energy prices and supply chains. Another wave of inflation ensues, forcing the Bank of England to raise interest rates to an unsustainable level. Consequently, the economy falls into a deep recession, resulting in significant unemployment and house price reductions.

Macroeconomic variables

The following table shows the values of the key variables used by each economic scenario for the period until December 2028. The table includes the three key parameters used to predict probability of default (PD) – unemployment, HPI and Bank of England base rate. GDP is also presented as it is the key input for determining the economic parameters used and provides context to the nature of the overall scenario.

Household disposable income is forecast to remain strained in our economic scenarios as a result of inflation and cost-of-living, combined with higher interest rates and the pressure on house prices in the short term. This is assumed to lead to affordability pressures which are expected to impact on customers' ability to meet mortgage repayments. This risk is not directly captured in our models. See the Affordability post model adjustment below for details on how this risk has been assessed and incorporated into ECL.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

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

Expected credit loss (ECL) (continued)

	June 2024 Scenario					December 2023 Scenario				
	2024	**2025**	**2026**	**2027**	**2028**	2024	2025	2026	2027	2028
HPI										
Upside	**3.5**	**6.0**	**5.5**	**4.0**	**4.0**	2.0	3.0	3.5	4.0	4.5
Core	**1.0**	**3.0**	**3.0**	**3.5**	**4.0**	(4.0)	2.0	3.0	3.5	4.0
Downturn	**(2.9)**	**(4.0)**	**2.5**	**0.5**	**1.2**	(7.5)	(4.0)	2.5	0.5	1.2
Severe downturn	**(9.9)**	**(14.4)**	**(5.2)**	**(2.1)**	**0.5**	(12.0)	(12.5)	(6.0)	(1.0)	0.5
GDP										
Upside	**1.5**	**1.8**	**2.0**	**1.9**	**1.9**	1.5	1.8	2.0	1.9	1.9
Core	**0.5**	**1.0**	**1.0**	**1.2**	**1.3**	0.3	0.8	1.0	1.2	1.3
Downturn	**(0.5)**	**0.1**	**0.2**	**0.2**	**0.4**	(0.1)	0.1	0.1	0.2	0.3
Severe downturn	**(3.0)**	**(3.0)**	**–**	**0.5**	**1.0**	(4.5)	(1.5)	–	0.5	1.0
Unemployment										
Upside	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**	4.0	4.0	4.0	4.0	4.0
Core	**4.5**	**4.5**	**4.5**	**4.4**	**4.3**	5.0	4.8	4.6	4.4	4.0
Downturn	**5.5**	**6.0**	**5.8**	**5.5**	**5.0**	6.5	6.0	5.8	5.5	5.0
Severe downturn	**6.2**	**8.8**	**8.0**	**7.0**	**6.5**	7.0	9.0	8.0	7.0	6.5
Bank Rate										
Upside	**4.3**	**3.5**	**3.5**	**3.5**	**3.3**	4.8	4.0	3.5	3.5	3.3
Core	**4.8**	**4.0**	**3.8**	**3.5**	**3.5**	5.0	4.5	4.3	4.3	4.0
Downturn	**5.3**	**4.8**	**4.0**	**3.3**	**3.0**	6.0	5.5	5.5	4.0	3.5
Severe downturn	**6.5**	**6.0**	**5.5**	**5.0**	**5.0**	7.0	6.0	5.5	5.0	5.0

Weightings

The following table shows the expected credit loss under each of our four economic scenarios along with the weightings that have been applied to arrive at the weighted average ECL. PMAs are calculated using the weighted scenario results and so their sensitivity in each of the individual scenarios cannot be accurately determined. For completeness they have been included as a uniform adjustment across each scenario.

	30 June 2024		31 December 2023	
	Weighted	**ECL**	Weighted	ECL
Scenario	**%**	**£m**	%	£m
Upside scenario	**5**	**42.4**	5	35.3
Core scenario	**60**	**45.5**	40	38.7
Downturn scenario	**25**	**87.2**	35	63.9
Severe downturn scenario	**10**	**182.6**	20	102.1
Probability weighted ECL	**100**	**69.5**	100	60.0

A modelling approach using quantitative analysis is applied to assess the weightings which uses industry-level write-off data to infer the Society's loss rates over the period, as internal loss data is not available to establish a historical loss rate distribution which reflects the nature of our losses (i.e. relatively low losses in 'normal' times but the potential to make more substantial losses in recessionary conditions). An econometric model was developed which could be used to infer future loss rates based on a range of different economic scenarios.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

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

Expected credit loss (ECL) (continued)

Weightings (continued)

The loss rates were mapped under each of the IFRS 9 economic scenarios to the historical loss rate distribution and using the distribution-defined probabilities of each loss rate being realised to derive relative likelihoods of each scenario occurring. SME judgment is then applied in the final assessment of weights, informed by assessment of the quantitative analysis/model.

Since year end, the economic outlook has improved with inflation having fallen back to target and Bank Rate cuts expected in the coming months. The General Election outcome will also lead to political stability, continuing the more positive stance taken by the market. This more favourable outlook, combined with a review and update of the Gen 4 model, has led to a 20% weighting shift from Downturn and Severe scenarios to Core being necessary.

Whilst the change in economics and weightings have been positive to reflect market changes, the ECL associated with each scenario has increased. This is because a higher ECL provision is being allocated to each mortgage, due to both an increase in risk across the book and the negative HPI updates that have been seen so far in 2024. The HPI outlook is now positive, and this is built into the future scenarios.

Post Model Adjustments

A post model adjustment (PMA) is applied when a change in credit risk is identified that is not effectively captured in the expected credit loss models.

PMAs are reviewed by SMEs throughout the year to determine whether the identified risks are still applicable and whether any new risks have arisen.

The PMAs applied at 30 June 2024 are as follows:

	30 June 2024 £m	31 December 2023 £m
Model Performance	**12.1**	10.0
Affordability	**3.6**	7.1
Other	**1.0**	(1.5)
Total PMA	**16.7**	15.6

Model Performance

PD Underprediction

The Society's Gen 4 models were first used as the basis of the Society's ECL in 2023. A level of probability of default (PD) underprediction, that was observed within the Gen 3 models, was also seen in the new Gen 4 models. A PMA has been established to adjust the PD estimates used to establish ECLs. Accounts are then re-staged if their revised PD estimate exceeds the significant increase in credit risk (SICR) threshold for the risk grade.

Predictive accuracy monitoring on a perfect foresight basis has been developed by the Society to evaluate the risk. This monitoring has been produced at a product level over a range of outcome periods. The results for each portfolio were evaluated and the need for an adjustment was acknowledged.

The under-prediction factors for Prime and BTL have been incorporated into PD estimates by directly uplifting the estimate by the associated under-prediction factor and recalculating staging and ECLs using the adjusted PD value.

Sensitivity of Models to Economic Stresses

The Gen 4 IFRS 9 PD model has displayed limited sensitivity to the different economic scenarios as a result of the benign economic conditions in the data period used to develop the model. A narrow range in average PD estimates across the four economic scenarios of differing severity highlighted the model weakness. A PMA has been established to mitigate against the lack of sensitivity in IFRS 9 PDs to economic factors.

An internally developed Credit Cycle Index (CCI) model was used with its ability to perform well under a range of different economic conditions making it a useful tool in informing this PMA. The results of the CCI model across the different IFRS 9 scenarios were established and outcomes from the Core scenario compared to the Upside, Downturn and Stress scenarios. Adjustments were then applied to these non-core scenarios to produce adjusted PD estimates for each individual scenario. As this PMA is driven by a weakness that will be inherent within both initial and current PDs, it was not considered appropriate to adjust stage allocation based on the adjusted results.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

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

Expected credit loss (ECL) (continued)

Post Model Adjustments (continued)

Affordability

Inflation is not a direct input into the underlying ECL models and, as such, does not have a direct influence on the output. Although the lending undertaken by the Society is risk-averse, with a significant amount of affordability assessment undertaken, there are several segments of the mortgage book that are likely to be at greater risk of affordability stresses due to cost-of-living pressures.

The PMA was established by considering affordability levels of the mortgage book by applying a stress to the monthly expenditure amounts such as increase in outgoings, interest rate changes, cost-of-living challenges and income decreases. These elements are used to identify accounts that would be most vulnerable to stresses and find their mortgage unaffordable. PD allocation of the accounts identified as vulnerable to affordability stresses is uplifted to the equivalent of what they would need to be for the model to assign them to Stage 2 as a result of meeting the SICR criteria.

Further consideration was given to segments of the book that have been under-represented in this assessment and the Group considered whether the coverage in those areas was sufficient. Relative insensitivity to the stresses provided above was found and so additional provision was raised to cover this underestimation.

Since year end, the PMA has been refined and reduced as actual increases in credit risk in relation to affordability have materialised and are being captured within the models and inflation levels and associated forecasts have moved more favourably in the first half of 2024.

This PMA will be monitored as we progress through the year and will be held until a sufficient reduction in inflation and cost-of-living pressures is observed.

Other

Whilst we incorporate a range of economic assumptions in the scenarios and weightings used to calculate ECL the approach still has limitations. The PMAs detailed below aim to cover these risks.

House Price Volatility

This PMA relates to the risk that the ONS (Office for National Statistics) indexation data used in the ECL model is not a true representation of the market conditions as at the reporting date. There is a two-month lag in the publication of results which means that the reported valuations are only indexed up to the end of Q1 2024.

This PMA at year end aimed to correct for the lag by using an average of Nationwide and Halifax indexations for Q4 of 2023. Recent analysis shows stronger correlation between Nationwide and ONS data and so a different approach has been taken for half year. The most recent Nationwide indexation has instead been used as a proxy to forecast ONS data for Q2 2024 and this has been incorporated within the models. As the assumption has been updated and built into the model no PMA is necessary.

Climate risk

We have assessed the risks associated with climate change, both physical and transitional, in the context of ECL and concluded that the majority of these risks do not meet the requirements for recognition as:

There have been no observed climate related defaults and therefore no identifiable significant increase in credit risks ('SICR'); and the material transition risks identified are expected to occur over a timescale in excess of the current behavioural life of our portfolio (i.e. the average term before a customer either moves onto an alternative deal or transfers to another provider) and, as such, any potential impact would be against loans yet to be underwritten.

This PMA aims to identify properties which are or will in the near future be at most risk from a climate perspective and assess the additional ECLs that we could expect to incur if material costs/reductions to the value of security arise from those risks. The four main risks considered are Energy Performance Certificate (EPC) impacts, flood risk, subsidence risk and coastal erosion risk.

A similar approach has been taken within each of these areas where the properties with the very highest risks associated are identified, appropriate adjustments are applied to the valuation of the properties and the impacts of these changes then quantified and held as a PMA. The total PMA held is £1.0 million (2023: £0.7 million).

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

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

Expected credit loss (ECL) (continued)

Staging and POCI

The tables below show the staging of loans and advances to customers, including those considered to be purchased or originated credit impaired ('POCI'). The discount on acquisition is recognised in the fair value credit adjustment.

The Group has £318.1 million of POCI loans (December 2023: £339.7 million). Of these, 85% (December 2023: 85%) are considered performing loans but are not permitted to be reclassified to Stage 1 or 2. Problem loans represent the total of the Group's Stage 3 balances and the non-performing portion of our POCI loans.

Details of the movements in staging are explained in the *Movement analysis* section of this note.

The following table shows the staging split by days overdue.

	30 June 2024		31 December 2023	
	£m	**%**	£m	%
Gross exposures by stage				
Stage 1	**44,061.2**	**90.1**	41,597.7	88.8
Stage 2	**4,067.8**	**8.3**	4,521.8	9.6
Stage 3	**455.7**	**0.9**	409.4	0.9
POCI	**318.1**	**0.7**	339.7	0.7
Total gross exposures	**48,902.8**	**100.0**	46,868.6	100.0
Problem loans (stage 3 plus non-performing POCI)	**504.1**	**1.0**	458.9	1.0
ECL and coverage ratio by stage				
Stage 1	**9.4**	**–**	8.5	–
Stage 2	**31.3**	**0.8**	26.5	0.6
Stage 3	**16.3**	**3.6**	13.8	3.4
POCI	**12.5**	**3.9**	11.2	3.3
Total ECL	**69.5**	**0.1**	60.0	0.1

	Gross exposure		**ECL**	
	30 June 2024	31 December 2023	**30 June 2024**	31 December 2023
	£m	£m	**£m**	£m
Stage 1	**44,061.2**	41,597.7	**9.4**	8.5
Stage 2:	**4,067.8**	4,521.8	**31.3**	26.5
Less than 30 days past due	**3,866.8**	4,331.4	**25.6**	23.5
More than 30 days past due	**201.0**	190.4	**5.7**	3.0
Stage 3:	**455.7**	409.4	**16.3**	13.8
Less than 30 days past due	**195.5**	161.1	**2.8**	2.7
30-90 days past due	**94.7**	83.8	**1.7**	1.6
More than 90 days past due	**165.5**	164.5	**11.8**	9.5
POCI:	**318.1**	339.7	**12.5**	11.2
Less than 30 days past due	**278.2**	294.5	**9.6**	8.5
30-90 days past due	**25.9**	29.4	**1.6**	1.5
More than 90 days past due	**14.0**	15.8	**1.3**	1.2
Total	**48,902.8**	46,868.6	**69.5**	60.0

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

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

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

Risk assessment

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

Lending by Risk Grade

The risk models cover the majority of loans underwritten by the Group, with exceptions for portfolios subject to bespoke modelling requirements, mainly Accord Mortgages Limited buy-to-let (Accord BTL), commercial lending and POCI accounts. The Accord BTL population currently has very strict underwriting criteria and limited behavioural history. Commercial lending has significantly different behavioural characteristics to the retail mortgages.

Gross exposures in the table below are presented pre PMAs being applied.

	30 June 2024						31 December 2023	
	Gross exposure					**ECL**	Gross exposure	ECL
Probability of default range	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**	**£m**	£m	£m
0.00%–<0.15%	**27,398.6**	**1,424.2**	**–**	**–**	**28,822.8**	**0.9**	28,671.7	1.0
0.15%–<0.25%	**4,372.9**	**253.8**	**–**	**–**	**4,626.7**	**0.6**	3,919.7	0.5
0.25%–<0.50%	**1,499.6**	**124.8**	**–**	**–**	**1,624.4**	**0.4**	1,286.9	0.4
0.50%–<0.75%	**818.1**	**159.8**	**–**	**–**	**977.9**	**0.4**	891.5	0.3
0.75%–<1.00%	**694.6**	**295.4**	**–**	**–**	**990.0**	**0.7**	868.3	0.6
1.00%–<2.50%	**344.3**	**1,061.1**	**–**	**–**	**1,405.4**	**3.6**	1,237.5	3.2
2.50%–<10.0%	**23.6**	**322.8**	**–**	**–**	**346.4**	**3.0**	313.7	2.8
10.0%–<100%	**15.2**	**199.0**	**–**	**–**	**214.2**	**3.8**	175.5	2.5
Default	**–**	**–**	**434.7**	**39.8**	**474.5**	**16.3**	430.0	14.8
Accord buy-to-let	**6,952.3**	**118.4**	**9.6**	**–**	**7,080.3**	**6.5**	6,715.4	3.6
Commercial	**1,845.4**	**80.9**	**11.4**	**8.5**	**1,946.2**	**9.7**	1,867.3	9.3
Other	**96.6**	**27.6**	**–**	**269.8**	**394.0**	**9.9**	491.1	9.0
PMAs	**–**	**–**	**–**	**–**	**–**	**13.7**	–	12.0
Total	**44,061.2**	**4,067.8**	**455.7**	**318.1**	**48,902.8**	**69.5**	46,868.6	60.0

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

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

Risk assessment (continued)

Lending by origination year

	30 June 2024						31 December 2023	
	Gross exposure					ECL	Gross exposure	ECL
	Stage 1	Stage 2	Stage 3	POCI	Total			
Origination year	£m	£m	£m	£m	£m	£m	£m	£m
2024	4,304.4	346.0	6.1	–	4,656.5	3.1	–	–
2023	8,334.1	512.4	25.4	–	8,871.9	8.5	9,199.2	6.5
2022	8,520.0	514.5	30.5	–	9,065.0	9.5	9,570.7	8.2
2021	6,180.7	466.0	50.2	–	6,696.9	6.9	7,010.6	6.3
2013 – 2020	14,664.2	1,317.7	155.2	–	16,137.1	15.7	17,348.5	14.2
2009 – 2012	728.2	81.0	10.8	–	820.0	0.4	884.1	0.4
Pre-2009	616.9	524.8	104.4	–	1,246.1	4.9	1,335.6	5.8
Acquired loans	712.7	305.4	73.1	318.1	1,409.3	20.5	1,519.9	18.6
Total	44,061.2	4,067.8	455.7	318.1	48,902.8	69.5	46,868.6	60.0

Lending by Loan to value

	30 June 2024					31 December 2023
	Gross exposure					Gross exposure
	Stage 1	Stage 2	Stage 3	POCI	Total	
Loan to value	£m	£m	£m	£m	£m	£m
Less than 60%	17,671.8	3,009.1	258.2	267.1	21,206.2	23,248.4
60% to 75%	13,509.2	609.5	133.6	37.9	14,290.2	14,614.4
75% to 90%	10,137.3	386.5	55.4	8.6	10,587.8	8,102.4
90% or greater	2,742.9	62.7	8.5	4.5	2,818.6	903.4
Total	44,061.2	4,067.8	455.7	318.1	48,902.8	46,868.6
Average LTV (%)	53.1	39.3	44.7	41.0	51.9	49.0

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

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

Movement analysis

The following table details the movement in the gross exposures and ECL from the beginning to the end of the reporting period split by stage.

Mortgage balances in Stage 2 have decreased by £454.0 million across 2024, but the ECL associated with loans moving from Stage 1 to Stage 2 has increased by £7.3 million. This is due to the type of mortgages that are transferring between stages. £649.4 million of loans have moved into Stage 2 from Stage 1 and are primarily newer lending, with longer terms and higher LTVs. These factors lead to a higher calculated ECL. The total mortgage balance coming out of Stage 2 into Stage 1 is much higher - £965.6 million, however these mortgages are generally much lower risk, lower LTV and shorter-term with lower ECLs, shown by the £2.4 million reduction in ECL.

The House Price Index (HPI) updates applied in 2024 have been negative, leading to a higher loan-to-value (LTV) associated with all loans and advances. A higher LTV is an indicator of higher credit risk and default, which in turn leads to a higher associated ECL. As the HPI updates affect every mortgage this increase in ECL is seen across all staging.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Gross exposure at 31 December 2023	**41,597.7**	**4,521.8**	**409.4**	**339.7**	**46,868.6**
Transfers from stage 1 to 2	(649.4)	649.4	–	–	–
Transfers from stage 1 to 3	(37.2)	–	37.2	–	–
Transfers from stage 2 to 1	965.6	(965.6)	–	–	–
Transfers from stage 2 to 3	–	(69.9)	69.9	–	–
Transfers from stage 3 to 1	13.0	–	(13.0)	–	–
Transfers from stage 3 to 2	–	23.1	(23.1)	–	–
Changes to carrying value	(729.2)	(5.2)	1.1	(5.7)	(739.0)
New financial assets originated or purchased	4,550.2	–	–	–	4,550.2
Financial assets derecognised during the period	(1,649.5)	(85.8)	(23.5)	(15.5)	(1,774.3)
Write-offs	–	–	(2.3)	(0.4)	(2.7)
Gross exposure at 30 June 2024	**44,061.2**	**4,067.8**	**455.7**	**318.1**	**48,902.8**
ECL at 31 December 2023	**8.5**	**26.5**	**13.8**	**11.2**	**60.0**
Transfers from stage 1 to 2	(0.2)	7.3	–	–	7.1
Transfers from stage 1 to 3	–	–	1.4	–	1.4
Transfers from stage 2 to 1	0.5	(2.4)	–	–	(1.9)
Transfers from stage 2 to 3	–	(1.5)	3.5	–	2.0
Transfers from stage 3 to 1	–	–	(0.3)	–	(0.3)
Transfers from stage 3 to 2	–	0.2	(0.6)	–	(0.4)
Changes in PDs/LGDs/EADs	(2.3)	2.8	(0.2)	2.2	2.5
New financial assets originated or purchased	1.8	–	–	–	1.8
Changes to model assumptions and methodologies	(0.2)	(0.1)	(0.4)	(0.4)	(1.1)
Unwind of discount	–	–	0.4	0.3	0.7
Financial assets derecognised during the period	(0.1)	(0.6)	(1.3)	(0.7)	(2.7)
Write-offs	–	–	(0.6)	(0.1)	(0.7)
PMA	1.4	(0.9)	0.6	–	1.1
ECL at 30 June 2024	**9.4**	**31.3**	**16.3**	**12.5**	**69.5**

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

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

Loans Purchased or Originated Credit Impaired (POCI)

The table below shows the status of the Group's POCI loans. A substantial proportion of POCI balances, were they not required to be classified as Stage 3 by accounting standards, would transfer to other stages. The table below shows that 69.0% (December 2023: 69.4%) of balances have been fully up to date for the last 24 months and only 15.2% (December 2023: 14.6%) of balances would be classified as in default.

	Up to date for the last 24 months £m	Some arrears in the last 24 months £m	Meets definition of default £m	Total £m
At 30 June 2024				
Gross exposure	**219.3**	**50.4**	**48.4**	**318.1**
ECL	**6.8**	**3.1**	**2.6**	**12.5**
At 31 December 2023				
Gross exposure	235.9	54.3	49.5	339.7
ECL	6.1	2.7	2.4	11.2

9. Retirement benefit obligations

Reconciliation of funded defined benefit scheme

	30 June 2024 £m	30 June 2023 £m	31 December 2023 £m
Present value of defined benefit obligation	**(532.7)**	(574.0)	(572.5)
Assets at fair value	**573.0**	610.5	611.1
Funded defined benefit asset	**40.3**	36.5	38.6

Unfunded defined benefit scheme

	30 June 2024 £m	30 June 2023 £m	31 December 2023 £m
Present value of unfunded defined benefit scheme	**(7.6)**	(7.2)	(8.1)

The present value at 30 June 2024 of the unfunded defined benefit scheme was £7.6 million (31 December 2023: £8.1 million) and the relevant disclosures have been separated from those of the main employee benefits scheme where appropriate.

The present value of the defined benefit obligation as at 30 June 2024 has been calculated using assumptions that are derived consistently with those used for the 31 December 2023 year end, allowing for updated market conditions.

Liabilities have decreased as a result of corporate bond yields increasing due to the high interest rate environment, which has subsequently increased the discount rate. Future long-term expectations of inflation have increased slightly.

Asset returns over the first half of the year have been less than the discount rate. The overall surplus has increased by £2.2 million since 31 December 2023, as both the assets and liabilities have reduced as yields have risen, with the assets falling to a slightly lower degree than the liabilities.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

9. Retirement benefit obligations (continued)

Summary of assumptions

	30 June 2024 % pa	31 December 2023 % pa
Retail prices index (RPI) inflation	**3.3**	3.2
Consumer price index (CPI) inflation	**2.7**	2.5
Discount rate	**5.1**	4.5
Salary increases	**3.9**	3.8

10. Related parties

There have been no material changes to related parties and the associated related party transactions since the year end. For further information on these see pages 229 to 231 of the 2023 Annual Report and Accounts.

11. Notes to the consolidated statement of cash flows

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m	Year to 31 December 2023 £m
Depreciation and amortisation	**10.0**	9.7	20.4
Loss/(profit) on sale of assets	**0.3**	–	0.3
Interest on subordinated liabilities	**37.4**	17.2	51.5
Impairment charge/(release) for the year	**10.7**	7.5	4.0
Provisions (release)/charge	**(0.2)**	(0.8)	(0.6)
Non-cash movement in subordinated liabilities	**5.9**	(26.9)	73.0
(Gain)/loss on realisation of debt securities	**–**	(1.5)	(1.6)
Non-cash items included in profit before tax	**64.1**	5.2	147.0
(Increase)/decrease in operating assets			
Change in loans and advances to customers and related fair value adjustments for hedged risk, excluding impairment	**(1,960.6)**	(388.0)*	(2,509.0)
Derivative financial assets	**(38.1)**	(641.4)	588.3
Other assets	**176.5**	(8.1)*	(16.0)
Investments	**0.1**	(0.2)	(0.5)
Net change in operating assets	**(1,822.1)**	(1,037.7)	(1,937.2)
Increase/(decrease) in operating liabilities			
Shares	**2,580.9**	3,624.6	5,048.5
Amounts owed to credit institutions	**(1.2)**	(785.1)	(3,274.6)
Non-cash movements on debt securities in issue	**(56.3)**	(58.5)	84.6
Other deposits	**217.8**	(110.8)	(154.5)
Derivative financial liabilities	**(19.9)**	242.3	31.1
Other liabilities and provisions	**(1.8)**	1.4*	9.6
Net change in operating liabilities	**2,719.5**	2,913.9	1,744.7

* The classification of these three lines have been corrected, moving them to their current position. Both line items were previously reported within the "Non-cash items included in profit before tax" section.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

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

The following tables reconcile liabilities arising from financing activities.

Liabilities from financing activities	Brought forward	Cash flows		Non-cash changes caused by:			Carried forward
		Redemption	Issue	Foreign exchange	Accrued interest	Fair value adjustments	
	£m	£m	£m	£m	£m	£m	£m
Period to 30 June 2024							
Debt securities in issue	4,919.4	**(1,006.4)**	**1,178.6**	**(55.7)**	**(1.7)**	**1.1**	**5,035.3**
Subordinated liabilities	1,621.7	**(142.5)**	**–**	**–**	**31.1**	**(25.2)**	**1,485.1**
Total	6,541.1	**(1,148.9)**	**1,178.6**	**(55.7)**	**29.4**	**(24.1)**	**6,520.4**
Period to 30 June 2023							
Debt securities in issue	5,259.3	(796.3)	1,005.3	(86.0)	–	27.5	5,409.8
Subordinated liabilities	1,035.1	(136.4)	350.0	–	9.8	(36.7)	1,221.8
Total	6,294.4	(932.7)	1,355.3	(86.0)	9.8	(9.2)	6,631.6
Year to 31 December 2023							
Debt securities in issue	5,259.3	(1,423.7)	999.2	(58.6)	3.4	139.8	4,919.4
Subordinated liabilities	1,035.1	(136.4)	650.0	–	6.6	66.4	1,621.7
Total	6,294.4	(1,560.1)	1,649.2	(58.6)	10.0	206.2	6,541.1

12. Fair values

Fair value is the price that would be paid upon the purchase of an asset or received upon the sale of a liability in an arm's length transaction between two entities at a specific measurement date.

Where external market prices are available these are used to determine the fair value. When these are not available internal pricing models using external market data are used. The following hierarchy is used when measuring fair value:

- Level 1: Quoted prices are available for identical assets or liabilities in active markets, these are unadjusted.
- Level 2: Significant inputs to the calculated fair values are taken from observable market data, other than those in Level 1. This may include direct inputs (i.e. prices) or indirect inputs (i.e. derived from prices).
- Level 3: Fair value is derived from non-observable inputs and not solely based on external market data.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

12. 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 Balance Sheet date.

Held at amortised cost		Carrying value £m	Level 1 £m	Fair values Level 2 £m	Level 3 £m	Total fair value £m
30 June 2024						
Assets						
Loans and advances to credit institutions	**1**	**568.9**	**–**	**568.9**	**–**	**568.9**
Loans and advances to customers	**2**	**48,840.2**	**–**	**–**	**47,586.8**	**47,586.8**
Debt securities – amortised cost		**2,091.7**	**2,086.8**	**–**	**–**	**2,086.8**
Liabilities						
Shares	**3**	**49,637.6**	**–**	**49,745.8**	**–**	**49,745.8**
Amounts owed to credit institutions		**1,885.1**	**–**	**1,885.1**	**–**	**1,885.1**
Other deposits		**1,201.4**	**–**	**1,201.4**	**–**	**1,201.4**
Debt securities in issue		**5,035.3**	**4,471.9**	**584.2**	**–**	**5,056.1**
Subordinated liabilities	**4**	**1,485.1**	**1,476.5**	**27.6**	**–**	**1,504.1**
30 June 2023						
Assets						
Loans and advances to credit institutions	1	450.5	–	450.5	–	450.5
Loans and advances to customers	2	45,868.1	–	–	43,031.2	43,031.2
Debt securities – amortised cost		2,119.9	2,103.7	–	–	2,103.7
Liabilities						
Shares	3	45,632.8	–	45,341.2	–	45,341.2
Amounts owed to credit institutions		4,375.8	–	4,375.8	–	4,375.8
Other deposits		1,027.3	–	1,027.3	–	1,027.3
Debt securities in issue		5,409.8	5,810.0	817.8	–	6,627.8
Subordinated liabilities	4	1,221.8	1,169.2	33.8	–	1,203.0

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

12. Fair values (continued)

Held at amortised cost		Carrying value £m	Fair values Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
31 December 2023						
Assets						
Loans and advances to credit institutions	1	397.4	–	397.4	–	397.4
Loans and advances to customers	2	46,815.9	–	–	45,298.5	45,298.5
Debt securities – amortised cost		2,339.0	2,332.2	–	–	2,332.2
Liabilities						
Shares	3	47,056.7	–	46,976.7	–	46,976.7
Amounts owed to credit institutions		1,886.3	–	1,886.3	–	1,886.3
Other deposits		983.6	–	983.6	–	983.6
Debt securities in issue		4,919.4	4,222.9	693.4	–	4,916.3
Subordinated liabilities	4	1,621.7	1,566.8	32.4	–	1,599.2

1. 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.
2. The fair value of loans and advances to customers is assessed as the value of the expected future cash flows. Future cash flows are projected using contractual interest payments, contractual repayments and the expected prepayment behaviour of borrowers. The resulting expected future cash flows are discounted at current market rates to determine fair value.

   For standard variable rate mortgage products, the interest rate on such products is equivalent to a current market product rate and as such the Group considers the fair value of these mortgages to be equal to their carrying value. Fixed rate mortgages have been discounted using current market product rates. The difference between book carrying value and fair value results from market rate volatility relative to the fixed rate at inception of the loan; in addition to assumptions applied in relation to redemption profiles, which are regularly reviewed and updated where necessary.

   As these redemption profiles are not considered to be observable by the market, then the fair value of loans and advances to customers continues to be a Level 3 valuation technique. Overall, the fair value is lower than the carrying value by £1,253.3 million (December 2023: £1,517.4 million lower), which arises primarily due to the fair value losses being calculated on a lifetime basis for all mortgage accounts.
3. All the Group's non-derivative financial liabilities are initially recorded at fair value less directly attributable costs and are subsequently measured at amortised cost. The only exception is 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 2024, the estimated fair value of share balances, using a Level 2 method, is higher than the carrying value by £108.1 million (December 2023: £80.0 million lower).
4. Society accounts include some subordinated liabilities classified as Level 2 as fair values are calculated using a method based on observable market prices. The fair value of subordinated liabilities, which is a fixed rate product, is lower than the carrying value due to the volatility in market rates over the course of the year.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

12. Fair values (continued)

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

Held at fair value	Fair values Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
30 June 2024				
Debt securities – fair value through income statement	**27.3**	**–**	**–**	**27.3**
Debt securities – fair value through other comprehensive income	**5,745.3**	**–**	**–**	**5,745.3**
Derivative financial assets	**–**	**1,790.1**	**2.9**	**1,793.0**
Investments	**–**	**–**	**3.2**	**3.2**
Derivative financial liabilities	**–**	**677.5**	**–**	**677.5**
30 June 2023				
Debt securities – fair value through income statement	25.6	–	–	25.6
Debt securities – fair value through other comprehensive income	4,741.5	–	–	4,741.5
Derivative financial assets	–	2,980.5	3.4	2,983.9
Investments	–	–	3.0	3.0
Derivative financial liabilities	–	908.2	0.4	908.6
31 December 2023				
Debt securities – fair value through income statement	27.3	–	–	27.3
Debt securities – fair value through other comprehensive income	5,195.7	–	–	5,195.7
Derivative financial assets	–	1,751.9	3.1	1,755.0
Investments	–	–	3.3	3.3
Derivative financial liabilities		697.4	–	697.4

The Group's Level 1 portfolio of available for sale debt securities comprises liquid securities for which traded prices are readily available.

Some derivative financial instruments are also included within Level 2 as fair values are derived from discounted cash flow models using yield curves based on observable market data.

Instruments move between fair value hierarchies primarily due to increases or decreases in market activity or changes to the significance of unobservable inputs to valuation, and are recognised at the date of the event or change in circumstances which caused the transfer. There were no transfers between the portfolios during the year.

Level 3 instruments

Derivative financial instruments within Level 3 are interest rate swaps held in the special purpose vehicles (SPVs). These are valued using similar valuation technique as Level 2 derivatives, namely present value calculations using interest rate curves, but these are not based on market observable data.

The interest rate swaps are balance tracking and the swap notional is projected, and changes over time to match the balance of the underlying mortgage portfolio. The changes in the fair value of these instruments from movements in Level 3 parameters related to prepayment risk will largely offset across the interest rate swaps as the Group is hedged across these positions. Sensitivity analysis to the individual Level 3 parameters has not been disclosed on the basis that the Group does not have a significant exposure to these.

Investments classified in Level 3 relate to the Group's holding in equity preference shares. These shares are convertible into common equity shares at various intervals during the life of the instrument, based on a conversion factor set by the issuer. The valuation method therefore uses the quoted share price of the unrestricted stock as a base, applies the current estimated conversion factor as advised by the issuer and applies a discount.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

12. Fair values (continued)

Level 3 instruments (continued)

This discount reflects the current illiquidity of the instrument and the risks to changes in the conversion factor between the balance sheet date and the next conversion date. Whilst the valuation is primarily based on an observable market price, the level and significance of the unobservable input relating to the calculation of the discount moves this asset into Level 3.

Changes in the carrying value of Level 3 financial instruments in the period all relate to changes in fair value. There have been no changes in methodology, redemption, additions or transfers in or out of Level 3 in the year.

13. Events occurring after the end of the reporting period

There have been no material post balance sheet events between 30 June 2024 and the approval of the condensed interim financial statements.

Responsibility Statements

The directors confirm, to the best of their knowledge:

- the condensed set of financial statements have been prepared in accordance with UK-adopted International Accounting Standard 34 *Interim Financial Reporting;* and
- the condensed set of financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Yorkshire Building Society and its controlled entities ("the Group"); and
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year).

By order of the Board

Susan Allen, OBE
Chief Executive Officer
24 July 2024

Tom Ranger
Chief Financial Officer

Independent review report to Yorkshire Building Society

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Yorkshire Building Society's condensed consolidated interim financial statements (the "interim financial statements") in the Half-Yearly Financial Report of Yorkshire Building Society for the 6 month period ended 30 June 2024 (the "period").

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

The interim financial statements comprise:

- the Consolidated Balance Sheet as at 30 June 2024;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period then ended;
- the Consolidated Statement of Cash Flows for the period then ended;
- the Consolidated Statement of Changes in Members' Interest and Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

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

Basis for conclusion

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

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

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

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

Independent review report to Yorkshire Building Society (continued)

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Half-Yearly Financial Report, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Half-Yearly Financial Report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the Half-Yearly Financial Report, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the Half-Yearly Financial Report based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the Society for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds

24 July 2024

Other information

The information set out in this document is unaudited and does not constitute accounts within the meaning of section 73 of the *Building Societies Act 1986*. The financial information for the year ended 31 December 2023 has been extracted from the audited Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2023 have been filed with the Financial Conduct Authority.

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

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