



HALF-YEARLY FINANCIAL REPORT

30 JUNE 2020



CONTENTS

Interim Management Report



03

- 3** Chief Executive's summary
- 12** Business highlights
- 15** Principal risks and uncertainties

Condensed Interim Financial Statements



18

- 18** Consolidated Income Statement
- 19** Consolidated Statement of Comprehensive Income
- 20** Consolidated Statement of Financial Position
- 21** Consolidated Statement of Changes in Members' Interest and Equity
- 22** Consolidated Statement of Cash Flows
- 23** Notes to the Interim Financial Statements

Responsibility Statements



43

Independent review report to Yorkshire Building Society



44

Other Information



45

Interim Management Report

Chief Executive's summary

A strong performance in challenging times for us all...

The environment in which we've had to operate over the first six months of 2020 has been challenging for us all, but we are proud of the work we have done to keep providing key services to our customers whilst keeping both our colleagues and customers as safe and healthy as possible.

We are also proud of how we've not just managed to keep the business going in these difficult times, but actually progressed against the three long-term goals of our *Real Help with Real Life* strategy. Details of our performance against each of these are as follows.



Interim Management Report (continued)

Chief Executive's summary (continued)

Performance at a glance

Member value

Statutory Profit before tax

£67.3m

£76.5m 30 June 2019

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

Core Operating Profit¹

£74.7m

£97.5m 30 June 2019

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

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

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

Cost to core income ratio¹

60%

58% 30 June 2019

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

Average savings rate paid

0.91%

1.09% over 2019

This shows the benefit we are giving back to our members.

Common Equity Tier 1 ratio

16.6%

16.6% 31 December 2019

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

Liquidity ratio

15.2%

13.8% 31 December 2019

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

Leverage ratio

5.8%

5.8% 31 December 2019

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

Net Promoter Score (NPS)²

+54

+51 in 2019

This measures how willing our customers are to recommend us to others.



1. Definitions of alternative performance measures are provided on pages 230 to 233 of the 2019 Annual Report and Accounts.
2. Net Promoter Score and NPS are trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.

Interim Management Report (continued)

Chief Executive's summary (continued)

Performance at a glance (continued)

Place to call home



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

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

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

Gross lending

£3bn
£4bn 30 June 2019

This represents the amount we have provided to customers to purchase a property over the period.

Gross mortgage market share

2.5%
2.9% 31 December 2019

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

Growth in mortgage balances

-0.1%
3.3% 30 June 2019

This represents the growth in our overall mortgage balance over the period.

Financial wellbeing



We are here to help people towards greater financial wellbeing.

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

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

Savings accounts opened

105,283
128,467 30 June 2019

The number of new accounts opened by members over the period, helping them save for the future.

Savings market share

1.89%
1.96% 31 December 2019

This reflects our share of the UK savings market.

Retail savings balances

£30.8bn
£30.7bn 31 December 2019

This shows the total deposits we use to fund the mortgages we offer to our customers.

Interim Management Report (continued)

Chief Executive's summary (continued)

Market and strategic update

The external landscape continues to be challenging as a result of the Coronavirus pandemic and the economic impacts:

Economic conditions

COVID-19 has dominated the economic landscape since March and, until such time as new trading arrangements between the UK and the European Union are agreed, Brexit will continue to pose an additional risk to the economy.

In early 2020 both the labour and housing markets had performed strongly but, over the lock-down period from late March until the partial easing in May, the UK economy shrank by up to a quarter, with the latest economic data showing that UK gross domestic product (GDP) for May was 24.5% lower than February 2020.

In response, the UK Chancellor of the Exchequer announced a series of measures to support jobs, wages and businesses impacted by the reduced activity. In addition, the Bank of England cut the bank base rate to 0.10% and relaunched the Term Funding Scheme (TFS) - providing funding to participating banks and building societies at interest rates close to base rate – in an attempt to

boost the economy post-lockdown. The prevailing market view is that the Bank of England will keep base rate at its current low level until at least 2023 in order to support the economy.

These measures have helped to protect some jobs, with 9.2 million workers receiving furlough payments, but the claimant count unemployment rate has still increased from 3.5% in March to 7.8% in May. The furlough scheme has been extended until October but, as employers are bearing an increasing cost of the furlough payments, this may well push up unemployment further, particularly in sectors still under restrictions.

In order to minimise the rise in unemployment the Chancellor announced further measures such as a job retention bonus - giving businesses a one-off £1,000 payment to retain furloughed workers until January 2021 – and a 'Kickstart' placement scheme and apprentice hiring bonus scheme. Both of these provide strong inducements for employers to hire new workers.

Several forecasts are expecting the economy to see a level of recovery in the second half of 2020 on the back of increased consumer and business spending combined with the

unprecedented level of support from the UK Government. However, there is also the possibility of a second wave of infections and social distancing measures limiting this rebound in activity. The UK is suffering its deepest recession in modern times, caused by the lockdown needed to contain the coronavirus pandemic, and until a vaccine is found and made available, the downside risk to the economy will continue to pose challenges to making economic forecasts.

As a result, housing activity is likely to remain subdued for the rest of the year with house prices projected to fall by 8.9% across calendar year 2020. Even before COVID-19 house price growth had slowed to an annual rate of 2% in March 2020 down from 5% in 2017. This was during a period when the unemployment rate was at a multi-decade low underpinned by real wage growth.

Both the Coronavirus Job Retention Scheme and the wider availability of mortgage payment deferrals have supported the housing market but as the schemes come to an end in their current form this support is expected to diminish as unemployment rises. Without this unprecedented support prices would have likely fallen; for



...the housing market is now showing signs of recovery as lockdown measures are eased, consumer demand returns...



Interim Management Report (continued)

Chief Executive's summary (continued)

Market and strategic update (continued)

example, during the global financial crisis the peak to trough price fall was 18%.

Mortgages

The UK mortgage market had a strong start to 2020 fuelled by increased consumer confidence following the outcomes of the general election and Brexit. This translated into a surge in re-mortgage activity and a buoyant house purchase market, including increased transactions from first time buyers. The buy-to-let market also started the year well, particularly through introduced channels as landlords continued to see the benefit of advice provided by brokers to navigate the relatively complex new taxation rules.

Consensus during early March 2020 pointed towards a busy spring period due to the relative political and economic stability. The reality was an unprecedented period of market disruption as a result of the COVID-19 global pandemic.

Following the introduction of social distancing measures in March 2020 the UK housing market contracted by 68% over the course of just one month³. Home movers and first time buyers were impacted at a far greater scale due to the inability to conduct physical

valuations. Lenders also withdrew product lines that were deemed high risk during this unique period.

However, remortgage markets remained resilient as lenders worked to utilise improved technology, including online applications and automated valuations, and competition remains fierce in this area. Longer term, fixed rate mortgages continue to be the most popular choice, marginally ahead of the shorter term options, driven mainly by the consumers' desire for financial stability where possible. Mortgage retention has continued to perform well during this period as customer behaviours evolve as a result of COVID-19.

The housing market is now showing signs of recovery as lockdown measures are eased, consumer demand returns and lenders broaden their product offerings. The recent announcement of a temporary increase in the zero rate band for stamp duty in England and Northern Ireland, from £125,000 up to £500,000, until the end of March 2021 should support further demand. However, it is uncertain what impact this move will have on house prices. Funding costs remain very low following reductions in the Bank of England base rate and the relaunch of the Term Funding Scheme.

In terms of the direct impacts for us, the spike in applications as the market reopened, coupled with the operational restrictions placed on our branch and office staff and increased call volumes as we supported residential and commercial property payment deferral requests, put significant pressure on our mortgage servicing capability. However, due to a monumental effort by our teams, we managed to successfully meet our customers' needs during this uncertain period and even saw two successive days of record mortgage application processing at the end of May.

We recently re-entered several previously retrenched segments of the market, including 90% loan-to-value (LTV) and new build lending. The decision to re-enter these markets carries inherent risks and we continue to monitor the volume of lending in these areas to ensure we are lending at sensible and sustainable levels.

Savings

The UK savings market has followed the bank base rate reductions with a general downward trend in interest rates offered to customers. The Coronavirus pandemic, and resulting measures taken by the Bank of

³ Based on CACI Limited benchmarks at 2nd March 2020 and 6th April 2020.



...We continue to develop our Savings product range to meet customer needs...



Interim Management Report (continued)

Chief Executive's summary (continued)

Market and strategic update (continued)

England, have brought further pressure in an already subdued market. The injection of competition brought by new entrants during 2019/20 has stalled.

As a result of economic uncertainty – both from Brexit and latterly the pandemic – there has been a marked shift away from fixed rates to instant access variable products, as savers prioritise access to funds over any marginal return by locking them away. We have seen a marginal growth of £0.1 billion, a 0.5% increase, in our savings balances over the half year.

Regulatory

The main change in the regulatory environment is the additional reporting requirements introduced on the back of COVID-19 mortgage payment deferrals. Following the initial announcement by the Financial Conduct Authority (FCA) in March that firms were required to offer payment deferrals for up to three months, a short consultation led to an extension of this for a further three months, allowing new applications up to the end of October. A repossession moratorium until this date was also introduced. The Prudential Regulation Authority (PRA) has published updated guidance to firms setting out the

impact payment deferrals will have on regulatory reporting.

We have actively engaged with the regulators on these additional requirements and have established systems and processes to be able to report the necessary information. In recognition of the operational issues being faced by firms as a result of the lockdown, and the additional work required due to this additional reporting, the FCA has temporarily extended the reporting deadline for a number of its returns.

Five to Thrive

We have identified five strategic priorities, our "Five to Thrive", to help us succeed in these challenging conditions and deliver against our long term goals. These have been actively monitored over the period, particularly in light of the impacts of COVID-19, and we continue to make strong progress against these strategic priorities as follows:

1. HELP

Finding more ways to provide more Real Help with Real Life

We continue to develop our savings product range to meet customer needs and this has been externally

recognised through receiving the Moneyfacts Best Building Society Savings Provider Award 2020. We have simplified the fulfilment of fixed rate product interest and launched new Bonds, such as the End Youth Homelessness COVID-19 Appeal Bond, which helped to raise over £75,000 for the charity. We have also implemented a range of campaigns and customer communications in order to provide helpful assistance including: ISAs explained; Accord campaign – 'tricky case – quick decision'; and the COVID e-newsletter.

2. PROTECT

Protecting our financial strength

We have actively managed our lending criteria to reflect the rapidly evolving market conditions in response to COVID-19; we reduced the maximum loan amount within Accord, removed physical valuations due to social distancing, and introduced specific lending criteria to support our updated desktop valuation policy. The savings maturity window has been extended from one month to two, providing customers more time to make maturity decisions, and we have implemented a new digital



...our
End Youth
Homelessness
COVID-19
Appeal Bond
helped to raise
over £75,000
for the charity...



Interim Management Report (continued)

Chief Executive's summary (continued)

Market and strategic update (continued)

process to avoid the need to travel to a branch. We successfully timed our re-entry into some retrenched mortgage products (90% LTV and new build), resulting in the largest volume of applications ever seen over a two day period, with positive sentiment from customers, brokers and press.

Despite the current economic and operating environment we have had no material challenges with our key suppliers that have impacted the service to our customers. We continue to monitor our operational resilience daily as the situation evolves. Our capital and liquidity positions remain strong and we have applied a range of stress tests in order to understand the implications of the potential changes arising from the current environment.

3. EXPAND

Expanding our routes to market so we can help more people

We continue to grow our workplace savings capability in partnership with Salary Finance and the National Employment Savings Trust, and have worked with the Building Societies Association to build a toolkit available to all members to

help increase workplace savings straight from their salary. We have also engaged with the Money & Pensions Service as part of their broader UK financial wellbeing strategy with one goal to increase the number of UK savers by two million by 2030. Additional focus has also been placed on expanding our Share Plans business. Following the acquisition of a number of new clients this year, and the ongoing servicing of existing clients, we aim to launch 100 Sharesave schemes with companies in 2020.

In addition, we have maintained a branch network that has remained open, albeit with reduced opening hours, to serve the needs of our customers throughout the lockdown. Other changes have been made to provide enhanced support to customers via our telephony channel.

4. DIGITALISE

Developing the digital experience and services that people now expect

We have taken a number of steps towards a more digitalised future. We have focused on increasing our online accessibility amidst the government lockdown measures

through both social media and our websites. We have provided an online hub for coronavirus information, including service updates, support available and a FAQs section. We have also used our social media platforms to help direct our customers to the information that they need.

Our mobile app is on track to launch in August 2020 and we will be commencing branch promotions, colleague communications and pre-registration webpages in the coming weeks. We have also introduced new email contacts to assist our customers' online savings journey and we have seen an increasing number of our customers become E-enabled. In order to support this growth in the Digital channel we are upgrading our systems in order to provide future stability and allow us to enhance the service offering further.

Internally, we completed our long-term N&P Mortgage Migration project on 11th May and made a series of system developments across the organisation to help our colleagues work safely and effectively from home during the pandemic.



...We have focused on increasing our online accessibility amidst the government lockdown measures....



Interim Management Report (continued)

Chief Executive's summary (continued)

Market and strategic update (continued)

5. UNLEASH

Unleashing our full potential as individuals and an organisation

Our planned activity continued alongside a comprehensive programme of communications and support to keep people feeling engaged, informed and safe during the COVID-19 crisis. From the outset, one of the key priorities in our response to the crisis has been to maintain the health and wellbeing of colleagues. Our people have continued to serve our customers through this challenging period when they needed us the most. This has been facilitated by:

- Improved remote access to systems, with around 1300 colleagues now working from home.
- Implementation of social distancing in our office sites moving from three locations to seven, including zoning and one-way routes at our largest building.
- Provision of hand sanitiser, wipes and signage in all buildings and the introduction of screens in all branches.
- Flexible opening hours in branches.

- Development of online payment deferrals request forms.
- Upskilling and flexible working across teams to meet peaks in demand. For example, branches supporting our telephony teams with call volumes, and Underwriting colleagues supporting mortgage deferrals.

To support colleagues with the personal and professional challenges they may be facing we have provided regular updates in the wellbeing space - consisting of emails, bespoke videos/podcasts featuring colleagues and leaders, advice and signposting to specialist resources.

We have a drumbeat of communications on our strategy giving colleagues regular updates on progress as well as the opportunity to hear directly from our senior leaders. These are supplemented by podcasts and intranet features that provide a deep-dive on key topics.

In addition, 86% of leaders created an engagement action plan this year, 110 leaders are participating in our directed

coaching programme, and others have attended masterclasses to help them better engage their teams. The results of our Peakon survey show engagement levels have increased during this period from 7.4 in Nov 2019 to 8.1 in March 2020.

Creating a diverse and inclusive environment remains a key area of importance and we have been stepping up our focus further this year. We have sponsored the Bradford150 Legacy Programme through the charity Common Purpose, are engaged in the 'Bradford for Everyone - Inclusive Employers Project', have been reaccredited for Investors in Diversity and are working towards the Leaders in Diversity standard.



...Our mobile app is on track to launch in August 2020...



Interim Management Report (continued)

Chief Executive's summary (continued)**Awards**

We are delighted that our customers and industry professionals continue to recognise our hard work, as underlined by the number and calibre of awards that we have already won over the last year.



Mike Regnier
Chief Executive
22 July 2020

**Awards****Accolade****Moneynet Personal Finance Awards**

Best Offset Mortgage Provider

Moneynet Personal Finance Awards

Best First Time Buyer Mortgage Provider

Moneynet Personal Finance Awards

Best Overall Mortgage Provider

Moneynet Personal Finance Awards

Best Building Society Savings Provider

Yorkshire Financial Awards

Savings provider of the year

Moneyfacts Awards

Best Building Society Mortgage Provider

Moneyfacts Awards

Best Building Society Savings Provider

Third Sector Business Charity Awards

Charity Partnership - Financial Services

Interim Management Report (continued)

Business highlights

The following summary sets out the important events that have occurred over the six months to 30 June 2020 and their impact on the condensed interim financial statements.

Our financial performance

The table below presents the results of Yorkshire Building Society ('YBS') and its controlled entities (collectively 'the Group' or 'YBS Group') for the half-year ended 30 June 2020. See note 1 to the condensed interim financial statements for more information on the basis of preparation.

Income Statement

Profit before tax was £67.3 million for the six months to 30 June 2020 compared to £76.5 million for the equivalent period in 2019.

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 or typically reverse over time and so do not reflect the Group's day to day activities. Our Board considers this to be a more appropriate measure of the underlying performance of the business.

Core operating profit for the six months to 30 June 2020 was £74.7 million (30 June 2019: £97.5 million). The following table shows the adjustments made to the statutory profit before tax to arrive at the core operating profit.

	Notes	Half-year ended 30 June 2020			Half-year ended 30 June 2019			Year ended 31 December 2019		
		Statutory £m	Non-core items £m	Core £m	Statutory £m	Non-core items £m	Core £m	Statutory £m	Non-core items £m	Core £m
Net interest income	i)	211.4	(0.9)	210.5	229.6	(1.4)	228.2	464.6	(2.2)	462.4
Non-interest income (net)	ii)	5.6	-	5.6	8.2	(3.0)	5.2	8.5	(3.0)	5.5
Fair value volatility on derivatives	iii)	(8.7)	8.7	-	(29.2)	29.2	-	(27.4)	27.4	-
Fair value volatility on other assets	iv)	0.8	(0.8)	-	5.0	(5.0)	-	5.4	(5.4)	-
Net realised profits		6.5	-	6.5	5.7	-	5.7	6.3	-	6.3
Total income		215.6	7.0	222.6	219.3	19.8	239.1	457.4	16.8	474.2
Management expenses		(133.6)	-	(133.6)	(141.6)	-	(141.6)	(289.6)	-	(289.6)
Impairment of financial assets		(14.3)	-	(14.3)	(1.6)	-	(1.6)	(0.2)	-	(0.2)
Movement in provisions	v)	(0.4)	0.4	-	0.4	1.2	1.6	(0.4)	0.6	0.2
Profit before tax		67.3	7.4	74.7	76.5	21.0	97.5	167.2	17.4	184.6

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

- i) Release of fair value adjustments made against assets taken on during mergers.
- ii) In prior period, the profit on the sale of land at Charlton Kings was recognised, as well as a small amount in relation to branch sales.
- iii) Fair value timing differences due to rate volatility on financial instruments, largely those not in hedge relationships – see note 4 to the condensed interim financial statements.
- iv) See note 4 to the condensed interim financial statements.
- v) Movement in provision for restructuring cost – see Note 6 to the condensed interim financial statements.

Interim Management Report (continued)

Business highlights (continued)

Our financial performance (continued)

The main items in the income statement that contribute to profit:

- The year-on-year reduction in core operating profit has mainly been driven by external factors, precipitated by the COVID-19 outbreak and subsequent actions of the Bank and England and UK Government. The changing risk environment has resulted in a significant impairment in loans and advances to customers, and reductions to the Bank Rate have adversely impacted our net interest income. Performance underlying these events is broadly comparable with last year, with a small reduction in income being offset by a similar scale reduction in costs.
- The unprecedented decision by the Bank of England to reduce the Bank Rate to a historic low of 0.10% in March has impacted the net interest margin achieved in the year to June. Net interest income was £211.4 million (30 June 2019: £229.6 million) which represents a net interest margin of 0.95%, compared to 1.06% for the equivalent period last year.

As a building society, we need to ensure that the savings rates we offer are sustainable enough to allow us to protect our members' long-term interests as well position ourselves appropriately with respect to our competitors.
- Our Bank Rate 'pass-on' strategy is always weighed carefully and references actions taken by our competitors in the mortgage and savings markets.

The majority of the Bank Rate reductions were passed on to our variable rate mortgage and savings customers. As a result, a one-off reduction in margin was recorded driven by the timing difference between the Bank Rate change and the subsequent customer rate changes.
- Non-interest income of £5.6 million relates to fees, commissions and other operating income (30 June 2019: £8.2 million).
- A fair value volatility loss of £8.7 million was recorded in the six months to 30 June 2020. This is mainly due to the falling Bank Rate environment and the subsequent effect this has on mortgage pipeline interest rate swaps (30 June 2019: loss of £29.2 million). This accounting adjustment will typically reverse in future periods. In addition, a gain of £0.8 million was generated from our holding of VISA shares.
- Net realised profits of £6.5 million relate to profits made on disposal of liquid asset investments (30 June 2019: £5.7 million).
- Management expenses of £133.6 million have reduced when compared to the same period last year (30 June 2019: £141.6 million), reflecting our strategy to operate with a sustainable cost base. Our management expense ratio for the first half of 2020 is 0.60% (30 June 2019: 0.65%) and our cost: core income ratio, which excludes fair value volatility, stands at 60% (30 June 2019: 58%). Our ongoing cost reduction programme which includes Branch to Agency migrations, head office site strategy, platform migration and ongoing organisational design changes have delivered in year and ongoing savings. Whilst reducing our cost base, we have made investments in our digital transformation programme, commercial operations and IT technologies to both improve our operational resilience and align with our strategic ambitions.
- A charge of £14.3 million (30 June 2019: £1.6 million charge) was recognised against the impairment of financial assets. This charge reflects the Group's response to increased risk associated with the COVID-19 crisis. More information on this can be found within Note 5 to the Interim Financial Statements.

As a mutual we do not pay dividends to external shareholders so our profit requirements are driven solely by our need for ongoing capital to support our activities. Profit remains sufficient to provide capital for our current and future growth aspirations and ensure we are resilient to severe economic stresses. The Group's business activities are focused in the UK and relate predominantly 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 2020 our liquidity portfolio consisted almost entirely of exposures to the Bank of England and the UK Government.

Interim Management Report (continued)

Business highlights (continued)

Our financial performance (continued)

Balance Sheet

	Half-year ended 30 June 2020	Half-year ended 30 June 2019	Year ended 31 December 2019
	£bn	£bn	£bn
Liquid assets	6.2	4.7	5.6
Mortgages and loans	38.0	37.8	38.0
Other assets	0.9	1.0	0.7
Total assets	45.1	43.5	44.3
Retail savings	30.8	30.3	30.7
Wholesale funding and other deposits	10.2	9.5	9.9
Other liabilities	0.7	0.4	0.4
Total liabilities	41.7	40.2	41.0
Subordinated liabilities	0.7	0.7	0.6
Reserves	2.7	2.6	2.7
Total members' interest, equity and liabilities	45.1	43.5	44.3

- Strong performance in retail flows, in addition to drawings from the Government's Term Funding Scheme (TFSME), has further strengthened our liquidity position. Compared to the year ended 2019, our liquidity ratio has increased from 13.8% to 15.2% (30 June 2019: 11.8%). The importance of maintaining a robust liquidity position is even more pronounced given the level of uncertainty in the current environment.
- Our capital ratios remain stable with reference to the previous year end with our CET1 ratio at 16.6% (31 December 2019: 16.6%) and our Leverage ratio (UK) at 5.8% (31 December 2019: 5.8%).
- Given the availability of the TFSME scheme from the Government and our strong capital position, no external wholesale funding issuances were undertaken in the first half of 2020.
- The quality of our loan book has remained strong, with the value of loans more than 3 months in arrears representing 0.43% of our mortgage book at 30 June 2020 (2019: 0.41%). Our performance for the number of accounts which are more than three months in arrears (including possessions)

is 0.57% (2019: 0.56%), which remains significantly better than the industry average 0.76% (2019: 0.75%).

Trading

- Based on the profile of our existing mortgage portfolio, our Corporate Plan assumed growth for H1 2020 at a more modest level than that of the previous period. This assumption was informed by our planned maturity profile.
- The impacts of lockdown in the market for mortgages resulted in a lower volume of mortgage completions than expected, influenced by factors including the inability to conduct physical valuations on properties and the retrenchment from higher-risk market segments. During this period we observed improved customer retention as well as lower levels of mortgage repayments, which helped to mitigate some of the shortfall in new advances and maintain our mortgage balances at the same level as we started the year.
- The early days and weeks of the UK lockdown saw an uplift in withdrawals from our savings depositors as customers reacted to

the volatility in the market. In more recent months, savings balances have returned to levels similar to those prior to lockdown, resulting in some growth in our savings balances and supporting our strong liquidity position.

- Recent mortgage performance has also been encouraging, as we have traded positively through the initial stages of market normalisation. We have established a healthy pipeline of new mortgage business as we head into the second half of the year.

Changes to the Board

A complete list of the board of directors can be found in the 2019 Annual Report and Accounts which also communicated the commencement of a recruitment search in 2019 for a new Non-Executive Director. As a result of that search the Board was pleased to announce the appointment of Catharine French as a Non-Executive Director from 1 April 2020. Catharine brought significant skills and experience from a long and distinguished career in financial services. Sadly Catharine passed away in May 2020 but not before showing in that short time what an outstanding addition to our Board she would have been.

Interim Management Report (continued)

Principal risks and uncertainties

The Group recognises that the environment within which it operates, and the nature of the threats that it faces, are continually evolving. COVID-19 currently dominates matters internationally, nationally and for YBS too. The Group continues to invest in its risk management capability in order to ensure that emerging and evolving risks are closely monitored, and that timely and appropriate action is taken to protect the interests of the Group and its customers. Significant emerging risk headwinds are reviewed through the senior risk committees and

are considered as part of the Group's planning process.

The Group has performed stress tests to assess the impact of these risks, particularly negative interest rates, a prolonged (L shape) recession and the impact of a global pandemic, and it is our belief that we are well placed to manage them. The Group will continue to assess external threats as the year continues and as more information becomes available.

The Group has a robust risk management framework, strong capital

position, diverse funding sources and high liquidity levels; this means that we remain confident in our financial resilience and the sustainability of the Group.

A description of the principal risks and uncertainties that the Group faces are included in the table below and further commentary on how these risks have evolved since 31 December 2019, particularly in the context of COVID-19 and the resulting economic downturn, are included after the table.

Risk	Description	Principal mitigation
Retail & Commercial Credit Risk	The risk to the Group of credit losses as a result of failure to design, implement and monitor an appropriate credit risk appetite	The Group sets a risk appetite for its retail and commercial lending activities which manages exposure to higher risk lending areas, and monitors adherence to this.
Treasury Risk	The risk of losses following default on exposures arising from balances with other financial institutions, liquid asset holdings and the use of derivative instruments to manage interest rate and foreign exchange risk.	The Group sets a risk appetite for treasury risk and monitors adherence to this. It adopts a low risk approach to its treasury activities, investing most of its liquidity in the highest quality assets.
Funding & Liquidity Risk	The risk of the Group having inadequate cash flow to meet current or future requirements and expectations.	The Group sets a risk appetite and stress tests its positions against this risk appetite. The Group operates a diversified funding base, primarily through retail savings, supported by a strong wholesale funding franchise.
Market Risk	Repricing Mismatch Risk: The risk that the value of, or income derived from the Group's assets and liabilities changes unfavourably due to movements in interest rates and foreign currency rates. This risk arises from the different re-pricing characteristics of the Group's assets and liabilities. Basis Risk: Basis risk arises from possible changes in spreads where assets and liabilities re-price at the same time, but move in differing amounts causing unfavourable impacts to earnings.	The Group adopts a low risk approach to market risk, and stress tests all positions against a range of scenarios.
Operational Risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events.	The Group operates an internal control framework in line with the Board risk appetite and monitors adherence.
Model Risk	The risk that the Group's models that are used to manage the business are inaccurate, perform inadequately or are incorrectly used.	The Group operates a Model Risk management framework which includes monitoring of model risk appetite.
Capital Risk	There is a risk that YBS is not able to meet regulatory capital requirements or deliver on its strategic plans due to insufficient capital resources.	The Group maintains a capital risk appetite and regularly stress tests its positions against severe scenarios.
Compliance & Conduct Risk	The risk of direct or indirect loss as a result of a failure to comply with regulation or to ensure fair customer outcomes.	The Group operates an internal control framework in line with the Board risk appetite and monitors adherence.

Interim Management Report (continued)

Principal risks and uncertainties (continued)

Principal Risk Evolution since December 2019

The principal risks are always evolving and the main driver of change during the first half of 2020 has been COVID-19. The incident continues to have the capacity for a range of implications for the Group, some of which we describe below.

COVID-19 Incident Governance

In the early stages of the Coronavirus pandemic the Group recognised the need to adapt its internal governance and reporting arrangements to maintain a detailed understanding of the situation as it evolved and to monitor and continue to develop the Group's response to it. This included the setting up of internal monitoring working groups, the formulation and development of specific operational level reporting, realignment of oversight responsibilities across the three lines of defence and specific reporting to the Board and its Committees on progress, performance and risks associated with COVID-19.

Operational response to the COVID-19 (Operational Risk)

The coronavirus pandemic placed significant operational demands on all financial services organisations, requiring rapid changes to working arrangements and adapting existing processes to continue to meet customer needs under unprecedented and challenging circumstances.

The Group successfully implemented its operational response to the lockdown in line with Government guidelines, and continues to monitor and implement changes resulting from updates to this guidance. The Group's approach has been to place the health and safety of both colleagues and customers first and foremost at all times, whilst ensuring that key customer-facing processes and services continue to function as effectively as possible.

Planning is underway to coordinate and determine a controlled office re-allocation strategy, ensuring colleague wellbeing, physical safety and commercial demands are equal priorities in the return to YBS premises.

Colleague behaviour, including access to and interactions with YBS systems whilst working remotely for long periods, remains an area of focus too.

Economic impacts of COVID-19 and impairment modelling (Retail & Commercial Credit Risk)

As described above COVID-19 has dominated the economic landscape since March. The primary impact of the contraction in the UK housing market arising from lockdown and changes to the Bank of England base rate are further exacerbated by the potential secondary impact of a prolonged (L shape) recession, the resulting rise in unemployment and the added uncertainty this brings to future retail and commercial property values.

The Group's approach to modelling expected credit losses on loans and advances to customers in response to these changing economic conditions, and the impact of customers taking payment deferrals, is described in more detail in the note 5 to the condensed interim financial statements.



Interim Management Report (continued)

Principal risks and uncertainties (continued)

The Group has considered lending criteria carefully through the year to date with an approach that is intended to balance the level of risk we take on with our strategy of providing Real Help with Real Lives.

The wider effect on the products we offer, and any resulting downward pressure on trading volumes, is also a risk that is being closely monitored.

Brexit

Whilst the UK has now formally left the European Union, there will continue to be uncertainty around the future economic impacts until such time as post transition period trading arrangements between the UK and the European Union are fully agreed.

Negative interest rates (Operational and Market Risk)

There is a risk that a continued contraction in the UK economy may force the Bank of England to reduce the base rate from the current level of 0.1% to below zero. The Group has performed an initial assessment of the operational capability of the underlying systems to cope with negative interest rates and continues to prepare to face into these operational challenges.

The commercial impact of the resulting margin squeeze has been assessed, including as part of our reverse stress testing process, and potential strategies to respond are being modelled and implemented. Our approach to any future movements will continue to focus on managing changes as sympathetically as possible for our customers, whilst maintaining clear focus on our position relative to peers and safeguarding our financial strength and sustainability.

Financial crime threats (Compliance & Conduct Risk)

The Group already operates in a hostile and constantly evolving financial crime environment. The COVID-19 pandemic has since impacted the threat landscape and associated customer behaviour, and the wider financial services industry has seen increased Phishing and Spam attempts seeking to take advantage of the pandemic situation. The Group has not seen an uplift in financial crime incidents directly attributable to COVID-19, however the business remains on high alert. The Group's continued focus on its financial crime capability remains paramount in order to keep these evolving financial crime exposures within its risk appetite. Investment continues to be made in this area, focusing particularly on money laundering, customer due diligence and Open Banking compliance by looking at appropriately upgrading business standards, due diligence processes, IT and people capability.

Model Risk (Model Risk)

During 2019 Model Risk management has been upgraded through a number of developments, including establishing a Model Risk Appetite, enhanced reporting and policy framework. The Group continues to monitor and address the risks associated with the use of models and specifically, with regard to the impact of the coronavirus pandemic, the use of models which are reliant on historical data being applied to less predictable future scenarios. Accordingly the Group continues to adapt and develop its approach to Model Risk management and the underlying models themselves

in line with industry good practice and regulatory guidance.

Continued focus on values and behaviours (Compliance & Conduct Risk)

Compliance and conduct are central to our values and behaviours, with an internal control framework that operates in line with the Board risk appetite and monitors adherence. However, ongoing focus and robust challenge will be required to keep pace with the rapidly-changing legal and regulatory environments.

During the coronavirus pandemic, the Group has continued to work openly with its regulators and maintain an ongoing dialogue with them relating to their regulatory agendas. These have specifically been in the areas of Mortgage Payment Deferrals (FCA) and Operational and Prudential Resilience (PRA) as part of their industry-wide monitoring activity.

Signed on behalf of the Board by:

Mike Regnier, Chief Executive

Alasdair Lenman, Chief Finance Officer
22 July 2020

Forward-looking statements

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

Condensed Interim Financial Statements

Consolidated Income Statement

		Half-year to 30 June 2020 (unaudited)	Half-year to 30 June 2019 (unaudited)	Year to 31 December 2019 (audited)
	Notes	£m	£m	£m
Interest revenue calculated using the effective interest method	2	455.7	476.2	962.8
Other interest revenue	2	17.8	25.9	40.8
Interest revenue	2	473.5	502.1	1,003.6
Interest expense	3	(262.1)	(272.5)	(539.0)
Net interest income		211.4	229.6	464.6
Fee and commission revenue		9.9	14.0	25.4
Fee and commission expense		(5.5)	(10.1)	(17.9)
Net fee and commission income		4.4	3.9	7.5
Net (losses)/gains from financial instruments held at fair value	4	(7.9)	(24.2)	(22.0)
Net realised profits		6.5	5.7	6.3
Other operating income		1.2	4.3	1.0
Total income		215.6	219.3	457.4
Administrative expenses		(121.3)	(130.0)	(264.3)
Depreciation and amortisation		(12.3)	(11.6)	(25.3)
Impairment of financial assets	5	(14.3)	(1.6)	(0.2)
Movement in provisions	6	(0.4)	0.4	(0.4)
Profit before tax		67.3	76.5	167.2
Tax expense	7	(15.0)	(17.7)	(38.3)
Profit for the period		52.3	58.8	128.9

Condensed Interim Financial Statements (continued)

Consolidated Statement of Comprehensive Income

		Half-year to 30 June 2020 (unaudited)	Half-year to 30 June 2019 (unaudited)	Year to 31 December 2019 (audited)
	Notes	£m	£m	£m
Profit for the period		52.3	58.8	128.9
Items that may be reclassified through profit or loss				
Cash flow hedges:				
Fair value movements taken to equity		-	(0.5)	(0.2)
Amounts transferred to the income statement		0.3	1.1	1.9
Tax on amounts recognised in equity		(0.1)	(0.1)	(0.4)
Financial assets measured through other comprehensive income:				
Fair value movements taken to equity		13.3	6.3	12.0
Amounts transferred to the income statement		(13.0)	(1.8)	(10.2)
Tax on amounts recognised in equity		(0.3)	(1.1)	(0.4)
Items that will not be reclassified through profit or loss				
Remeasurement of retirement benefit obligations	8	39.9	21.7	8.4
Tax on remeasurement of retirement benefit obligations		(10.9)	(5.5)	(2.3)
Effect of change in corporation tax rate		(1.7)	-	0.3
Transitional tax adjustment	7	(0.4)	-	-
Total other comprehensive income		27.1	20.1	9.1
Total comprehensive income for the period		79.4	78.9	138.0

Condensed Interim Financial Statements (continued)

Consolidated Statement of Financial Position

		30 June 2020 (unaudited)	30 June 2019 (unaudited)	31 December 2019 (audited)
	Notes	£m	£m	£m
Assets				
Cash and cash equivalents		2,085.9	1,693.9	2,528.1
Loans and advances to credit institutions		1,074.4	961.5	526.0
Debt securities		3,096.9	2,027.5	2,548.2
Loans and advances to customers	5	37,962.8	37,803.2	37,984.4
Derivative financial instruments		523.0	639.4	367.6
Investments		10.0	8.9	9.2
Intangible assets		31.6	41.7	36.0
Investment properties		14.7	12.9	15.0
Property held for sale		3.1	-	3.1
Property, plant and equipment		133.0	149.1	136.7
Deferred tax assets		4.5	8.2	4.6
Retirement benefit surplus	8	127.6	97.9	86.4
Other assets		34.2	29.3	32.6
Total assets		45,101.7	43,473.5	44,277.9
Liabilities				
Shares		30,845.8	30,294.6	30,677.3
Amounts owed to credit institutions		4,211.3	3,867.0	3,305.0
Other deposits		417.0	530.8	584.6
Debt securities in issue		5,563.2	5,123.5	6,034.8
Derivative financial instruments		548.9	228.4	230.8
Current tax liabilities		-	16.9	16.3
Deferred tax liabilities		43.1	34.7	28.5
Other liabilities		72.5	91.1	96.3
Provisions		5.3	19.6	11.1
Subordinated liabilities		648.4	659.2	626.4
Total liabilities		42,355.5	40,865.8	41,611.1
Members' interests and equity		2,746.2	2,607.7	2,666.8
Total members' interest, equity and liabilities		45,101.7	43,473.5	43,277.9

Condensed Interim Financial Statements (continued)

Consolidated Statement of Changes in Members' Interest and Equity

		General reserve	Cash flow hedge reserve	Fair value through other comprehensive income	Total
	Notes	£m	£m	£m	£m
Half-year to 30 June 2020					
At 1 January 2020 (audited)		2,659.6	(0.4)	7.6	2,666.8
Profit for the period		52.3	-	-	52.3
Transitional tax adjustment	7	(0.4)	-	-	(0.4)
Net remeasurement of defined benefit obligations		27.3	-	-	27.3
Net movement in cash flow hedges		-	0.2	-	0.2
At 30 June 2020 (unaudited)		2,738.8	(0.2)	7.6	2,746.2
Half-year to 30 June 2019					
At 1 January 2019 (audited)		2,524.3	(1.7)	6.2	2,528.8
Profit for the period		58.8	-	-	58.8
Net remeasurement of defined benefit obligations		16.2	-	-	16.2
Net movement in cash flow hedges		-	0.5	-	0.5
Net fair value changes taken through other comprehensive income		-	-	3.4	3.4
At 30 June 2019 (unaudited)		2,599.3	(1.2)	9.6	2,607.7
Year to 31 December 2019					
At 1 January 2019 (audited)		2,524.3	(1.7)	6.2	2,528.8
Profit for the period		128.9	-	-	128.9
Net remeasurement of defined benefit obligations		6.4	-	-	6.4
Net movement in cash flow hedges		-	1.3	-	1.3
Net fair value changes taken through other comprehensive income		-	-	1.4	1.4
At 31 December 2019 (audited)		2,659.6	(0.4)	7.6	2,666.8

Condensed Interim Financial Statements (continued)

Consolidated Statement of Cash Flows

		Half-year to 30 June 2020 (unaudited)	Half-year to 30 June 2019 (unaudited)	Year to 31 December 2019 (audited)
	Notes	£m	£m	£m
Cash flows from operating activities				
Profit before tax		67.3	76.5	167.2
Non-cash items included in profit before tax	10	22.5	12.9	24.9
Net change in operating assets	10	169.5	(1,047.9)	(953.2)
Net change in operating liabilities	10	1,137.1	140.1	(167.7)
Tax paid		(36.4)	(22.3)	(42.3)
Net cash flow from operating activities		1,360.0	(840.7)	(971.1)
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		(5.1)	(8.7)	(17.5)
Sale of property, plant and equipment		-	3.7	4.0
Purchase of debt securities		(3,037.1)	(873.2)	(2,655.5)
Redemption of debt securities		2,495.2	526.2	1,785.6
Net cash flow from investing activities		(547.0)	(352.0)	(883.4)
Cash flows from financing activities				
Redemption of debt securities in issue	10	(727.5)	(620.8)	(913.0)
Issue of debt securities	10	26.0	597.9	1,984.3
Redemption of subordinated liabilities		-	(224.9)	(250.6)
Issue of subordinated liabilities		-	275.0	280.0
Redemption of subscribed capital		-	-	(6.1)
Interest paid on subordinated liabilities and subscribed capital		(11.2)	(15.7)	(27.7)
Interest paid on lease liabilities		(0.5)	(0.5)	(1.0)
Capital repayments on lease liabilities		(2.8)	(1.4)	(3.6)
Net cash flow from financing activities		(716.0)	9.6	1,062.3
Net change in cash and cash equivalents		97.0	(1,183.1)	(792.2)
Opening balance		2,950.2	3,742.4	3,742.4
Closing cash and liquid cash equivalents		3,047.2	2,559.3	2,950.2
Cash and liquid cash equivalents				
Cash and cash equivalents		2,085.9	1,693.9	2,528.1
Less Bank of England cash ratio deposit		(113.1)	(96.1)	(103.9)
Loans and advances to credit institutions		1,074.4	961.5	526.0
Closing cash and liquid cash equivalents		3,047.2	2,559.3	2,950.2

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 2020. They have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

The accounting policies, presentation and measurement applied during the period are consistent with those applied by the Group in the 31 December 2019 audited annual financial statements which were prepared in accordance with international accounting standards - being International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the International Accounting Standards Board (IASB) effective as at 31 December 2019 and endorsed by the European Union (EU).

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

During the half-year to 30 June 2020 there has been one change to the composition of the Group, please see note 9 for further details. 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 pages 132 to 133 of the 2019 Annual Report and Accounts.

Amendments to IAS 39, IFRS9 and IFRS 7 for LIBOR reform

The risk exposure that is directly affected by the interest rate benchmark reform is limited to the notional of swaps transacted to hedge the fair value of £1.5 billion of euro denominated covered bonds issued in addition to £500 million of medium term notes issued. The current benchmark interest for those swaps is 3 month GBP LIBOR and, to a lesser extent, 3 month EURIBOR.

Going concern

The YBS Board of Directors undertake regular rigorous assessments of whether the Group is a going concern in light of changing economic and market conditions, using all available information about future risks and uncertainties. Details of the review undertaken to support the 31 December 2019 financial statements are given on page 54 of the 2019 Annual Report and Accounts.

There has been a significant change in economic conditions since the release of the 2019 Annual Report and Accounts, with the coronavirus pandemic resulting in a large contraction in the UK economy and increased uncertainty around the future direction of the macroeconomic environment.

The primary impact on the Group has been the UK Government's policy of encouraging three month payment deferrals for mortgage holders, with an option for a further three month extension. The impacts of this policy on the Group's modelling of impairment losses on loans and advances to customers are discussed in more detail below.

The secondary impact on impairment losses as a result of a sustained decline in the UK economy is also discussed in more detail below. However, due to its strong capital position and high liquidity levels, the Group is well placed to cope with such an economic downturn.

As a result, the directors confirm that, based on the latest formal review undertaken in July 2020, 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)

1. Basis of Preparation (continued)

Critical accounting judgements and key sources of estimation uncertainty

The Group makes judgements in applying its accounting policies that have a significant impact on the amounts recognised in the condensed interim financial statements. In addition, estimates and assumptions are used which could affect the reported amounts of assets and liabilities in subsequent periods.

Other than the specific changes highlighted below, the key sources of estimation uncertainty remain unchanged since those disclosed on pages 139 to 140 of the 2019 Annual Report and Accounts.

Impairment of loans and advances to customers

The calculation of impairment for a portfolio of mortgage loans is inherently uncertain. Expected credit losses (ECL) are calculated using historical default and loss experience but require judgement to be exercised in predicting future economic conditions (e.g. interest rates and house prices) and customer behaviour (e.g. default rates). The most critical sources of estimation uncertainty are:

Economic scenarios

The onset of COVID-19 and the unprecedented levels of government support has made the development of economic scenarios and associated probability weightings, an already judgemental area, substantially more uncertain. The Group has taken the view that the measures put in place will be sufficient to blunt the worst of the impact and that, whilst GDP will contract and unemployment will rise, the impact

on house prices will be smaller thanks to the moratorium on possessions, payment deferrals and the furlough scheme.

The Group has developed a full new suite of economic scenarios and applied weightings on these based on our current expectations. Several alternative economic scenario weightings were considered before the current scenario weightings were agreed upon. If impairment was moderately stressed by moving a 5% weighting on our core scenario to the downside scenario, the ECL would increase by £4.7 million. Further sensitivity analysis can be found in note 5.

Payment deferrals

For those customers that have applied for a payment deferral, the Group have developed a post model adjustment (PMA) to recognise the increased risk in this population. The widespread use of payment deferrals in unsecured lending has reduced the predictive value of the behaviour score for these customers, the critical driver of our probability of default calculation, so a judgemental overlay has been developed.

In calculating the ECL recognised in the statement of financial position at 30 June 2020, the Group has applied a PMA of £4.2 million. An alternative but more severe version of this PMA, that transferred significant portions of the book to stage 3 (i.e. fully credit impaired), would increase the ECL by £8.4 million. The more severe scenario has not been applied pending further information on default rates as customers resume payments. Further information about the PMA assumptions can be found in note 5.



Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

2. Interest revenue

	Half-year to 30 June 2020 (unaudited)	Half-year to 30 June 2019 (unaudited)	Year to 31 December 2019 (audited)
	£m	£m	£m
Calculated using the effective interest rate method:			
Loans secured on residential property	425.2	438.2	885.4
Other loans	10.2	11.9	23.5
Liquid assets	5.9	14.8	27.4
On debt securities	14.4	11.3	26.5
Interest revenue calculated using the effective interest rate method	455.7	476.2	962.8
Other:			
Derivatives in hedge relationships	7.6	9.6	16.1
Derivatives not included in hedge relationships	10.2	16.0	24.4
Investments held at fair value	-	0.3	0.3
Other interest revenue	17.8	25.9	40.8
Total interest revenue	473.5	502.1	1,003.6

3. Interest expense

	Half-year to 30 June 2020 (unaudited)	Half-year to 30 June 2019 (unaudited)	Year to 31 December 2019 (audited)
	£m	£m	£m
Shares held by individuals	138.8	164.0	330.4
Deposits from banks	6.1	24.0	38.6
Other deposits	0.7	1.4	2.0
Debt securities in issue	35.5	30.2	63.5
Subordinated liabilities	11.2	15.6	27.6
Subscribed capital	-	0.1	0.1
Other interest payable	-	-	0.1
Derivatives in hedge relationships	61.0	29.1	60.9
Derivatives not included in hedge relationships	8.3	7.6	14.8
Interest expense for leasing arrangements	0.5	0.5	1.0
Total interest expense	262.1	272.5	539.0

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

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

	Half-year to 30 June 2020 (unaudited)	Half-year to 30 June 2019 (unaudited)	Year to 31 December 2019 (audited)
	£m	£m	£m
Derivatives not included in hedge relationships	(10.9)	(15.4)	(16.3)
Hedge accounting ineffectiveness	2.2	(13.8)	(11.1)
Other financial assets held at fair value	0.8	5.0	5.4
	(7.9)	(24.2)	(22.0)

Derivatives and hedging

Fair value volatility on derivatives and hedging relates to changes in the fair value of derivatives that provide effective economic hedges but where the Group has either not achieved hedge accounting or the nature of the hedge relationship has given rise to ineffectiveness. The loss in the current year has been predominantly driven by market rate movements. The £0.8 million other item in the current period includes gains on equity instruments held at fair value.

5. Impairment of financial assets

The Group's expected credit loss (ECL) model runs a month in arrears and this results in *timing differences* between the mortgage exposures used in the model and those reported on the statement of financial position. The table below splits the *loans and advances to customers* balance per the statement of financial position into its constituent parts and reconciles to the gross exposures used in the ECL model. *Effective Interest Rate (EIR)* and *hedging* adjustments have been excluded from the ECL model as these do not form part of the contractual cash flows from the assets.

EIR is the recognition and measurement method used for financial assets held at amortised cost, and this includes all of our loans and advances to customers. The EIR method spreads items such as income and fees over the life of the asset to give a fairer representation of product profitability. Hedging is described in more detail in Note 4.

	30 June 2020 (unaudited)	31 December 2019 (audited)
	£m	£m
Gross contractual exposures used in credit loss model	37,768.4	37,982.2
Timing differences	(112.2)	(66.0)
Gross contractual exposures at the period end	37,656.2	37,916.2
EIR	53.7	49.2
Hedging	331.8	84.1
Gross loans advances to customers	38,041.7	38,049.5
Impairment	(45.5)	(30.2)
Fair value credit adjustment	(33.4)	(34.9)
ECL	(78.9)	(65.1)
Loans and advances to customers	37,962.8	37,984.4

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

5. Impairment of financial assets (continued)

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 2020 (unaudited)	Half-year to 30 June 2019 (unaudited)	Year to 31 December 2019 (audited)
	£m	£m	£m
Impairment for the period recognised in the income statement	15.0	2.3	1.6
Recoveries relating to amounts previously written off	(0.8)	(0.8)	(1.5)
Impairment of treasury assets	0.1	0.1	0.1
Impairment of financial assets	14.3	1.6	0.2

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

	Half-year to 30 June 2020 (unaudited)	Half-year to 30 June 2019 (unaudited)	Year to 31 December 2019 (audited)
	£m	£m	£m
Opening Impairment	30.2	28.9	28.9
Amounts written off in the period	(0.6)	(1.4)	(2.0)
Reduction in discounting recognised in net interest	0.9	0.8	1.7
Impairment for the period recognised in the income statement	15.0	2.3	1.6
Impairment	45.5	30.6	30.2

	Half-year to 30 June 2020 (unaudited)	Half-year to 30 June 2019 (unaudited)	Year to 31 December 2019 (audited)
	£m	£m	£m
Opening fair value credit adjustment	34.9	38.0	38.0
Release recognised in the income statement through net interest	(0.8)	(1.3)	(2.2)
Write-offs	(0.7)	(0.2)	(0.9)
Fair value credit adjustment	33.4	36.5	34.9

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

5. Impairment of financial assets (continued)

Gross Exposure and ECL Analysis

	Gross Exposure	Impairment	Fair Value Credit Adjustment
	£m	£m	£m
Group balances as at 30 June 2020			
Stage 1	34,137.3	7.0	-
Stage 2	2,745.9	22.2	-
Less than 30 days past due	2,628.2	18.6	-
More than 30 days past due	117.7	3.6	-
Stage 3	345.1	11.2	6.5
Less than 30 days past due	139.9	1.4	1.0
30 to 90 days past due	66.2	1.1	0.4
More than 90 days past due	139.0	8.7	5.1
POCI	540.1	0.9	26.9
Less than 30 days past due	478.5	(0.1)	22.4
30 to 90 days past due	37.1	0.6	1.7
More than 90 days past due	24.5	0.4	2.8
Collective impairment (non-staged element, see PMA section below)	-	4.2	-
Total	37,768.4	45.5	33.4
Group balances as at 31 December 2019			
Stage 1	34,401.2	3.2	0.1
Stage 2	2,710.4	17.3	1.7
Less than 30 days past due	2,569.0	14.8	1.5
More than 30 days past due	141.4	2.5	0.2
Stage 3	307.0	9.5	5.1
Less than 30 days past due	102.4	1.1	0.9
30 to 90 days past due	74.7	1.4	0.6
More than 90 days past due	129.9	7.0	3.6
POCI	563.6	0.2	28.0
Less than 30 days past due	491.5	(0.7)	22.9
30 to 90 days past due	49.6	0.5	2.4
More than 90 days past due	22.5	0.4	2.7
Total	37,982.2	30.2	34.9

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

5. Impairment of financial assets (continued)

The tables below contain assets acquired on the merger with Norwich & Peterborough Building Society (N&P) and Chelsea Building Society (CBS) which were recognised at their fair value, this included accounts considered to be purchased or originated credit impaired (POCI) at the point of acquisition. The discount was recognised as a day 1 fair value credit adjustment. On subsequent re-measurement, the recoverable value of POCI assets can rise or fall with changes in expected credit losses. If there is a reduction in expected credit losses, instead of adjusting the fair value discount the IFRS 9 accounting standard requires a negative impairment provision to be recorded.

The Group has £540.1 million of POCI loans. Of these, 88% are now considered performing loans but are not permitted to be reclassified to stage 1 or 2. In the table below, the "problem loans" represent the total of the Group's stage 3 balances and the non-performing portion of our POCI loans (1.1%, 2019: 1.0%). More information on the Group's POCI loans can be found below.

The cost of risk measure has been calculated using the annualised impairment charge for the year divided by the average balance over the period. This has increased substantially since the prior period due to the significant charge in the year, following the onset of COVID-19.

		30 June 2020		31 December 2019	
		£m	%	£m	%
Gross exposures					
Stage 1	(Balance/proportion)	34,137.3	90.4%	34,401.2	90.6%
Stage 2	(Balance/proportion)	2,745.9	7.3%	2,710.4	7.1%
Stage 3	(Balance/proportion)	345.1	0.9%	307.0	0.8%
POCI	(Balance/proportion)	540.1	1.4%	563.6	1.5%
Total Gross exposures		37,768.4		37,982.2	
Problem loans	(Balance/proportion)	412.2	1.1%	378.8	1.0%
Cost of risk			0.1%		0.0%
Total Expected Losses					
Stage 1	(Balance/coverage)	7.0	0.0%	3.3	0.0%
Stage 2	(Balance/coverage)	22.2	0.8%	19.0	0.7%
Stage 3	(Balance/coverage)	17.7	5.1%	14.6	4.8%
POCI	(Balance/coverage)	27.8	5.2%	28.2	5.0%
Collective Impairments	(Balance)	4.2		n/a	
Total Expected Losses	(Balance/coverage)	78.9	0.2%	65.1	0.2%
Of which impairment (excluding collective impairment)	(Balance/proportion)	41.3	52.4%	30.2	46.4%
Of which fair value credit adjustment	(Balance/proportion)	33.4	42.3%	34.9	53.6%

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

5. Impairment of financial assets (continued)

The following tables detail the movement in the gross exposures and impairment provisions from the beginning to the end of the interim reporting period split by class of financial instrument.

Changes to methodologies and assumptions include a revised suite of economic scenarios and weightings and business as usual updates to modelling parameters. More details on these changes can be found below.

	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Gross exposure at 31 December 2019	34,401.2	2,710.4	307.0	563.6	37,982.2
Transfers:					
Transfers to stage 1	368.7	(360.9)	(7.8)	-	-
Transfers to stage 2	(579.6)	595.9	(16.3)	-	-
Transfers to stage 3	(30.4)	(52.0)	82.4	-	-
Changes to carrying value	(530.9)	(53.6)	(2.5)	(7.2)	(594.2)
New financial assets originated or purchased	2,221.3	-	-	-	2,221.3
Financial assets derecognised during the period	(1,713.0)	(93.9)	(14.3)	(15.8)	(1,837.0)
Write-offs	-	-	(3.4)	(0.5)	(3.9)
Gross exposure at 30 June 2020	34,137.3	2,745.9	345.1	540.1	37,768.4

	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Impairment provision at 31 December 2019	3.2	17.3	9.5	0.2	30.2
Transfers:					
Transfers to stage 1	0.3	(1.3)	(0.3)	-	(1.3)
Transfers to stage 2	(0.1)	4.0	(0.2)	-	3.7
Transfers to stage 3	(0.1)	(1.1)	1.9	-	0.7
Changes in PDs/LGDs/EADs	-	-	(2.1)	(1.6)	(3.7)
New financial assets originated or purchased	1.0	-	-	-	1.0
Changes to model assumptions and methodologies	2.8	3.9	1.8	1.8	10.3
Unwind of discount	-	-	0.3	0.4	0.7
Financial assets derecognised during the period	(0.1)	(0.6)	(0.5)	-	(1.2)
Write-offs	-	-	0.8	0.1	0.9
Impairment provision at 30 June 2020	7.0	22.2	11.2	0.9	41.3

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

5. Impairment of financial assets (continued)

The following tables are included to give an overview of our credit risk. This includes analysis of exposures by 12 month probability of default (PD) ranges, origination year and loan to value.

30 June 2020	Stage 1	Stage 2	Stage 3	POCI	Total	Impairment Provision	Credit Fair Value Adjustment	Gross Exposure 31 December 2019
PD Band	£m	£m	£m	£m	£m	£m	£m	£m
0.00%-<0.15%	22,878.5	1,041.6	-	-	23,920.1	1.0	-	28,843.9
0.15%-<0.25%	3,782.3	256.7	-	-	4,039.0	1.2	-	1,366.5
0.25%-<0.50%	2,105.8	136.9	-	-	2,242.7	1.6	-	256.7
0.50%-<0.75%	418.6	197.1	-	-	615.7	0.7	-	729.7
0.75%-<1.00%	272.1	203.5	-	-	475.6	0.7	-	452.2
1.00%-<2.50%	432.1	356.1	-	-	788.2	4.5	-	636.5
2.50%-<10.0%	193.9	267.4	-	-	461.3	7.4	-	317.0
10.0%-<100%	35.6	152.9	-	-	188.5	8.4	-	138.2
Default	-	-	345.1	67.2	412.3	11.2	11.0	379.0
Other	4,018.4	133.7	-	472.9	4,625.0	4.6	22.4	4,862.5
Total	34,137.3	2,745.9	345.1	540.1	37,768.4	41.3	33.4	37,982.2

The risk models cover the majority of loans underwritten by the Group, with exceptions for portfolios subject to bespoke modelling requirements including Accord BTL, RSL Commercial lending and POCI accounts.

30 June 2020	Gross Exposure					Total Provision	Credit Fair Value Adjustment	Gross Exposure 31 December 2019
	Stage 1	Stage 2	Stage 3	POCI	Total			
Origination year	£m	£m	£m	£m	£m	£m	£m	£m
2015 - 2020	27,047.8	347.4	53.8	-	27,449.0	10.4	-	27,007.8
2009 - 2014	4,335.2	645.0	28.6	-	5,008.8	0.6	-	5,362.7
Pre-2009	1,321.2	1,000.7	162.1	-	2,484.0	17.2	-	2,628.9
Acquired loans	1,433.1	752.8	100.6	540.1	2,826.6	13.1	33.4	2,982.8
Total	34,137.3	2,745.9	345.1	540.1	37,768.4	41.3	33.4	37,982.2

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

5. Impairment of financial assets (continued)

30 June 2020	Gross Exposure					Gross Exposure 31 December 2019
	Stage 1	Stage 2	Stage 3	POCI	Total	
Loan-to-value	£m	£m	£m	£m	£m	£m
Less than 60%	15,500.7	2,044.3	180.3	312.9	18,038.2	18,720.6
60% to 75%	9,319.7	461.6	91.7	147.4	10,020.4	10,224.6
75% to 90%	8,264.8	204.7	58.4	66.2	8,594.1	8,225.7
90% or greater	1,052.1	35.3	14.7	13.6	1,115.7	811.3
Total	34,137.3	2,745.9	345.1	540.1	37,768.4	37,982.2
Average LTV (%)	52.5	35.4	49.4	52.8	50.9	50.0

Our response to COVID-19

Following the COVID-19 outbreak, we have provided financial support to our customers in the form of 3 month payment deferrals from their mortgage payments. At the reporting date, 27.8% of customers have matured from their initial payment deferral of which 41.1% have requested an additional extension.

Loans with payment deferrals	Gross exposure 30 June 2020	Group Balance	Average LTV
Stage	£m	%	%
Stage 1	4,780.9	14	63.7
Stage 2	724.3	26	44.6
Stage 3	141.4	41	51.4
POCI	117.2	22	60.1
Total	5,763.8	15%	59.7

Consistent with Prudential Regulation Authority (PRA) guidance, payment deferrals are not being treated as a forbearance measure and have not impacted the credit reports of customers. In addition, payment deferrals, in and of themselves, are not being treated as a significant increase in credit risk for assessing the ECL at 30 June 2020.

However, to ensure that we adequately reflect the levels of increased risk in the book as a result of COVID-19 and payment deferrals, two changes have had to be made. Given the unique nature and timing of payment deferrals, a post model adjustment has been developed to reflect the risk and uncertainty surrounding customer behaviour when coming out of the deferral period. In addition, probability weightings applied to the different economic scenarios have been revised to reflect the new macroeconomic conditions.

Post Model Adjustment (PMA)

The PMA has been calculated using internal assessments of credit risk. For residential customers, we have considered the customer's employment status at the point of applying for a payment deferral and how close they were to naturally triggering stage transfer rules. For commercial customers we have segmented by industry and maintained close contact with customers to understand the ongoing levels of risk, where we consider the risk of default to be elevated the customer's probability of default (PD) has been stressed and calculated on a lifetime basis with the severity of the PD stress proportional to the risk of the industry.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

5. Impairment of financial assets (continued)

The PMA increases provisions by £4.4 million (£4.2 million collective impairment, £0.2 million in-model adjustment affecting staging). The collective impairment has not been allowed to affect reported staging and the provision is held collectively. The provision was calculated across a portfolio of customers, and whilst accounting standards allow for portfolio level transfers, this was not deemed appropriate for this population as not all accounts in this population are considered to have increased in risk.

Multiple scenarios were modelled for this PMA and the most severe option considered, which transferred significant portions of the book to stage 3, generated a PMA of £8.4 million. However, this was deemed to risk significant duplication with the revised economic scenarios.

Economic Scenarios

The Group use four economic scenarios including a stressed scenario. The scenarios are generated internally using external data, statistical methodologies, and senior management judgement, to span a wide range of plausible economic conditions. The core scenario represents the most likely economic forecast and is aligned with the central scenario used in the Group's financial planning processes.

In the determination of upside and downturn scenarios, the Group have considered a range of scenarios of varying degrees of severity or optimism. Of these options, the Group have elected to use scenarios at the upper and lower bounds of the range deemed reasonable. This decision was taken in order to better capture the significant non-linearities associated with the model; more adverse scenarios effect staging, loss given default (LGD) and PD, all of which interact generating substantially larger provisions. Scenarios are projected over a five year window, reverting to long term averages past that point. The Group allows all macroeconomic scenarios to impact staging. Furthermore, no economic post model adjustments have been applied for low probability scenarios. These have been fully incorporated into the model.

The following table shows the average values of the key economic variables used by economic scenario for the period until December 2024. The table includes the three key parameters used to predict PD - unemployment, house price index (HPI) and bank rate. UK gross domestic product (GDP) is also presented as it is the key input for determining the economic parameters used and provides context to the nature of the overall scenario. The values in the table are calculated as either a simple average of the rate across the 5 year forecasting window (unemployment and bank rate) or as the compound annual growth rate from start to finish (HPI and GDP). For downturn and stress scenarios, a peak to trough⁴ or peak⁵ forecast rate has been provided where this would aid understanding. The Group monitors the impact of CPI on provisioning, but this continues to be immaterial so no CPI scenarios have been provided.

	Upside		Core		Downturn		Stress	
	31 Dec 2019	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019	30 June 2020
5y Average								
GDP	2.4	1.8	1.8	1.1	1.2	(1.2)	(0.2)	(2.8)
HPI	6.4	2.9	2.9	0.5	(4.4)	(3.1)	(5.4)	(4.9)
Unemployment	2.4	3.9	3.9	6.3	6.6	7.6	8.2	8.3
Bank Rate	4.4	0.3	0.3	0.2	-	0.2	3.7	-
Peak								
GDP	-	-	-	(6.5)	(3.2)	(13.1)	(5.0)	(14.9)
HPI	-	-	-	(11.8)	(22.0)	(19.7)	(32.8)	(29.1)
Unemployment	3.3	4.0	4.0	9.0	7.1	9.5	9.2	9.5

⁴ Calculated as the compound annual growth rate from start to finish.

⁵ Calculated as a simple average of the rate across the 5 year forecasting window.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

5. Impairment of financial assets (continued)

Economic Scenarios (continued)

	2019 Scenario					2020 Scenario				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
HPI										
Upside	2.9	6.8	8.9	7.3	6.3	1.1	3.3	3.0	3.4	3.5
Core	1.1	3.3	3.0	3.4	3.5	(8.9)	6.0	1.6	1.9	2.5
Downturn	(4.9)	(10.4)	(6.5)	(2.0)	2.3	(14.7)	(5.4)	2.1	1.7	1.7
Stress	(10.8)	(16.4)	(8.9)	5.5	5.7	(14.7)	(10.9)	(5.5)	(0.9)	9.3
GDP										
Upside	3.2	2.6	2.0	2.0	2.0	1.4	1.8	1.9	2.0	2.0
Core	1.4	1.8	1.9	2.0	2.0	(3.1)	3.2	2.2	1.6	1.6
Downturn	(2.0)	2.0	2.0	2.0	2.0	(11.6)	1.8	(0.1)	2.4	2.1
Stress	(2.6)	(1.6)	1.2	1.0	1.0	(7.5)	(3.4)	(2.3)	(1.0)	0.3
Unemployment										
Upside	3.2	2.4	2.2	2.3	2.3	4.0	4.0	3.8	3.8	3.8
Core	4.0	4.0	3.8	3.8	3.8	7.7	6.7	6.0	5.5	5.0
Downturn	5.4	7.0	7.0	6.7	6.3	9.5	8.5	7.5	7.0	6.0
Stress	6.4	9.2	8.8	8.2	7.5	9.5	9.5	7.8	7.8	7.0

Since the start of the year, the Group's focus has switched from the risks posed by Brexit to those from COVID-19. There is no longer uncertainty about whether there will be a downturn, the conversation instead centring on scale and length. The Group have continued to use four scenarios: a continuous growth (Upside) scenario that assumes no disruption; a V shaped (Core) scenario; a U shaped (Downturn) scenario; and an L shaped (Stress) scenario. The weightings were reassessed in the context of the new scenarios, with movements only between upside and core, as the upside scenario is now deemed to have a very low probability.

The core scenario represents the Group's best view of how the pandemic will turn out. Both GDP and house prices contract during 2020, and unemployment rises, but government support limits business failure and the impact on unemployment is short-lived and less acute than previous recessions. Economic recovery is expected during 2021 and GDP is then expected to bounce back substantially, though not fully, once life returns to normal. The scenario assumes that the impact of the pandemic will be severe but temporary, with recovery supported by a combination of payment deferrals, possession moratoria and low rates. This scenario further assumes that house prices will recover over a slightly longer period and that there is no, or minimal, disruption at the end of the transition period as a result of Brexit.

The downturn scenario assumes there will be a second spike in infections during the late summer. As a result, the relaxation of lockdown will be temporary and does not fully lift until much later in the year, potentially as late as quarter four 2020. Government support will need to be withdrawn before the recovery is underway to preserve the government's finances, causing unemployment to rise. Consumer confidence will be damaged by the experience, which will continue to depress demand and investment into 2021. This is expected to hold true abroad as well, limiting the ability of exporters to offset domestic weakness. This scenario also covers the possibility of a disruptive exit from the EU with a poorly negotiated trade deal overlain onto the V shaped recession above.

In the stress scenario, GDP is not expected to start recovering within the forecast period. Lockdown is expected to resume and to last long enough to trigger a depression resulting in widespread business closure, particularly in the travel and entertainment sectors. This scenario also covers the possibility that at the end of 2020, the UK fails to negotiate a trade deal with the EU and exits on WTO terms, further exacerbating economic problems brought on by COVID-19.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

5. Impairment of financial assets (continued)

Economic Scenarios (continued)

The following table shows the expected credit loss by economic scenario, with the impact of applying multiple economic scenarios giving rise to a 92% increase in provision over that calculated using the core scenario. The total expected credit losses of £78.9 million is split between impairment provisions £45.5 million and fair value credit adjustments £33.4 million. The ECL under each scenario assumes a 100% probability of that scenario occurring allowing the scenario to fully impact staging. The table below includes payment deferral PMAs.

	30 June 2020		31 December 2019	
	Weighting	ECL	Weighting	ECL
Scenario	%	£m	%	£m
Upside scenario	10	33.7	20	28.9
Core scenario	50	41.2	40	30.0
Downturn scenario	25	125.7	25	109.7
Stress scenario	15	177.2	15	158.3
Probability weighted scenario	100	78.9	100	65.1

The committee established to set the forward looking macroeconomic assumptions, assessed the uncertainty associated with COVID-19 and the UK's ongoing trade negotiation with the EU, and determined that applying a combined 40% weighting to downside and stress scenarios as at the balance sheet date represents the best estimate of there being a significant impact on the UK economy. The Group has applied a 10% weighting to upside, 50% to core, 25% to downside and 15% to stress. The Group considered alternative sets of weightings in reaching these results. The most severe applied a 5% movement from core to downturn scenario weightings, which would give rise to a £4.7 million (2019: £3.0 million) increase in provisions, the least severe applied a 5% movement from stress to upside, which would give rise to a £6.5 million (2019: £5.0 million) decrease in provisions. These changes in weightings have been fully modelled and been allowed to impact staging and include a remodelled PMA for payment deferrals.

An alternative stress was run with a peak of 12.5% unemployment and peak to trough HPI reduction of 34%. A 10% weighting was applied, moving 5% to the core scenario. This resulted in £3.7 million lower ECL. As a result, no change was made to the methodology and weightings applied.

POCI

Given the size of the Group's POCI population, further information has been provided below showing current performance of these loans and how they are currently distributed across loan-to-value (LTV) bands. A substantial proportion of POCI balances, were they not classified as POCI, would transfer to other stages. The table shows that 72.1% (31 Dec 2019: 71.8%) of balances have been fully up to date for the 24 months and only 12.4% (31 Dec 2019: 12.7%) of balances would be classified as in default.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

5. Impairment of financial assets (continued)

POCI (continued)

	Up-to-date for the last 24 months	Some arrears in the last 24 months	Meets definition of default	Total
30 June 2020				
Gross Exposure (£m)	389.3	83.6	67.2	540.1
Impairment Provision	0.3	0.6	-	0.9
Credit Fair Value Adjustment	16.4	6.0	4.5	26.9
31 December 2019				
Gross Exposure (£m)	404.9	86.9	71.8	563.6
Impairment Provision	0.2	0.3	(0.3)	0.2
Credit Fair Value Adjustment	17.2	6.1	4.7	28.0
30 June 2020 LTV Split				
Less than 60%	236.3	43.8	22.4	302.5
From 60 to 70%	73.4	18.9	18.7	111.0
From 70 to 80%	47.2	11.3	15.9	74.4
From 80 to 90%	20.2	5.6	7.9	33.7
90% or greater	12.2	4.0	2.3	18.5
Total	389.3	83.6	67.2	540.1



Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

6. Provisions

The provisions charge for the period is outlined below:

	Half-year to 30 June 2020 (unaudited)	Half-year to 30 June 2019 (unaudited)	Year to 31 December 2019 (audited)
	£m	£m	£m
FSCS levy	-	(0.1)	0.1
Customer redress	-	1.3	0.5
Restructuring	(0.4)	(1.1)	(0.5)
Other	-	0.3	(0.5)
Total provisions (charge)/release	(0.4)	0.4	(0.4)

7. Tax

The Group has an effective tax rate of 22.27% which is higher than the UK statutory corporation tax rate of 19%. This is primarily due to the 8% banking surcharge on the taxable profits of YBS above £25 million.

The main rate of corporation tax was due to reduce to 17% from 1 April 2020, however the Finance Bill 2020, substantively enacted on 17 March 2020, was amended to keep the rate at 19%. This rate change is reflected in the deferred tax balances in these accounts.

At the start of the period, the tax treatment of intra-Group interest rate swaps was changed leading to a transitional adjustment for tax purposes.

8. Retirement benefit obligations

	30 June 2020 (unaudited)	Movements (unaudited)	31 December 2019 (audited)
	£m	£m	£m
Assets at fair value	1,077.6	94.0	983.6
Present value of defined benefit retirement obligations	(950.0)	(52.8)	(897.2)
Funded status/defined benefit asset	127.6	41.2	86.4

The present value of the defined benefit obligation as at 30 June 2020 has been derived using assumptions that are mainly consistent with those used for the 31 December 2019. There has been one revision due to a change in available bond data which has increased the discount rate by 15bps. The scheme completed its triennial actuarial valuation as at 31 December 2019 with the updated liability calculations being reflected in these results.

Corporate bond yields have decreased over the first half of 2020, which has the effect of decreasing the discount rate and increasing liabilities. Actual and future expectations of inflation have reduced. In addition, there has been a significant amount of benefits transferred out of the Scheme over the first half of the year, totalling around £11 million.

Assets returns over the first half of the year have been strong, with returns in excess of the discount rate and increase in liabilities. This has improved the overall funding position by £41.2 million.

The re-measurement of net retirement benefit obligations recognised in the Statement of Comprehensive Income of £39.9 million represents; the change in asset value of £41.2 million, less cash contributions for admin costs in the period of £0.9 million and net interest income on the defined benefit asset/liability booked through the profit and loss of £0.4 million.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

9. Related parties

Brass No.9 Plc, a new securitisation vehicle launched during the period, was deemed to be a controlled entity of the Group. There have been no further material changes to related parties and the associated related party transactions since the year end. For further information on these see pages 213 to 215 of the 2019 Annual Report and Accounts.

10. Notes to the consolidated statement of cash flows

	Half-year to 30 June 2020 (unaudited)	Half-year to 30 June 2019 (unaudited)	Year ending 31 December 2019 (audited)
	£m	£m	£m
Non-cash items included in profit before tax			
Depreciation and amortisation	12.3	11.6	25.3
Loss/(profit) on sale of assets	-	(3.0)	3.4
Interest on subordinated liabilities and subscribed capital	11.2	15.7	27.8
Impairment of loans and advances to customers	14.3	1.6	0.2
Movement in provisions	0.4	(0.4)	0.4
Non-cash movement in subordinated liabilities and subscribed capital	22.0	17.9	11.9
Gain on realisation of debt securities	(6.5)	(5.7)	(6.3)
Increase in other assets	(4.4)	(4.1)	(17.3)
Decrease in other liabilities	(26.8)	(20.7)	(20.5)
	22.5	12.9	24.9
Net change in operating assets			
Loans and advances to credit institutions	-	-	(0.1)
Loans and advances to customers	7.3	(1,201.1)	(1,282.2)
Investments	(0.8)	(2.1)	(2.4)
Derivative financial instruments	163.0	155.3	331.5
	169.5	(1,047.9)	(953.2)
Net change in operating liabilities			
Shares	168.5	736.0	1,118.7
Amounts owed to credit institutions	906.3	(618.1)	(1,180.0)
Debt securities in issue	229.9	-	(182.4)
Other deposits	(167.6)	22.2	76.0
	1,137.1	140.1	(167.7)

The following tables reconcile liabilities arising from financing activities.

	31 December 2019 (audited)	Cash flows		Non-cash			30 June 2020 (unaudited)
		Redemption	Issue	Foreign exchange	Accrued interest	Fair value adjustments	
	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	6,034.8	(727.5)	26.0	226.2	(19.7)	23.4	5,563.2
Subordinated liabilities	626.4	-	-	-	1.0	21.0	648.4
	6,661.2	(727.5)	26.0	226.2	(18.7)	44.4	6,211.6

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

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

	31 December 2018 (audited)	Cash flows		Non-cash			30 June 2019 (unaudited)
		Redemption	Issue	Foreign exchange	Accrued interest	Fair value adjustments	
	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	5,145.9	(620.8)	597.9	(11.6)	(25.4)	37.5	5,123.5
Subordinated liabilities	585.1	(218.8)	275.0	-	6.1	11.8	659.2
Subscribed capital	6.1	(6.1)	-	-	-	-	-
	5,737.1	(845.7)	872.9	(11.6)	(19.3)	49.3	5,782.7

	31 December 2018 (audited)	Cash flows		Non-cash			31 December 2019 (unaudited)
		Redemption	Issue	Foreign exchange	Accrued interest	Fair value adjustments	
	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	5,145.9	(913.0)	1,984.3	(192.0)	(5.8)	15.4	6,034.8
Subordinated liabilities	585.1	(250.0)	275.0	-	4.6	11.7	626.4
Subscribed capital	6.1	(6.1)	-	-	-	-	-
	5,737.1	(1,169.1)	2,259.3	(192.0)	(1.2)	27.1	6,661.2

Cash and balances with central banks

Cash and cash equivalents excludes cash ratio deposits of £113.1 million held with the Bank of England, which are not available for use in the Group's day-to-day operations.

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

11. Fair values

Fair value is the price that would be received on the sale of an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where external market prices are available they have been used to determine fair value. Otherwise, internal pricing models using external market data have been used. The Group measures fair value using the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

At 30 June 2020 (unaudited)	Carrying value	Fair values			Total fair value
		Level 1	Level 2	Level 3	
Held at amortised cost	£m	£m	£m	£m	£m
Assets					
Loans and advances to credit institutions	1,074.4	-	1,074.4	-	1,074.4
Debt securities – amortised cost	281.2	281.2	-	-	281.2
Loans and advances to customers	37,962.8	-	-	38,040.9	38,040.9
Liabilities					
Shares	30,845.8	-	30,845.8	-	30,845.8
Amounts due to credit institutions	4,211.3	-	4,211.3	-	4,211.3
Other deposits	417.0	-	417.0	-	417.0
Debt securities in issue	5,563.2	4,734.2	971.4	-	5,705.6
Subordinated liabilities	648.4	603.2	43.3	-	646.5

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

11. Fair values (continued)

At 31 December 2019 (audited)	Carrying value	Fair values			Total fair value
		Level 1	Level 2	Level 3	
Held at amortised cost	£m	£m	£m	£m	£m
Assets					
Loans and advances to credit institutions	526.0	-	526.0	-	526.0
Loans and advances to customers	37,984.4	-	-	38,286.5	38,286.5
Liabilities					
Shares	30,677.3	-	30,672.4	-	30,672.4
Amounts due to credit institutions	3,305.0	-	3,305.0	-	3,305.0
Other deposits	584.6	-	584.6	-	584.6
Debt securities in issue	6,034.8	5,094.5	1,008.1	-	6,102.6
Subordinated liabilities	626.4	596.8	40.9	-	637.7

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

At 30 June 2020 (unaudited)	Level 1	Level 2	Level 3	Total fair value
Held at fair value	£m	£m	£m	£m
Assets				
Debt securities – fair value through other comprehensive income	2,815.7	-	-	2,815.7
Derivative financial instruments	-	522.9	0.1	523.0
Investments	-	-	10.0	10.0
Liabilities				
Derivative financial instruments	-	548.3	0.6	548.9
At 31 December 2019 (audited)	Level 1	Level 2	Level 3	Total fair value
Held at fair value	£m	£m	£m	£m
Assets:				
Debt securities – fair value through other comprehensive income	2,548.2	-	-	2,548.2
Derivative financial instruments	-	365.2	2.4	367.6
Investments	-	-	9.2	9.2
Liabilities				
Derivative financial instruments	-	214.1	16.4	230.5

Condensed Interim Financial Statements (continued)

Notes to the Interim Financial Statements (continued)

11. Fair values (continued)

The following table analyses movements in assets classified as level 3:

	As at 31 December 2019 (audited)	Amounts recognised in the income statement	Amounts recognised in other comprehensive income	As at 30 June 2020 (unaudited)
	£m	£m	£m	£m
Assets				
Derivative financial instruments	2.4	(2.3)	-	0.1
Investments	9.2	0.8	-	10.0

	As at 31 December 2018 (audited)	Amounts recognised in the income statement	Amounts recognised in other comprehensive income	As at 31 December 2019 (audited)
	£m	£m	£m	£m
Assets				
Debt securities – fair value through other comprehensive income	3.5	-	(3.5)	-
Derivative financial instruments	10.2	0.8	(8.6)	2.4
Investments	6.8	2.4	-	9.2

Movements in Level 3 items through the income statement are recognised in Net (losses)/ gains from fair value volatility on financial instruments.

Details of valuation techniques are disclosed on page 211 of the 2019 Annual Report and Accounts.

There have been no transfers of assets or liabilities between the levels of the fair value hierarchy during the period.

12. Events occurring after the end the reporting period

There have been no material post balance sheet events between 30 June 2020 and the approval of the condensed interim financial statements.



Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 '*Interim Financial Reporting*'; and
- the interim 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

Mike Regnier, Chief Executive

Alasdair Lenman, Chief Finance Officer

22 July 2020



Independent review report to Yorkshire Building Society

Report on the Condensed Interim Financial Statements

Our conclusion

We have reviewed Yorkshire Building Society Group's Condensed Interim Financial Statements (the "interim financial statements") in the Half-Yearly Financial Report of Yorkshire Building Society Group for the 6 month period ended 30 June 2020. 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 International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Consolidated Statement of Financial Position as at 30 June 2020;
- 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 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Our responsibility is to express a conclusion on the interim financial statements in the Half-Yearly Financial Report based on our review. This report, including the conclusion, has been prepared for and only for the Group 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.

What a review of interim financial statements involves

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

applying analytical and other review procedures.

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
22 July 2020

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 2019 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2019 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.





References to 'YBS Group' or 'Yorkshire Group' refer to Yorkshire Building Society, the trading names under which it operates (Chelsea Building Society, the Chelsea, Norwich & Peterborough Building Society, N&P and Egg) and its subsidiary companies. Yorkshire Building Society is a member of the Building Societies Association and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Yorkshire Building Society is entered in the Financial Services Register and its registration number is 106085. Head Office: Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ. www.ybs.co.uk