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Yorkshire Building Society
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YORKSHIRE BUILDING SOCIETY

FULL YEAR RESULTS 2023

"The Yorkshire Building Society has delivered a strong set of results for 2023, further supporting our financial position, and our long-term sustainability.

In an environment where higher interest rates have increased the cost of living for many, the Society has focused on supporting our members and customers. Over 2023, we provided savings rates that were consistently above the market average, and continued to support new and existing mortgage borrowers, all while achieving an increase in customer advocacy. Being a mutual allows us to make decisions in the interests of our membership, and we will continue to place providing *Real Help with Real Life* at the centre of all that we do."

Susan Allen, OBE
Chief Executive

The Society's 2023 Annual Report and Accounts will be published on 7 March 2024. Key highlights from 2023 performance are below:

- Aligned to its mutual purpose, the Society continued to support the *Financial Wellbeing* of members through competitive savings rates, including increases to variable rates over the year. Overall, savings rates provided were on average 1.01 percentage points higher than the market average over 2023 (2022: 0.56 percentage points higher), equating to £441.1m of additional interest paid[1].
- Shares balances increased £5.1bn year on year to £47.1bn (2022: £42.0bn), as a competitive product range, supported by targeted member loyalty offerings, continued to drive book growth.
- In support of the Society's *Place to Call Home* purpose priority, gross mortgage lending remained high by historical standards, reaching £9.2bn (2022: £10.3bn), in the context of a smaller market size. Combined with a higher level of maturities from the mortgage book, this contributed to 2023 net lending of £1.6bn (2022: £3.0bn).
- Net interest income was £786.0m in 2023, increasing £61.9m year on year (2022: £724.1m). Net interest margin increased 1 basis point to 1.31%, as a result of effective trading strategies as well as the increases made to Bank Rate in the year.
- Accelerated investment in ongoing transformation activities, and the impacts of price inflation, contributed to an increase in management expenses to £332.7m (2022: £298.7). As a proportion of mean assets, management expenses were 0.56% (0.54%).
- On a statutory reporting basis, profit before tax was £450.3m (2022: £502.5m). Core Operating Profit[2] was £449.9m (2022: £425.6m). Compared to 2022, Core Operating Profit in 2023 more closely resembles statutory profits; 2022 excludes a £74.9m fair value gain driven by a more volatile external interest rate environment.
- Continued strength has been demonstrated in liquidity and capital positions, both comfortably in excess of regulatory minimums. Liquidity coverage was 156.4% (2022: 164.0%). Common Equity Tier 1 (CET1) ratio was 16.7% (2022: 16.8%).
- Retail deposit performance and active wholesale programmes allowed a further £2.2bn of TFSME to be repaid in 2023. As at December 2023, £1.0bn of this funding remains.
- Asset quality of the loan book remains strong. As at December 2023, the number of accounts more than three months in arrears, including possessions, was 0.50% (2022: 0.44%) which compares favourably to the industry average of 0.87% (2022: 0.74%)[3].

Alongside the above commercial and financial outcomes, the Society also continued to make progress in a number of strategically important areas.

Here to support members, customers, and communities

As people across the UK have been required to adapt to the challenges relating to the increased cost of living, the priority of supporting *Financial Wellbeing* has only been underlined. Members saving with the Society have benefitted from competitively priced products, and a proactive strategy of passing on the Bank Rate increases.

Providing support to mortgage borrowers is also a core priority. Product and proposition innovation supports prospective borrowers facing challenges in their pursuit of home ownership. In 2023, new products were added to the range in order to serve more customers.

The Society is mindful of the challenges faced by existing mortgage customers. Those who were expected to be most impacted by significant increases in interest rates were contacted proactively, and the Society also signed up to the government-led Mortgage Charter.

Focus continues to be placed on enhancing digital capabilities. Change programmes delivered some tangible benefits for customers in 2023, with expanded payments functionality, the introduction of a more user-friendly online experience, and new features for the savings app. Continued increases in customer satisfaction scores reflect the progress made. Overall Net Promoter Score - a measure of how willing customers are to recommend products and services - stood at +61 in 2023, an increase from +54 in 2022[4].

The Society's commitment to positively impacting local communities speaks to a strong sense of social purpose. Branch locations are an important link, and the award-winning partnership with Citizens Advice is one example of how physical locations can be used for the benefit of communities. The Society announced its newest charity partner, FareShare, in 2023. In a collaboration that will run to 2026, valuable support for matters relating to financial hardship and employability skills will be provided.

The external environment

Economic volatility continues to result from world events and increasing levels of competition are compressing net interest margin across the industry. Much depends on the evolution of the interest rate environment and the pace at which monetary policy action can bring the rate of inflation to target levels.

The future of the mortgage market will continue to be strongly influenced by prevailing interest rates, including the consequences for borrower affordability, and the supply and demand dynamics in the housing market. The upcoming maturity of TFSME funding may precipitate an even greater degree of competition for retail savings balances, which was already observed to have intensified over the second half of 2023.

Looking ahead

The external context has evolved over the years since the Society set its *Strategic Blueprint* in 2020. In 2023, the Society refreshed its strategic direction, launching *Our Strategy*. This sets out the longer-term ambitions for the future of the Society, whilst retaining the purpose of providing *Real Help with Real Life* at the heart of the decisions made.

The strength of the results in 2023 bolster the Society's financial position. The effective generation of capital, with the levels of profits made in 2023 and 2022 being higher than in previous years, helps to protect the long-term interests of members, and positions the Society well for future challenges that may arise.

Summary Financial Statements

Consolidated Income Statement

	2023	2022
	£m	£m
Net interest income	786.0	724.1
Fair value gains and losses	(5.5)	75.6
Net realised gains	1.6	2.9
Other income	4.3	8.8
Total income	**786.4**	**811.4**

Management expenses	(332.7)	(298.7)
Operating profit before provisions	**453.7**	**512.7**
Impairment of financial assets	(4.0)	(6.0)
Movement in provisions	0.6	(4.2)
Profit before tax	**450.3**	**502.5**
Tax expense	(118.6)	(123.2)
Net profit	**331.7**	**379.3**

Statutory profit before tax was £450.3m (2022: £502.5m), and Core Operating Profit increased to £449.9m (2022: £425.6m). Core Operating Profit excludes items such as fair value volatility and material one-time charges that do not reflect the Group's day-to-day activities. The Board considers Core Operating Profit to be an appropriate measure of the underlying performance of the business.

Net interest income increased £61.9m year on year, with a net interest margin of 1.31% in 2023 (up 1 basis point on 2022). The further increases to Bank Rate, along with growth in both mortgage and savings books, contribute to the increase on 2022, despite a series of increases to the rates paid to back-book savers and widening the differential between the average savings rate paid and the market average.

A £5.5m loss on fair value recorded in 2023 compares to a £75.6m gain in 2022. The movement is primarily driven by interest rate swaps not designated in the accounting hedge being subject to lower volatility, and this contributes to total income having reduced year on year.

Management expenses increased £34.0m to £332.7m. This reflects increased purposeful investment in change activities, the impact of cost inflation, and increases to staff costs which include a higher-than-typical salary increase to support with the cost of living.

Reconciliation of Core Operating Profit
The table below shows a reconciliation between core and statutory profit measures.

	2023 **£m**	2022 £m
Statutory profit before tax	450.3	**502.5**
Reverse out the following items:		
Fair value gains and losses	2.2	(74.9)
Historical fair value credit adjustments on acquired loans	(2.4)	(2.4)
Movement in restructuring provision	(0.2)	0.1
Other non-core items	-	0.3
Core operating profit	**449.9**	**425.6**

Consolidated Statement of Comprehensive Income

	2023 **£m**	2022 £m
Net profit	**331.7**	**379.3**
Items that may be subsequently reclassified through profit or loss:		
Cash flow hedges:		
Fair value movements taken to equity	-	26.1
Amounts transferred to the income statement	(13.2)	(28.1)
Tax on amounts recognised in equity	3.7	0.5
Effect of change in corporation tax rate	-	0.8
Financial assets measured through other comprehensive income:		
Fair value movements taken to equity	(18.0)	(27.0)
Amounts transferred to the income statement	1.2	(1.9)
Tax on amounts recognised in equity	4.7	7.8
Effect of change in corporation tax rate	-	1.9

Items that will not be reclassified through profit or loss:

Remeasurement of retirement benefit obligations	(11.2)	(80.0)
Tax on remeasurement of retirement benefit obligations	3.1	21.6
Effect of change in corporation tax rate	-	6.9
Total comprehensive income for the year	**302.0**	**307.9**

Consolidated Statement of Financial Position

	2023	2022
	£m	£m
Liquid assets	12,798.4	12,482.3
Loans and advances to customers	46,815.9	45,203.7
Fair value adjustment for hedged risk on loans and advances to customers	(615.5)	(1,508.3)
Other assets	1,969.9	2,576.4
Total assets	**60,968.7**	**58,754.1**
Shares - retail savings	47,056.7	42,008.2
Wholesale funding and other deposits	7,789.3	11,558.3
Subordinated liabilities	1,621.7	1,035.1
Other liabilities	802.5	756.0
Total liabilities	**57,270.2**	**55,357.6**
Members' interest and equity	3,698.5	3,396.5
Total members' interest, equity and liabilities	**60,968.7**	**58,754.1**

The balance sheet increased to £61.0bn as at December 2023, which represents a growth rate of 3.8% against 2022.

Liquidity levels remain strong, with a liquidity balance sheet ratio standing at 23.3% (2022: 23.3%), and a Liquidity Coverage Ratio at 156.4% (2022: 164.0%). Sufficient headroom to regulatory requirements for liquidity was maintained throughout 2023.

Net lending was £1.6bn (2022: £3.0bn), owing to a higher volume of maturities as well as lower gross lending in a smaller lending market. Mortgage book growth, excluding fair value adjustments for hedged risk, was 3.6% (2022: 7.2%). Asset quality remains strong, comparing favourably to the latest industry average (as measured by the number of accounts in arrears by three months or more, including possessions).

Shares balances increased to £47.1bn, increasing by £5.1bn on 2022, or 12.0%. Sustaining a high rate of growth allowed the amount of value returned to members through savings rates to increase meaningfully.

The Society continued to maintain a presence in key wholesale funding issuance markets, successfully issuing within the RMBS, covered bond, and senior non-preferred markets in 2023. Strong savings inflows in the year supported further £2.2bn paydown of TFSME funding, continuing the prudent approach to the refinancing of this funding as market-wide maturities draw nearer.

Key ratios

	2023	2022
	%	%
Net interest margin	1.31	1.30
Management expense ratio	0.56	0.54
Asset growth	3.8	11.4
Loans and advances growth	3.6	7.2
Shares balance growth	12.0	18.3
Liquidity ratio	23.3	23.3
Funding ratio	14.2	21.6
Gross capital	9.7	8.3
Free capital	9.5	8.0
Total capital ratio	18.0	18.2
Common Equity Tier 1 ratio	16.7	16.8
Leverage ratio	6.2	6.2
Cost to core income ratio	42	41

<u>About Yorkshire Building Society</u>

Yorkshire Building Society was founded in 1864.

As at December 2023, the Society has assets of £61.0 billion.

Chelsea Building Society and Norwich & Peterborough Building Society are part of Yorkshire Building Society. Its subsidiary companies include Accord Mortgages Limited. For more information on Yorkshire Building Society visit www.ybs.co.uk.

1. YBS Group average savings rate compared to rest of market average rates. Source: CACI's Current Account and Savings Database (CSDB), Stock. Data period January - December 2023.

2. Core operating profit is an alternative performance measure which excludes items such as fair value volatility and material one-time charges that do not reflect the Group's day-to-day activities.

3. Industry average sourced from UK Finance.

4. Net Promoter Score and NPS are trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc. Data period January - December 2023, based on 58,586 responses.

This document contains certain forward-looking statements, which are made in good faith based on the information available up to the time of the 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.

References to 'YBS Group' or 'Yorkshire Group' refer to Yorkshire Building Society, the trading names under which it operates (Barnsley Building Society, Barnsley, Chelsea Building Society, Chelsea, Norwich & Peterborough Building Society, N&P and Egg) and its subsidiary companies.

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