YORKSHIRE BUILDING SOCIETY PENSION SCHEME

Chair's Governance Statement for the year ended 31 December 2023

Scheme Registration No: 10101681

GOVERNANCE STATEMENT
FOR THE DEFINED CONTRIBUTION SECTION AND DEFINED BENEFIT SECTION OF THE YORKSHIRE BUILDING SOCIETY PENSION SCHEME

This Chair's Governance Statement (the "Statement") has been produced for the Yorkshire Building Society Pension Scheme (the "Scheme") and its corporate trustee, YBS Pension Trustees Limited (the "Trustee"), in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. The Scheme's Principal Employer and Sponsor is Yorkshire Building Society (the "Society"). The Statement describes the role of the Trustee and how the Trustee, acting through its directors (the "Trustee Directors"), has met its statutory governance standards in relation to the Defined Contribution ("DC") arrangements during the Scheme year ended 31 December 2023 (the "Scheme Year") in the following areas:

- The investment options in which members' accounts are invested during the Scheme Year, including the default investment arrangements and self-select funds.
- Requirements for processing core financial transactions.
- Assessment of charges and transaction costs borne by members.
- The net return on investments for each default arrangement and self-select fund.
- Assessment of value for members.
- The requirement for Trustee knowledge and understanding.

The Statement also includes "pounds and pence" illustrations demonstrating the potential impact of costs and charges on a member's DC savings over the course of their Scheme membership.

The Statement is designed to provide members with key information and assurances regarding the proper running of the Scheme and the value it provides. The Scheme is used as a qualifying scheme for the Society's automatic enrolment obligations.

The Statement primarily relates to the Scheme's DC Section but also includes sections covering the Defined Benefit ("DB") Section and its Additional Voluntary Contribution ("AVC") arrangements.

The Trustee receives professional Defined Contribution ('DC'), investment and governance advice from WTW (the "Investment Adviser"'). The Scheme's DC Section is administered by Fidelity (the "Plan Administrator").

Market update

The Bank of England (BoE) made several base rate rises throughout 2023, with the base rate starting the year at 3.5% and ending the year at 5.25%. UK inflation, as measured by the CPI, rose by 3.9% in the 12 months to December 2023, down from 6.6% in September and from a recent peak of 11.1% in October 2022.

Equity markets returned positive performance across all regions other than China which returned negative performance. The FTSE All World Index returned 15.7% whilst the MSCI China Index returned -16.2% (both in sterling terms). FTSE All-Share Index returned 7.9% whilst North America was the best performing region with 19.4% (both in sterling terms).

UK government bond yields (which move inversely to bond price) decreased over 12 months to 31 December 2023, which meant returns from bonds were generally positive. Long dated UK gilts have returned 1.6% over the period (as measured by FTSE-A Gilts Over 15 Years Index) and UK gilts all stocks returned 3.7%.

Over a 3 year period, which takes into account the gilts crisis in the latter part of 2022, bond returns have been negative. However, for a DC member invested in the Pre-Retirement fund, this should be considered alongside significant falls in the price of annuities over the same period. As an example, average annuity prices fell by around 11.6% p.a. over the 3 years ending 31 December 2023 (for a level annuity bought at age 65). The DC Pre-Retirement fund value also fell, but to a lesser extent (10.5%) – ultimately this means the fund has done a good job at tracking the price of purchasing an annuity.

DC Section

Investment strategy

Members who join the Scheme and who do not subsequently choose an investment option are placed into the default investment strategy. The Trustee is responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangements. The Scheme's DC investment strategy is set out in the Scheme's Statement of Investment Principles ("SIP"). This document governs the Trustee's decisions about investments including its aims, objectives, and policies for the Scheme's investment options including the default arrangement, and the Trustee's policies in relation to the kinds of investment that should be held, risks (including how these are measured and managed) and policies on investment. It has been prepared in accordance with Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005. A copy of the current SIP, last revised in December 2023, is attached to this document in Appendix B. A copy of the Chairman's Statement and SIP can also be found online at https://www.ybspensionscheme.co.uk/dc/library

The Scheme's investment objectives are:

a. To offer a suitable range of options, including a default lifestyle strategy, three additional lifestyle strategies and a range of self-select funds.

b. To recognise and limit the risk of a member's account failing to satisfy the member's reasonable expectations over the long term.

c. To optimise the long-term benefits from the Scheme by allowing members to benefit from long-term growth on their assets whilst having regard to the objectives shown under the previous paragraph.

d. To monitor the value for money received by members in the DC section from their membership of the Scheme and commission our Investment Adviser to undertake an annual review and make recommendations for improvements. The Trustee aims to ensure that the members receive good value for money but recognises that this does not necessarily equate to paying lower fees or costs for services.

Investment strategy review

The Trustee periodically, and on no less than a three-yearly cycle, reviews the appropriateness of the default arrangements. It will undertake an earlier review if there are any significant changes in legislation, investment policy or member demographics.

The Trustee began a full DC investment strategy review in May 2023, with support from the Investment Adviser. This review covered the default investment arrangements as well as the 'self-select' arrangements. A review of the Trustee's beliefs was carried out in advance of the investment strategy review, resulting in the Trustee setting and documenting its DC investment beliefs. A membership analysis was then carried out to better understand the membership's risk tolerance and retirement objectives. Subsequently, the Scheme's lifestyle strategy designs were reviewed to ensure they could meet the varying objectives of the membership at retirement.

As a result of the strategy review of the default arrangements, the Trustee agreed to introduce a new short-dated corporate bond fund to the Flexible and Lump Sum lifestyle strategies in order to better manage members' exposure to risk as they progress towards retirement. This change is due to be implemented in July 2024. The Trustee believes that the other 2 lifestyle funds (both 'self-select arrangements'), the Annuity and Drawdown lifestyles, still remain appropriate and so no changes will be made to these funds.

Full details of each of the Lifestyle strategies can be found on the YBS website www.ybspensionscheme.co.uk

The next investment review is due to begin in 2026.

In addition to the default lifestyle strategies described above, for the purposes of Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005, due to their history and development, the following self-select funds are also classed as "default arrangements":

- International Equity Investment Fund.
- Diversified Investment Fund.
- Pre-Retirement Fund.

- Cash Fund.

Investment performance

The Trustee undertakes regular reviews of the performance of the funds underlying the default arrangements and the self-select funds, with the support of the Investment Adviser. These reviews have concluded that all funds performed broadly in line with their objectives and remained well rated. The DC Section investments do not carry any performance related fees.

The Trustee has calculated the investment returns (after charges and transaction costs have been deducted) for example members invested in the default lifestyle funds and self-select funds, in line with the guidance issued by the Department for Work and Pensions. The returns achieved by different aged members vary due to the lifestyle strategies outlined previously in this Statement. Net investment returns refer to the returns on funds minus all transaction costs and member-borne charges. These returns are shown below (and details can also be found in members' annual benefit statements):

Flexible Lifestyle

Age of member (years)	Investment return p.a. over 5 years (to 31 December 2023)	Investment return p.a. over 3 years (to 31 December 2023)	Investment return over 1 year (to 31 December 2023)
25	7.7%	4.4%	10.9%
45	6.7%	4.0%	10.9%
55	3.7%	1.4%	7.3%

Lump-sum Lifestyle

Age of member (years)	Investment return p.a. over 5 years (to 31 December 2023)	Investment return p.a. over 3 years (to 31 December 2023)	Investment return over 1 year (to 31 December 2023)
25	7.7%	4.4%	10.9%
45	6.7%	4.0%	10.9%
55	3.3%	1.3%	7.3%

Drawdown Lifestyle

Age of member (years)	Investment return p.a. over 5 years (to 31 December 2023)	Investment return p.a. over 3 years (to 31 December 2023)	Investment return over 1 year (to 31 December 2023)
25	10.3%	6.9%	14.5%
45	10.3%	6.9%	14.5%
55	6.7%	4.0%	10.9%

Annuity Lifestyle

Age of member (years)	Investment return p.a. over 5 years (to 31 December 2023)	Investment return p.a. over 3 years (to 31 December 2023)	Investment return over 1 year (to 31 December 2023)
25	7.7%	4.4%	10.9%
45	6.7%	4.0%	10.9%
55	3.3%	1.3%	7.3%

The investment returns (after charges and transaction costs have been deducted) for the self-select funds available to members are shown below:

Fund name	Investment return p.a. over 5 years (to 31 December 2023)	Investment return p.a. over 3 years (to 31 December 2023)	Investment return over 1 year (to 31 December 2023)
International Equity Investment Fund*	10.3%	6.9%	14.5%
Diversified Investment Fund*	5.0%	2.0%	7.3%
Pre-retirement Fund*	-2.3%	-10.5%	7.1%
Cash Fund*	1.1%	1.7%	4.4%
Emerging Markets Fund	2.9%	-3.8%	0.9%
Shariah Equity Fund	16.3%	10.8%	26.9%
Over 5 Year Index-Linked Gilts Fund	-5.3%	-13.6%	1.4%

Also default arrangements under Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005

The figures for net investment returns used in the tables above are based on those provided by the Plan Administrator over the past five years.

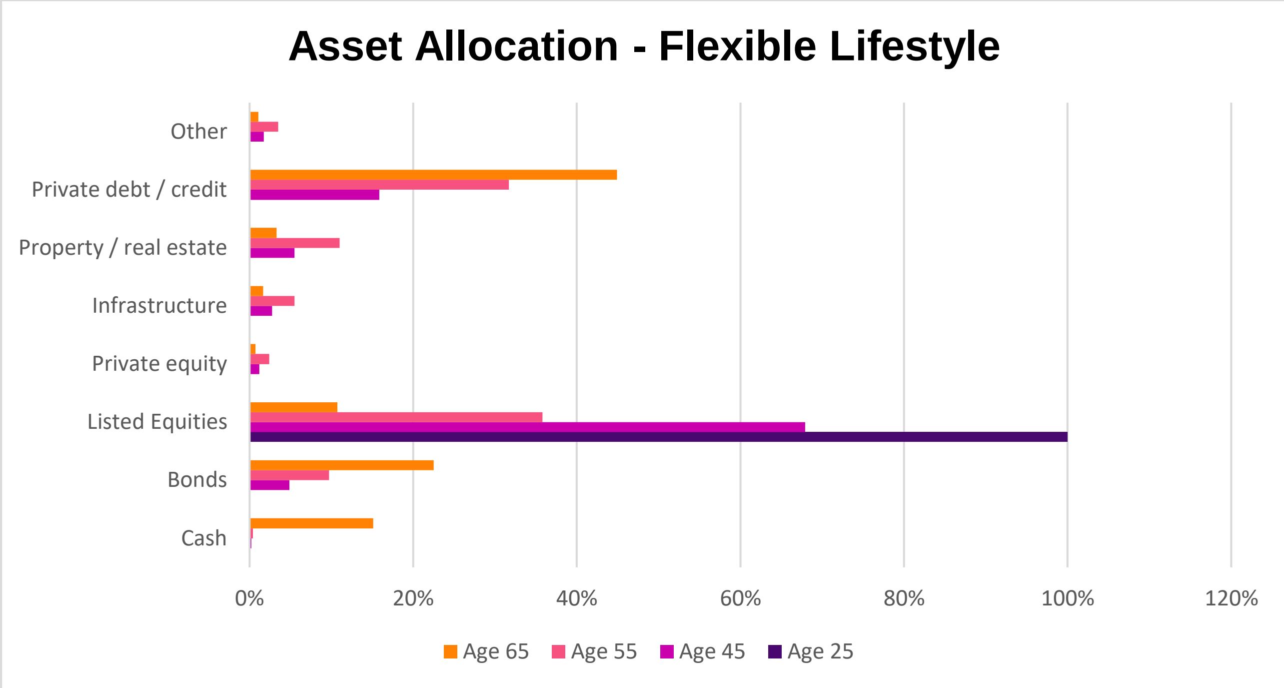
It is worth noting that while returns from bonds and gilts were positive over 2023, the returns over the last 3 and 5 years are negative due to the large falls in 2022. However, during this time, the cost of purchasing an annuity also fell. As such, members' account moved roughly in line with the price of annuities which is what these funds are designed to do.

Investment asset allocation

The Trustee has calculated the asset allocations for example members invested in the default arrangements, in line with the guidance issued by the Department for Work and Pensions. The assets allocations vary for different aged members due the lifestyle strategies outlined previously in this Statement.

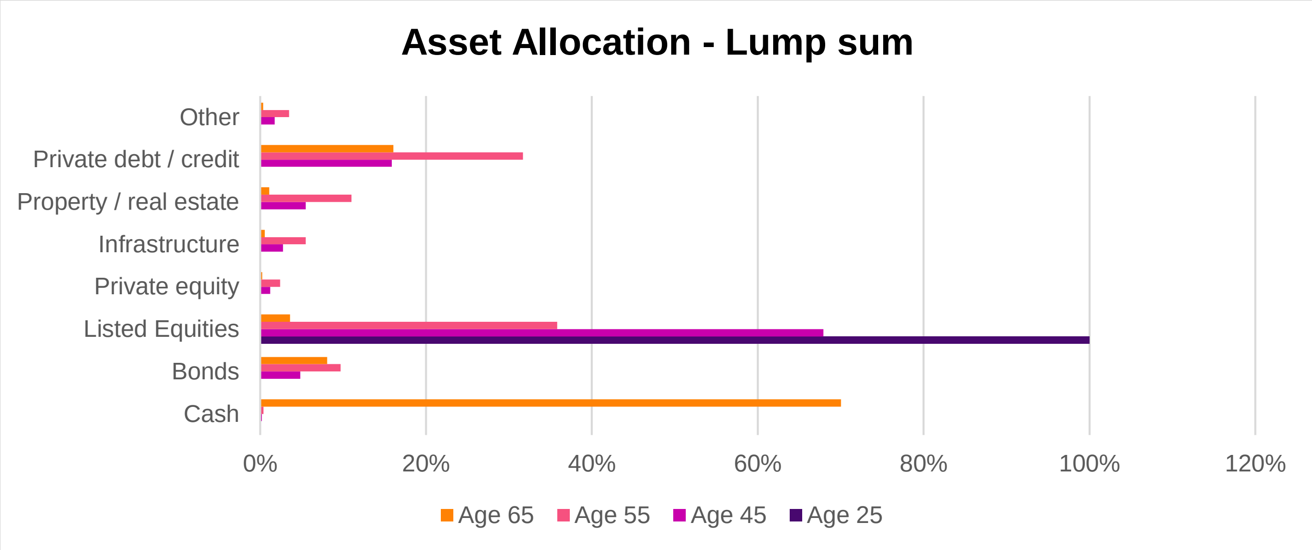
Flexible Lifestyle

Asset class	Percentage allocation			
	25-year-old	45-year-old	55-year-old	65-year-old
Cash	0.0%	0.2%	0.4%	15.1%
Bonds	0.0%	4.9%	9.7%	22.5%
Listed equities	100.0%	67.9%	35.8%	10.7%
Private equity	0.0%	1.2%	2.4%	0.7%
Infrastructure	0.0%	2.8%	5.5%	1.7%
Property / real estate	0.0%	5.5%	11.0%	3.3%
Private debt / credit	0.0%	15.9%	31.7%	44.9%
Other	0.0%	1.8%	3.5%	1.1%



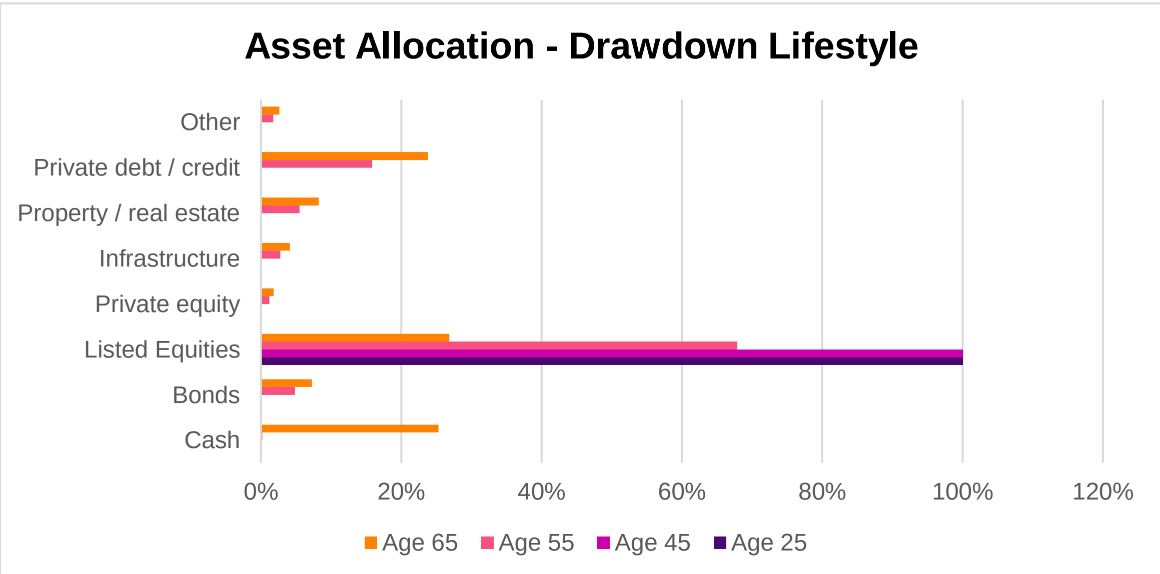
Lump-sum Lifestyle

Asset class	Percentage allocation			
	25-year-old	**45-year-old**	**55-year-old**	**65-year-old**
Cash	0.0%	0.2%	0.4%	70.0%
Bonds	0.0%	4.9%	9.7%	8.1%
Listed equities	100.0%	67.9%	35.8%	3.6%
Private equity	0.0%	1.2%	2.4%	0.2%
Infrastructure	0.0%	2.8%	5.5%	0.6%
Property / real estate	0.0%	5.5%	11.0%	1.1%
Private debt / credit	0.0%	15.9%	31.7%	16.1%
Other	0.0%	1.8%	3.5%	0.3%



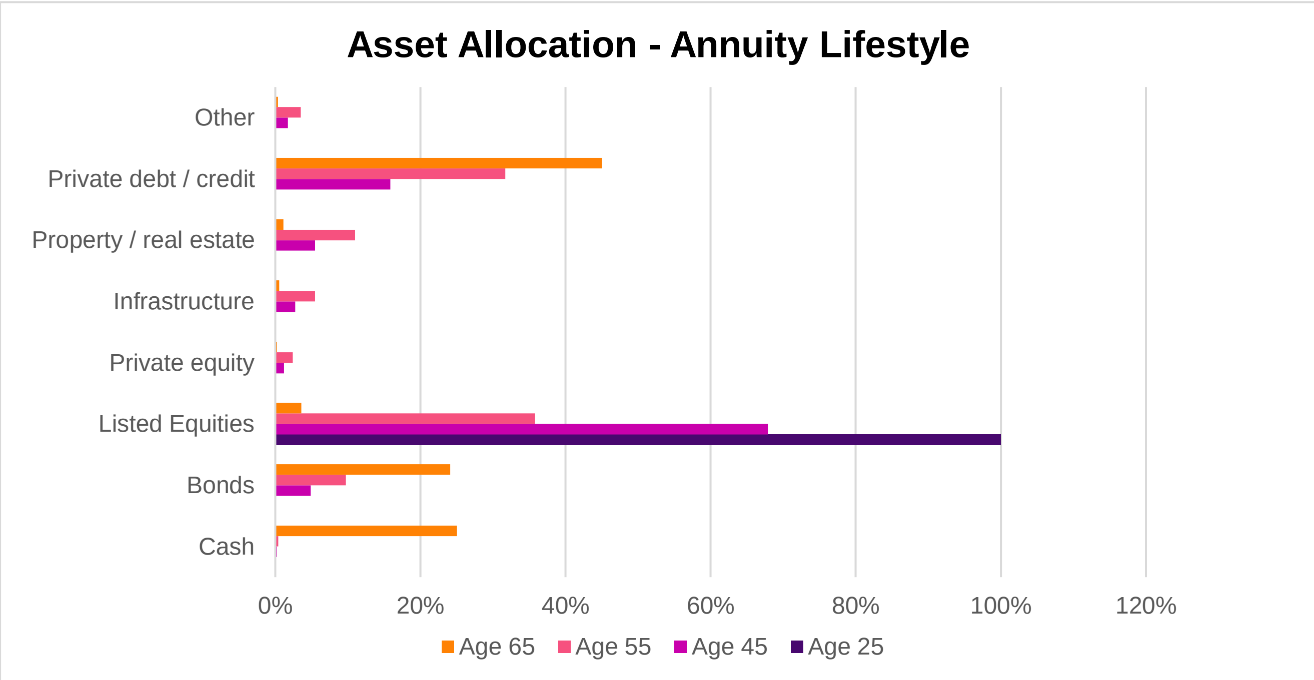
Drawdown Lifestyle

Asset class	Percentage allocation			
	25-year-old	45-year-old	55-year-old	65-year-old
Cash	0.0%	0.0%	0.2%	25.3%
Bonds	0.0%	0.0%	4.9%	7.3%
Listed equities	100.0%	100.0%	67.9%	26.9%
Private equity	0.0%	0.0%	1.2%	1.8%
Infrastructure	0.0%	0.0%	2.8%	4.1%
Property / real estate	0.0%	0.0%	5.5%	8.3%
Private debt / credit	0.0%	0.0%	15.9%	23.8%
Other	0.0%	0.0%	1.8%	2.6%



Annuity Lifestyle

Asset class	Percentage allocation			
	25-year-old	45-year-old	55-year-old	65-year-old
Cash	0.0%	0.2%	0.4%	25.0%
Bonds	0.0%	4.9%	9.7%	24.1%
Listed equities	100.0%	67.9%	35.8%	3.6%
Private equity	0.0%	1.2%	2.4%	0.2%
Infrastructure	0.0%	2.8%	5.5%	0.6%
Property / real estate	0.0%	5.5%	11.0%	1.1%
Private debt / credit	0.0%	15.9%	31.7%	45.0%
Other	0.0%	1.8%	3.5%	0.3%



Legacy AVC arrangements

Most unit-linked AVC assets in the Scheme are invested in a separate Fidelity arrangement which mirrors the funds, terms and conditions of the Scheme's DC Section. However, there are also members who have assets invested in legacy AVC arrangements within the Scheme. These are held with Clerical Medical (unit-linked and with profits), Standard Life (with profits only) and Chelsea Building Society (unit-linked). The Trustee and its advisors have used best endeavors to obtain net investment return information for this Chair's Governance Statement but has not yet received the data from the providers (other than Fidelity).

Processing of core financial transactions

Scheme administration for the DC Section, including the processing of financial transactions, is undertaken by the Plan Administrator, Fidelity. Processes adopted by the Plan Administrator to help meet the agreed service levels for processing financial transactions include:

- Full integration between their administration platform and dealing system.
- Electronic checking of financial transactions.

- Straight through processing for the majority of administrative functions.
- “Second set of eyes” checking for manual tasks.

The Trustee has received assurance from the Plan Administrator that core financial transactions have been processed promptly and accurately during the Scheme Year by requiring the Plan Administrator to comply with a service level agreement (“SLA”). Agreed SLAs cover the accuracy and timeliness of all core financial transactions and the Trustee receives quarterly management reports from Fidelity outlining performance against these service standards. In summary, each member case is assigned a service level target for completion of responses to members. The following timescales have been agreed with Fidelity for completion of work items.

Work item	**SLA - days**
Processing contributions	2 days
New accounts	5 days
Non vested leavers	10 days
Retirement cases - All	5 days
Transfers – In and out	5 days
Vested leavers	5 days
Special Communications	30 days

The Trustee regularly monitors the Scheme’s core financial transactions against the agreed SLAs. These core financial transactions include the investment of contributions, transfers of assets into and out of the Scheme, fund switches and payments out of the Scheme in respect of members/beneficiaries.

The Trustee, having considered the reports received from the Plan Administrator on a quarterly basis throughout the year, has concluded that there have been no material administration errors in relation to processing core financial transactions (including investment of contributions, transfers in/out, investment switches and payments in and out of the Scheme) and that they have been processed promptly and accurately during the Scheme Year. Assurance has been obtained from the Plan Administrator that adequate internal controls are in place. The Society undertakes a programme of risk-based internal audits which includes the Scheme in their remit and the Trustee works closely with the Society to implement any recommendations for change. As such, the Trustee is satisfied that the Scheme’s “core financial transactions” have been processed promptly and accurately during the Scheme year.

Charges and transaction costs

The Trustee has agreed that the charges year for the purposes of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 shall be the same as the Scheme Year. Charges are negotiated by the Trustee with advice from the Investment Adviser.

Within the Scheme, members pay annual management charges plus any additional fund expenses. This is known as the total expense ratio (“TER”). These charges include administration and investment costs which are met by the members.

The current annual investment charges for the DC Section funds available for selection by members during the year to 31 December 2023 are set out below:

Fund name	**TER**	**2023 Transaction Costs**
International Equity Investment Fund*	0.35%	0.00%
Diversified Investment Fund*	0.42%	0.00%
Pre-retirement Fund*	0.35%	0.00%
Cash Fund*	0.35%	0.02%
Emerging Markets Fund	0.35%	0.00%
Shariah Equity Fund	0.53%	0.00%
Over 5 Year Index-Linked Gilts Fund	0.32%	0.05%

Source: Fidelity

** The default lifestyle invests in these four funds. These funds are also default arrangements in their own right.*

The TER provides investors with details of the total annual costs involved in running an investment fund. This includes the annual management charge, plus other charges incurred in administering the fund (these include share registration fees, legal fees, auditor, custodian fees etc.). Transaction costs are not included as they are not explicit costs and so these are shown in a separate column.

Transaction costs and gains are those incurred by fund managers as a result of buying, selling, lending or borrowing; and the underlying transaction costs are reflected in the unit price of each fund. This information has been provided by Fidelity on a basis prescribed by the Financial Conduct Authority and are set out in the table above. Sometimes, due to the calculation methodology, transaction costs can be negative. Where this is the case, zero has been used. The Trustee has obtained all transaction cost information for the main DC fund range from Fidelity.

The default lifestyle strategies automatically switch the funds where members are invested as they approach their target (or the default) retirement age, meaning the level of charges and transaction costs will vary depending on how close members are to this age. The TER applied to the default arrangement, the Scheme's current default lifestyle strategy, ranged from 0.35% to 0.42% per annum depending on how far a member is from retirement.

The TER applied to all other funds offered by Fidelity (including non-default arrangements) used by Scheme members ranged from 0.32% to 0.53% per annum. This is shown in more detail here: [www.fidelitypensions.co.uk/costs-charges/YORK.](www.fidelitypensions.co.uk/costs-charges/YORK)

Legacy AVC arrangements

The Trustee and its advisors have used best endeavors to obtain transaction costs information for the legacy AVC policies for this Chair's Governance Statement. The charges and transactions costs, where available, are provided in the tables below.

Unit linked funds

Fund	Total annual charge (% pa)	Transaction cost (% pa)
Clerical Medical Halifax Fund	0.500%	Not available
Standard Life Managed Pension Fund	0.675%	0.153%

With Profits Funds

Fund	Total annual charge (% pa)	Transaction cost (% pa)
Clerical Medical With Profits Fund	Implicit in bonuses provided	Not available
Standard Life With Profits Fund	1.00%*	0.08%
Standard Life Millennium With Profits Fund	1.00%*	0.04%

*Deducted from bonuses before they are paid so an implicit charge. This is the nominal declared charge.

The Trustee also holds a Deposit Account policy with Chelsea Building Society. We have not been able to obtain any of the details around the annual costs and charges other than there are no explicit charges paid by members. The interest rates paid to members annually will be paid after any implicit costs and charges have been deducted.

Illustration of charges and transaction costs

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. The Department for Work and Pensions has introduced legislation on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes" to members of trust-based pension schemes that provide money purchase benefits. The Trustee has included a DC Costs and Charges illustration in **Appendix A**, which sets out the cumulative effect over time of the charges and transaction costs on the value of a range of realistic and broadly representative funds (within the default arrangement), fund sizes and contribution rates. As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee has had to make several assumptions about what these might be.

The link below includes cost and charges information for the full range of available funds within the Scheme's DC section. These illustrations have taken account of the statutory guidance on disclosure charges and are updated quarterly by Fidelity: www.fidelitypensions.co.uk/costs-charges/YORK.

Assessment of Value for Members ("VFM")

The Trustee is committed to ensuring that members receive value for their Scheme membership (i.e. the costs and charges deducted from members' funds and contributions paid provide good value in relation to the benefits and services provided by or on behalf of the Scheme, when compared to the market as evidenced by the findings of the annual VFM report).

In line with the requirements of the Pensions Regulator's DC Code of Practice, this assessment considers the extent to which services paid for by members offer good value relative to those costs. It also considers more generally the range and quality of services and benefits associated with Scheme membership, including those benefits provided by the Society. The Trustee notes that it is difficult to give a precise legal definition of 'good value'.

The Trustee undertook a VFM assessment in May 2024, with support from the Investment Adviser. The assessment looked at three core 'pillars' including:

1. Investment returns - 50% weighting
2. Services – 30% weighting, and
3. Cost and charges – 20% weighting.

When assessing each of the three areas, we considered:

Investment returns – When assessing the default fund we considered the performance compared to 'off-the-shelf' default investment strategies used by master trust providers. The assessment was split this into three key periods in the approach to retirement for members:

- Growth phase (35 years or more before retirement)
- Decumulation phase (10 years before retirement)
- Retirement phase (From retirement date)

Services– We identified 77 key features to assess the Scheme against. In order to make the process align with the Scheme's position and priorities, each key feature was allocated a rating based on the following weighting system: Fundamental (3 points), Beneficial (2 points) and Helpful (1 point). Based on the percentage of key features demonstrated and their respective weightings, a weighted average was calculated for Services.

Costs and charges - The benchmarking focused on comparing the Scheme against other WTW own trust-based clients and covers the charges of the growth fund used within the main default strategy. A percentage score was then applied.

An overall rating was then applied, based of the aggregated weighted scores across these three areas. The weight score was then assessed as follows:

	Investment returns	**Services**	**Costs and charges**
Poor value	Poorly performing investments	Limited and/or poorly performing services	Better than market average costs and charges
Fair value	Broadly meeting investment benchmarks	Moderate level of services in line with the market	Broadly market average costs and charges
Good value	Meeting/exceeding investment benchmarks	Comprehensive and well performing services	Above market average costs and charges

It should be noted that when assessing value, this does not necessarily mean the lowest cost or fee. The Trustee considers the overall quality of the services members receive and considers whether the cost of this provides value for money.

The Trustee has concluded that overall, the Scheme provides **'fair value',** i.e. the value provided is in line with the value offered by many other pension schemes in the market**.** The Trustee is now working through the suggestions to further improve member value. The assessment is shown in more detail below:

Area	**Rating**	
Net investment returns	Fair	**Investment performance** – The investment returns were assessed as the follow: • Growth phase (over 35 years from retirement): 'Higher range' • 10 years to retirement: 'Lower range' • At retirement: 'Lower range' • Self-select funds: medium range ***Net investment returns: overall assessment*** – Looking holistically at the performance of pillar one, the overall view is that the investment returns fall in the medium range. The majority of the membership are in the growth phase of the default strategy, and will spend the most time in this phase, so the results of the growth phase are more heavily weighted than the returns provided close to retirement.
Services	Good	***Services: overall assessment* -** The Scheme is currently assessed as demonstrating 67 out of a possible 77 relevant key features, with a weighted average score of 88%. This includes demonstrating 94% of the key areas of governance, administration and member services.
Costs and charges	Good	**Total Expense Ratios** – The costs and charges for the Scheme's default growth phase DC fund are 0.35% and assessed as "fair value" when compared to other bundled schemes. **Transaction costs** – Based on the analysis, the Scheme's transaction costs over the reporting period are largely in line with or lower than the market averages within each sector. The transaction costs have not been considered in providing an overall value rating for the Scheme as transaction costs make up a relatively small proportion of the overall costs. ***Costs and charges: overall assessment*** – Considering the assessment of the total expense ratio of the default fund, the Scheme was assessed as in the mid-range.

The Trustee will continue to work with its advisers to ensure that the Scheme continues to provide value and stays abreast of market developments where appropriate.

Trustee Knowledge and Understanding ("TKU")

The Scheme's Trustee Directors are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each Trustee Director must have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as Trustee Director, knowledge and understanding of the law relating to pensions and trusts and the principles relating to the investment of the assets of occupational pension schemes. Each

Trustee Director is also required to be conversant with the Trust Deed and Rules of the Scheme, the Scheme's SIP and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally.

The Trustee Board has a broad range of skills and experience in both financial services and in the management of pension schemes. The Trustee has a succession plan in place for Trustee Directors, which considers the need to maintain a wide range of experience and skills on the Board as well as the need to consider diversity in any decision to appoint a new Trustee.

The Trustee has an established TKU process in place, which, together with the advice available to the Trustee from the Scheme's actuaries, investment advisers, lawyers, and auditors, enables the Trustee Directors to properly exercise their functions as Trustee Directors of the Scheme.

The Trustee's approach to meeting the TKU requirements includes (but is not limited to):

- Agreeing training that needs to be undertaken, which is delivered at Trustee meetings, or Sub Committee meetings, where appropriate. Specific Trustee Training events may also be organized by our advisers.
- Assessing legislation and general updates / current pension issues at Trustee meetings.
- Periodically, reviewing the training needs of the Trustee, with the latest assessment undertaken in January 2024.
- Carrying out a Trustee effectiveness survey with the latest results discussed at the meeting in January 2024.
- For new Trustee Directors, completion of an induction programme, which includes completing tPR's online trustee toolkit within six months of their appointment.
- Attend conferences, seminars and other trustee training events organised by the advisors, investment managers and the professional pensions bodies.

Relevant training undertaken by Trustee Directors is recorded in the Trustee Training Log. This Log is reviewed and updated regularly by all Trustee Directors.

Specific training undertaken during the period included (but was not limited to):

  - DB Funding Code of Practice
  - Covenant Assessment
  - Buyout market update
  - LDI liability proxy training
  - DC investment strategy training
  - PMI award in Pension Trusteeship
  - Delivery pensions in a digital world
  - Pensions Dashboard
  - Task Force on Climate Related Disclosures (TCFD) requirements
  - Cyber security

For the period covered by this Statement, the TKU requirements were met through a combination of the above and the Trustee is therefore compliant with tPR's DC Codes of Practice 7 and 13. The Trustee is satisfied that it has met the relevant legislative requirements enabling the Board to properly exercise its duties.

Trustee Directors undertook an aggregate of 210 hours of training during the period covered by this Statement. All training is documented in the Trustee's training log.

The Trustee Directors have also taken advice from specialist pensions, investment, and actuarial advisers (WTW), legal advisers (DLA Piper) and communications advisers (Gallagher), to help them to achieve their objectives and requirements and have used their knowledge and understanding to challenge that advice where appropriate. Adviser appointments are reviewed periodically by the Trustee.

The Trustee Directors are satisfied that their combined knowledge and understanding, coupled with advice from specialist pensions, legal and communications advisers, has enabled them to carry out their functions as trustees of the Scheme properly, and to achieve their goals effectively for the year.

The Scheme has in place a conflicts of interest policy. Trustee Directors record potential conflicts of interest at each Trustee meeting and take appropriate steps to manage these.

Defined Benefit Section

The DB section is closed to new employees and closed to all future benefit accrual with effect from 1 January 2016; however, those who were active members of the Scheme when the Scheme closed retained a 'final salary link' in respect of their final salary benefits.

The Trustee has established governance processes within the DB section of the Scheme across six key areas:

- Risk management;
- Funding and investment;
- Sponsor's (YBS Group) covenant;
- Administration and data processing;
- Member communications; and
- Conflicts, relationships and responsibilities.

The Trustee places good governance and oversight at the core of the DB section's management:

- The Trustee monitors the governance of the DB section of the Scheme at quarterly Governance and Operational Risk Committee meetings and is committed to achieving and retaining the high standards which members would expect.

- The Trustee regularly monitors the key risks at Trustee meetings, taking into consideration tPR's guidance on Integrated Risk Management. Reports are produced and any action required is discussed and noted at subsequent meetings. A formal review of the Integrated Risk Management Report is undertaken on an annual basis to ensure that the key risks and the risk mitigation plan reflect evolving requirements.

The Trustee has been reviewing its governance processes and procedures in light of the legislative and regulatory changes that form part of the Pensions Regulator's General Code of Practice. As part of this review the Trustee has considered the impact of any new policies and the changes needed to existing policies with its advisers and has begun implementing the necessary procedural changes.

There has been an increased focus and training around improving standards of trusteeship following tPR's developments in this area.

- Administration – the Trustee continues to work with its third-party administrators on developing administrative practices, member services and improving member data. Current and recent initiatives include:

    - An annual member existence and tracing exercise.
    - The GMP rectification exercise has been completed.
    - Ongoing monitoring and refinement of current processes for efficient processing of DB transfer requests and improved communications for members considering a transfer. This follows "A Guide to Good Practice" published by the Pensions Administration Standards Association (PASA).
    - Launch of a secure online service which enables members to request quotes online and access their scheme documents in a secure portal.

- Following a high court judgment, the "Lloyds Bank case" a further review of member GMP benefits is ongoing to ensure that GMPs are 'equalised' for male and female members. At the moment, the Trustee does not know how (if at all) member benefits will be affected but members should be aware that completion of this exercise, which will extend into 2024 and beyond, may not lead to a change in benefits payable. The Scheme started to provide equalised transfer value quotations at the beginning of 2021.

- Preparation for the new requirements from the Pensions Regulator and as a result of the Pensions Act 2021, including work to define the long-term funding and investment plans for the Scheme.

As described above on page 2, the Trustee has continued to monitor Global events such as the war in Ukraine and the Gilts crisis that followed the September 2022 "mini-budget" in the UK and the Covid 19 pandemic, including the impact on investment strategy and strength of covenant. As part of this process, the Trustee has considered the impact of stressed scenarios on the Scheme's assets and extreme risks to the strategy.

The Trustee works closely with its advisers to understand how ESG factors influence the decisions that it makes. In 2021 the Trustee carried out analysis to understand potential impacts of climate change on the Scheme, and will continue to monitor this area as part of its management of the Scheme's risks. This work continued as the Trustee considers the Scheme's obligations in respect of Task Force on Climate Related Financial Disclosures ("TCFD") requirements (a project for which they initially established a Working Party but is now monitored by the Investment Sub-committee). The Scheme published its first TCFD report in July 2023 and an updated report is now available to view at the link below.

https://www.ybspensionscheme.co.uk/documents/YBS_TCFD_Report_31Dec2023.pdf

In November 2018, the Trustee entered into an arrangement with Pension Insurance Corporation whereby a portion of the benefits for current pensioners are covered by an insurance contract (known as a "buy-in"). This exercise helped the Trustee increase the security of members' benefits, whilst also helping manage the risks within the Scheme. Under the buy-in contract, the responsibility for the pension benefits remains with the Scheme.

Following the completion of the 2019 triennial actuarial valuation, the Trustee progressed with a review of the Scheme's DB investments, with the support of its investment adviser, in order to more closely match the Scheme's liabilities and assets, and to protect the improvements in the Scheme's funding position. The Trustee considered the appropriateness of carrying out a further buy-in during the review period and concluded that this was not the right time to do so. This will be considered again as the Scheme matures.

The Trustee remains comfortable with the investment strategy and maintaining a lower level of investment risk, and took some strategic actions in 2022 to manage the risks to the Scheme's investments from rising interest rates. The Trustee continues to review the strategy on an ongoing basis. Alongside this, the Trustee also regularly monitors the performance of the funds in which the Scheme is invested, with support from the Investment Adviser, and meets the Scheme's investment managers on an annual basis as part of ongoing due diligence.

The Scheme's most recent actuarial valuation was carried out with an effective date of 31 December 2022, and revealed that there was a surplus of assets of £12.1 million.

DB Member Additional Voluntary Contributions ("AVCs")

As set out above, most unit-linked AVC assets of the Scheme are invested in a separate Fidelity arrangement which mirrors the funds, terms and conditions of the Scheme's DC Section. The Scheme also has a small amount of AVC assets with several legacy providers. Further details can be found as set out above in the DC Section of this report.

The Trustee has concluded that the Fidelity AVC arrangements represent fair value for members, particularly given the lower charges available from Fidelity and the ability to use AVCs as the first port of call for the Pension Commencement Lump Sum.

Signed by the Chair on behalf of the Trustee of the Yorkshire Building Society Pension Scheme

Inder Dhingra

Inder Dhingra

Date: 29 July 2024

Appendix A

DC Cost and Charges Illustration

The following tables give a summary of the projected fund and the impact of costs and charges up to a normal retirement age of 65. The figures are presented using one member example – the youngest member. Additionally, the tables include the performance of the funds over different time periods depending on the age of the member.

Projected fund values are rounded to the nearest hundred. The illustrations are based on data to 31 December 2023. Prepared by WTW.

Example Member	Projection period (years)	Flexible Lifestyle		Lump-sum Lifestyle	
		Before charges	After charges	Before charges	After charges
Strawman A (age 20)	1	£2,400	£2,400	£2,400	£2,400
	3	£7,500	£7,400	£7,500	£7,400
	5	£12,800	£12,700	£12,800	£12,700
	10	£27,200	£26,700	£27,200	£26,700
	15	£43,600	£42,400	£43,600	£42,400
	20	£62,200	£59,800	£62,200	£59,800
	25	£80,900	£77,000	£80,900	£77,000
	30	£96,800	£91,000	£96,800	£91,000
	35	£111,400	£103,400	£111,400	£103,400
	40	£128,900	£118,200	£129,700	£118,900
	45	£149,700	£135,800	£143,200	£130,000

Example Member	Projection period (years)	nternational Equity Investment Fund		Diversified Investment Fund	
		Before charges	After charges	Before charges	After charges
Strawman A (age 20)	1	£2,400	£2,400	£2,400	£2,400
	3	£7,500	£7,400	£7,300	£7,200
	5	£12,800	£12,700	£12,200	£12,000
	10	£27,200	£26,700	£24,600	£24,100
	15	£43,600	£42,400	£37,400	£36,200
	20	£62,200	£59,800	£50,500	£48,400
	25	£83,100	£79,200	£63,900	£60,600
	30	£106,900	£100,700	£77,700	£72,900
	35	£133,800	£124,700	£91,800	£85,200
	40	£164,300	£151,400	£106,200	£97,600
	45	£198,700	£181,000	£121,100	£110,000

Example Member	Projection period (years)	Pre-retirement Fund		Cash Fund	
		Before charges	After charges	Before charges	After charges
Strawman A (age 20)	1	£2,400	£2,400	£2,400	£2,400
	3	£7,500	£7,400	£7,000	£7,000
	5	£12,800	£12,700	£11,600	£11,500
	10	£27,200	£26,700	£22,300	£21,900
	15	£43,600	£42,400	£32,300	£31,400
	20	£62,100	£59,800	£41,500	£40,100
	25	£83,000	£79,200	£50,100	£47,900
	30	£106,700	£100,700	£58,100	£55,100
	35	£133,500	£124,700	£65,400	£61,700
	40	£163,900	£151,400	£72,300	£67,600
	45	£198,200	£181,000	£78,700	£73,100

Example Member	Projection period (years)	Shariah Equity Fund		Over 5 Year Index Linked Gilts Fund	
		Before charges	After charges	Before charges	After charges
Strawman A (age 20)	1	£2,400	£2,400	£2,500	£2,400
	3	£7,500	£7,400	£7,700	£7,700
	5	£12,800	£12,600	£13,400	£13,300
	10	£27,200	£26,500	£30,200	£29,700
	15	£43,600	£41,800	£51,200	£49,700
	20	£62,100	£58,700	£77,300	£74,300
	25	£83,100	£77,300	£110,000	£104,500
	30	£106,900	£97,900	£150,700	£141,600
	35	£133,700	£120,500	£201,600	£187,100
	40	£164,100	£145,400	£265,200	£242,900
	45	£198,600	£172,900	£344,500	£311,400

Assumptions and notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of inflation.
2. Contributions are paid halfway through the year.
3. Investment returns and costs/charges as a percentage reduction per annum are assumed to be deducted at the end of the year.
4. Charges and costs are deducted before applying investment returns.
5. Switching costs are not considered in the lifestyle strategy.
6. Inflation is assumed to be 2.5% each year.

7. Contributions are assumed to be paid from age 20 to 65 for the youngest member, contributions increase in line with assumed earnings inflation of 0% per year (in real terms).

8. Values shown are estimates and are not guaranteed.

9. The real projected growth rates for each fund are as follows:

Fund	Real projected growth rate (p.a.)
Lifestyle Strategy A	From 2.513% to 0.500% (adjusted depending on term to retirement)
Lifestyle Strategy B	From 2.513% to -0.533% (adjusted depending on term to retirement)
International Equity Investment Fund	2.513%
Diversified Investment Fund	0.500%
Pre-retirement Fund	2.503%
Cash Fund	-1.480%
Shariah Equity Fund	2.510%
Over 5 Year Index Linked Gilts Fund	4.540%

10. Transactions costs and other charges have been provided by Fidelity and covered the period Q1 2021 to Q4 2023. The transaction costs have been averaged by WTW using a time-based approach. The transaction costs for blended funds were estimated by WTW based on the transaction costs for the underlying funds.

11. Pension scheme's normal retirement age is 65.

12. Example member:

    - Youngest: age 20, total initial contribution: £2,400 per annum, starting fund value: £0.