YORKSHIRE BUILDING SOCIETY INTERIM GROUP ACCOUNTS

30 JUNE 2015

YBS GROUP

CHIEF EXECUTIVE'S SUMMARY

I am pleased to say that the Yorkshire Building Society Group (the Group) is reporting another robust set of results for the first six months of 2015.

Financial highlights include:

- **Strong profits**; statutory profit before tax of £111.2m (30 June 2014: £117.1m) and core operating profit of £115.9m (30 June 2014: £107.5m). The profit figure has been achieved in a challenging market with mortgage pricing becoming more competitive. We continue to see a relatively low cost of funds and further release of mortgage loan provisions. We continue to invest heavily in the business through our strategic investment programme.
- **Mortgage balance growth**; net lending of £630m (30 June 2014: £1.3bn) with mortgage balances of £32.8bn (31 December 2014: £32.2bn).
- **Growth in members' savings balances** to £27.5bn (31 December 2014: £27.2bn) meaning that 83.6% of mortgages are funded by members' savings (31 December 2014: 84.5%).
- **Robust capital strength**; common equity tier 1 capital of 14.3% (31 December 2014: 13.8%) and leverage ratio of 4.9% as at 30 June 2015 (31 December 2014: 4.8%).
- **Strong liquidity position**; overall levels are safely above regulatory requirements whilst managing the cost of holding too much liquidity. Balances increased to £5.2bn (31 December 2014: £4.8bn).
- **Sustained asset quality**; the value of retail mortgages three months or more in arrears (including possessions) fell from 1.17% at 31 December 2014 to 1.01% at 30 June 2015.

We continue to build on this solid financial strength to deliver a customer experience in line with our vision, **"to be the most trusted provider of financial services in the UK"**.

We monitor our trust position very closely through a survey[1], which asks people if they agree that "Yorkshire Building Society (YBS) is an organisation you can trust". It is very pleasing that this survey ranks YBS the 3rd most trusted institution (out of 15 financial services organisations measured) by its customers.

Another key measure for us is the Net Promoter Score® (NPS), which measures our customers' satisfaction and allows us to benchmark ourselves against the industry. At the start of 2015 we changed the way we measure NPS to a Relational NPS score, which considers the experience of all our customers, providing a more representative view. In the first six months of the year the Relational NPS has averaged 27%[2], well above the industry average of 3%[3].

1. YBS brand and advertising tracker conducted by YouGov June 2015. YouGov is an internet-based market research firm.
2. Source: Nunwood Consulting – Customer Experience Tracker, six month rolling average for January 2015 to June 2015. A sample of 40,000 customers are contacted each month. The score refers to the net percentage of customers who, when responding to the question "how likely are you to recommend us to family and friends", would either strongly recommend or strongly detract from the organisation.
3. Source: Nunwood Consulting – 2014 annual Customer Experience Excellence survey of 7,500+ customers. Study was conducted in October 2014.

CHIEF EXECUTIVE'S SUMMARY CONTINUED

Other achievements in the first half of 2015 include:

- 187 best buy mentions for our savings products and 1,459 best buy mentions for our mortgage range [4].
- Opened 85,000 new savings accounts across all our brands, including the Triple Access ISA, a new branch based savings product.
- Delivered an average interest rate on our savings products of 1.46% compared to the rest of the market at 1.29%[5].
- Gross mortgage lending of £3.0bn, giving us a market share of new lending of 3.26% [6]. This includes record Buy to Let lending of £425.0m, reflecting the growth in this market.
- Helped over 3,000 first time buyers to secure their first home in the first half of the year.
- Nearly one in five of all direct mortgages were taken on our offset products which link the mortgage to a savings account thereby helping borrowers to lower their monthly payments.
- Continued to offer very competitive rates; 2015 has seen YBS launch the 'lowest ever fixed rate mortgage'[7], at the time of launch, at 1.07% and Chelsea Building Society (CBS) launch a tracker product at 0.98% which was, at the time, the 'lowest rate currently on sale'[7].
- Increased our social media presence, launching a YBS Facebook profile during May, and a Twitter presence will follow later this year. This is part of our broader member engagement strategy that will see the Group use social media as an increasingly important means of communication, alongside the more traditional methods. In the second half of the year, Member Question Times (an opportunity for members to meet our senior leadership team) are also planned to be broadcast online.
- Further investment in our digital capability with a new online appointment booking service piloted in nine branches, allowing customers to directly book appointments in branch or over the phone with a mortgage adviser. Over 250 customers made the most of this opportunity within a few months of its launch. We plan to extend this nationwide during the latter part of 2015.
- Continued the successful roll-out of our new visual identity across the branch and agency network. The new look has received positive feedback from our customers and our colleagues. All our YBS, Norwich & Peterborough (N&P) and CBS branches and agencies will have been rebranded by the end of 2015.
- Following feedback from our customers we have improved the way we handle those affected by bereavement, especially for our customers dealing with the financial affairs and estate of the deceased. It is important for us that we continually look at ways of improving key moments of truth such as these for our customers.
- We are proud of our Corporate Social Responsibility (CSR) activity which goes from strength to strength with our most successful ever national fundraising campaign for Marie Curie. The 'Hour of Need' fundraising campaign has raised more than £350,000 in its first year to fund Marie Curie nurses. Every £20 raised funds one hour of Marie Curie nursing care and we have therefore raised enough to support 17,500 hours of Marie Curie nursing in just 12 months - and we still have more to come.
- YBS has donated £944,254 to the Yorkshire Air Ambulance (YAA) – the largest ever single donation they have received [8].
- More than 400 colleagues based across our branches and head offices have donated their time to helping their local communities through the Group's volunteering scheme. We have recently increased the annual time allowance for colleague volunteering to 31 hours paid leave from the previous allowance of two days. This will enable our colleagues to have a bigger impact on the causes they choose to support and to share their skills with those in need.
- We have re-trained all our colleagues across the Group in how to spot and deal with vulnerable customers. As a result of this work, we have been nominated for two Dementia Friendly awards by the Alzheimer's Society – "Best Dementia Friendly Organisational Initiative" and "Best Dementia Friendly Educational Initiative". The award winners will be announced in September 2015.

4. Source: Presswatch Financial from Kantar Media. Data for the period 1 January to 30 June 2015.
5. Source: Average rates based on Savings stock from CACI's Current Account and Savings Database (CSDB), currently covering 85% of retail savings market (based on stock value). Data as at 30 April 2015.
6. Source: Bank of England as at 31 May 2015.
7. Source: Moneyfacts Group Plc.
8. The Society pays 1% of the average balance from its YAA affinity accounts directly to the charity each year. The YAA affinity accounts are no longer on sale but donations will continue to be made based on existing deposits and existing accounts will have the option to roll over.

CHIEF EXECUTIVE'S SUMMARY CONTINUED

We are particularly pleased that our customers and industry experts continue to recognise our efforts as highlighted by the number of awards already won this year:

Awards	Accolade	Brand
Moneynet Personal Finance Awards 2015	Best Offset Mortgage Provider	YORKSHIRE BUILDING SOCIETY BUILT ON TRUST
	Best Debit Card for use abroad	NORWICH & PETERBOROUGH BUILDING SOCIETY
	Best Fixed Rate Mortgage Provider	NORWICH & PETERBOROUGH BUILDING SOCIETY
Business Desk - Yorkshire Business Masters 2015	Pride/CSR	YORKSHIRE BUILDING SOCIETY BUILT ON TRUST
Third Sector Business Charity Awards	Challenge Event	YORKSHIRE BUILDING SOCIETY BUILT ON TRUST
Moneyfacts Awards 2015	Best Short-Term Fixed Rate Mortgage Provider	NORWICH & PETERBOROUGH BUILDING SOCIETY
	Best Longer Term Fixed Rate Mortgage Provider	YORKSHIRE BUILDING SOCIETY BUILT ON TRUST
	Best Building Society Mortgage Provider	NORWICH & PETERBOROUGH BUILDING SOCIETY
	Best Service from a Commercial Mortgage Provider	N&P COMMERCIAL MORTGAGES
Business Moneyfacts Awards 2015	Best Buy to Let Provider	ACCORD MORTGAGES BUILT ON TRUST

Outstanding customer service couldn't be delivered without the commitment of all our people. It is essential that we attract and retain the best people available. We have continued to strengthen our Senior Leadership Team and our underlying systems and controls. This focus on customer, people and security will continue.

Chris Pilling, Chief Executive

BUSINESS HIGHLIGHTS

Statutory profits for the six months to 30 June 2015 were:

- £111.2m on a pre-tax basis (six months to 30 June 2014: £117.1m)

The Board monitors the core operating profit of the Group which adjusts pre-tax profit for non-core items, both positive and negative.

Non-core items include those which are either one-off in nature or reflect timing differences which reverse over time.

Our core operating profit for the six months to 30 June 2015 increased to £115.9m from £107.5m in the same period in 2014. The table below explains the adjustments made to statutory profit to arrive at this core operating view.

		Half-year ended 30 June 2015			Half-year ended 30 June 2014			Year ended 31 December 2014		
	Notes	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)	276.0	(5.0)	271.0	276.7	(11.4)	265.3	549.2	(20.1)	529.1
Non-interest income (net)	ii)	10.9	-	10.9	15.1	(1.2)	13.9	25.6	(2.2)	23.4
Volatility on assets held at fair value	iii)	0.5	(0.5)	-	13.1	(13.1)	-	11.2	(11.2)	-
Fair value volatility on derivatives and hedging	iv)	1.3	(1.3)	-	(0.5)	0.5	-	(22.1)	22.1	-
Net realised profits		2.2	-	2.2	0.9	-	0.9	1.3	-	1.3
Total income		290.9		284.1	305.3		280.1	565.2		553.8
Management expenses	v)	(165.0)	-	(165.0)	(162.5)	0.1	(162.4)	(331.0)	0.1	(330.9)
Operating profit before provisions		**125.9**		**119.1**	**142.8**		**117.7**	**234.2**		**222.9**
Impairment of loans and advances to customers	i)	(1.6)	-	(1.6)	2.5	-	2.5	(20.0)	(4.3)	(24.3)
Other provisions	vi)	(13.1)	11.5	(1.6)	(28.2)	15.5	(12.7)	(26.0)	6.2	(19.8)
Profit before tax		**111.2**		**115.9**	**117.1**		**107.5**	**188.2**		**178.8**

Notes - significant exclusions made in calculation of Core Operating Profit.
i) Release of fair value adjustments made against assets taken on during mergers.
ii) Distribution from the administrators of Lifemark S.A.
iii) Non-core investments.
iv) Fair value timing differences.
v) Integration expenses associated with the merger with Norwich & Peterborough Building Society.
vi) Principally Financial Services Compensation Scheme levy (see Note 4).

BUSINESS HIGHLIGHTS CONTINUED

During the first six months of 2015 the Board's focus has been on:

- Monitoring the mortgage and savings markets and ensuring business volumes remain viable against the backdrop of a smaller and increasingly competitive market.
- Delivering outstanding customer service.
- Ensuring capital and liquidity ratios remain above regulatory minimums at an efficient and sustainable level.
- Maintaining close scrutiny in the progress of our five year strategic initiatives programme.
- Continued close management of our arrears position and ensuring provision levels remain appropriate.
- Strengthening the risk management frameworks in the face of continued need to ensure financial sustainability and protect our customers.

In addition, in March, the Society issued a €750m seven year senior unsecured wholesale bond, generating an extremely strong response from institutional investors across Europe. This provides diversification of the investor base and is cost-effective funding to support the Group's mortgage lending.

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

- Net interest income of £276.0m (30 June 2014: £276.7m) which, when expressed as a percentage of mean assets is 1.45% (30 June 2014: 1.57%). The deterioration in margin was driven by very competitive mortgage markets where our net lending was less than half the 2014 level, coupled with higher, low yielding, liquidity balances than last year.
- A decline in non-interest income to £10.9m (30 June 2014: £15.1m) reflecting a decline in mortgage related fees due to the decrease in gross lending noted earlier and a recovery in 2014 from the administrators of Lifemark S. A. (Keydata) with no equivalent in 2015. The recovery was treated as a non-core item.
- An increase in management expenses to £165.0m (30 June 2014: £162.5m) driven by general inflationary pressures, growth in the size of the business and continued spend on our strategic investment programme. This has also caused an increase in our cost:income ratio, a key measure of our efficiency, to 57% for the first six months of 2015 (30 June 2014: 53%).
- Impairment provision charge of £1.6m (June 2014: £2.5m release) which remains very low, reflecting the overall high quality of our mortgage books.
- The provision charge for customer redress and other conduct issues has reduced significantly to £1.7m (June 2014: £12.7m) following the conclusion of the conduct risk program.
- Provision costs for Financial Services Compensation Scheme (FSCS) levies decreased to £11.5m (June 2014: £15.5m) as a result of a reduction in both market rates and the outstanding loan balances owed to the FSCS by failed institutions.

BUSINESS HIGHLIGHTS CONTINUED

Principal risks and uncertainties

The Group's business activities are focused in the UK and predominantly relate to mortgage lending, funded primarily through domestic deposits. We continue to take an extremely cautious approach to liquidity management and as at 30 June 2015 our liquidity portfolio consisted almost entirely of exposures to the Bank of England and the UK Government.

The principal risks and uncertainties affecting the Group were reported on page 21 of the Annual Report and Accounts as at 31 December 2014.

These were:

Macro-economic risks

- Faltering economic recovery
- Housing market slow-down
- UK general election
- European matters
- Further regulatory changes

Business model risks

- Credit risk
- Market risk
- Conduct risk
- Financial risk
- Operational risk

With the exception of the UK general election these continue to affect the Group as at 30 June 2015. In our planning for the remainder of 2015 and beyond it is our view that, while the UK economic conditions have improved, we need to remain cautious as the sector is still subject to threats from these areas including, for example, a rise in Bank Rate.

Outlook for 2015

Whilst the election outcome produced the stability of a clear majority, the pre-election nervousness did affect the housing market. Figures from the Council of Mortgage Lenders (CML) showed that the number of first time buyers fell across Britain at the start of the year. Whilst the Conservatives' election victory may restore some confidence to the market there is still the major risk of further austerity dampening economic recovery, with implications for the Group's growth aspirations this year and beyond.

The main European threat remains a possible Greek exit from the Eurozone. As we are fundamentally a UK-based mortgage and savings provider, Greece's potential exit would have no direct impact on our core business, although any dislocation in the Eurozone has the potential to adversely impact sentiment in the UK which could depress housing market activity.

We also have no direct exposure to sovereign debt in Greece or any other significant exposure to European or emerging market economies.

In terms of regulation, the final Financial Conduct Authority (FCA) rules on the implementation of the EU Mortgage Credit Directive (MCD) have now been published. The UK Government has succeeded in ensuring the EU credit directive in many areas is re-affirming arrangements which have already been improved through the Mortgage Market Review (MMR) reforms.

BUSINESS HIGHLIGHTS CONTINUED

Changes to the Board

A complete list of the Board of Directors can be found in the 2014 Annual Report and Accounts. As previously announced Ed Anderson retired as Chairman immediately after the Annual General Meeting (AGM) held on 21 April 2015. He is succeeded by John Heaps.

Philip Johnson, Non-executive director and Chairman of the Audit Committee also retired immediately after the AGM, Mark Pain, Non-executive director, succeeded him as Chairman of the Audit Committee. Alison Hutchinson was appointed a Non-executive director in February 2015.

Signed on behalf of the Board by

John Heaps	**Chris Pilling**
Chairman	Chief Executive

22 July 2015

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 GROUP INCOME STATEMENT

	Notes	Half-year to 30 June 2015 (Unaudited) £m	Half-year to 30 June 2014 (Unaudited) £m	Year to 31 December 2014 (Audited) £m
Interest receivable and similar income		**638.7**	649.7	1,308.6
Interest payable and similar charges		**(362.7)**	(373.0)	(759.4)
Net interest income		**276.0**	276.7	549.2
Fees and commissions receivable		**17.5**	17.8	31.7
Fees and commissions payable		**(10.5)**	(7.1)	(15.4)
Net fee and commission income		**7.0**	10.7	16.3
Net gains/(losses) from fair value volatility on financial instruments		**1.8**	12.6	(10.9)
Net realised profits	2	**2.2**	0.9	1.3
Other operating income		**3.9**	4.4	9.3
Total income		**290.9**	305.3	565.2
Administrative expenses		**(155.7)**	(144.1)	(303.4)
Depreciation and amortisation		**(9.3)**	(18.4)	(27.6)
Operating profit before provisions		**125.9**	142.8	234.2
Impairment of loans and advances to customers	3	**(1.6)**	2.5	(20.0)
Provisions	4	**(13.1)**	(28.2)	(26.0)
Profit before tax		**111.2**	117.1	188.2
Tax expense	5	**(22.8)**	(25.5)	(40.8)
Net profit		**88.4**	91.6	147.4

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Half-year to 30 June 2015 (Unaudited) £m**	Half-year to 30 June 2014 (Unaudited) £m	Year to 31 December 2014 (Audited) £m
Net profit		**88.4**	91.6	147.4
Items that will subsequently be reclassified to profit and loss:				
Available for sale investments:				
Valuation gains/(losses) taken to equity		**14.5**	(3.8)	(3.1)
Amounts transferred to income statement		**(13.6)**	(3.5)	(3.2)
Cash flow hedges:				
Gains/(losses) taken to equity		**13.4**	(1.4)	(43.4)
Amounts transferred to income statement		**3.1**	1.7	3.6
Tax relating to items that may be reclassified	5	**(3.5)**	1.5	9.3
Items that will not subsequently be reclassified to profit and loss:				
Remeasurement of net retirement benefit obligations		**(42.2)**	16.1	50.3
Tax relating to items not reclassified	5	**8.4**	(3.2)	(10.0)
Total comprehensive income for the period		**68.5**	99.0	150.9

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

Assets	Notes	30 June 2015 (Unaudited) £m	30 June 2014 (Unaudited) £m	31 December 2014 (Audited) £m
Liquid assets				
Cash in hand and balances with the Bank of England		**4,514.1**	3,752.2	3,670.6
Loans and advances to credit institutions		**543.6**	469.8	599.3
Debt securities		**177.1**	416.1	524.8
Loans and advances to customers		**32,836.2**	30,773.2	32,234.1
Derivative financial instruments		**140.1**	212.9	214.3
Investments		**1.4**	1.4	1.4
Intangible assets		**37.1**	34.6	36.2
Investment properties		**16.5**	15.0	16.5
Property, plant and equipment		**137.4**	123.4	136.7
Deferred tax assets	5	**30.8**	39.4	42.8
Retirement benefit surplus	6	**23.2**	25.9	64.4
Other assets		**27.1**	22.5	30.9
Total assets		**38,484.6**	35,886.4	37,572.0

Liabilities	Notes	30 June 2015 (Unaudited) £m	30 June 2014 (Unaudited) £m	31 December 2014 (Audited) £m
Shares		**27,451.1**	26,479.4	27,241.4
Amounts owed to credit institutions		**3,380.0**	3,208.1	3,471.3
Other deposits		**556.9**	539.8	508.0
Debt securities in issue		**4,168.8**	3,339.1	3,523.2
Derivative financial instruments		**472.9**	176.5	413.6
Current tax liabilities	5	**13.5**	13.3	12.8
Deferred tax liabilities	5	**7.6**	10.8	15.3
Other liabilities		**61.3**	64.3	83.5
Provisions		**44.1**	90.3	36.2
Subordinated liabilities		**292.8**	49.6	299.5
Subscribed capital		**6.8**	6.8	6.9
Total liabilities		**36,455.8**	33,978.0	35,611.7
Total equity attributable to members		**2,028.8**	1,908.4	1,960.3
Total liabilities and equity		**38,484.6**	35,886.4	37,572.0

CONDENSED GROUP STATEMENT OF CHANGES IN MEMBERS' INTEREST

	General reserve £m	Hedging reserve £m	Available for sale reserve £m	**Total reserves £m**
Half-year to 30 June 2015				
At 1 January 2015 (Audited)	**1,993.6**	**(36.8)**	**3.5**	**1,960.3**
Current period movement net of tax	**54.6**	**13.2**	**0.7**	**68.5**
At 30 June 2015 (Unaudited)	**2,048.2**	**(23.6)**	**4.2**	**2,028.8**
Half-year to 30 June 2014				
At 1 January 2014 (Audited)	1,805.9	(4.9)	8.4	1,809.4
Current period movement net of tax	104.5	0.2	(5.7)	99.0
At 30 June 2014 (Unaudited)	1,910.4	(4.7)	2.7	1,908.4
Year to 31 December 2014				
At 1 January 2014 (Audited)	1,805.9	(4.9)	8.4	1,809.4
Current year movement net of tax	187.7	(31.9)	(4.9)	150.9
At 31 December 2014 (Audited)	1,993.6	(36.8)	3.5	1,960.3

CONDENSED GROUP STATEMENT OF CASH FLOWS

	Notes	Half-year to 30 June 2015 (Unaudited) £m	Half-year to 30 June 2014 (Unaudited) £m	Year to 31 December 2014 (Audited) £m
Cash flows from operating activities:				
Profit before tax		**111.2**	117.1	188.2
Working capital adjustments	8	**(0.2)**	(15.8)	(28.8)
Net increase in operating assets	8	**(664.0)**	(1,273.0)	(2,537.1)
Net increase in operating liabilities	8	**167.3**	814.2	1,807.6
Net cash flows from operating activities		**(385.7)**	(357.5)	(570.1)
Cash flows from investing activities:				
Purchase of property, plant and equipment and intangible assets		**(12.3)**	(16.4)	(42.9)
Proceeds from sale of property, plant and equipment		**1.1**	0.1	0.1
Purchase of debt securities		**(101.2)**	(49.6)	(251.7)
Proceeds from sale and redemption of debt securities		**452.0**	251.7	346.4
Net cash flows from investing activities		**339.6**	185.8	51.9
Cash flows from financing activities:				
Redemption of securities		**(93.3)**	(301.1)	(515.6)
Issue of securities		**949.0**	906.8	1,281.8
Issue of subordinated capital		**-**	-	250.0
Interest paid on subordinated liabilities and subscribed capital		**(8.1)**	(3.1)	(7.4)
Net cash flows from financing activities		**847.6**	602.6	1,008.8
Taxation paid		**(12.8)**	(9.3)	(22.9)
Net increase in cash and cash equivalents		**788.7**	421.6	467.7
Opening balance		**4,219.6**	3,751.9	3,751.9
Total closing cash and cash equivalents		**5,008.3**	4,173.5	4,219.6
Cash and cash equivalents:				
Cash and balances with central banks		**4,464.7**	3,703.7	3,620.3
Loans and advances to credit institutions		**543.6**	469.8	599.3
		5,008.3	4,173.5	4,219.6

NOTES TO THE ACCOUNTS

1. Introduction

Reporting period

The financial statements show the financial performance of the Group for the half-year ended 30 June 2015.

Basis of preparation

These Interim Group Accounts have been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting' as adopted by the European Union (EU).

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited annual financial statements, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Going concern

In accordance with best practice, the Board undertakes regular rigorous assessments of whether the Group is a going concern in light of current economic and market conditions and all available information about future risks and uncertainties.

Details of the review undertaken in February 2015 are given on page 32 of the 2014 Annual Report and Accounts.

The latest formal review, undertaken in July 2015, followed a similar approach. As a result of this detailed assessment, the Board concluded that the Group has sufficient resources to continue in operational existence for the foreseeable future and, as a result, that it is appropriate to prepare these financial statements on the going concern basis.

2. Net realised profits

These relate to the disposal of available for sale assets. Profits or losses of this nature are variable as they primarily arise from the Group's objective to regularly transact in the market in order to prove the liquidity of its portfolio of buffer liquid assets.

3. Impairment of loans and advances to customers

There have been no changes to our approach to provisioning since 31 December 2014.

The Group continues to use forbearance to assist borrowers facing difficulties, balancing the best interests of the Group with those of the individual, where there is a realistic prospect of a borrower's circumstances improving within the foreseeable future. There has been no material change to the extent and makeup of forbearance which is described on page 139 of the 2014 Annual Report and Accounts.

NOTES TO THE ACCOUNTS CONTINUED

4. Provisions

The provisions charge for the period is outlined below:

	Half-year to 30 June 2015 (Unaudited)	Half-year to 30 June 2014 (Unaudited)	Year to 31 December 2014 (Audited)
	£m	£m	£m
FSCS levy	**11.5**	15.5	12.4
Customer redress and conduct issues	**1.7**	12.7	11.0
Other	**(0.1)**	-	2.6
	13.1	28.2	26.0

The FSCS reimburses depositors when institutions fail using loans from HM Treasury, which are subsequently recovered from the failed institutions. Any shortfall in this recovery is levied on member firms, along with the interest costs on the loans.

The Group also has a potential exposure to future levies from further capital losses. However the amount and timing of such losses has yet to be determined, and accordingly the Group has not recognised a provision for such contingent liabilities.

5. Taxation

An effective tax rate of 20.5% has been applied to the Group's profit. This is higher than the standard corporation tax rate in the year of 20.25% due to non tax-deductible expenses. The main rate of corporation tax was reduced from 21% to 20% from 1 April 2015. The reduction in rate is already reflected in the deferred tax balances in these accounts.

In the July 2015 Budget, it was announced that the main rate of corporation tax will reduce to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. In addition, a surcharge of 8% on the profits of banking companies (including building societies) was announced, which will take effect from 1 January 2016. These changes were not substantively enacted by 30 June 2015 and are not therefore reflected in these accounts. We expect to include an assessment of the impact of these changes on the Group's deferred tax assets in our accounts for the year ended 31 December 2015.

NOTES TO THE ACCOUNTS CONTINUED

6. Retirement benefit obligations

	At 1 January 2015 (Audited) £m	**Movements** **£m**	**At 30 June 2015 (Unaudited) £m**
Present value of defined benefit obligation	(725.4)	**(36.1)**	**(761.5)**
Assets at fair value	789.8	**(5.1)**	**784.7**
Funded status/defined benefit asset	64.4	**(41.2)**	**23.2**

The present value of the defined benefit obligation as at 30 June 2015 has been derived by using assumptions that are consistent with those used for the 31 December 2014 year end calculations. Changes in market conditions, in particular an increase in the future expectations of long term inflation, have led to an increase in the defined benefit obligation since 31 December 2014. The reinstatement of Pensionable Salary for members of the N&P Section has also resulted in an increase in the defined benefit obligation and the fair value of assets has decreased slightly. Overall, there has been a worsening of the funding position over the period to 30 June 2015.

7. Related parties

Subsequent to Alison Hutchinson's appointment to the YBS Board the acquisition of the Friends Life business by Aviva created a related party relationship with Sesame Bankhall Group Limited (SBG) as Mrs Hutchinson is a non-executive director of a parent company of SBG, Aviva Life Holdings UK Limited. SBG is a lending partner of Accord Mortgages Limited, a subsidiary of the Society. During the period Accord Mortgages Limited paid commission of £1.6m to SBG, in relation to lending completed via their network of independent financial advisers. As at 30 June 2015 there were no amounts outstanding between the two companies. Transactions are made on an arms length basis.

The Group also has a related party relationship with Aviva Insurance Limited, as Mark Pain is a non-executive director of this company. The Group historically sold insurance products provided by Aviva Insurance Limited, the income from these sales is now immaterial.

Other than the above, no related party transactions outside the normal course of the business have occurred during the half-year to 30 June 2015. Transactions for this period are similar to those for the year to 31 December 2014, details of which can be found in the 2014 Annual Report and Accounts.

NOTES TO THE ACCOUNTS CONTINUED

8. Notes to the condensed group statement of cash flows

	Half-year to 30 June 2015 (Unaudited)	Half-year to 30 June 2014 (Unaudited)	Year to 31 December 2014 (Audited)
	£m	£m	£m
Working capital adjustments:			
Depreciation and amortisation	**9.3**	18.4	27.6
Loss on sale of assets	**0.3**	0.3	1.2
Interest on subordinated liabilities and subscribed capital	**8.1**	3.1	7.4
Provisions	**14.7**	25.7	45.9
Fair value of subordinated liabilities and subscribed capital	**(6.8)**	0.9	0.9
Net realised profits	**(2.2)**	(0.9)	(1.3)
Decrease/(increase) in other assets	**3.7**	(16.6)	(31.2)
Decrease in other liabilities	**(27.3)**	(46.7)	(79.3)
Working capital adjustments	**(0.2)**	(15.8)	(28.8)
(Increase)/decrease in operating assets:			
Loans and advances to customers	**(603.9)**	(1,254.9)	(2,738.2)
Derivative financial instruments	**(60.1)**	(18.1)	-
Investments	**-**	-	201.1
Net increase in operating assets	**(664.0)**	(1,273.0)	(2,537.1)
Increase/(decrease) in operating liabilities:			
Shares	**209.7**	189.1	951.1
Amounts owed to credit institutions	**(91.3)**	586.7	849.9
Other deposits	**48.9**	38.4	6.6
Net increase in operating liabilities	**167.3**	814.2	1,807.6

Issue of securities

During the period, the Group issued €750m (£535.5m) of seven year senior unsecured debt and €500m (£364.5m) of five year covered bonds.

Cash and balances with central banks

Cash and balances with central banks excludes cash ratio deposits of £49.4m held with the Bank of England, which are not available for use in the Group's day to day operations.

NOTES TO THE ACCOUNTS CONTINUED

9. Segmental reporting

The chief operating decision maker has been identified as the Board, which reviews the Group's internal reporting and is responsible for all significant decisions. The Group's reportable segments under IFRS 8 'Operating Segments', based on the information reviewed by the Board, have been determined according to similar economic characteristics and the nature of the products and services.

Details of the reportable segments are listed below:

- **Retail business** – comprising prime residential owner occupied lending, non-owner occupied lending through Accord Mortgages Ltd, prime intermediary lending, traditional member savings, non-traditional savings and consumer banking (excluding personal lending). Consumer banking also includes the sale of general insurance, protection and investment products provided by third parties.
- **Non-retail business** – the prime commercial lending portfolio (including social housing).
- **Secondary business** – including non-prime residential owner occupied lending, personal lending, non-prime commercial lending and non-owner occupied lending acquired through mergers.
- **Central functions** – this includes supporting business units, the treasury function and other head office group functions which have not been apportioned across the aforementioned segments.

No segmental information is presented on geographical lines, because substantially all of the Group's activities are in the United Kingdom.

The majority of the Group's revenues are in the form of interest and the Board monitors the Group's net interest income to assess performance and direct the Group. Therefore interest receivable and similar income has been shown net of interest payable and similar expense.

Recharging of funding across the Group has been included using the Group's transfer pricing methodology, which is based on our external cost of funds.

Income and directly attributable costs have been allocated to each segment as applicable, with support costs being apportioned based on levels of employees.

The accounting policies for the reported segments are consistent with the Group's accounting policies.

Half-year to 30 June 2015 (Unaudited)	Notes	Retail £m	Non-retail £m	Secondary £m	Central £m	Total £m
Net interest income		162.6	9.0	18.5	85.9	276.0
Non-interest income (net)	a	12.6	2.6	-	(4.3)	10.9
Net realised profits and fair value		-	-	-	4.0	4.0
Management expenses	b	(98.3)	(1.3)	(0.9)	(64.5)	(165.0)
Operating profit before provisions		**76.9**	**10.3**	**17.6**	**21.1**	**125.9**
Impairment and other provisions		(12.6)	-	(0.5)	(1.6)	(14.7)
Profit before tax		**64.3**	**10.3**	**17.1**	**19.5**	**111.2**
Total assets		31,008.2	769.1	976.7	5,730.6	**38,484.6**
Total liabilities		28,223.9	-	-	8,231.9	**36,455.8**
Total equity attributable to members		-	-	-	2,028.8	**2,028.8**

Notes

a) Non-interest income (net) includes fees and commissions receivable, fees and commissions payable and other operating income.

b) Management expenses include administrative expenses, depreciation and amortisation.

NOTES TO THE ACCOUNTS CONTINUED

9. Segmental reporting continued

Half-year to 30 June 2014 (Unaudited)	Notes	Retail £m	Non-retail £m	Secondary £m	Central £m	Total £m
Net interest income		216.9	6.2	20.8	32.8	276.7
Non-interest income (net)	a	15.6	2.6	-	(3.1)	15.1
Net realised profits and fair value		-	-	-	13.5	13.5
Management expenses	b,c	(97.6)	(1.6)	(0.5)	(62.8)	(162.5)
Operating profit/(loss) before provisions		**134.9**	**7.2**	**20.3**	**(19.6)**	**142.8**
Impairment and other provisions		(0.8)	1.0	3.2	(29.1)	(25.7)
Profit/(loss) before tax		**134.1**	**8.2**	**23.5**	**(48.7)**	**117.1**
Total assets		28,934.7	678.6	1,160.1	5,113.0	**35,886.4**
Total liabilities		27,563.1	-	-	6,414.9	**33,978.0**
Total equity attributable to members		-	-	-	1,908.4	**1,908.4**

Year to 31 December 2014 (Audited)	Notes	Retail £m	Non-retail £m	Secondary £m	Central £m	Total £m
Net interest income		389.6	14.6	49.1	95.9	549.2
Non-interest income (net)	a	27.7	4.6	-	(6.7)	25.6
Net realised profits and fair value		-	-	-	(9.6)	(9.6)
Management expenses	b,c	(198.4)	(3.3)	(0.7)	(128.6)	(331.0)
Operating profit/(loss) before provisions		**218.9**	**15.9**	**48.4**	**(49.0)**	**234.2**
Impairment and other provisions		(19.1)	1.5	1.6	(30.0)	(46.0)
Profit/(loss) before tax		**199.8**	**17.4**	**50.0**	**(79.0)**	**188.2**
Total assets		30,305.1	708.8	1,085.5	5,472.6	**37,572.0**
Total liabilities		28,023.2	-	-	7,588.5	**35,611.7**
Total equity attributable to members		-	-	-	1,960.3	**1,960.3**

Notes

a) Non-interest income (net) includes fees and commissions receivable, fees and commissions payable, and other operating income.

b) Management expenses include administrative expenses, merger and acquisition costs, depreciation and amortisation.

c) £4.6m of property, plant and equipment was impaired during the period. This impacts all segments and is included in management expenses. A further £4.8m impairment loss is included in management expenses in the 'Central' segment in respect of the intangible asset written off in the period.

NOTES TO THE ACCOUNTS CONTINUED

9. Segmental reporting continued

Total income for the reportable segments can be analysed as follows:

Half-year to 30 June 2015 (Unaudited)	**Retail £m**	**Non-retail £m**	**Secondary £m**	**Central £m**	**Total £m**
External income	**347.9**	**17.4**	**29.8**	**(108.2)**	**286.9**
Income from other segments	**(172.7)**	**(5.8)**	**(11.3)**	**189.8**	**-**
Total income	**175.2**	**11.6**	**18.5**	**81.6**	**286.9**

Half-year to 30 June 2014 (Unaudited)	Retail £m	Non-retail £m	Secondary £m	Central £m	Total £m
External income	317.7	15.5	32.1	(73.5)	291.8
Income from other segments	(85.2)	(6.7)	(11.3)	103.2	-
Total income	232.5	8.8	20.8	29.7	291.8

Year to 31 December 2014 (Audited)	Retail £m	Non-retail £m	Secondary £m	Central £m	Total £m
External income	639.3	31.5	72.1	(168.1)	574.8
Income from other segments	(222.0)	(12.3)	(23.0)	257.3	-
Total income	417.3	19.2	49.1	89.2	574.8

NOTES TO THE ACCOUNTS CONTINUED

10. Fair values

The table below is a comparison of the book and fair values of the Group's financial instruments by category as at the statement of financial position date.

	30 June 2015 (Unaudited)		31 December 2014 (Audited)	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Assets				
Cash in hand and balances with the Bank of England	**4,514.1**	**4,514.1**	3,670.6	3,670.6
Loans and advances to credit institutions	**543.6**	**543.6**	599.3	599.3
Debt securities – fair value	**8.6**	**8.6**	9.2	9.2
Debt securities – embedded derivative	**(8.6)**	**(8.6)**	(8.9)	(8.9)
Debt securities – available for sale	**177.1**	**177.1**	524.5	524.5
Loans and advances to customers	**32,836.2**	**33,289.0**	32,234.1	32,737.2
Investments	**1.4**	**1.4**	1.4	1.4
Liabilities				
Shares	**27,451.1**	**27,454.7**	27,241.4	27,197.0
Amounts due to credit institutions	**3,380.0**	**3,380.0**	3,471.3	3,471.3
Other deposits	**556.9**	**556.9**	508.0	508.0
Debt securities in issue	**4,168.8**	**4,208.5**	3,523.2	3,561.2
Subordinated liabilities	**292.8**	**307.7**	299.5	314.3
Subscribed capital	**6.8**	**5.8**	6.9	5.6

NOTES TO THE ACCOUNTS CONTINUED

10. Fair values continued

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

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 are not based on observable market data (unobservable inputs).

Investments classified as Level 3 are principally unquoted equity investments related to the operation of cash machines.

As at 30 June 2015 (Unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Debt securities – fair value	**-**	**8.6**	**-**	**8.6**
Embedded derivatives	**-**	**(8.6)**	**-**	**(8.6)**
Debt securities – available for sale	**127.0**	**50.1**	**-**	**177.1**
Investments	**-**	**-**	**1.4**	**1.4**
Derivative assets	**-**	**140.1**	**-**	**140.1**
Derivative liabilities	**-**	**(472.9)**	**-**	**(472.9)**
	127.0	**(282.7)**	**1.4**	**(154.3)**

As at 31 December 2014 (Audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Debt securities – fair value	-	9.2	-	9.2
Embedded derivatives	-	(8.9)	-	(8.9)
Debt securities – available for sale	450.6	73.9	-	524.5
Investments	-	-	1.4	1.4
Derivative assets	-	214.3	-	214.3
Derivative liabilities	-	(413.6)	-	(413.6)
	450.6	(125.1)	1.4	326.9

Details of valuation techniques are disclosed on page 141 of the 2014 Annual Report and Accounts.

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

In line with industry best practice, expected future cash flows for derivative instruments have been discounted using the Overnight Indexed Swap (OIS) curve.

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'; 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); and the interim report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

John Heaps	**Lynne Charlesworth**	**Chris Pilling**
Chairman	Vice Chairman	Chief Executive

22 July 2015

INDEPENDENT REVIEW REPORT TO YORKSHIRE BUILDING SOCIETY

We have been engaged by the Society to review the condensed set of financial statements in the interim management report for the six months ended 30 June 2015 which comprises the condensed group income statement, the condensed group statement of comprehensive income, the condensed group statement of financial position, the condensed group statement of changes in members' interest, the condensed group statement of cash flows and related notes 1 to 10. We have read the other information contained in the interim management report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Society 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. Our work has been undertaken so that we might state to the Society those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim management report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim management report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim management report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Society a conclusion on the condensed set of financial statements in the interim management report based on our review.

Scope of review

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 Ireland) 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim management report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom
22 July 2015

OTHER INFORMATION

The interim management report 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 2014 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2014 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 interim management 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.

YBS GROUP

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