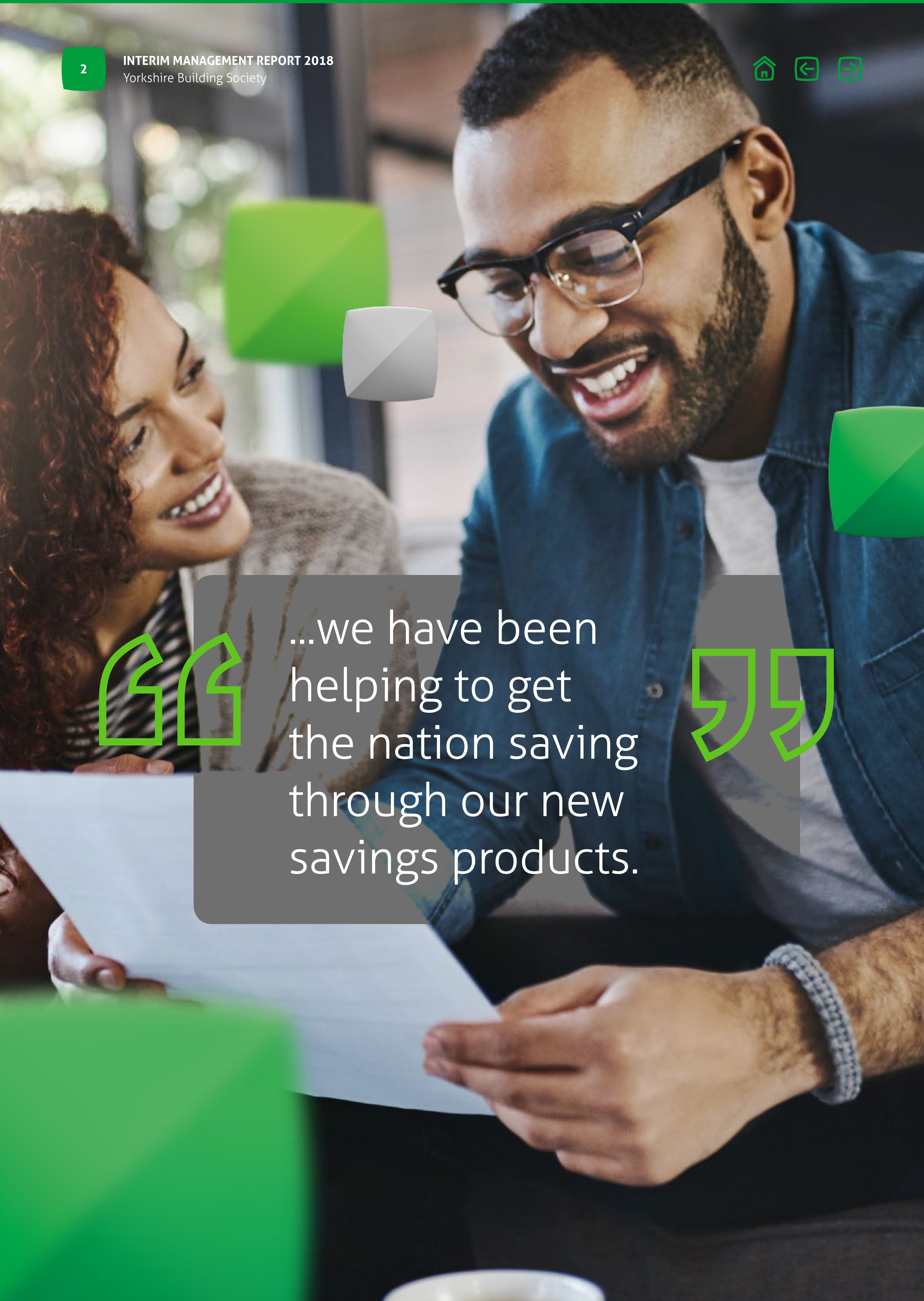
YORKSHIRE BUILDING SOCIETY

YORKSHIRE BUILDING SOCIETY INTERIM REPORT 30 JUNE 2019

Interim Management Report
for the six months ended 30 June 2019



> …we have been helping to get the nation saving through our new savings products.

Chief Executive's summary

A strong start to the year...

Our purpose is to provide real help with real life, whilst delivering value to our members. Our aim is to help customers buy their first home, move home, and to support the financial wellbeing of our members by helping them save.

We measure the customer experience we provide through Net Promoter Score[1], which is a universally recognised metric that allows us to measure customer advocacy and loyalty.

Our performance for the first six months of this year is +51[2] which is a significant improvement on the 2018 year-end score of +41.

1. Net Promoter Score is defined on page 189 of the 2018 Annual Report and Accounts.
2. KPMG Nunwood Customer Voice Programme, January – June 2019. Based on 10,412 completed interviews with customers. Net Promoter, Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Chief Executive's summary continued...

Our Results:

I am pleased to report on a strong start to 2019 for Yorkshire Building Society. Despite difficult trading conditions and intense competition, we have been able to deliver a robust set of financial results and, at the same time, we have made considerable progress with key elements of our strategic plan. Above all we are focused on our fundamental purpose of helping people into a place to call home and creating greater financial wellbeing. Our ability to deliver high levels of service to our customers and our customer experience measure have remained significantly ahead of industry averages. We also saw growth in our mortgage and retail savings balances.

SAVINGS

RETAIL SAVINGS BALANCES
£30.3bn
(31 December 2018 : £29.6bn)

We have grown deposit balances to support lending growth and ensure we maintain adequate levels of liquidity at all times. We have helped people build financial resilience and have given them a safe home for their money by opening 84,529 new savings accounts. We also offered savings rates which were typically 0.37% higher than the market average (December 2018: 0.37%).

MORTGAGES

OVERALL MORTGAGE BALANCES
£37.9bn
(31 December 2018: £36.7bn)

GROSS LENDING[3]
£4.0bn
(30 June 2018: £4.0bn)

Our lending performance remains on plan and with this growth we are continuing to support people to have a place to call home. We have helped people buy their first home and move home 8,393 times so far this year.

NET LENDING[3]
£1.1bn
(30 June 2018: £0.4bn)

(i.e. after repayments and redemptions)

ASSET QUALITY[3]
0.40%
(31 December 2018: 0.38%)

The proportion of retail mortgages three months or more in arrears (including possessions) remains low.

FINANCIAL

SUSTAINABLE PROFITS

STATUTORY PROFIT BEFORE TAX
£76.5m
(30 June 2018: £88.6m)

CORE OPERATING PROFIT[3]
£97.5m
(30 June 2018: £86.3m)

COST: INCOME RATIO[5]
59%
(30 June 2018 : 64%)

Our core operating profit has increased, which shows a good performance in a competitive market. Statutory profit before tax has been adversely impacted by fair value losses during H1 2019. This is as a result of volatility in the financial markets, and is an accounting adjustment which will typically reverse in future periods.

STRONG LIQUIDITY POSITION

BALANCES
£4.7bn
(31 December 2018 : £5.5bn)

LIQUIDITY RATIO[3]
11.8%
(31 December 2018 : 13.9%)

LIQUIDITY COVERAGE RATIO[3]
144%
(31 December 2018 : 159%)

We continue to maintain prudent levels of liquidity significantly above regulatory requirements. Excess liquidity generates less income than it costs to fund, so the Group seeks to strike a balance in the level of liquidity between manging risk and the cost of holding it. Our strong underlying position has enabled the Group to reduce excess liquidity through the Tier 2 buy back.

MAINTAINED CAPITAL STRENGTH

COMMON EQUITY TIER 1 CAPITAL[3]
16.1%
(31 December 2018: 16.3%)

TOTAL CAPITAL RATIO[3]
18.6%
(31 December 2018 : 20.3%)

LEVERAGE RATIO[3]
5.6%[4]
(31 December 2018 : 5.8%)

MREL LEVERAGE RATIO[3]
7.1%
(31 December 2018 : 7.2%)

The total capital ratio has decreased since 31 December 2018 due to the successful Tier 2 buy back in April 2019 reducing Total Capital Resources. Levels remain significantly above regulatory requirements.

The above results support our aim to generate a level of profit to allow our business to grow at a sensible and healthy rate. We have achieved this goal whilst continuing to offer excellent value products and great customer service to our customers.

3. These performance measures are defined in the glossary on pages 180 to 190 of the 2018 Annual Report and Accounts.
4. Leverage ratio modified under the UK regulatory regime by excluding central bank reserves from the calculation of leverage exposures.
5. The cost:income ratio is calculated using the core total income figure as detailed on page 9.

Chief Executive's summary continued...

Strategic update:

The external landscape continues to be challenging:

- The current macroeconomic and market environment is very dynamic, with the impact of trade wars, the UK's exit from the EU and political uncertainty likely to continue into the foreseeable future, impacting business and consumer confidence and growth. Uncertainty around the future Bank Rate path is also leading to volatility in financial markets.
- We continue to see margins under pressure across the mortgage market, driven in part by the competitive actions of the newly created ring-fenced banks. This ring-fencing means that customer deposits can no longer be used to support non-retail activities like investment banking; instead they can only be deployed in retail markets including mortgage lending putting downwards pressure on mortgage margins. The scheduled repayment of the Bank of England's funding schemes to the financial services industry is also putting pressure on margins, as the increased demand for retail savings is pushing up rates for new deposits.

We have set out five strategic priorities, our "Five to Thrive", to help us succeed in this increasingly competitive landscape whilst delivering on our purpose. We are making strong progress against our strategic priorities as follows:

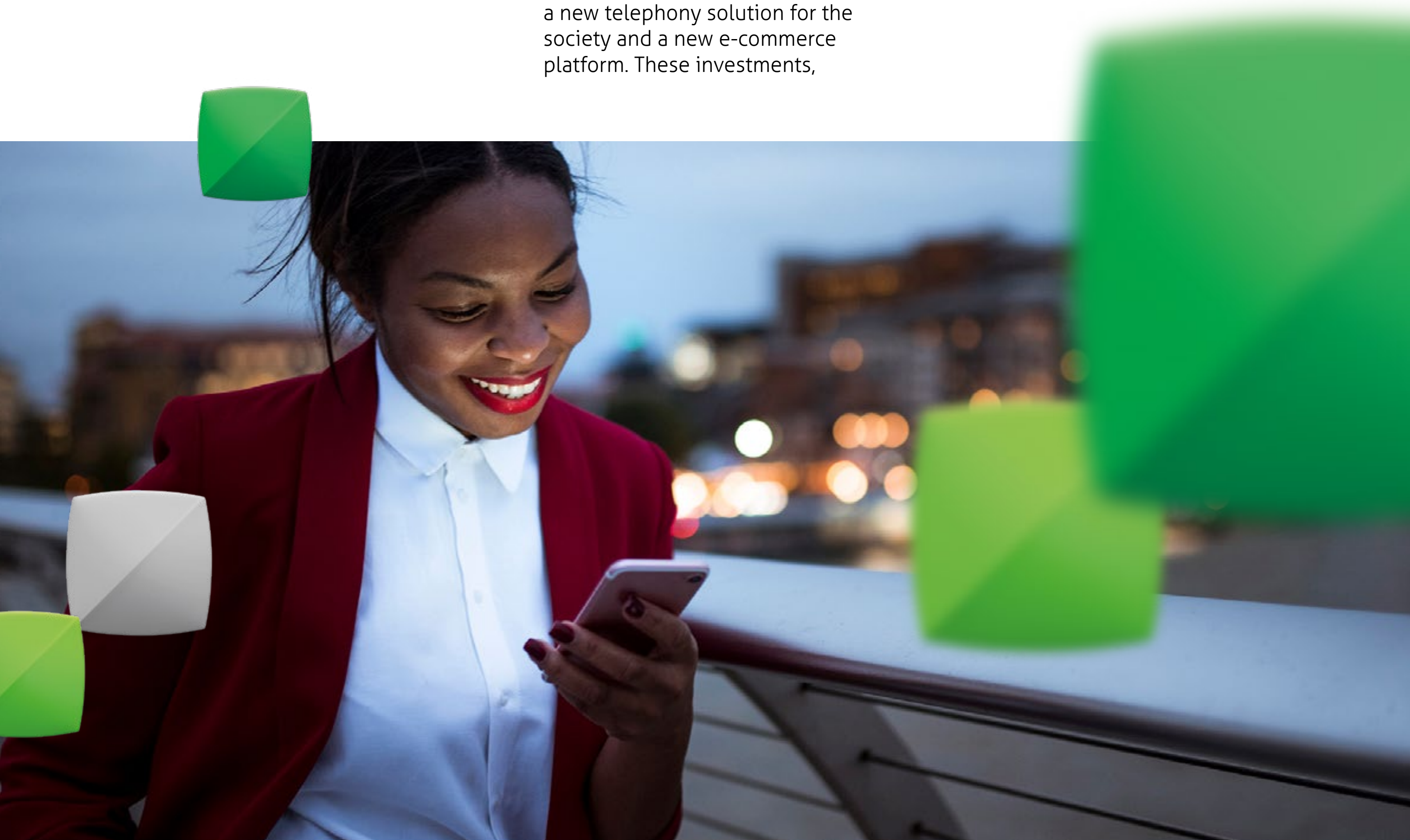
1. **HELP.** Finding more ways to provide more Real Help With Real Lives – We have continued to develop our mortgage range to help more underserved segments of the market including reviewing our products for first time buyers to help them have a place to call home. Some of the propositions that we have delivered over the past year include improving our service to the new build market, launching buy-to-let at up to 80% LTV, offering Help to Buy mortgages, reviewing criteria for contractors and launching interest only in our direct channel. Alongside this we have been helping to get the nation saving through a range of new savings products. We have also continued to grow our Money Minds programme of financial education in schools, during the first half of this year our colleagues have delivered 78 Money Minds sessions to 3,310 students across the country. Our colleagues have also continued to support our local communities through our volunteering schemes and fundraising activities, including our on-going support to our charity partner End Youth Homelessness (EYH). So far this year we have raised over £113,000 for EYH, which takes our total since the launch of the partnership to £660,000. Thanks to our colleagues' and customers' fundraising efforts, we have already been able to help 290 homeless young people to move into their own home.

> "...our colleagues have delivered 78 Money Minds sessions to 3,310 students across the country."

Chief Executive's summary continued...

Strategic update continued:

2. **PROTECT.** Protecting our financial strength - We have delivered a broader and more sustainable range of mortgage and savings products, which included a fairly significant set of changes to our savings range in light of the increased competition we're seeing across the market. We have also delivered continued year on year reductions in overall costs, which are in line with our expectations, and strong benefits from our project investment. These help us to remain financially sustainable in the face of increased market pressure on our net interest income.
3. **EXPAND.** Expanding our routes to market so we can help more people - To enable our customers to continue their face to face interactions with us, we are exploring a number of targeted partnership opportunities. An example of this is the expansion of our agency model, where local professional businesses offer a branch-style service to our members. We are converting some of our branches to agencies in areas where it is more financially sustainable for us to do so. We have also grown our Salary Finance and Shareplans schemes and have been working with payment service providers in delivering Open Banking.
4. **DIGITALISE.** Developing the digital experience and services that people now expect, transforming the efficiency of our business operations and building capability to connect with an increasingly digital world. We have delivered customer benefits from streamlining our website and significantly reducing the amount of paper we use in our processes, also helping our environmental footprint. Our largest ever single investment in a new digital mortgage sales and origination platform is on track for launch in a pilot phase in July and we are continuing to invest significantly in other elements of our digital infrastructure, including wide area network connectivity, a new telephony solution for the society and a new e-commerce platform. These investments, combined with our work on the Second Payment Services Directive (PSD2), means we have also made material progress on our Application Programming Interfaces (API), which will allow us to launch a series of new digital propositions in the future.
5. **UNLEASH.** Unleashing our full potential as individuals and an organisation - We have launched a revised approach to performance development, focusing on providing timely feedback via open and honest conversations. Creating a diverse and inclusive environment across the business continues to remain a focus for the Board, and we have received industry recognition for our work in this area. During the first half of the year we have maintained a diverse mix of colleagues with females at senior levels of the organisation remaining over 41% (30 June 2018: 42%) and the number of BAME colleagues across the organisation increasing to 10.5% (30 June 2018: 8.2%).



Chief Executive's summary continued...

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

Award	Accolade
Moneynet Personal Finance Awards	Best Offset Mortgage Provider
Moneynet Personal Finance Awards	Best First Time Buyer Mortgage Provider
Moneynet Personal Finance Awards	Best Overall Mortgage Provider
Moneynet Personal Finance Awards	Best Building Society Savings Provider
National Centre for Diversity Grand Awards	Diversity Steering Group of the Year
National Centre for Diversity Grand Awards	Managing Director/Chief Executive of the Year
National Centre for Diversity Grand Awards	Employee of the Year
Moneyfacts Consumer Money Awards	First-Time Mortgage Buyers' Choice Award
Moneyfacts Awards	Best Building Society Mortgage Provider
Mortgage Strategy Awards	Best Mortgage Lender
Mortgage Advice Bureau Awards	The Relationship Award
Moneywise Mortgage Awards	Best Lender for Discounted Mortgages

The continued commitment and dedication of our colleagues has proved instrumental in helping to deliver our significant change programme whilst maintaining a strong focus on our customers. The organisation has experienced change on an unprecedented scale in recent years as we strive to ensure the continued financial health and sustainability of the organisation for the future in a more competitive market. I would like to thank all of our colleagues for their amazing contribution. I am confident that their talent and passion to deliver our purpose mean that we are well equipped to capitalise on the opportunities and face into any challenges we may encounter in the future.

Mike Regnier
Chief Executive
24 July 2019

Business highlights

In addition to the Five to Thrive agenda, for the first half of 2019 the Board has also focused on:

- The regulatory agenda. The delivery of our PSD2 project is progressing in line with our expectations.
- Following the issuance of MREL* compliant bonds in April 2019, we now hold sufficient capital to meet the end-state MREL capital requirements.
- Brand integration and migration has continued in the first half of the year. This includes the re-launch of our Commercial Lending activity under the YBS brand.
- Continued investment in the customer journey for both our direct members and our broker introduced customers, to enhance the customer experience and improve service levels. This has included improving our use of automated processes, both internally and when interacting with our customers.
- Operational efficiency to help ensure the future sustainability of our business.
- Operational resilience, in particular cyber security, responding to the growing external threat to the financial services industry as a whole. In addition, the continued delivery of improvements in relation to our financial crime identification and management processes.
- Significant reduction in our costs from £158.0m to £141.6m, delivered through a full review of our head office functions and reshaping of the distribution model.
- Our asset quality remains strong with 88% of our book classified as stage 1 with no significant increase in credit risk since origination. The IFRS 9 standard has prescriptive rules for assets purchased or originated credit impaired (POCI). The Group has £593.2m of mortgage loans classified as POCI that were acquired in previous business combinations, of these 87% are now considered performing loans but are not permitted to be reclassified to stage 1 or 2. POCI assets remain well collateralised with 96% having an LTV less than 90% and an average LTV of 55%. There is also significant coverage for future losses of 4.7%, as a result of holding both impairment provisions and fair value adjustments. Further details on the credit risk of the loan portfolio are contained within Note 5.

*This term is defined in the glossary on pages 180 to 190 of the 2018 Annual Report and Accounts.

YORKSHIRE BUILDING SOCIETY

Business highlights continued...

Profit before tax was £76.5m for the six months to 30 June 2019 compared to £88.6m for the equivalent period in 2018.

In addition to monitoring profit before tax (a statutory measure) the Board uses core operating profit as a measure of underlying performance. This adjusts the pre-tax profit for non-core items, both positive and negative, that are considered one-off in nature or reflect a difference that will reverse over time. We believe that core operating profit represents a clearer way of showing the underlying performance of the business.

Our core operating profit for the six months to 30 June 2019 was £97.5m against £86.3m in the same period in 2018. The table below explains the adjustments made to statutory profit to arrive at the core operating profit figure.

		Half-year ended 30 June 2019			Half-year ended 30 June 2018			Year ended 31 December 2018		
	NOTES	Statutory	Non-core items	Core	Statutory	Non-core items	Core	Statutory	Non-core items	Core
		£m	£m	£m	£m	£m	£m	£m	£m	£m
Net interest income	i)	**229.6**	**(1.4)**	**228.2**	237.6	(2.5)	235.1	471.7	(2.5)	469.2
Non-interest income (net)	ii)	**8.2**	**(3.0)**	**5.2**	5.3	0.2	5.5	10.4	(0.3)	10.1
Volatility on assets held at fair value	iii)	**5.0**	**(5.0)**	–	0.5	(0.5)	–	8.6	(8.6)	–
Fair value volatility on derivatives and hedging	iv)	**(29.2)**	**29.2**	–	1.0	(1.0)	–	11.5	(11.5)	–
Net realised profits		**5.7**	–	**5.7**	4.6	–	4.6	8.0	–	8.0
Total income		**219.3**	**19.8**	**239.1**	249.0	(3.8)	245.2	510.2	(22.9)	487.3
Management expenses*		**(141.6)**	–	**(141.6)**	(158.0)	–	(158.0)	(311.2)	1.7	(309.5)
Impairment of loans and advances to customers		**(1.6)**	–	**(1.6)**	(1.2)	–	(1.2)	0.4	–	0.4
Other provisions	v)	**0.4**	**1.2**	**1.6**	(1.2)	1.5	0.3	(6.9)	9.6	2.7
Profit before tax		**76.5**	**21.0**	**97.5**	**88.6**	**(2.3)**	**86.3**	**192.5**	**(11.6)**	**180.9**

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

i) Release of fair value adjustments made against assets taken on during mergers.

ii) Profit on the sale of land at Charlton Kings, as well as a small amount in relation to branch sales.

iii) Non-core investments held at fair value.

iv) Fair value timing differences due to rate volatility on financial instruments – see Note 2.

v) £1.2m charge for restructuring costs - see Note 6.

* These performance measures are defined in the glossary on pages 180 to 190 of the 2018 Annual Report and Accounts.

Business highlights continued...

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

- Net interest income of £229.6m (30 June 2018: £237.6m) representing a net interest margin* of 1.06% (30 June 2018: 1.13%). This reduction reflects margin pressure on new business and is in line with our plans.
- Non-interest income, comprising of fees, commission and other operating income, increased to £8.2m (30 June 2018: £5.3m). 2019 included £3.0m of profits from land disposals.
- A fair value volatility loss of £24.2m (30 June 2018: gain of £1.5m) is adverse to 2018 mainly due to a significant fall in swap rates since the beginning of the year. This is as a result of volatility in the financial markets, and is an accounting adjustment which will typically reverse in future periods.
- Net realised profits of £5.7m (30 June 2018: £4.6m) reflect profits made on disposal of liquid asset investments in H1.
- Management expenses at a total level have reduced when compared to last year at £141.6m (30 June 2018: £158.0m) and result in a management expense ratio* of 0.65% (30 June 2018: 0.75%). The reduction in management expenses is as a result of savings made following a full review of our head office functions and our branch network. In addition to this our project costs are expected to be weighted more towards the second half of the year when compared to 2018. When calculated on a core total income basis our cost:income ratio** decreased to 59% (30 June 2018: 64%) in line with the absolute reduction in costs.
- Impairment provisions reflect a charge of £1.6m (30 June 2018: £1.2m). The quality of our mortgage books remains strong, with arrears levels remaining low.

* These performance measures are defined in the glossary on page 187 of the 2018 Annual Report and Accounts
** The cost:income ratio is calculated using the core total income figure as detailed on page 9.

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

The Group's business activities are focused in the UK and relate predominantly to mortgage lending which is funded primarily through domestic deposits. We continue to have a cautious approach to liquidity management and as at 30 June 2019 our liquidity portfolio consisted almost entirely of exposures to the Bank of England and the UK Government.

Business highlights continued...

Principal risks and uncertainties

The Group recognises that the environment within which it operates and the nature of the threats which it faces are continually evolving. Consequently, the Group continues to invest in its risk management capability in order to ensure that emerging and evolving risks continue to be closely monitored and that timely and appropriate action is taken to protect the interests of the Group and its customers. Significant emerging risk headwinds are regularly reviewed through the senior risk committees and are considered as part of the Group's planning process.

A description of the principal risks and uncertainties is given in this report to the extent they differ from those at 31 December 2018. The principal risks and uncertainties facing the Society for the year ended 31 December 2018 were reported on pages 32 to 33 of the 2018 Annual Report and Accounts.

Macroeconomic

- Political uncertainty in the UK

The UK is now set to leave the EU on 31st October, after the extension of Article 50, suggesting continued uncertainty surrounding the terms of the exit agreement. Until this is resolved there is still a risk of disruption that this may pose to the UK economy and financial system. As a result any adverse implications from the UK's exit from the EU must continue to be closely monitored. This is further complicated by the uncertainty as to how the new Prime Minister will seek to overcome differences with the EU and within parliament.

- Market pressures on core business

Despite two interest rates rises in less than 12 months (November 2017 and August 2018), market expectations for any further interest rate increases are limited in the medium term and there is a risk that the next rate change may be downwards, whilst there is still significant uncertainty on the impact from the UK's exit of the EU. A continuation of low interest rates is likely to constrain margins; although this combined with rising wage growth should help affordability for homeowners.

Business highlights continued...

Outlook for 2019

The political and economic outlook continues to remain uncertain, and we expect ongoing volatility in financial markets and challenging trading conditions for the foreseeable future. The Group is well positioned with strong capital and liquidity levels, and we are well placed with our products in both our mortgage and savings product ranges. We are confident that we can continue to manage these risks as we run and continue to grow our business.

There is a high level of uncertainty over the timing and direction of the next rate change in the UK, with the market assumption moving regularly. Our approach to any future movements will continue to focus on managing changes as sympathetically as possible for our customers, whilst maintaining clear focus on our position relative to peers and safeguarding our financial strength and sustainability.

Interim Accounts UK Corporate Governance Code Update

As reported in the Annual Report and Accounts 2018, a new version of the UK Corporate Governance Code (the Code) was published in July 2018 and applied from 1 January 2019. Whilst the Code sets out the requirements for premium listed companies, the Group is expected by its regulator to have regard to it when establishing and reviewing its corporate governance arrangements. The Group committed to adopting the new principles and provisions of the Code, where relevant, as soon as practically possible and has continued this work during the first half of 2019. This includes appointing Alison Hutchinson as our Non-Executive Director - Workforce Engagement and moving oversight of whistleblowing from the Audit Committee to a Board level responsibility. A full report on the Group's compliance with the new Code will be included in the Annual Report and Accounts for the year ended 31 December 2019.

Auditor

In accordance with the EU audit legislation, an audit contract should be put out to tender at least every ten years. An audit tendering process took place in 2018 which resulted in PricewaterhouseCoopers LLP being appointed as the new auditor of the Group from April 2019.

Changes to the Board

A complete list of the board of directors can be found in the 2018 Annual Report and Accounts, which communicated the appointment of Guy Bainbridge as a Non-Executive Director with effect from 1 January 2019. Guy is a banking expert with recent and relevant experience of the UK banking sector. He spent 36 years with KPMG, of which 24 were as partner. He has comprehensive knowledge of the regulatory environment in which the Society operates.

Signed on behalf of the Board by:

Alasdair Lenman, Chief Finance Officer

Mike Regnier, Chief Executive
24 July 2019

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 2019 (Unaudited) £m	Half-year to 30 June 2018 (Unaudited) £m	Year to 31 December 2018 (Audited) £m
Interest receivable and similar income		**502.1**	520.7	1,018.7
Interest payable and similar charges		**(272.5)**	(283.1)	(547.0)
Net interest income		**229.6**	237.6	471.7
Fees and commissions receivable		**14.0**	15.0	29.1
Fees and commissions payable		**(10.1)**	(10.9)	(21.7)
Net fee and commission income		**3.9**	4.1	7.4
Net (losses)/ gains from financial instruments held at fair value	2	**(24.2)**	1.5	20.1
Net realised profits	3	**5.7**	4.6	8.0
Other operating income	4	**4.3**	1.2	3.0
Total income		**219.3**	249.0	510.2
Administrative expenses		**(130.0)**	(147.7)	(291.3)
Depreciation and amortisation		**(11.6)**	(10.3)	(19.9)
Impairment (charge)/ release on financial instruments		**(1.6)**	(1.2)	0.4
Provisions	6	**0.4**	(1.2)	(6.9)
Operating profit and profit before tax		**76.5**	88.6	192.5
Taxation	7	**(17.7)**	(19.3)	(42.7)
Net profit		**58.8**	**69.3**	**149.8**

Condensed Group Statement of Comprehensive Income

	Notes	Half-year to 30 June 2019 (Unaudited) £m	Half-year to 30 June 2018 (Unaudited) £m	Year to 31 December 2018 (Audited) £m
Net profit		**58.8**	69.3	149.8
Items that may subsequently be reclassified to the income statement:				
Assets measured through other comprehensive income:				
Fair value movements taken to equity		**6.3**	(5.2)	(3.7)
Amounts transferred to income statement		**(1.8)**	1.2	(0.3)
Taxation	7	**(1.1)**	1.1	1.1
Cash flow hedges:				
Fair value movements taken to equity		**(0.5)**	0.8	(0.2)
Amounts transferred to income statement		**1.1**	0.8	2.7
Taxation	7	**(0.1)**	(0.4)	(0.6)
Subtotal		**3.9**	(1.7)	(1.0)
Items that will not subsequently be reclassified to the income statement:				
Remeasurement of net retirement benefit obligations	8	**21.7**	9.6	(19.1)
Taxation	7	**(5.5)**	(2.5)	5.2
Effect of change in corporation tax rate	7	**–**	–	(0.4)
Subtotal		**16.2**	7.1	(14.3)
Total comprehensive income for the period		**78.9**	**74.7**	**134.5**

Condensed Group Statement of Financial Position

	Notes	30 June 2019 (Unaudited) £m	30 June 2018 (Unaudited) £m	31 December 2018 (Audited) £m
ASSETS				
Liquid Assets				
Cash in hand and balances with the Bank of England		**1,693.9**	4,229.4	3,539.8
Loans and advances to credit institutions		**961.5**	265.2	294.6
Debt securities		**2,027.5**	1,500.0	1,670.3
Loans and advances to customers		**37,803.2**	35,464.4	36,720.4
Fair value adjustment for portfolio hedged risk		**98.6**	(37.9)	(18.0)
Derivative financial instruments		**540.8**	549.7	564.4
Investments		**8.9**	5.6	6.8
Intangible assets		**41.7**	31.7	40.1
Investment properties		**12.9**	12.2	12.0
Property, plant and equipment		**149.1**	110.6	110.6
Deferred tax assets	7	**8.2**	8.9	8.3
Retirement benefit surplus	8	**97.9**	106.6	75.9
Other assets		**29.3**	35.6	29.5
Total assets		**43,473.5**	**42,282.0**	**43,054.7**
LIABILITIES				
Shares		**30,294.6**	28,751.7	29,558.6
Amounts owed to credit institutions		**3,867.0**	5,342.0	4,485.1
Other deposits		**530.8**	428.0	508.6
Debt securities in issue		**5,123.5**	4,427.5	5,145.9
Derivative financial instruments		**228.4**	122.0	97.8
Current tax liabilities	7	**16.9**	14.9	19.9
Deferred tax liabilities	7	**34.7**	35.7	29.7
Other liabilities		**91.1**	50.9	54.1
Provisions		**19.6**	39.6	35.4
Subordinated liabilities		**659.2**	594.8	585.1
Subscribed capital		**–**	6.3	6.1
Total liabilities		**40,865.8**	**39,813.4**	**40,526.3**
Total members’ interests and equity		**2,607.7**	2,468.6	2,528.4
Total liabilities and equity		**43,473.5**	**42,282.0**	**43,054.7**

Condensed Group Statement of Changes in Members' Interest and Equity

	Notes	General reserve £m	Cash flow hedge reserve £m	Available for sale reserve £m	Fair value through other comprehensive income reserve £m	Total reserves £m
HALF-YEAR TO 30 JUNE 2019						
At 1 January 2019 (Audited)		2,523.9	(1.7)	–	6.2	2,528.4
IFRS 16 transition adjustments	1	0.4	–	–	–	0.4
Current period movement net of tax		75.1	0.5	–	3.3	78.9
At 30 June 2019 (Unaudited)		2,599.4	(1.2)	–	9.5	2,607.7
HALF-YEAR TO 30 JUNE 2018						
At 1 January 2018 (Audited)		2,382.6	(3.6)	10.8	–	2,389.8
IFRS 9 transition adjustments		5.8	–	(10.8)	9.1	4.1
Reporting period movement net of tax		76.4	1.2	–	(2.9)	74.7
At 30 June 2018 (Unaudited)		2,464.8	(2.4)	–	6.2	2,468.6
YEAR TO 31 DECEMBER 2018						
At 1 January 2018 (Audited)		2,382.6	(3.6)	10.8	–	2,389.8
IFRS 9 transition adjustments		5.8	–	(10.8)	9.1	4.1
Reporting period movement net of tax		135.5	1.9	–	(2.9)	134.5
At 31 December 2018 (Audited)		2,523.9	(1.7)	–	6.2	2,528.4

Condensed Group Statement of Cash Flows

	Notes	Half-year to 30 June 2019 (Unaudited) £m	Half-year to 30 June 2018 (Unaudited) £m	Year to 31 December 2018 (Audited) £m
CASH FLOWS FROM OPERATING ACTIVITIES:				
Profit before tax		**76.5**	88.6	192.5
Non-cash items included in profit before tax	10	**12.9**	(33.6)	(23.5)
Net increase in operating assets	10	**(1,047.9)**	(407.4)	(1,653.1)
Net increase in operating liabilities	10	**140.1**	711.9	742.5
Interest paid on lease liabilities		**(0.5)**	–	–
Taxation paid		**(22.3)**	(20.1)	(36.2)
Net cash flows (used in)/from operating activities		**(841.2)**	**339.4**	**(777.8)**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment and intangible assets		**(8.7)**	(6.9)	(26.3)
Sale of property, plant and equipment		**3.7**	–	1.8
Purchase of debt securities		**(873.2)**	(1,163.6)	(1,990.0)
Proceeds from sale and redemption of debt securities		**526.2**	515.0	1,173.9
Net cash flows used in investing activities		**(352.0)**	**(655.5)**	**(840.6)**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issue of covered bonds		**431.9**	–	–
Redemption of securities		**(620.8)**	(894.2)	(1,043.7)
Issue of securities	10	**166.0**	443.5	1,243.5
Redemption of subordinated liabilities and subscribed capital		**(224.9)**	(5.0)	(5.0)
Issue of subordinated liabilities		**275.0**	–	–
Interest paid on subordinated liabilities and subscribed capital		**(15.7)**	(12.9)	(25.7)
Principal elements of lease payments		**(1.4)**	–	–
Net cash flows from/(used in) financing activities		**10.1**	**(468.6)**	**169.1**
Net decrease in cash and cash equivalents		**(1,183.1)**	**(784.7)**	**(1,449.3)**
Opening balance		**3,742.4**	5,191.7	5,191.7
Total closing cash and cash equivalents		**2,559.3**	**4,407.0**	**3,742.4**
CASH AND CASH EQUIVALENTS:				
Cash and balances with the Bank of England		**1,597.8**	4,141.8	3,447.8
Loans and advances to credit institutions		**961.5**	265.2	294.6
		2,559.3	4,407.0	3,742.4

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 2019.

Basis of preparation

These Interim Group Accounts have been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting'. 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, with the exception of IFRS 16 which the Group adopted with effect from 1 January 2019.

There have been no changes in the composition of the entity during the interim period caused by business combinations, obtaining or losing control of subsidiaries and long term investments, restructuring and discontinued operations.

Going concern

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 2019 are given on pages 34 to 35 of the 2018 Annual Report and Accounts.

The directors confirm, based on the latest formal review undertaken in July 2019, that they consider the Group has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Accounting developments

The information on future accounting developments and their potential effect on the financial statements are provided on pages 100 to 103 of the 2018 Annual Report and Accounts.

Accounting developments – IFRS 16

IFRS 16 'Leases' was issued in January 2016 and is effective for periods beginning on or after 1 January 2019. This replaced IAS 17, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 eliminates the distinction between operating and finance leases that exists under IAS 17, with virtually all leases recognised on Balance Sheet. Under IAS 17, the cost of operating leases were recorded within administrative expenses, whereas from 2019 the Income Statement entries relating to leases have been depreciation on right-of-use assets and interest on the associated lease liabilities.

For leases previously classified as operating leases the Group recognised a lease liability at the date of initial application measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate at the date of initial application. The right-of-use asset was recognised as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet immediately before the date of initial application.

Given that the Group finances any asset purchase as part of the overall funding strategy, rather than on a lease by lease basis, it was deemed appropriate to use the incremental borrowing rate to determine the amounts for the right-of-use assets and lease liabilities. On transition this rate was 2.25%.

The Group elected to use the modified retrospective transition approach, and as a result no prior period balances were restated. On transition the Group recognised the cumulative effect of initially applying this standard as an adjustment to the opening balance of reserves. The gross impact on the Balance Sheet on transition was the recognition of the right-of-use assets of £42.5m, a £0.6m asset that is classified as Investment Property under IAS 40 and lease liabilities of £46.5m. The net impact recorded within general reserves after deferred tax was a credit of £0.4m.

The difference between the operating lease commitments at 31 December 2018, per Note 32 of the 2018 ARA, and the IFRS 16 lease liability on transition is due to lease commitments only being for minimum lease commitments, and the lease liability is measured using the expected lease payments, and break clauses are only factored into the calculation where it is reasonably certain that the clause will be invoked. The lease liability was also measured using discounted future cash flows, whereas the operating lease commitments were not discounted.

The Group has elected to use the exemption available for short term leases, where the lease term is less than or equal to 12 months, and for low value assets. The Group also chose the option to deem intangibles as not in the scope of IFRS 16. There was no change in the accounting treatment on transition and the cost of these leases will continue to be recorded within administrative expenses on a straight line basis.

IAS 1 amendments

Following the introduction of IFRS 9 in 2018 there were some consequential amendments to IAS 1 Presentation of Financial Statements. The amendments require separate disclosure of interest revenue calculated using the effective interest rate method ('EIR'). During the six months to 30 June 2019 interest receivable and similar income of £502.1m (June 2018: £520.7m) was all calculated using the EIR method except for £25.6m (June 2018: £43.7m) of net income on financial instruments.

In the 2018 ARA further disclosure on interest on derivatives in hedge relationships and those that are not was detailed. For the year to June 2019 there was £9.6m of interest receivable on derivatives in hedge relationships (June 2018: £19.8m) and £16.0m on derivatives not in a hedge relationship (June 2018: £23.9m). There was also £29.1m of interest payable on derivatives in hedge relationships (June 2018: £34.3m) and £7.6m on derivatives not in a hedge relationship (June 2018: £18.9m).

Critical accounting judgements and key sources of estimation uncertainty

The Group makes judgements in applying its accounting policies that have a significant impact on the amounts recognised in the financial statements. In addition, estimates and assumptions are used which could affect the reported amounts of assets and liabilities in the next financial year. The estimates and underlying assumptions are reviewed on an ongoing basis, with the key sources of estimation uncertainty being unchanged since the 2018 year end.

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

	Half-year to 30 June 2019 (Unaudited)	Half-year to 30 June 2018 (Unaudited)	Year to 31 December 2018 (Audited)
	£m	£m	£m
Derivatives and hedging	**(29.2)**	1.0	11.5
Other items	**5.0**	0.5	8.6
	(24.2)	1.5	20.1

Derivatives and hedging

Fair value volatility on derivatives and hedging relates to changes in the fair value of derivatives that provide effective economic hedges but where the Group has either not achieved hedge accounting or the nature of the hedge relationship has given rise to ineffectiveness. The loss in the current year has been predominantly driven by market rate movements. The £5.0m other item in the current period includes gains on equity instruments held at fair value and a realised gain on the maturity of a structured credit investment.

3. Net realised profits

These relate to the disposal of liquid asset investments and include the realised profits on any associated derivatives. Profits or losses of this nature are variable as these sales are largely made to efficiently and effectively manage our liquidity portfolio investments and to prove the liquidity of the assets held.

4. Other operating income

Other operating income primarily comprises of income from fixed assets; specifically profits or losses on disposal, rental income from investment property and software licensing income. During the period ending 30 June 2019, the Group's other operating income increased predominantly due to the realisation of £3.0m profit upon the disposal of our Charlton Kings property.

5. Impairment provisions and credit risk on loans and advances to customers

The following tables analyse the IFRS 9 staging for gross loans and advances to customers, impairment provisions and total coverage, which consists of impairment provisions of £30.6m and credit fair value adjustments of £36.5m. We have elected to present the total coverage as it gives a more accurate representation of the Group's ability to fund any write-offs incurred. The total exposures below differ from the statement of financial position as they exclude EIR, Hedging and other day 1 fair value adjustments.

The tables below contain assets acquired on previous business combinations, which were recognised at the fair value, this included accounts considered to be purchased or originated credit impaired (POCI) at the point of acquisition. The discount was recognised as a day 1 fair value credit adjustment. On subsequent remeasurement, the recoverable value of POCI assets can rise or fall with changes in expected credit losses. If there is a reduction in expected credit losses, instead of adjusting the fair value discount the IFRS 9 accounting standard requires a negative impairment provision to be recorded. The Group has £593.6m of POCI loans (£0.4m relates to unsecured lending). Of these, 87% are now considered performing loans but are not permitted to be reclassified to stage 1 or 2.

Balances as at 30 June 2019	Gross Exposure	Impairment Provision	Total Coverage
	£m	£m	£m
Stage 1	**33,480.7**	**1.9**	**1.9**
Stage 2	**3,505.8**	**21.2**	**23.8**
Less than 30 days past due	3,358.2	16.7	19.0
30 to 90 days past due	147.6	4.5	4.8
Stage 3	**325.8**	**8.5**	**13.4**
Less than 30 days past due	118.8	1.3	2.0
30 to 90 days past due	84.0	1.3	1.8
More than 90 days past due	123.0	5.9	9.6
POCI	**593.6**	**(1.0)**	**28.0**
Less than 30 days past due	527.7	(1.6)	22.6
30 to 90 days past due	45.7	0.5	2.4
More than 90 days past due	20.2	0.1	3.0
Total	**37,905.9**	**30.6**	**67.1**

Balances as at 31 December 2018	Gross Exposure	Impairment Provision	Total Coverage
	£m	£m	£m
Stage 1	**31,937.4**	**1.7**	**1.8**
Stage 2	**3,933.4**	**21.7**	**26.6**
Less than 30 days past due	3,792.8	19.8	24.3
30 to 90 days past due	140.6	1.9	2.3
Stage 3	**346.2**	**6.7**	**9.5**
Less than 30 days past due	132.7	0.9	1.2
30 to 90 days past due	96.6	0.8	1.4
More than 90 days past due	116.9	5.0	6.9
POCI	**617.1**	**(1.2)**	**30.1**
Less than 30 days past due	545.4	(1.4)	23.2
30 to 90 days past due	51.1	0.2	3.3
More than 90 days past due	20.6	0.0	3.6
Total	**36,834.1**	**28.9**	**68.0**

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

	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Gross balance at 31 December 2018	31,937.4	3,933.4	346.2	617.1	36,834.1
Transfers:					
Transfers to stage 1	498.8	(492.2)	(6.6)	–	–
Transfers to stage 2	(320.5)	343.1	(22.6)	–	–
Transfers to stage 3	(12.7)	(28.8)	41.5	–	–
Changes to carrying value	(240.6)	(66.4)	(5.7)	(5.5)	(318.2)
New financial assets originated or purchased	3,191.1	–	–	–	3,191.1
Financial assets derecognised during the period	(1,572.8)	(183.3)	(25.4)	(17.6)	(1,799.1)
Write-offs	–	–	(1.6)	(0.4)	(2.0)
Gross balance at 30 June 2019	**33,480.7**	**3,505.8**	**325.8**	**593.6**	**37,905.9**

Changes to carrying value includes contractual monthly repayments and partial redemptions.

	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Impairment provision at 31 December 2018	1.7	21.7	6.7	(1.2)	28.9
Transfers:					
Transfers to stage 1	0.1	(0.7)	(0.1)	–	(0.7)
Transfers to stage 2	(0.1)	3.5	(0.2)	–	3.2
Transfers to stage 3	(0.1)	(0.6)	0.8	–	0.1
Changes in PDs/LGDs/EADs	0.1	3.2	0.7	0.6	4.6
New financial assets originated or purchased	0.1	–	–	–	0.1
Changes to model assumptions and methodologies	0.2	(5.7)	1.7	(1.1)	(4.9)
Unwind of discount	–	0.6	0.3	0.6	1.5
Financial assets derecognised during the period	(0.1)	(0.8)	(0.2)	0.1	(1.0)
Write-offs	–	–	(1.2)	–	(1.2)
Impairment provision at 30 June 2019	**1.9**	**21.2**	**8.5**	**(1.0)**	**30.6**

Changes to methodologies and assumptions include a revised approach for loss given default modelling to better model behaviour in a downturn, amendments to economic scenarios and the implementation of mean reversion to the long term economic assumptions.

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

Probability of default	Balance						
30 June 2019	Stage 1	Stage 2	Stage 3	POCI	Total	Impairment	Total Coverage
£m	£m	£m	£m	£m	£m	£m	£m
0.00% - 0.15%	26,351.7	1,727.1	–	–	28,078.8	1.0	1.0
0.15% - 0.25%	1,272.9	295.1	–	–	1,568.0	0.9	1.0
0.25% - 0.50%	243.4	100.2	–	–	343.6	0.9	1.0
0.50% - 0.75%	439.5	342.1	–	–	781.6	1.7	1.9
0.75% - 1.00%	255.9	229.9	–	–	485.8	1.7	1.9
1.00% - 2.50%	309.5	363.6	–	–	673.1	5.5	6.2
2.50% - 10.0%	122.5	219.3	–	–	341.8	5.6	6.2
10.0% - 100%	10.2	143.3	–	–	153.5	4.4	4.8
Default	–	–	325.8	76.5	402.3	7.5	41.5
Other	4,475.1	85.2	–	517.1	5,077.4	1.4	1.6
Total	33,480.7	3,505.8	325.8	593.6	37,905.9	30.6	67.1

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

	Balance						
30 June 2019	Stage 1	Stage 2	Stage 3	POCI	Total	Impairment	Total Coverage
Origination year	£m	£m	£m	£m	£m	£m	£m
2015 - 2019	24,950.9	332.0	27.7	–	25,310.6	3.5	3.5
2009 - 2014	5,499.5	921.5	23.7	–	6,444.7	0.5	0.5
Pre-2009	1,474.4	1,239.4	179.2	–	2,893.0	17.6	17.6
Acquired loans	1,555.9	1,012.9	95.2	593.6	3,257.6	9.0	45.5
Total	33,480.7	3,505.8	325.8	593.6	37,905.9	30.6	67.1

Loan-to-value	Balance				
30 June 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Less than 60%	15,028.9	2,613.7	164.2	311.8	18,118.6
60% to 75%	9,330.4	592.5	90.8	169.7	10,183.4
75% to 90%	7,879.2	239.0	50.6	87.8	8,256.6
90% or greater	1,242.2	60.6	20.2	23.9	1,346.9
Total	33,480.7	3,505.8	325.8	593.2	37,905.5
Average LTV	52.6%	35.8%	51.3%	54.5%	50.2%

6. Provisions

The provisions charge for the period is outlined below:

	Half-year to 30 June 2019 (Unaudited)	Half-year to 30 June 2018 (Unaudited)	Year to 31 December 2018 (Audited)
	£m	£m	£m
FSCS levy	**0.1**	(1.4)	(0.9)
Customer redress and conduct issues	**(1.3)**	–	(1.3)
Restructuring	**1.1**	2.9	10.5
Other	**(0.3)**	(0.3)	(1.4)
	(0.4)	1.2	6.9

7. Taxation

The Group has an effective tax rate of 23.12% which is higher than the UK statutory corporation tax rate of 19%. This is primarily due to the 8% banking surcharge on the taxable profits of Society above £25m.

The main rate of corporation tax will reduce from 19% to 17% from 1 April 2020. This rate change is reflected in the deferred tax balances in these accounts.

8. Retirement benefit obligations

	At 1 January 2019 (Audited)	Movements	At 30 June 2019 (Unaudited)
	£m	£m	£m
Present value of defined benefit obligation	(815.9)	(60.6)	(876.5)
Assets at fair value	891.8	82.6	974.4
Funded status/defined benefit asset	**75.9**	**22.0**	**97.9**

The present value of the defined benefit obligation as at 30 June 2019 has been derived using assumptions that are consistent with those used for the 31 December 2018.

Corporate bond yields have decreased over the first half of 2019, falling by around 45bps since 31 December 2018, which has the effect of decreasing the discount rate and increasing the plan asset and obligation. Expectations of inflation have remained largely unchanged. In addition, there has been a significant amount of benefits transferred out of the Scheme over the first half of the year, totalling around £10 million. We have adjusted the liabilities to reflect the higher transfer value payments than previously expected.

Assets returns over the first half of the year have been strong, with returns in excess of the discount rate and increase in liabilities.

9. Related parties

There have been no material changes to related parties and the associated related party transactions since the year end. For further information on these see pages 174 to 175 of the 2018 Annual Report and Accounts.

10. Notes to the condensed Group Statement of Cash Flows

	Half-year to 30 June 2019 (Unaudited)	Half-year to 30 June 2018 (Unaudited)	Year to 31 December 2018 (Audited)
	£m	£m	£m
NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX:			
Depreciation and amortisation	**11.6**	10.3	19.9
Profit on sale of assets	**(3.0)**	–	(0.2)
Interest on subordinated liabilities and subscribed capital	**15.7**	12.9	25.7
Provisions	**1.2**	2.4	6.5
Fair value adjustment of subordinated liabilities and subscribed capital	**17.9**	6.0	(3.9)
Gain on realisation of debt securities	**(5.7)**	(4.6)	(8.0)
Increase in other assets	**(4.1)**	(41.5)	(37.8)
Decrease in other liabilities	**(20.7)**	(19.1)	(25.7)
Non-cash items included in profit before tax	**12.9**	**(33.6)**	**(23.5)**
(INCREASE)/DECREASE IN OPERATING ASSETS:			
Loans and advances to customers	**(1,201.1)**	(361.8)	(1,636.3)
Investments	**(2.1)**	0.7	(0.5)
Derivative financial instruments	**155.3**	(46.3)	(16.3)
Net increase in operating assets	**(1,047.9)**	**(407.4)**	**(1,653.1)**
INCREASE/(DECREASE) IN OPERATING LIABILITIES:			
Shares	**736.0**	(186.3)	620.6
Amounts owed to credit institutions	**(618.1)**	890.4	33.5
Other deposits	**22.2**	7.8	88.4
Net increase in operating liabilities	**140.1**	**711.9**	**742.5**

The following table reconciles liabilities arising from financing activities.

		Cash flows		Non-cash changes caused by:				
	31 December 2018 (Audited)	Redemption	Issue	Foreign exchange movement	Accrued interest	Fair value adjustments	Other	30 June 2019 (Unaudited)
	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	5,145.9	(620.8)	597.9	(11.6)	(25.4)	37.3	0.2	**5,123.5**
Subordinated liabilities	585.1	(218.8)	275.0	–	6.1	12.0	(0.2)	**659.2**
Subscribed capital	6.1	(6.1)	–	–	–	–	–	–
Total liabilities from financing activities	5,737.1	(845.7)	872.9	(11.6)	(19.3)	49.3	–	**5,782.7**

		Cash flows		Non-cash changes caused by:				
	31 December 2017 (Audited)	Redemption	Issue	Foreign exchange movement	Accrued interest	Fair value adjustments	Other	30 June 2018 (Unaudited)
	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities in issue	4,933.3	(894.2)	443.5	(11.0)	(45.2)	1.8	(0.7)	**4,427.5**
Subordinated liabilities	593.7	(5.0)	–	–	10.0	(4.5)	0.6	**594.8**
Subscribed capital	6.4	–	–	–	–	(0.1)	–	**6.3**
Total liabilities from financing activities	5,533.4	(899.2)	443.5	(11.0)	(35.2)	(2.8)	(0.1)	**5,028.6**

Issue of securities

During the period the Group issued €500m (£431.9m) of five year medium terms notes, £166m in certificates of deposit and £275m five year Senior Non-Preferred debt.

Cash and balances with central banks

Cash and cash equivalents excludes cash ratio deposits of £96.1m held with the Bank of England, which are not available for use in the Group's day-to-day operations.

11. Segmental reporting

This section analyses the Group's performance by business segment.

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:

Segment	Description	Basis of aggregation
Retail	Prime residential owner occupied lending, prime intermediary lending and non-owner occupied lending. Traditional member savings, non-traditional savings and the sale of general insurance, protection and investment products provided by third parties.	These are the core activities and focus of the Group.
Non-retail	Prime commercial lending portfolio (including social housing).	These ongoing parts of the business support the Group's financial stability and primary businesses but are not considered core and have a non-retail customer base.
Secondary	Non-prime residential owner occupied lending, consumer banking, personal lending, non-prime commercial lending and non-owner occupied lending acquired through mergers.	These elements, originated and acquired through merger, are closed to new business and are historic areas in which the Group no longer operates.
Central	Supporting business units, the treasury function and other head office Group functions which have not been apportioned across the aforementioned segments.	These operations are not directly customer related.

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 internal funds transfer pricing methodology, which includes the cost of raising external 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 outlined in Note 1 of the 2018 Annual Report and Accounts.

HALF-YEAR TO 30 JUNE 2019 (UNAUDITED)		Retail	Non-retail	Secondary	Central	Total
	Notes	£m	£m	£m	£m	£m
Net interest income		**154.2**	**11.9**	**8.1**	**55.4**	**229.6**
Non-interest income (net)	**a**	**7.7**	–	–	**0.5**	**8.2**
Net realised profits and fair value		–	–	–	**(18.5)**	**(18.5)**
Management expenses	**b**	**(93.2)**	**(1.7)**	**(0.6)**	**(46.1)**	**(141.6)**
Impairment and other provisions	**c**	**0.2**	**(0.9)**	**(1.0)**	**0.5**	**(1.2)**
Profit/(loss) before tax		**68.9**	**9.3**	**6.5**	**(8.2)**	**76.5**
Total assets		**35,988.7**	**1,231.6**	**582.9**	**5,670.3**	**43,473.5**
Total liabilities		**30,636.3**	–	–	**10,229.5**	**40,865.8**
Total equity attributable to members		–	–	–	**2,607.7**	**2,607.7**

HALF-YEAR TO 30 JUNE 2018 (UNAUDITED)		Retail	Non-retail	Secondary	Central	Total
	Notes	£m	£m	£m	£m	£m
Net interest income		161.9	12.7	10.0	53.0	237.6
Non-interest income (net)	a	8.3	–	–	(3.0)	5.3
Net realised profits and fair value		–	–	–	6.1	6.1
Management expenses	b	(91.3)	(1.3)	(0.7)	(64.7)	(158.0)
Impairment and other provisions	c	(0.2)	(0.1)	0.7	(2.8)	(2.4)
Profit/(loss) before tax		**78.7**	**11.3**	**10.0**	**(11.4)**	**88.6**
Total assets		**33,681.2**	**1,122.2**	**660.9**	**6,817.7**	**42,282.0**
Total liabilities		**29,176.0**	–	–	**10,637.4**	**39,813.4**
Total equity attributable to members		–	–	–	**2,468.6**	**2,468.6**

YEAR TO 31 DECEMBER 2018 (AUDITED)		Retail	Non-retail	Secondary	Central	Total
	Notes	£m	£m	£m	£m	£m
Net interest income		319.9	22.8	21.5	107.5	471.7
Non-interest income (net)	a	15.7	–	–	(5.3)	10.4
Net realised profits and fair value		–	–	–	28.1	28.1
Management expenses	b	(183.5)	(2.4)	(1.4)	(123.9)	(311.2)
Impairment and other provisions		0.5	0.3	0.6	(7.9)	(6.5)
Profit/(loss) before tax		**152.6**	**20.7**	**20.7**	**(1.5)**	**192.5**
Total assets		**34,930.3**	**1,168.9**	**621.2**	**6,334.3**	**43,054.7**
Total liabilities		**29,914.4**	**–**	**–**	**10,611.9**	**40,526.3**
Total equity attributable to members		**–**	**–**	**–**	**2,528.4**	**2,528.4**

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.

Total income excluding net realised profits and fair value for the reportable segments can be analysed as follows:

HALF-YEAR TO 30 JUNE 2019 (UNAUDITED)	Retail	Non-retail	Secondary	Central	Total
	£m	£m	£m	£m	£m
External income	**257.0**	**23.9**	**12.9**	**(56.0)**	**237.8**
Income from other segments	**(95.1)**	**(12.0)**	**(4.8)**	**111.9**	–
Total income	**161.9**	**11.9**	**8.1**	**55.9**	**237.8**

HALF-YEAR TO 30 JUNE 2018 (UNAUDITED)	Retail	Non-retail	Secondary	Central	Total
	£m	£m	£m	£m	£m
External income	271.3	21.9	15.1	(65.4)	242.9
Income from other segments	(101.1)	(9.2)	(5.1)	115.4	–
Total income	**170.2**	**12.7**	**10.0**	**50.0**	**242.9**

YEAR TO 31 DECEMBER 2018 (AUDITED)	Retail	Non-retail	Secondary	Central	Total
	£m	£m	£m	£m	£m
External income	527.4	43.5	31.5	(120.2)	482.2
Income from other segments	(191.8)	(20.7)	(10.0)	222.5	–
Total income	**335.6**	**22.8**	**21.5**	**102.3**	**482.2**

12. Fair values

Fair value is the price that would be received on the sale of an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where external market prices are available they have been used to determine fair value. Otherwise, internal pricing models using external market data have been used. The Group measures fair value using the following fair value hierarchy:

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

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

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

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

AT 30 JUNE 2019 (UNAUDITED)	Carrying value	Fair values			Total Fair value
		Level 1	Level 2	Level 3	
	£m	£m	£m	£m	£m
ASSETS:					
Cash in hand and balances with the Bank of England	1,693.9	–	1,693.9	–	1,693.9
Loans and advances to credit institutions	961.5	–	961.5	–	961.5
Loans and advances to customers	37,901.8	–	–	38,105.1	38,105.1
LIABILITIES:					
Shares	30,294.6	–	30,292.7	–	30,292.7
Amounts due to credit institutions	3,867.0	–	3,867.0	–	3,867.0
Other deposits	530.8	–	530.8	–	530.8
Debt securities in issue	5,123.5	4,532.9	639.7	–	5,172.6
Subordinated liabilities	659.2	606.0	41.9	–	647.9

AT 31 DECEMBER 2018 (AUDITED)	Carrying value	Fair values			Total Fair value
		Level 1	Level 2	Level 3	
	£m	£m	£m	£m	£m
ASSETS:					
Cash in hand and balances with the Bank of England	3,539.8	–	3,539.8	–	3,539.8
Loans and advances to credit institutions	294.6	–	294.6	–	294.6
Loans and advances to customers	36,702.4	–	–	37,026.2	37,026.2
LIABILITIES:					
Shares	29,558.6	–	29,555.9	–	29,555.9
Amounts due to credit institutions	4,485.1	–	4,485.1	–	4,485.1
Other deposits	508.6	–	508.6	–	508.6
Debt securities in issue	5,145.9	4,388.0	745.3	–	5,133.3
Subordinated liabilities	585.1	513.3	41.4	–	554.7
Subscribed capital	6.1	–	6.2	–	6.2

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

AS AT 30 JUNE 2019 (UNAUDITED)	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
ASSETS:				
Debt securities – fair value	–	–	0.2	0.2
Debt securities – fair value through OCI	2,027.2	–	–	2,027.2
Derivative financial instruments	–	538.3	2.5	540.8
Investments	–	–	8.9	8.9
LIABILITIES:				
Derivative financial instruments	–	228.4	–	228.4

AS AT 31 DECEMBER 2018 (AUDITED)	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
ASSETS:				
Debt securities – fair value	139.6	–	3.5	143.1
Debt securities – fair value through OCI	1,527.2	–	–	1,527.2
Derivative financial instruments	–	554.2	10.2	564.4
Investments	–	–	6.8	6.8
LIABILITIES:				
Derivative financial instruments	–	97.8	–	97.8

The following table analyses movements in the Level 3 portfolio:

	As at 1 January 2019 (Audited)	Items recognised in the income statement	Net repayments in the period	As at 30 June 2019 (Unaudited)
	£m	£m	£m	£m
ASSETS:				
Debt securities – fair value	3.5	–	(3.3)	**0.2**
Derivative financial instruments	10.2	(0.1)	(7.6)	**2.5**
Investments	6.8	2.1	–	**8.9**

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

Details of valuation techniques are disclosed on page 172 and 173 of the 2018 Annual Report and Accounts.

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

13. Events occurring after the reporting period

There have been no material post balance sheet events between 30 June 2019 and the approval of this interim report.

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

Mike Regnier
Chief Executive

Alasdair Lenman
Finance Director

24 July 2019

Independent review report to Yorkshire Building Society

Report on the Interim Group Accounts

Our conclusion

We have reviewed Yorkshire Building Society Group's Interim Group Accounts (the "interim financial statements") in the Interim Management Report of Yorkshire Building Society Group for the 6 month period ended 30 June 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Condensed Group Statement of Financial Position as at 30 June 2019;
- the Condensed Group Income Statement and Condensed Group Statement of Comprehensive Income for the period then ended;
- the Condensed Group Statement of Cash Flows for the period then ended;
- the Condensed Group Statement of Changes in Members' Interest and Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Management Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim Management Report, including the interim financial statements, 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 Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Management Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose.

We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

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

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
24 July 2019

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 2018 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2018 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.

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