YORKSHIRE BUILDING SOCIETY INTERIM GROUP ACCOUNTS 30 JUNE 2016

Interim Management Report
for the six months ended 30 June 2016

YBS GROUP

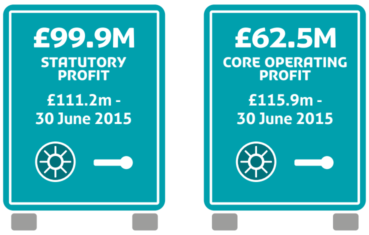
Here to deliver a greater sense of financial security allowing as many people as possible to enjoy life's choices.

Chief Executive's summary

A STRONG START TO THE YEAR...

I am pleased to report that the Yorkshire Building Society has had another strong performance for the first half of 2016.

Financial highlights include:



Sustainable profits

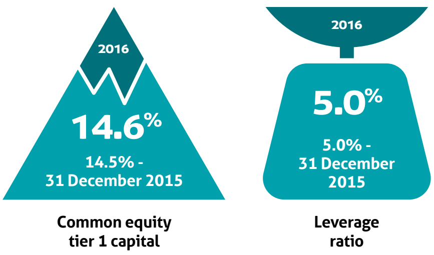
Statutory profit before tax of £99.9m (30 June 2015: £111.2m) and core operating profit of £62.5m (30 June 2015: £115.9m), core operating profit is explained on page 7. Although lower than previous years, this is in line with our expectations given current market conditions (in particular the competitiveness of the mortgage market) and the expected reductions in margins from historic, higher margin loans, including types of lending we no longer undertake. This continues to represent a healthy and sustainable level of profit.

Mortgage balance growth

Net lending of £521m (30 June 2015: £630m) with mortgage balances of £34.0bn (31 December 2015: £33.3bn). Our lending performance remains in line with our plans.

Maintained capital strength

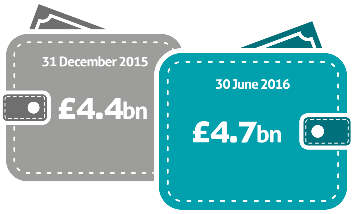
Common equity tier 1 capital of 14.6% (31 December 2015: 14.5%) and leverage ratio of 5.0% as at 30 June 2016 (31 December 2015: 5.0%).



Savings balance growth

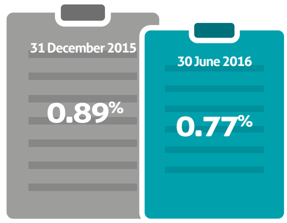
Growth in savings balances to £29.4bn (31 December 2015: £27.9bn). Our expectation is that interest rates will remain low for some time to come and we need to balance our savings inflow against the amount of mortgage lending we do. Savings rates have been reducing in the market throughout the year, and despite holding on for as long as feasible we have taken the difficult decision to reduce the rates paid on some of our savings accounts from August.

Chief Executive's summary continued...



Strong liquidity position

Overall levels remain securely above regulatory requirements. Balances increased to £4.7bn (31 December 2015: £4.4bn).



Asset Quality Improvements

The value of retail mortgages three months or more in arrears (including possessions) continued to reduce to 0.77% (31 December 2015: 0.89%).

Our robust performance allows the Group to build on its strong financial foundation and deliver an experience for our customers in line with our vision, "to be the most trusted provider of financial services in the UK".

We do not look to maximise profits but to make a sustainable level of profits to allow our business to grow at a sensible and healthy rate. After several years in which we have made unusually high profits, they have returned to more normal levels which remain balanced and sustainable.

In working towards our vision, we monitor how trusted we are by both our customers and non-customers alike. We use a YouGov survey, which asks people if they agree that "Yorkshire Building Society is an organisation that you can trust". It is pleasing to see that we have been ranked consistently in the top quartile, and as high as 2nd, by our customers during the first 6 months of 2016.

We measure customer experience through Net Promoter Score®[1]. This is a universally recognised metric that allows us to measure customer advocacy and loyalty. Our performance in the first six months of this year has been strong with our current score of +33 up from +29[2] at the end of 2015. This is a record high for the Group and compares favourably to the industry average of +8[3].

[1] Net Promoter®, Net Promoter Score®, and NPS® are trademarks of Satmetrix Systems, Inc., Bain &Company, Inc., and Fred Reichheld.

[2] KPMG Nunwood Customer Voice Programme, +29 (12 month score, January to December 2015, based on interviews with 28,329 customers), +33 (6 month score, January to June 2016, based on interviews with 15,518 customers)

[3] KPMG Nunwood Consulting – KPMG Nunwood Customer Experience Excellence Centre Top 100 UK Brands 2015

Chief Executive's summary continued...

Achievements in the first half of 2016 include:

- Simplifying our savings product range whilst delivering an average interest rate on our savings products of 1.40% compared to the rest of the market at 1.00%[4].
- Continuing to offer extremely competitive mortgage rates including the launch of the 'lowest 2-year fixed rate', at the time of launch.
- Changes to our mortgage affordability criteria, making it easier for families to afford to buy a home.
- Improving the online capabilities for our Shareplans customers.
- Increasing our social media presence with the launch of an Instagram page, supporting what we see as an important means of communication with our customers whilst still retaining the more traditional channels.
- Successful implementation of the planned changes to our brands and branch network. Where we have more than one outlet in a given area we've made the decision to retain only one of them, which was announced in our 2015 annual results. We are delivering these changes with limited impact on colleagues or customers, with many transferring to another branch nearby.
- Migrating our Chelsea and Barnsley customers onto a Single Multi-brand Platform which, from September 2016, will mean that all these customers will have access to more than 250 branches and agencies across the UK (previously our Chelsea customers had access to 35 branches and our Barnsley customers only 8 branches).
- The launch of our new first-line manager development programme, designed to support our leaders in developing their teams.
- Continued development of the IRB advanced capital management programme which, when implemented, will allow the Group to use our capital more efficiently.
- The Society's Corporate Social Responsibility activity continues to strengthen. Our national support for the Marie Curie "Hour of Need" campaign has currently raised over £960,000 and a donation of £740,000 was made to the Yorkshire Air Ambulance based on the level of deposits held in our affinity savings account. As part of our Volunteering programme over 1,000 colleagues have contributed their time so far in 2016. This ongoing commitment to our communities was recognised in the Third Sector Business Charity Awards where the Society was awarded 'Business of the Year'.

OUR NATIONAL SUPPORT FOR THE MARIE CURIE "HOUR OF NEED" CAMPAIGN HAS CURRENTLY RAISED OVER £960,000

[4] Based upon CACI savings market data as at April 2016.

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	Brand
Business Desk - Yorkshire Business Masters 2016	Pride CSR	YORKSHIRE BUILDING SOCIETY
Moneynet Personal Finance Awards 2016	Best Offset Mortgage Provider	YORKSHIRE BUILDING SOCIETY
Moneynet Personal Finance Awards 2016	Best Fixed Rate Mortgage Provider	NORWICH & PETERBOROUGH BUILDING SOCIETY
Consumer Moneyfacts Awards 2016	First-Time Mortgage Buyers' Choice	YBS GROUP
Business Moneyfacts Awards 2016	Best Service from a Commercial Mortgage Provider	NORWICH & PETERBOROUGH BUILDING SOCIETY
Third Sector Business Charity Awards 2016	Employee Engagement Initiative of the Year	YBS GROUP
Third Sector Business Charity Awards 2016	Business of the Year	YORKSHIRE BUILDING SOCIETY
Moneywise Awards 2016	Best Fixed Rate Mortgage Provider	YORKSHIRE BUILDING SOCIETY
Moneywise Awards 2016	Best First Time Buyer Mortgages Provider	YORKSHIRE BUILDING SOCIETY
Corporate IT Forum Awards 2016	IT Team of the Year	YBS GROUP
Moneyfacts Awards 2016	Best Building Society Mortgage Provider	NORWICH & PETERBOROUGH BUILDING SOCIETY
Moneyfacts Awards 2016	Best Fixed Rate Mortgage Provider	YORKSHIRE BUILDING SOCIETY

Our continuing commitment to great customer service would have been much harder without the support and commitment of all the people working for the Group and I thank them for that.

Chris Pilling,
Chief Executive

Business Highlights

Statutory profits for the six months to June 2016 were:

£99.9m

on a pre-tax profit basis (six months to 30 June 2015: £111.2m)

Profit before tax decreased to £99.9m for the six months to 30 June 2016 compared to £111.2m for the equivalent period in 2015. The main drivers of profit are outlined on page 9.

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.

Our core operating profit for the six months to 30 June 2016 decreased to £62.5m from £115.9m in the same period in 2015. As mentioned previously, this was expected and although lower than the previous year, we remain on track to achieve our current objectives. The table below explains the adjustments made to statutory profit to arrive at the core operating figure.

		Half-year ended 30 June 2016			Half-year ended 30 June 2015			Year ended 31 December 2015		
	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)	**235.5**	**(2.8)**	**232.7**	276.0	(5.0)	271.0	534.6	(4.1)	530.5
Non-interest income (net)	ii)	**26.1**	**(17.9)**	**8.2**	10.9	-	10.9	18.0	-	18.0
Volatility on assets held at fair value	iii)	**-**	**-**	**-**	0.5	(0.5)	-	(0.6)	0.6	-
Fair value volatility on derivatives and hedging	iv)	**25.0**	**(25.0)**	**-**	1.3	(1.3)	-	(5.9)	5.9	-
Net realised profits/(losses)	v)	**-**	**-**	**-**	2.2	-	2.2	2.1	(1.9)	0.2
Total income		**286.6**	**(45.7)**	**240.9**	290.9	(6.8)	284.1	548.2	0.5	548.7
Management expenses		**(172.3)**	**-**	**(172.3)**	(165.0)	-	(165.0)	(346.1)	-	(346.1)
Operating profits before provisions		**114.3**	**(45.7)**	**68.6**	**125.9**	**(6.8)**	**119.1**	**202.1**	**0.5**	**202.6**
Impairment of loans and advances to customers		**(1.5)**	**-**	**(1.5)**	(1.6)	-	(1.6)	(12.8)	-	(12.8)
Other provisions	vi)	**(12.9)**	**8.3**	**(4.6)**	(13.1)	11.5	(1.6)	(16.0)	11.5	(4.5)
Profit before tax		**99.9**	**(37.4)**	**62.5**	**111.2**	**4.7**	**115.9**	**173.3**	**12.0**	**185.3**

Notes - significant exclusions made in calculation of Core Operating Profit.

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

ii) Proceeds from the sale of Visa shares (£8.3m) and profit on the sale of properties (£9.6m).

iii) Non-core investments.

iv) Fair value timing differences.

v) Other non-core items

vi) Financial Services Compensation Scheme levy (see Note 6).

Business Highlights continued...

The focus of the Board for the first half of 2016 has been on:

Enhancing and delivering exceptional customer service

Managing our mortgage and savings business and ensuring that volumes remain sustainable despite the continuing, highly competitive environment

Ensuring that we maintain our capital and liquidity ratios above the regulatory minimums but at a level that is efficient and sustainable

Monitoring the progress of our strategic initiatives programme

Continuing our ongoing review of our product and distribution strategy

Continual management of our mortgage arrears performance and ensuring that we maintain appropriate levels of provisions

Maintaining and refining our risk management framework to protect our customers and ensure our on-going financial sustainability.

Business Highlights continued...

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

- Net interest income of £235.5m (30 June 2015: £276.0m). This reduction was expected and resulted in part from the run-off of our more profitable mortgage books as well as from the increasingly competitive market. This reduction was anticipated in 2015's Annual Report and Accounts and is in line with our plans.
- Non-interest income increased to £26.1m (30 June 2015: £10.9m). The principal reasons for the increase are £9.6m profit from property disposals and £8.3m received in relation to the Group's shares in Visa Europe following the latter's takeover by Visa Inc.
- Fair value volatility of £25.0m (30 June 2015: £1.8m) is high through a combination of Brexit impacts on some of our Euro denominated transactions, and refinements to our accounting treatments for these. These represent timing differences that will reverse as the underlying transactions mature.
- Management expenses have increased to £172.3m (30 June 2015: £165.0m). The drivers for this are increased colleague related costs and continuing investment in our strategic initiatives, particularly on projects that are regulatory focused.
- Impairment provisions charge of £1.5m (June 2015: £1.6m) which remains low, a reflection on the general quality of our mortgage books.
- The charge for provisions of £12.9m is similar to the equivalent period in 2015 (£13.1m). The largest single item relates to the Financial Services Compensation Scheme which accounted for £8.3m in the 6 months to 30 June 2016 (June 2015: £11.5m).

Our overall profit levels have, as previously noted, been higher than normal in recent years. As a mutual our profit requirements are driven solely by our need for ongoing capital. This year's result is in line with our growth given our commitment to remaining healthy and sustainable.

Principal risks and uncertainties

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 2016 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 31 of the Annual Report and Accounts as at 31 December 2015. These were classified into three categories and the main risks in each were:

Macro-economic risks

- Political and economic uncertainty following the result of the EU referendum
- A slowdown in emerging markets and continued international uncertainty
- An on-going squeeze on public spending
- Changes to tax and stamp duty on Buy to Let (BTL) lending

Business model risks

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

Investment Programme risk

- The non-delivery of the current investment programme

With the exception of the tax and stamp duty changes to BTL lending which have now taken effect, the remaining risks continue to affect the Group as at 30 June 2016. Our approach to managing these risks is set out in the Risk Management Report on page 60 of our Annual Report and Accounts. In our planning for the rest of the year and beyond we will continue to regularly monitor the situation but, with the exception of the impact of the EU referendum vote (which is discussed in our outlook section), we don't expect to see many significant changes.

Business Highlights continued...

Outlook for 2016

Now that the result of the EU referendum is known, we are entering a period of political and economic uncertainty. This will continue to create volatility in our markets, but managing volatility is a core part of what we do every day. The Group is well positioned to steer its way through these uncertain times safely and securely supported by our strong capital and liquidity positions, and we will be focused on doing so alongside continuing to run and build our business. Any interest rate increases in the UK look less likely than before and indeed markets are now forecasting a further reduction. We will have to manage any rate reduction, and will do so as sympathetically as we can for our members whilst safeguarding our financial strength. We will also ensure we monitor any further risks that emerge and continue to support borrowers facing payment difficulties in a way that balances our responsibilities to them and our wider membership.

Changes to the Board

A complete list of the Board of Directors can be found in the 2015 Annual Report and Accounts.

Chris Pilling, Chief Executive has given notice that he is to step down at the end of 2016. The process of finding a suitable successor to build on Chris' achievements is ongoing.

Signed on behalf of the Board by:

John Heaps, Chairman

Chris Pilling, Chief Executive

21 July 2016

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 2016 (Unaudited) £m	Half-year to 30 June 2015 (Unaudited) £m	Year to 31 December 2015 (Audited) £m
Interest receivable and similar income		**601.3**	638.7	1,260.1
Interest payable and similar charges		**(365.8)**	(362.7)	(725.5)
Net interest income		**235.5**	276.0	534.6
Fees and commissions receivable		**18.5**	17.5	33.3
Fees and commissions payable		**(11.8)**	(10.5)	(22.5)
Net fee and commission income		**6.7**	7.0	10.8
Net gains/(losses) from fair value volatility on financial instruments	2	**25.0**	1.8	(6.5)
Net realised profits	3	**-**	2.2	2.1
Other operating income	4	**19.4**	3.9	7.2
Total income		**286.6**	290.9	548.2
Administrative expenses		**(161.2)**	(155.7)	(323.2)
Depreciation and amortisation		**(11.1)**	(9.3)	(22.9)
Operating profit before provisions		**114.3**	125.9	202.1
Impairment of loans and advances to customers	5	**(1.5)**	(1.6)	(12.8)
Provisions	6	**(12.9)**	(13.1)	(16.0)
Profit before tax		**99.9**	111.2	173.3
Tax expense	7	**(24.2)**	(22.8)	(34.8)
Net profit		**75.7**	**88.4**	**138.5**

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

	Notes	Half-year to 30 June 2016 (Unaudited) £m	Half-year to 30 June 2015 (Unaudited) £m	Year to 31 December 2015 (Audited) £m
Net profit		**75.7**	88.4	138.5
Items that will subsequently be reclassified to profit and loss: Available for sale investments:				
Valuation gains taken to equity		**8.7**	14.5	12.3
Amounts transferred to income statement		**-**	(13.6)	(10.6)
Tax on available for sale securities	7	**(2.2)**	(0.2)	(0.3)
Cash flow hedges:				
(Losses)/gains taken to equity		**(31.1)**	13.4	7.5
Amounts transferred to income statement		**7.0**	3.1	7.1
Tax on cash flow hedge reserve	7	**6.4**	(3.3)	(3.0)
Effect of change in Corporation Tax Rate	7	**-**	-	1.9
Items that will not subsequently be reclassified to profit and loss:				
Remeasurement of net retirement benefit obligations		**25.3**	(42.2)	(9.5)
Tax relating to retirement benefit obligations	7	**(6.7)**	8.4	1.9
Effect of change in Corporation Tax Rate	7	**-**	-	(3.3)
Effect of change in Corporation Tax on prior year movements in general reserves	7	**-**	-	2.1
Total comprehensive income for the period		**83.1**	**68.5**	**144.6**

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2016 (Unaudited) £m	30 June 2015 (Unaudited) £m	31 December 2015 (Audited) £m
ASSETS				
Liquid Assets				
Cash in hand and balances with the Bank of England		**3,550.4**	4,514.1	3,439.3
Loans and advances to credit institutions		**661.6**	543.6	695.9
Debt securities		**505.5**	177.1	269.5
Loans and advances to customers		**33,996.8**	32,836.2	33,321.7
Derivative financial instruments		**525.3**	140.1	180.1
Investments		**5.9**	1.4	1.4
Intangible assets		**34.8**	37.1	37.3
Investment properties		**15.2**	16.5	16.6
Property, plant and equipment		**132.6**	137.4	137.9
Deferred tax assets	7	**34.0**	30.8	28.5
Retirement benefit surplus	8	**92.7**	23.2	61.7
Other assets		**35.0**	27.1	28.7
Total assets		**39,589.8**	**38,484.6**	**38,218.6**
LIABILITIES				
Shares		**28,979.9**	27,451.1	27,396.4
Amounts owed to credit institutions		**2,925.9**	3,380.0	3,302.4
Other deposits		**463.6**	556.9	544.3
Debt securities in issue		**4,078.8**	4,168.8	4,108.8
Derivative financial instruments		**509.8**	472.9	340.9
Current tax liabilities	7	**21.0**	13.5	5.8
Deferred tax liabilities	7	**28.8**	7.6	18.9
Other liabilities		**45.7**	61.3	77.6
Provisions		**36.6**	44.1	25.8
Subordinated liabilities		**304.9**	292.8	286.1
Subscribed capital		**6.8**	6.8	6.7
Total liabilities		**37,401.8**	**36,455.8**	**36,113.7**
Total equity attributable to members		**2,188.0**	2,028.8	2,104.9
Total liabilities and equity		**39,589.8**	**38,484.6**	**38,218.6**

CONDENSED GROUP STATEMENT OF CHANGES IN MEMBERS' INTEREST

	General reserve	Hedging reserve	Available for sale reserve	Total reserves
	£m	£m	£m	£m
HALF-YEAR TO 30 JUNE 2016				
At 1 January 2016 (Audited)	2,123.0	(23.0)	4.9	2,104.9
Current period movement net of tax	94.5	(17.9)	6.5	83.1
At 30 June 2016 (Unaudited)	2,217.5	(40.9)	11.4	2,188.0
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
YEAR TO 31 DECEMBER 2015				
At 1 January 2015 (Audited)	1,993.6	(36.8)	3.5	1,960.3
Current period movement net of tax	129.4	13.8	1.4	144.6
At 31 December 2015 (Audited)	2,123.0	(23.0)	4.9	2,104.9

CONDENSED GROUP STATEMENT OF CASH FLOWS

		Half-year to 30 June 2016 (Unaudited)	Half-year to 30 June 2015 (Unaudited)	Year to 31 December 2015 (Audited)
	Notes	£m	£m	£m
CASH FLOWS FROM OPERATING ACTIVITIES:				
Profit before tax		99.9	111.2	173.3
Working capital adjustments	10	(3.3)	(0.2)	26.6
Net increase in operating assets	10	(567.2)	(664.0)	(1,220.2)
Net increase in operating liabilities	10	1,126.3	167.3	22.4
Net cash flows from operating activities		**655.7**	**(385.7)**	**(997.9)**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment and intangible assets		(7.4)	(12.3)	(27.4)
Proceeds from sale of property, plant and equipment		15.0	1.1	1.6
Purchase of debt securities		(206.5)	(101.2)	(202.1)
Proceeds from sale and redemption of debt securities		(20.8)	452.0	461.2
Net cash flows from investing activities		**(219.7)**	**339.6**	**233.3**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Redemption of securities		(744.3)	(93.3)	(624.4)
Issue of securities		400.0	949.0	1,306.0
Redemption of subordinated capital		-	-	(10.0)
Interest paid on subordinated liabilities and subscribed capital		(8.0)	(8.1)	(16.2)
Net cash flows from financing activities		**(352.3)**	**847.6**	**655.4**
Taxation paid		(7.1)	(12.8)	(24.6)
Net increase in cash and cash equivalents		**76.6**	**788.7**	**(133.8)**
Opening balance		4,085.8	4,219.6	4,219.6
Total closing cash and cash equivalents		**4,162.4**	**5,008.3**	**4,085.8**
CASH AND CASH EQUIVALENTS:				
Cash and balances with central banks		3,500.8	4,464.7	3,389.9
Loans and advances to credit institutions		661.6	543.6	695.9
		4,162.4	5,008.3	4,085.8

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 2016.

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 2016 are given on page 33 of the 2015 Annual Report and Accounts.

The latest formal review, undertaken in July 2016, followed a similar approach and included a current assessment of the impact of Brexit. 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 gains / (losses) from fair value volatility on financial instruments

	Half-year to 30 June 2016 (Unaudited)	Half-year to 30 June 2015 (Unaudited)	Year to 31 December 2015 (Audited)
	£m	£m	£m
Derivatives and hedging	**25.0**	1.3	(5.8)
Other items	-	0.5	(0.7)
	25.0	1.8	(6.5)

Fair value volatility on derivatives and hedging relates to changes in the fair value of derivatives that, although they provide effective economic hedges, give rise to hedge accounting ineffectiveness.

In the period, refinements to the accounting treatment for cross-currency derivatives resulted in an increase in fair value of £30.5m exacerbated by movements in currency markets following the Brexit vote. Of this, an element relates to prior periods although the impact in any one accounting period is not material.

Hedge accounting ineffectiveness represents timing differences that will reverse as the underlying transactions mature.

3. 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.

4. Other operating income

Other income for the period to 30 June 2016 includes £8.3m received in respect of the Group's interest in Visa Europe, which was purchased by Visa Inc. on 21 June 2016. In addition, the Group realised a profit of £8.3m on a single property disposal in relation to a former branch.

5. Impairment of loans and advances to customers

There have been no significant changes to our approach to provisioning since 31 December 2015.

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 155 of the 2015 Annual Report and Accounts.

Notes to the accounts continued...

6. Provisions

The provisions charge for the period is outlined below:

	Half-year to 30 June 2016 (Unaudited)	Half-year to 30 June 2015 (Unaudited)	Year to 31 December 2015 (Audited)
	£m	£m	£m
FSCS levy	**8.3**	11.5	11.5
Customer redress and conduct issues	**8.8**	1.7	-
Other	**(4.2)**	(0.1)	4.5
	12.9	13.1	16.0

Financial Services Compensation Scheme (FSCS) levy

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. During the year, the FSCS have confirmed that the shortfall on the non-Bradford & Bingley loan was fully repaid. As a result no capital costs have been included in the charge.

The £8.3m provision for current period relates predominantly to interest for the scheme year 2016/17.

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 have not recognised a provision for such contingent liabilities.

Customer redress and conduct issues

Provisions are held in respect of various customer claims and potential claims. Changes have been made at the half-year to reflect movements in management's estimate of complaint volumes, redress payments and other costs. In addition, in relation to PPI claims, the provision period has been extended given that the timing of the two year limit for claims has yet to be announced.

Other provisions

The Group has released £3.5m of provision following the sale of a repossessed property which had, unbeknown to us, been used as an unlicensed waste disposal site.

7. Taxation

An effective tax rate of 21.42% has been applied to the Group's profit. This is higher than the standard corporation tax rate in the year of 20% due to non tax-deductible expenses.

In addition, a surcharge of 8% on the profits of banking companies (including Building Societies) applied from 1 January 2016. This has increased the tax charge and so is reflected in the tax balances in these accounts. The main rate of corporation tax will reduce from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020.

These rate changes are reflected in the deferred tax balances in these accounts.

Subsequently, in the March 2016 Budget, it was announced that the main rate of corporation tax will reduce to 17% with effect from 1 April 2020. These changes were not substantively enacted by 30 June 2016 and are not therefore reflected in these accounts.

Notes to the accounts continued...

8. Retirement benefit of obligations

	At 1 January 2016 (Audited)	Movements	At 30 June 2016 (Unaudited)
	£m	£m	£m
Present value of defined benefit obligation	(735.2)	(141.3)	(876.5)
Assets at fair value	796.9	172.3	969.2
Funded status/defined benefit asset	**61.7**	**31.0**	**92.7**

The present value of the defined benefit obligation as at 30 June 2016 has been derived by using assumptions that are consistent with those used for the 31 December 2015 year end calculations.

Significant falls in corporate bond yields following the UK's referendum decision to leave the European Union has led to a lower discount rate assumption and higher liabilities. This has been partially offset by a decrease in future expectations of long term inflation. However, assets have also increased due to significant falls in gilt yields, which increased the value of bonds, and the weakening of the pound resulting in overseas equities performing favourably.

9. 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 an indirect 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 £1.3m to SBG, in relation to lending completed via their network of independent financial advisers. As at 30 June 2016 there were no amounts outstanding between the two companies. Transactions are made on an arm's 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 was £149k in the period.

In January 2016 Willis Group merged with Towers Watson creating a related party relationship as David Paige is a non-executive director of Willis Group. Willis Towers Watson (WTW) are the corporate advisors to the Society on pension matters providing independent advice on pension risk, pension accounting and ICAAP accounting. A separate team in WTW are the Society Pension Scheme advisors. David Paige has advised that he will resign from the Board of WTW upon recruitment of a replacement. During the period circa £350k was incurred by the Society and Trustees relating to pension services provided by WTW.

Other than those noted, no related party transactions outside the normal course of the business have occurred during the half-year to 30 June 2016. Transactions for this period are similar to those for the year to 31 December 2015, details of which can be found in the 2015 Annual Report and Accounts.

Notes to the accounts continued...

10. Notes to the condensed group statement of cash flows

	Half-year to 30 June 2016 (Unaudited)	Half-year to 30 June 2015 (Unaudited)	Year to 31 December 2015 (Audited)
	£m	£m	£m
WORKING CAPITAL ADJUSTMENTS:			
Depreciation and amortisation	11.1	9.3	22.9
(Profit)/loss on sale of assets	(9.6)	0.3	0.4
Interest on subordinated liabilities and subscribed capital	8.0	8.1	16.2
Provisions	14.4	14.7	28.8
Fair value of subordinated liabilities and subscribed capital	18.9	(6.8)	(3.6)
Net realised profits	-	(2.2)	(2.1)
(Increase)/decrease in other assets	(12.1)	3.7	(3.7)
Decrease in other liabilities	(34.0)	(27.3)	(32.3)
Working capital adjustments	**(3.3)**	**(0.2)**	**26.6**
(INCREASE)/DECREASE IN OPERATING ASSETS:			
Loans and advances to customers	(676.6)	(603.9)	(1,100.4)
Investments	(4.5)	(60.1)	-
Derivative financial instruments	113.9	-	(119.8)
Net increase in operating assets	**(567.2)**	**(664.0)**	**(1,220.2)**
INCREASE/(DECREASE) IN OPERATING LIABILITIES:			
Shares	1,583.5	209.7	155.0
Amounts owed to credit institutions	(376.5)	(91.3)	(168.9)
Other deposits	(80.7)	48.9	36.3
Net increase in operating liabilities	**1,126.3**	**167.3**	**22.4**

Issue of securities

During the period, the Group issued £400m of ten year senior unsecured debt.

Cash and balances with central banks

Cash and balances with central banks excludes cash ratio deposits of £49.6m 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...

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 service. 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 consumer banking (excluding personal lending). Consumer banking also includes 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, 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.

Notes to the accounts continued...

11. Segmental reporting continued...

HALF-YEAR TO 30 JUNE 2016 (UNAUDITED)		Retail	Non-retail	Secondary	Central	Total
	Notes	£m	£m	£m	£m	£m
Net interest income		146.5	8.3	13.5	67.2	235.5
Non-interest income (net)	a	13.2	-	-	12.9	26.1
Net realised profits and fair value		-	-	-	25.0	25.0
Management expenses	b	(103.7)	(1.1)	(1.0)	(66.5)	(172.3)
Operating profit before provisions		**56.0**	**7.2**	**12.5**	**38.6**	**114.3**
Impairment and other provisions		(9.7)	-	0.1	(4.8)	(14.4)
Profit before tax		**46.3**	**7.2**	**12.6**	**33.8**	**99.9**
Total assets		**31,944.5**	**960.9**	**876.8**	**5,807.6**	**39,589.8**
Total liabilities		**29,681.8**	**-**	**-**	**7,720.0**	**37,401.8**
Total equity attributable to members		**-**	**-**	**-**	**2,188.0**	**2,188.0**

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.

Notes to the accounts continued...

11. Segmental reporting continued...

HALF YEAR TO 30 JUNE 2015 (UNAUDITED)	Notes	Retail	Non-retail	Secondary	Central	Total
		£m	£m	£m	£m	£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**

YEAR TO 31 DECEMBER 2015 (AUDITED)	Notes	Retail	Non-retail	Secondary	Central	Total
		£m	£m	£m	£m	£m
Net interest income		319.5	20.5	33.2	161.4	534.6
Non-interest income (net)	a	23.7	2.4	-	(8.1)	18.0
Net realised profits and fair value		-	-	-	(4.4)	(4.4)
Management expenses	b	(206.5)	(2.6)	(1.9)	(135.1)	(346.1)
Operating profit before provisions		**136.7**	**20.3**	**31.3**	**13.8**	**202.1**
Impairment and other provisions		(22.3)	1.6	(3.6)	(4.5)	(28.8)
Profit before tax		**114.4**	**21.9**	**27.7**	**9.3**	**173.3**
Total assets		**31,445.0**	**857.0**	**940.0**	**4,976.6**	**38,218.6**
Total liabilities		**28,142.8**	**-**	**-**	**7,970.9**	**36,113.7**
Total equity attributable to members		**-**	**-**	**-**	**2,104.9**	**2,104.9**

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.

Notes to the accounts continued...

11. Segmental reporting continued...

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

HALF-YEAR TO 30 JUNE 2016 (UNAUDITED)	Retail	Non-retail	Secondary	Central	Total
	£m	£m	£m	£m	£m
External income	**309.6**	**16.4**	**21.5**	**(85.9)**	**261.6**
Income from other segments	**(149.9)**	**(8.1)**	**(8.0)**	**166.0**	**-**
Total income	**159.7**	**8.3**	**13.5**	**80.1**	**261.6**

HALF-YEAR TO 30 JUNE 2015 (UNAUDITED)	Retail	Non-retail	Secondary	Central	Total
	£m	£m	£m	£m	£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**

YEAR TO 31 DECEMBER 2015 (AUDITED)	Retail	Non-retail	Secondary	Central	Total
	£m	£m	£m	£m	£m
External income	684.6	35.4	53.4	(220.8)	552.6
Income from other segments	(341.4)	(12.5)	(20.2)	374.1	-
Total income	**343.2**	**22.9**	**33.2**	**153.3**	**552.6**

Notes to the accounts continued...

12. Fair values

Fair value is the price that would be received to sell 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 2016 (UNAUDITED)	Carrying value	Level 1	Fair Values Level 2	Level 3	Total Fair Value
	£m	£m	£m	£m	£m
ASSETS:					
Cash in hand and balances with the Bank of England	3,550.4	-	3,550.4	-	3,550.4
Loans and advances to credit institutions	661.6	-	661.6	-	661.6
Loans and advances to customers	33,996.8	-	34,339.0	-	34,339.0
LIABILITIES:					
Shares	28,979.9	-	28,955.8	-	28,955.8
Amounts due to credit institutions	2,925.9	-	2,925.9	-	2,925.9
Other deposits	463.6	-	463.6	-	463.6
Debt securities in issue	4,078.8	-	4,069.9	-	4,069.9
Subordinated liabilities	304.9	-	300.5	-	300.5
Subscribed capital	6.8	-	5.5	-	5.5

Notes to the accounts continued...

12. Fair values continued...

AT 31 DECEMBER 2015 (AUDITED)	Carrying value	Level 1	Fair Values Level 2	Level 3	Total Fair Value
	£m	£m	£m	£m	£m
ASSETS:					
Cash in hand and balances with the Bank of England	3,439.3	-	3,439.3	-	3,439.3
Loans and advances to credit institutions	695.9	-	695.9	-	695.9
Loans and advances to customers	33,321.7	-	33,868.4	-	33,868.4
LIABILITIES:					
Shares	27,396.4	-	27,374.3	-	27,374.3
Amounts due to credit institutions	3,302.4	-	3,302.4	-	3,302.4
Other deposits	544.3	-	544.3	-	544.3
Debt securities in issue	4,108.8	-	4,125.6	-	4,125.6
Subordinated liabilities	286.1	-	301.5	-	301.5
Subscribed capital	6.7	-	5.8	-	5.8

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 2016 (UNAUDITED)	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
ASSETS:				
Debt securities – fair value	**-**	**9.3**	**-**	**9.3**
Embedded derivatives	**-**	**(9.2)**	**-**	**(9.2)**
Debt securities – available for sale	**460.0**	**45.4**	**-**	**505.4**
Derivative assets	**-**	**525.3**	**-**	**525.3**
Investments	**-**	**5.9**	**-**	**5.9**
LIABILITIES:				
Derivative liabilities	**-**	**509.8**	**-**	**509.8**

Notes to the accounts continued...

12. Fair values continued...

AS AT 31 DECEMBER 2015 (AUDITED)	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
ASSETS:				
Debt securities – fair value	-	9.1	-	9.1
Embedded derivatives	-	(9.8)	-	(9.8)
Debt securities – available for sale	229.2	41.0	-	270.2
Derivative assets	-	180.1	-	180.1
Investments	-	-	1.4	1.4
LIABILITIES:				
Derivative liabilities	-	(340.9)	-	(340.9)

Details of valuation techniques are disclosed on page 160 of the 2015 Annual Report and Accounts.

Transfers between levels of the fair value hierarchy are recognised as of the end of the reporting period during which the change has occurred. The Group's investment in Vocalink has been assessed against the expected consideration to be received from the proposed sale of the company to Mastercard and has been reclassified to level 2 since 31 December 2015.

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

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
Chairman

Robin Churchouse
Finance Director

21 July 2016

Independent review report to Yorkshire Building Society

We have been engaged by the Society to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 which comprises the income statement, the balance sheet, the statement of changes in members' interest, the cash flow statement and related notes 1 to 12. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company 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 company those matters we are required to state to it 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 company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure 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 half-yearly financial 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 Company a conclusion on the condensed set of financial statements in the half-yearly financial 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 inquiries, 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 half-yearly financial report for the six months ended 30 June 2016 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

21 July 2016

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 2015 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2015 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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YBS GROUP