YBS GROUP

YORKSHIRE BUILDING SOCIETY

INTERIM GROUP ACCOUNTS

30 JUNE 2014

INTERIM MANAGEMENT REPORT

for the six months ended 30 June 2014

Chief Executive's summary

I am pleased to report a solid performance from the Yorkshire Building Society Group for the first six months of 2014. We've built on our financial strength and continue to strive to deliver a customer experience in line with our vision, **"to be the most trusted provider of financial services in the UK".**

Financial highlights include:

- **Strong profits**; statutory profit before tax of £117.1m (30 June 2013 restated: £68.3m) and core operating profit[1] of £107.5m (30 June 2013 restated: £82.6m) have increased as a result of our growth, the continued impact of the government's Funding for Lending Scheme (FLS) on our cost of funds and the fact that benign market conditions have enabled the release of mortgage loan loss provisions and fair value adjustments[2]. These have been offset to a degree by additional costs from our continuing investment programme and additional provisions for conduct risk matters and the Financial Services Compensation Scheme (FSCS) levy.
- **Mortgage balance growth**; increased gross lending volumes of £3.7bn (30 June 2013: £2.5bn) resulting in net lending of £1.3bn (30 June 2013: £450m) with mortgage balances of £30.8bn (31 December 2013: £29.5bn).
- **Funding predominantly from members' savings**; balances of £26.5bn (31 December 2013: £26.3bn) meaning that 86% of mortgages are funded by members' savings (31 December 2013: 89%).
- **Maintained capital strength**; Common Equity Tier 1 capital of 13.6% (31 December 2013: Core Tier 1 capital of 13.9%) and a leverage ratio[3] of 4.5% (31 December 2013: 4.6%). The reduction is due to the impact of regulatory change, with Basel III capital regulations being applied from 1 January 2014. The net impact of this was to reduce the Common Equity Tier 1 ratio by around 0.5%.
- **Balanced liquidity position**; overall levels safely above regulatory requirements. Balances increased to £4.6bn (31 December 2013: £4.4bn).
- **Sustained asset quality**; number of loans in arrears by more than three months remains below the industry average[4] at 1.28% 31 December 2013: 1.38%). The industry average was 1.59% as at 31 March 2014. The value of loans in arrears by more than three months (including possessions) fell from 1.57% at 31 December 2013 to 1.38% at 30 June 2014.

Following a period of sustained improvement in our financial performance and the successful integration of recent merger and acquisition deals, we are pleased to have received an upgrade to our credit ratings by Moody's Investors Service.

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1. Excludes a number of items which the Board do not believe reflect longer-term sustainable business performance - further details shown on page 5.
2. Fair value adjustments were made on the mergers with the Chelsea and Norwich & Peterborough building societies. Releases were made at 31 December 2013 but none were made in the 6 months to 30 June 2013.
3. Based on an end-point definition of Tier 1 capital and Basel III definition of exposure. Currently monitored as part of the European Union Capital Requirements Directive against a proposed minimum level of 3% on formal introduction. On 11 July 2014 the UK Financial Policy Committee launched a consultation paper on the future design of a leverage ratio framework in the UK which, if implemented, would introduce additional leverage buffers. Appropriate levels for the leverage ratio will be finalised when the UK capital framework is concluded in 2015.
4. Source: Council of Mortgage Lenders for Q1 2014.

INTERIM MANAGEMENT REPORT CONTINUED

Chief Executive's summary continued

In 2014 we are celebrating our 150th anniversary, and this provides the perfect platform to launch our new visual identity across all our brands. This is already being rolled out for the Yorkshire brand and the others will follow over the next 18 months. All our brands come together as the Yorkshire Building Society Group and our new look will remind our existing and potential members that they belong to a much larger group and the benefits this brings.

After consultation with members and colleagues we're delighted that Marie Curie Cancer Care[5] are our new charity partner. Continuing our 150 year commitment to helping local communities, we are hoping to raise half a million pounds by December 2016 through the Marie Curie 'Hour of Need' charity campaign. With every £20 providing an hour of care by a Marie Curie nurse, it means an hour of vital support for terminally ill people and their families will be provided for every hour of the campaign.

Marie Curie was also the Official Charity Partner for the Tour de France and we were very proud to be an Official Supporter of the Grand Départ in July. Supporting the local element of a sporting tradition that dates back over 100 years gave us a wonderful opportunity to demonstrate our pride in our local communities.

Other achievements in the first six months of 2014 include:

- Continuing to receive a high Net Promoter Score® with an average of 42%[6].
- Achieving 709 best buy mentions for the Group's savings products and 1,104 for our mortgage range[7].
- Opening over 100,000 new savings accounts across all our brands.
- Delivering an average interest rate on our savings products of 1.79% compared to the rest of the market at 1.51%[8].
- Being compliant with the new Mortgage Market Review (MMR) regulations a month before the deadline date, ensuring a smooth transition for our customers.
- Gross mortgage lending of £3.7bn, giving us a market share of new lending of 3.9%[9].
- 856 completions on our 95% loan to value products, launched late in 2013, with over half of these being to first time buyers.
- Achieving growth in the number of current accounts open through our Norwich & Peterborough brand.

5. Marie Curie Cancer Care is a registered charity and company limited by guarantee. Registered in England and Wales under the Companies Act with No. 507597 and licensed to omit the word "limited". Registered Office: 89 Albert Embankment, London SE1 7TP. The charity is an independent voluntary organisation, registered in England and Wales with Charity Reg No. 207994 and registered in Scotland with Charity Reg No. SC038731.
6. Source: Nunwood. Net Promoter Score refers to the net percentage of customers who, when responding to the question "how likely are you to recommend us to friends and family", would either strongly recommend or strongly detract from the organisation.
7. Source: Presswatch Financial from Kantar Media; data for the period January to June 2014.
8. Source: Average rates based on Savings stock from CACI's Current Account and Savings Database (CSDB), currently covering 85% of retail savings market. Data as at 31 March 2014.
9. Source: Bank of England as at 31 May 2014.

INTERIM MANAGEMENT REPORT CONTINUED

Chief Executive's summary continued

An outstanding customer service couldn't be delivered without the commitment of all our people. It is essential that we attract and retain the best people available, and in the first six months of 2014 we increased our team by 192 to 4,525. We recently held a series of 'Trust on Tour' events across the UK, which were attended by 74% of our people. These events play a key role in ensuring our colleagues are guided by our past, proud of our progress and excited by our future. It is important to us that we offer a leading people experience and we were therefore delighted to have retained our Investors in People Bronze Award. I would like to thank all my colleagues for what they do for our customers.

We are particularly pleased that our customers and industry experts continued to recognise our efforts as highlighted by the number of awards won so far this year.

Awards	Accolade	Brand
Moneynet Awards 2014	Best Offset Mortgage Provider Best First Time Buyer Mortgage Provider	Yorkshire Building Society
Consumer Moneyfacts 2014	First Time Mortgage Buyers' Choice	Yorkshire Building Society
Moneyfacts Finance Awards 2014	Best Building Society Savings Provider Best Longer Term Fixed Rate Mortgage Provider	Yorkshire Building Society
International CSR Excellence Awards	Gold Charity Award	Yorkshire Building Society
Business Moneyfacts 2014	Best Buy to Let Mortgage Provider	Accord Mortgages
Moneywise Mortgage Awards 2014	Best Lender for Fixed Rate Mortgages Best Lender for Offset Mortgages	Accord Mortgages
Moneynet Awards 2014	Best Debit Card for Use Abroad	Norwich & Peterborough Building Society
SavingsChampion.co.uk Awards 2014	Best Regular Savings Account Provider	Norwich & Peterborough Building Society
Moneyfacts Finance Awards 2014	Best Building Society Mortgage Provider Best Short Term Fixed Rate Mortgage Provider	Norwich & Peterborough Building Society

INTERIM MANAGEMENT REPORT CONTINUED

Chief Executive's summary continued

We are aware though, that we don't get it right every time for our customers. This became especially clear with regards to a range of Structured Deposit accounts, which were designed by Credit Suisse and distributed by the Yorkshire Building Society Group. A review by the Financial Conduct Authority (FCA) concluded that the promotional materials failed to meet the FCA's principle regarding the information needs of customers. As a result, the FCA imposed a financial penalty of £1.4m on Yorkshire Building Society.

We fully accept the decision made by the FCA in relation to the sale of the affected Structured Deposit accounts. We have apologised to our customers as, on this occasion, we have fallen short of our own high standards. We have agreed with the FCA a process under which our customers, if affected, will be given the option to exit their account and receive an appropriate rate of interest, or to retain their account until maturity. We are committed to doing all we can to put this right as soon as possible and ensure a fair outcome for our customers. An additional amount has been provided at 30 June 2014 to cover the costs of this remediation and is included in the customer redress and conduct issues provision.

150 years ago we were established to help people safeguard their hard-earned savings and to lend them the money to buy their own homes. This remains our core purpose and our sustainable financial strength and security, combined with our understanding of what today's customers need, will ensure we're able to continue to help future generations of customers.

Chris Pilling
Chief Executive

INTERIM MANAGEMENT REPORT CONTINUED

Business highlights

The Group has made a strong start to the year. Statutory profits for the six months to 30 June 2014 were:

- £117.1m on a pre-tax basis (30 June 2013 restated: £68.3m).
- £91.6m on a post-tax basis (30 June 2013 restated: £48.2m).

The Board monitors the core operating profit of the Group which adjusts pre-tax profit for non-core items, both positive and negative. Non-core items are those which are either one-off or reflect timing differences which reverse over time.

Our core operating profit before tax for the six months to 30 June 2014 increased to £107.5m from £82.6m in the same period in 2013. The table below explains the adjustments made to statutory profit to arrive at this core operating view.

		Half-year ended 30 June 2014			**Half-year ended 30 June 2013 Restated***			**Year ended 31 December 2013**		
	NOTES	Statutory **£m**	Non-core items **£m**	Core **£m**	Statutory **£m**	Non-core items **£m**	Core **£m**	Statutory **£m**	Non-core items **£m**	**Core** **£m**
Net interest income	i)	276.7	(11.4)	265.3	203.8		203.8	531.6	(78.0)	453.6
Non-interest income (net)	ii)	15.1	(1.2)	13.9	22.1	(3.4)	18.7	37.6	(4.9)	32.7
Volatility on assets held at fair value	iii)	13.1	(13.1)	-	3.6	(3.6)	-	14.3	(14.3)	-
Fair value volatility on derivatives and hedging	iv)	(0.5)	0.5	-	(3.1)	3.1	-	1.6	(1.6)	-
Net realised profits/(losses)	v)	0.9		0.9	1.2		1.2	(41.7)	42.9	1.2
Total income		305.3		280.1	227.6		223.7	543.4		487.5
Management expenses	vi)	(162.4)		(162.4)	(132.0)	5.8	(126.2)	(298.4)	5.8	(292.6)
Merger and acquisition costs	vii)	(0.1)	0.1	-	(0.6)	0.6	-	(1.6)	1.6	-
Operating profit before provisions		**142.8**		**117.7**	**95.0**		**97.5**	**243.4**		**194.9**
Impairment of loans and advances to customers		2.5		2.5	(12.3)		(12.3)	(27.4)		(27.4)
Other provisions	viii)	(28.2)	15.5	(12.7)	(14.4)	11.8	(2.6)	(16.7)	1.2	(15.5)
Profit before tax		**117.1**		**107.5**	**68.3**		**82.6**	**199.3**		**152.0**

Notes - significant exclusions made in calculation of core operating profit:

i) Release of fair value adjustments made against assets taken on during mergers.
ii) Distribution from the administrators of Lifemark S.A.
iii) Non-core investments.
iv) Fair value timing differences.
v) Mortgage book disposal and structured debt buy back.
vi) Property impairment.
vii) Integration expenses associated with the merger with Norwich & Peterborough Building Society.
viii) Financial Services Compensation Scheme levy, see Note 6.

* A restatement has been made to the prior period due to a change in accounting policy regarding the Financial Service Compensation Scheme (FSCS) levy. Further details of this are given in Note 6.

INTERIM MANAGEMENT REPORT CONTINUED

Business highlights continued

During the first six months of 2014 the Board's focus has been on:

- Continuing to grow the business through new lending within a strict risk appetite.
- Funding new lending at sustainable pricing and optimising the funding mix by drawing down under the FLS whilst maintaining the majority of funding from our members' savings balances.
- Continuing our ambitious investment programme to make our business better and simpler for our members and our people.
- Ensuring capital and liquidity ratios remain at an efficient level, sensibly and safely above regulatory minimums.
- Re-entering both the senior unsecured debt and the Euro covered bond markets with a €600m five year public issue and a €500m seven year public issue respectively.
- Delivering the changes required to comply with the MMR regulations. This has seen us investing in our wider compliance and conduct processes as well as training approximately 1,500 people to ensure smooth implementation of the new rules.
- Maintaining close management of our arrears position which remains below the industry average[10]. Our arrears further improved in 2014 which, coupled with improvements in the housing market, enabled us to release elements of our previous provisions and some of the fair value adjustments being held against potential losses in loan books acquired through mergers.

The main items of note in the income statement include:

- Net interest income of £276.7m (30 June 2013: £203.8m) which, when expressed as a percentage of mean assets, increased to 1.57% (30 June 2013: 1.23%). The improvement in margin was driven by the availability of relatively low cost funding as a result of the FLS as well as items such as the release of fair value adjustments made against assets taken on through mergers.
- A decline in non-interest income to £15.1m (30 June 2013: £22.1m) reflecting an increase in fees payable under the FLS and lower recoveries from the administrators of Lifemark S.A. (Keydata). The recovery is treated as a non-core item.
- An increase in management expenses to £162.5m (30 June 2013: £132.6m) driven by our investment programme which is progressing and will continue for the next few years, and the increasing costs of regulation. We believe the level of investment in this programme is right for the Group and will deliver sustainable benefits for our customers and our people.
- The cost:income ratio, which looks at the relationship between the Group's costs and the income generated by the business, has improved in the first six months of 2014 to 53% (30 June 2013: 58%). This reflects the fact that our income growth has outstripped the increase in our costs.
- Impairment provisions release of £2.5m (30 June 2013: charge £12.3m) due to the improved quality of our loan books.
- Provision charges for customer redress of £12.7m (30 June 2013: £2.6m) predominantly to cover costs connected with the customer remediation in relation to the sale of Structured Deposit accounts, as discussed earlier.
- Provision for FSCS levies increased by £15.5m (30 June 2013 restated: £11.8m) as a result of increased charges for both interest on the outstanding loan (in respect of failed financial institutions) and the expected shortfall in repayment of the loan.

10. Source: Council of Mortgage Lenders for Q1 2014.

INTERIM MANAGEMENT REPORT CONTINUED

Business highlights continued

Principal risks and uncertainties

The principal risks and uncertainties affecting the Group were reported on page 21 of the Annual Report and Accounts as at 31 December 2013, namely, macro-economic factors, including further Eurozone instability and the potential for Bank of England intervention in the mortgage market, increasing regulatory activity and change in the UK and Europe, and delivery of the Group's investment programme.

These risks continue to affect the Group at 30 June 2014, along with increasing uncertainty around Scottish independence and the timing and impact of the first rise in the Bank of England Bank Rate from its current all-time low, as set out in the 'Outlook for 2014' below.

The Group's business activities are focused in the UK and predominantly relate to mortgage lending throughout the UK, funded primarily through domestic deposits. We continue to take an extremely cautious approach to our liquidity management and as at 30 June 2014 this portfolio consisted almost entirely of exposure to the Bank of England and the UK Government.

Outlook for 2014

As we celebrate our 150th anniversary, the economic recovery appears to be more firmly established with improvements in credit conditions and consumer confidence. We have entered 2014 confidently, but prudently, with a strong plan to continue to grow our business and to continue providing excellent service and good value products to our members.

In our planning for the remainder of 2014 and beyond it is our view that, while the UK economic conditions have substantially improved, we need to be cautious as the sector is still subject to threats from a wide range of factors such as the low interest environment, continued instability in Europe and uncertainty around Scottish independence.

Savers continue to feel the impact of low interest rates, driven by the record-low Bank Rate. However, the time of the first increase to the Bank Rate moves ever closer and so the outlook for savers is improving. Whilst we seek to protect our savers from the impact of low rates, we must balance this with the cost of carrying excess liquidity if we attract more money than we can safely and sensibly lend. For this reason, we felt compelled to reduce our average savers rates; however we have managed to do this in such a way that most of the affected savers will see their product rates increase. We continue to offer rates that are higher than the market average[11].

House prices have increased strongly over the course of the past year, standing around 10% higher on a national average and on some measures are back to their pre-recession peaks. Prices in London have increased even more rapidly and are around 25% higher than the peak they achieved in 2007/8. There are signs, however, that the rate of growth may begin to ease in coming months. Survey evidence points to the pace of increased demand easing from that witnessed towards the end of 2013 and the introduction of MMR has affected mortgage approvals in the most recent data. The first introduction of macro-prudential tools in the UK from the Financial Policy Committee should not have an immediate impact on the market but will limit any build-up of borrowers most vulnerable to higher interest rates as the Bank of England prepares to enter a period of interest rate increases.

11. Source: Average rates based on Savings stock from CACI's Current Account and Savings Database (CSDB), currently covering 85% of retail savings market. Data as at 31 March 2014.

INTERIM MANAGEMENT REPORT CONTINUED

Business highlights continued

Changes to the Board

A complete list of the Board of Directors can be found in the 2013 Annual Report and Accounts. During the first six months of 2014 there have been the following changes.

We are pleased to announce the appointment of a new executive director, Mike Regnier, who joined the Board on 3 June 2014 as Chief Commercial Officer, responsible for leading product development, marketing and customer experience. Mike has almost 20 years of corporate and financial services experience, most recently as the Products and Marketing Director at Lloyds Banking Group where he was responsible for the development of the commercial strategy behind the re-launch of the TSB brand.

Simon Turner, Non-executive Director, retired from the Board on 15 April 2014. Simon had been a Board member since 2005 and we would like to thank him for his commitment and excellent contribution in that time. We are currently in the process of recruiting two new non-executive directors as part of the ongoing succession planning process.

Signed on behalf of the Board by

Ed Anderson	**Chris Pilling**
Chairman	Chief Executive

23 July 2014

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 2014 (Unaudited) £m**	Half-year to 30 June 2013 (Unaudited) Restated* £m	Year to 31 December 2013 (Audited) £m
Interest receivable and similar income		**649.7**	663.0	1,405.6
Interest payable and similar charges		**(373.0)**	(459.2)	(874.0)
Net interest income		**276.7**	203.8	531.6
Fees and commissions receivable		**17.8**	18.6	33.9
Fees and commissions payable		**(7.1)**	(3.2)	(8.7)
Net fee and commission income		**10.7**	15.4	25.2
Net gains from fair value volatility on financial instruments		**12.6**	0.5	15.9
Net realised profits/(losses)	2	**0.9**	1.2	(41.7)
Other operating income		**4.4**	6.7	12.4
Total income		**305.3**	227.6	543.4
Administrative expenses		**(144.0)**	(117.3)	(261.4)
Merger and acquisition costs	3	**(0.1)**	(0.6)	(1.6)
Depreciation and amortisation	4	**(18.4)**	(14.7)	(37.0)
Operating profit before provisions		**142.8**	95.0	243.4
Impairment of loans and advances to customers	5	**2.5**	(12.3)	(22.8)
Provisions	6	**(28.2)**	(14.4)	(21.3)
Profit before tax		**117.1**	68.3	199.3
Tax expense	7	**(25.5)**	(20.1)	(51.2)
Net profit		**91.6**	48.2	148.1

* A restatement has been made to the prior period due to a change in accounting policy regarding the Financial Service Compensation Scheme (FSCS) levy. Further details of this are given in Note 6.

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Half-year to 30 June 2014 (Unaudited) £m**	Half-year to 30 June 2013 (Unaudited) Restated* £m	Year to 31 December 2013 (Audited) £m
Net profit		**91.6**	48.2	148.1
Items that will subsequently be reclassified to profit and loss:				
Available for sale investments:				
Valuation (losses)/gains taken to equity		**(3.8)**	(7.9)	4.0
Amounts transferred to income statement		**(3.5)**	(0.8)	(23.0)
Cash flow hedges:				
(Losses)/gains taken to equity		**(1.4)**	32.0	68.3
Amounts transferred to income statement		**1.7**	0.3	2.5
Tax relating to items that may be reclassified	7	**1.5**	(5.4)	(12.1)
Items that will not subsequently be reclassified to profit and loss:				
Remeasurement of net retirement benefit obligations		**16.1**	6.1	(20.4)
Tax relating to items not reclassified	7	**(3.2)**	(1.4)	0.5
Total comprehensive income for the period		**99.0**	71.1	167.9

* A restatement has been made to the prior period due to a change in accounting policy regarding the Financial Service Compensation Scheme (FSCS) levy. Further details of this are given in Note 6.

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	30 June 2014 (Unaudited) £m	30 June 2013 (Unaudited) Restated* £m	31 December 2013 (Audited) £m
Liquid assets				
Cash in hand and balances with the Bank of England		**3,752.2**	2,963.4	3,314.6
Loans and advances to credit institutions		**469.8**	455.1	482.0
Debt securities		**416.1**	721.7	624.6
Loans and advances to customers		**30,773.2**	27,975.8	29,515.8
Derivative financial instruments		**212.9**	314.2	273.0
Investments		**1.4**	1.4	1.4
Intangible assets		**34.6**	39.4	34.9
Investment properties		**15.0**	17.2	16.5
Property, plant and equipment		**123.4**	109.9	124.0
Deferred tax assets	7	**39.4**	86.9	47.2
Retirement benefit surplus	8	**25.9**	27.5	3.8
Other assets		**22.5**	16.5	15.6
Total assets		**35,886.4**	32,729.0	34,453.4

LIABILITIES	Notes	30 June 2014 (Unaudited) £m	30 June 2013 (Unaudited) Restated* £m	31 December 2013 (Audited) £m
Shares		**26,479.4**	26,293.8	26,290.3
Amounts owed to credit institutions		**3,208.1**	881.0	2,621.4
Other deposits		**539.8**	527.6	501.4
Debt securities in issue		**3,339.1**	2,587.8	2,793.6
Derivative financial instruments		**176.5**	398.1	194.8
Current tax liabilities	7	**13.3**	7.6	9.2
Deferred tax liabilities	7	**10.8**	13.8	4.8
Retirement benefit obligations	8	**-**	1.7	3.4
Other liabilities		**64.3**	63.9	85.6
Provisions		**90.3**	110.9	84.0
Subordinated liabilities		**49.6**	123.2	48.7
Subscribed capital		**6.8**	7.0	6.8
Total liabilities		**33,978.0**	31,016.4	32,644.0
Total equity attributable to members		**1,908.4**	1,712.6	1,809.4
Total liabilities and equity		**35,886.4**	32,729.0	34,453.4

* A restatement has been made to the prior period due to a change in accounting policy regarding the Financial Service Compensation Scheme (FSCS) levy. Further details of this are given in Note 6.

CONDENSED GROUP STATEMENT OF CHANGES IN MEMBERS' INTEREST

	General reserve £m	Hedging reserve £m	Available for sale reserve £m	**Total reserves £m**
HALF-YEAR TO 30 JUNE 2014				
At 1 January 2014 (Audited)	**1,805.9**	**(4.9)**	**8.4**	**1,809.4**
Current period movement net of tax	**104.5**	**0.2**	**(5.7)**	**99.0**
At 30 June 2014 (Unaudited)	**1,910.4**	**(4.7)**	**2.7**	**1,908.4**
HALF-YEAR TO 30 JUNE 2013 Restated*				
At 1 January 2013 (Audited)	1,694.4	(59.3)	6.4	1,641.5
Reallocation of tax**	(16.5)	-	16.5	-
Current period movement net of tax	52.8	24.9	(6.6)	71.1
At 30 June 2013 (Unaudited)	1,730.7	(34.4)	16.3	1,712.6
YEAR TO 31 DECEMBER 2013				
At 1 January 2013 (Audited)	1,694.4	(59.3)	6.4	1,641.5
Reallocation of tax**	(16.5)	-	16.5	-
Current year movement net of tax	128.0	54.4	(14.5)	167.9
At 31 December 2013 (Audited)	1,805.9	(4.9)	8.4	1,809.4

* A restatement has been made to the prior period due to a change in accounting policy regarding the Financial Service Compensation Scheme (FSCS) levy. Further details of this are given in Note 6.

**Taxation relating to the available for sale reserve has been reallocated to match the underlying transactions.

CONDENSED GROUP STATEMENT OF CASH FLOWS

	Notes	**Half-year to 30 June 2014 (Unaudited) £m**	Half-year to 30 June 2013 (Unaudited) Restated* £m	Year to 31 December 2013 (Audited) £m
Cash flows from operating activities:				
Profit before tax		**117.1**	68.3	199.3
Working capital adjustments	10	**(15.8)**	9.6	85.8
Net increase in operating assets	10	**(1,273.0)**	(463.0)	(2,163.2)
Net increase/(decrease) in operating liabilities	10	**814.2**	(501.9)	1,208.8
Net cash flows from operating activities		**(357.5)**	(887.0)	(669.3)
Cash flows from investing activities:				
Purchase of property, plant and equipment and intangible assets		**(16.4)**	(16.6)	(48.2)
Proceeds from sale of property, plant and equipment		**0.1**	-	1.0
Purchase of debt securities		**(49.6)**	(397.3)	(445.7)
Proceeds from sale and redemption of debt securities		**251.7**	160.6	292.7
Net cash flows from investing activities		**185.8**	(253.3)	(200.2)
Cash flows from financing activities:				
Redemption of securities		**(301.1)**	(169.7)	(437.9)
Issue of securities	10	**906.8**	-	500.0
Redemption of subordinated capital		**-**	-	(114.3)
Interest paid on subordinated liabilities and subscribed capital		**(3.1)**	(8.2)	(16.1)
Net cash flows from financing activities		**602.6**	(177.9)	(68.3)
Taxation paid		**(9.3)**	(20.5)	(24.1)
Net increase/(decrease) in cash and cash equivalents		**421.6**	(1,338.7)	(961.9)
Opening balance		**3,751.9**	4,713.8	4,713.8
Total closing cash and cash equivalents		**4,173.5**	3,375.1	3,751.9
Cash and cash equivalents:				
Cash and balances with central banks	10	**3,703.7**	2,920.0	3,269.9
Loans and advances to credit institutions		**469.8**	455.1	482.0
		4,173.5	3,375.1	3,751.9

* A restatement has been made to the prior period due to a change in accounting policy regarding the Financial Service Compensation Scheme (FSCS) levy. Further details of this are given in Note 6.

NOTES TO THE ACCOUNTS

1. INTRODUCTION

Reporting period

The financial statements show the financial performance of the Group for the half-year ended 30 June 2014.

Basis of preparation

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

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 European Union.

A restatement has been made to the prior period due to a change in accounting policy regarding the Financial Service Compensation Scheme (FSCS) levy. Further details of this are given in Note 6.

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 January 2014 are given on page 28 of the 2013 Annual Report and Accounts.

The latest formal review, undertaken in July 2014, followed a similar approach.

As a result of the detailed assessment performed in July 2014, the Board concluded that the Group has sufficient resources to continue in operational existence for the foreseeable future and, as a result, that it is appropriate to prepare these financial statements on the going concern basis.

2. NET REALISED PROFITS/ (LOSSES)

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

3. MERGER AND ACQUISITION COSTS

Merger costs are professional fees, external project management resource and termination payments.

4. DEPRECIATION AND AMORTISATION

Any impairment in the value of properties and intangible assets is dealt with through the income statement as it arises. During the period, an intangible asset with a net book value of £4.8m was fully written off. In addition, impairment losses of £4.6m have been recognised in the period in relation to certain properties where the net book values were in excess of their market valuation.

5. IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

There have been no changes to our approach to provisioning since 31 December 2013.

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 141 of the 2013 Annual Report and Accounts.

NOTES TO THE ACCOUNTS CONTINUED

6. PROVISIONS

	Half-year to 30 June 2014 (Unaudited)	Half-year to 30 June 2013 (Unaudited) Restated	Year to 31 December 2013 (Audited)
	£m	£m	£m
FSCS levy	**15.5**	11.8	11.8
Customer redress and conduct issues	**12.7**	2.6	12.7
Other	**-**	-	(3.2)
	28.2	14.4	21.3

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.

The Group has recognised in this period's results a provision for a levy of £15.5m, including £0.5m as a result of a change to the estimate for the 2013/14 scheme year, as well as £9.0m in respect of interest and £6.0m in respect of the shortfall for the scheme year 2014/15.

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

A restatement of the FSCS levy has been made to the prior period. This is due to a change in accounting policy as a result of IFRIC 21, which includes clarification regarding the trigger point of the levy. The restatement is made up as follows:

- 30 June 2013 income statement adjustment of £11.8m (reported levy £nil).
- 30 June 2013 reserves adjustment of £8.6m, relating to prior years.

Further information regarding the restatement, including changes made as at 31 December, is disclosed in the 2013 Annual Report and Accounts.

Customer redress and conduct issues

Provisions are held in respect of various customer claims. Changes have been made at the half-year to reflect movements in management's estimate of complaint volumes, redress payments and other costs.

The Group also has a further contingent liability of £17.7m, in relation to some Structured Deposit accounts. This is due to the fact that the Group is jointly and severally liable for the reimbursement of customers, together with Credit Suisse, the party who designed the product. However, as the reimbursements are being made by Credit Suisse and the Group would only settle the full amount if Credit Suisse went into administration, a provision has not been recognised in respect of this contingent liability.

7. TAXATION

An effective tax rate of 21.9% has been applied to the Group's profit, before the tax impact of one-time events occurring in the interim period. This is higher than the standard corporation tax rate due to non tax-deductible expenses.

The main rate of corporation tax was reduced from 23% to 21% from 1 April 2014, and to 20% from 1 April 2015. The reduction in rate is reflected in the deferred tax balances in these accounts.

8. RETIREMENT BENEFIT OBLIGATIONS

	At 1 January 2014 (Audited) £m	Movements £m	**At 30 June 2014 (Unaudited) £m**
Present value of defined benefit obligation	(626.5)	(20.6)	**(647.1)**
Assets at fair value	626.9	46.1	**673.0**
Funded status/defined benefit asset	0.4	25.5	**25.9**

The present value of the defined benefit obligation as at 30 June 2014 has been derived by using assumptions that are consistent with those used for the 31 December 2013 year end calculations. Changes in market conditions, in particular a decrease in corporate bond yields, have led to an increase in the defined benefit obligation since 31 December 2013. During the same period, the fair value of assets increased by more than the increase in the defined benefit obligation, due to positive investment experience and additional contributions of £10.0m paid from the Society following the merger of the Norwich & Peterborough Building Society Pension and Life Assurance Scheme into the Yorkshire Building Society Pension Scheme.

9. RELATED PARTIES

The Group had no related party transactions outside the normal course of the business during the half-year to 30 June 2014. Transactions for this period are similar to those for the year to 31 December 2013, details of which can be found in the 2013 Annual Report and Accounts.

10. NOTES TO THE CONDENSED GROUP STATEMENT OF CASH FLOWS

	Half-year to 30 June 2014 (Unaudited)	Half-year to 30 June 2013 (Unaudited) Restated*	Year to 31 December 2013 (Audited)
	£m	£m	£m
Working capital adjustments:			
Depreciation and amortisation	**18.4**	14.7	37.0
Loss/(profit) on sale of assets	**0.3**	-	(0.5)
Interest on subordinated liabilities and subscribed capital	**3.1**	8.1	16.1
Provisions	**25.7**	26.7	44.1
Fair value of subordinated liabilities and subscribed capital	**0.9**	0.1	(0.1)
Net realised (profits)/losses	**(0.9)**	(1.2)	41.7
Increase in other assets	**(16.6)**	(15.2)	(18.3)
Decrease in other liabilities	**(46.7)**	(23.6)	(34.2)
Working capital adjustments	**(15.8)**	9.6	85.8
Increase in operating assets:			
Loans and advances to customers	**(1,254.9)**	(415.7)	(1,966.2)
Derivative financial instruments	**(18.1)**	(47.3)	-
Investments	**-**	-	(197.0)
Net increase in operating assets	**(1,273.0)**	(463.0)	(2,163.2)
Increase/(decrease) in operating liabilities:			
Shares	**189.1**	(523.7)	(527.2)
Amounts owed to credit institutions	**586.7**	(30.1)	1,710.3
Other deposits	**38.4**	51.9	25.7
Net increase/(decrease) in operating liabilities	**814.2**	(501.9)	1,208.8

Issue of securities

During the period, the Group issued €600m (£500.3m) of five year senior unsecured debt and €500m (£406.5m) of seven year covered bonds.

Cash and balances with central banks

Cash and balances with central banks excludes cash ratio deposits of £48.5m held with the Bank of England, which are not available for use in the Group's day to day operations.

* A restatement has been made to the prior period due to a change in accounting policy regarding the Financial Service Compensation Scheme (FSCS) levy. Further details of this are given in Note 6.

11. SEGMENTAL REPORTING

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

Details of the reportable segments are listed below:

- Retail business – comprising prime residential owner occupied lending, non-owner occupied lending, prime intermediary lending, traditional member savings, non-traditional savings and consumer banking (excluding personal lending).
- Non-retail business – the prime commercial lending portfolio (including social housing).
- Secondary business – including non-prime residential owner occupied lending, personal lending and non-prime commercial lending.
- Central functions – this includes supporting business units, the treasury function and other head office group functions which have not been apportioned across the aforementioned segments.

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

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

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

HALF-YEAR TO 30 JUNE 2014 (Unaudited)	Notes	Retail £m	Non-retail £m	Secondary £m	Central £m	Total £m
Net interest income		216.9	6.2	20.8	32.8	276.7
Non-interest income (net)	a	15.6	2.6	-	(3.1)	15.1
Net realised profits and fair value		-	-	-	13.5	13.5
Management expenses	b,c	(97.6)	(1.6)	(0.5)	(62.8)	(162.5)
Operating profit/(loss) before provisions		**134.9**	**7.2**	**20.3**	**(19.6)**	**142.8**
Impairment and other provisions		(0.8)	1.0	3.2	(29.1)	(25.7)
Profit/(loss) before tax		**134.1**	**8.2**	**23.5**	**(48.7)**	**117.1**
Total assets		28,934.7	678.6	1,160.1	5,113.0	**35,886.4**
Total liabilities and equity		27,563.1	-	-	8,323.3	**35,886.4**

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, merger and acquisition costs, depreciation and amortisation.

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

11. SEGMENTAL REPORTING (CONTINUED)

HALF-YEAR TO 30 JUNE 2013 (Unaudited) RESTATED*	Notes	Retail £m	Non-retail £m	Secondary £m	Central £m	Total £m
Net interest income/(expense)		185.9	3.0	18.1	(3.2)	203.8
Non-interest income (net)	a	17.0	1.7	-	3.4	22.1
Net realised profits/(losses) and fair value		-	-	3.6	(1.9)	1.7
Management expenses	b	(85.6)	(1.6)	(1.3)	(44.1)	(132.6)
Operating profit/(loss) before provisions		**117.3**	**3.1**	**20.4**	**(45.8)**	**95.0**
Impairment and other provisions		(11.9)	(0.1)	(0.3)	(14.4)	(26.7)
Profit/(loss) before tax		**105.4**	**3.0**	**20.1**	**(60.2)**	**68.3**
Total assets		25,860.5	500.0	1,483.0	4,885.5	**32,729.0**
Total liabilities and equity		27,365.7	-	-	5,363.3	**32,729.0**

YEAR TO 31 DECEMBER 2013 (Audited)	Notes	Retail £m	Non-retail £m	Secondary £m	Central £m	Total £m
Net interest income		467.4	10.3	41.0	12.9	531.6
Non-interest income (net)	a	30.6	3.6	-	3.4	37.6
Net realised profits/(losses) and fair value		-	-	1.7	(27.5)	(25.8)
Management expenses	b,c	(177.6)	(3.2)	(2.7)	(116.5)	(300.0)
Operating profit/(loss) before provisions		**320.4**	**10.7**	**40.0**	**(127.7)**	**243.4**
Impairment and other provisions		(12.8)	(0.4)	(9.7)	(21.2)	(44.1)
Profit/(loss) before tax		**307.6**	**10.3**	**30.3**	**(148.9)**	**199.3**
Total assets		27,675.4	582.0	1,225.3	4,970.7	**34,453.4**
Total liabilities and equity		27,380.3	-	-	7,073.1	**34,453.4**

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, merger and acquisition costs, depreciation and amortisation.

c. £18.8m of property, plant and equipment, investment properties and intangible assets were impaired in 2013. This impacts all segments and is included in management expenses.

* A restatement has been made to the prior period due to a change in accounting policy regarding the Financial Service Compensation Scheme (FSCS) levy. Further details of this are given in Note 6.

12. FAIR VALUES

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

	30 June 2014 (Unaudited)		31 December 2013 (Audited)	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Assets				
Cash in hand and balances with the Bank of England	**3,752.2**	**3,752.2**	3,314.6	3,314.6
Loans and advances to credit institutions	**469.8**	**469.8**	482.0	482.0
Debt securities – fair value	**8.2**	**8.2**	7.4	7.4
Debt securities – embedded derivative	**(5.6)**	**(5.6)**	(2.4)	(2.4)
Debt securities – available for sale	**338.3**	**338.3**	531.9	531.9
Debt securities – held to maturity	**75.2**	**74.7**	87.7	86.9
Loans and advances to customers	**30,773.2**	**31,088.7**	29,515.8	29,804.6
Investments	**1.4**	**1.4**	1.4	1.4
Liabilities				
Shares	**26,479.4**	**26,483.7**	26,290.3	26,177.8
Amounts due to credit institutions	**3,208.1**	**3,208.1**	2,621.4	2,621.4
Other deposits	**539.8**	**539.8**	501.4	501.4
Debt securities in issue	**3,339.1**	**3,397.0**	2,793.6	2,827.5
Subordinated liabilities	**49.6**	**64.5**	48.7	63.1
Subscribed capital	**6.8**	**6.0**	6.8	5.5

12. FAIR VALUES (CONTINUED)

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

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

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

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

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

As at 30 June 2014 (Unaudited)	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Debt securities – fair value	**-**	**8.2**	**-**	**8.2**
Embedded derivatives	**-**	**(5.6)**	**-**	**(5.6)**
Debt securities – available for sale	**266.0**	**72.3**	**-**	**338.3**
Investments	**-**	**-**	**1.4**	**1.4**
Derivative assets	**-**	**212.9**	**-**	**212.9**
Derivative liabilities	**-**	**(176.5)**	**-**	**(176.5)**
	266.0	**111.3**	**1.4**	**378.7**

As at 31 December 2013 (Audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Debt securities – fair value	-	7.4	-	7.4
Embedded derivatives	-	(2.4)	-	(2.4)
Debt securities – available for sale	471.5	60.4	-	531.9
Investments	-	-	1.4	1.4
Derivative assets	-	273.0	-	273.0
Derivative liabilities	-	(194.8)	-	(194.8)
	471.5	143.6	1.4	616.5

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

In line with industry best practice, expected future cash flows for derivative instruments have been discounted using the Overnight Indexed Swap (OIS) curve. The LIBOR curve was used for discounting in previous periods and the impact of the change in valuation approach is not deemed to be material.

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

Ed Anderson	**Lynne Charlesworth**	**Chris Pilling**
Chairman	Vice Chairman	Chief Executive

23 July 2014

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 2014 which comprises the condensed group income statement, the condensed group statement of comprehensive income, the condensed group statement of financial position, the condensed group statement of changes in members' interest, the condensed group statement of cash flows and related notes 1 to 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 Society in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Society those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society, for our review work, for this report, or for the conclusions we have formed.

DIRECTORS' RESPONSIBILITIES

The 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 Society 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 enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 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
Manchester, United Kingdom
23 July 2014

OTHER INFORMATION

The half-yearly 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 2013 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2013 have been filed with the Financial Conduct Authority (formerly the Financial Services 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 half-yearly financial 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.

Head Office: Yorkshire House, Yorkshire Drive, Bradford, BD5 8LJ.

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

YBS GROUP