INTERIM GROUP ACCOUNTS

30 JUNE 2011

Yorkshire BUILDING SOCIETY

Interim management report

for the six months ended 30 June 2011

Chief Executive's summary

The Yorkshire Building Society continues to strengthen its position, reporting strong statutory and operating profits for the first six months of 2011. The financial highlights of the Group's performance for the first half of 2011 include:

- **Increased profit;** statutory profit before tax increased to £73.1m (30 June 2010: £57.5m) and core operating profit* to £90.2m (30 June 2010: £53.2m);
- **Lending volumes doubled;** gross mortgage lending of £1,506m (30 June 2010: £718m) which has resulted in a stable asset position with total assets of £30bn (31 December 2010: £30bn);
- **Strong capital position;** core tier 1 capital ratio 12.7% (31 December 2010: 12.4%) has increased further in the first half of the year meaning that on this measure we are confident we remain among the strongest of any UK financial institution;
- **Members' savings balances stable;** £21.0bn (31 December 2010: £21.4bn);
- **Mortgage balances stable;** £23.1bn (31 December 2010: £23.4bn), meaning that 99.7% of mortgages are funded by savings balances and reserves (31 December 2010: 99.8%);
- **Improved asset quality;** loans in arrears by more than three months by volume at 1.80% as at 30 June 2011 (31 December 2010: 1.84%), and remaining below the industry average;**
- **Prudent levels of liquidity;** the group liquidity ratio remains broadly flat at 21.7% at 30 June 2011 (31 December 2010: 21.1%), maintaining a prudent level above the regulatory requirement; and
- **Integration of the Chelsea;** integration is well advanced and migration of core systems is now complete with annualised synergies achieved to date of £27m and expected to exceed £35m per annum by the end of 2012.

Our focus remains on providing our members with both financial stability and products that deliver value over the long term. Evidence of our continuing resilience includes:

- Further increase in profits, both statutory and core bases;
- Continued strong core tier 1 ratio, well above regulatory requirements;
- Prudent liquidity position, managed to balance efficiency with regulatory requirements; and
- Mortgage arrears below industry average.

It is this core strength and stability that has enabled us to be in a position to agree the terms of a proposed merger with Norwich and Peterborough Building Society (N&P) which will enable us to grow the business and further strengthen our long-term position. The proposed merger requires the approval of N&P's members and confirmation by the Financial Services Authority (FSA). If both are received, then we anticipate that the merger date will be 1 November 2011.

In addition, on 25 July 2011, we announced that we have entered into an agreement with Egg Banking plc to acquire its mortgage and savings books. Assuming the deal (which is subject to High Court approval) completes as expected, it will increase our membership base by c.550,000 and add over £400m of prime mortgages and over £2bn of retail savings. In addition to extending the benefits of membership of the Yorkshire to Egg customers this transaction will deliver a number of benefits to the Yorkshire including the enhancement of our funding position and improvements to our product and service offerings.

Our vision remains – **to be the best organisation that our customers do business with** – and we strongly believe we remain on track to achieve this. We continue to deliver value to our members across the product range and through excellent service. In the first half of 2011 we have achieved the following:

- continued to position our savings products primarily to offer long-term value and we have opened over 60,000 new accounts in the first half of the year. Notwithstanding our long-term value approach to pricing, we have also received 180 savings best buy mentions;

*as defined on page 3

**Source: CML quarter 1 2011

Interim management report continued

- 900 best buy mentions on our mortgage range, showing our commitment to providing customers with competitive mortgage products, and we are currently the most quoted mortgage provider in these tables;
- The Yorkshire was one of only five Recommended Providers for Mortgages in Which? Magazine Survey*;
- received a number of industry awards we are incredibly proud of, such as Best Overall Mortgage Provider (Moneynet). Furthermore, at the Moneyfacts awards we were named **Best Building Society Mortgage Provider** as well as receiving a number of other accolades, including:

  - Best Short Term Fixed Rate Mortgage Provider – **Winner**
  - Best First Time Buyer Mortgage Provider – **Winner**
  - Best Fixed Rate Account Provider – **Highly Commended**
  - Innovation in Personal Finance – **Highly Commended for Rollover Mortgage**
  - Best Longer Term Fixed Rate Mortgage Provider – **Highly Commended**
  - Best Current Account and Offset Mortgage Provider – **Commended**

- 9 out of 10 of our members who participate in our regular customer satisfaction surveys say they would recommend us to their family and friends and we continue to receive a consistently positive Net Promoter Score;
- the Financial Ombudsman Service has overturned fewer than 1 in 10 of our complaint decisions in favour of the customer so far in 2011. This compares extremely well with the latest published average for the financial sector, in which the Ombudsman overturned 1 in every 2 cases**;
- launch of Triple Access Saver; a new market-leading branch-based savings account, combining a competitive variable rate with access to funds three times a year; and
- a new additional lending range which aims to reward member loyalty by way of discounted rates and incentives to prove our commitment to offering good long-term value.

The current economic climate remains challenging for financial services but we are confident that the Yorkshire is well placed to continue to grow and prosper. The proposed merger with the N&P and the intended acquisition of the Egg business will further increase our ability to offer our members a secure and safe place for their savings and to deliver long-term value through all our brands.

The strong performance for the first six months of 2011 reflects the increased efficiencies delivered through the merger with the Chelsea and our continued commitment to adopting a prudent approach to our business. As a building society we strive for profit optimisation, rather than profit maximisation. These half-year results certainly demonstrate our financial strength and show we are an efficient, robust and profitable business, ensuring our members continue to receive keenly-priced products and high levels of customer service through all our channels and all our brands.

The Basel Committee of Banking Supervisors (BCBS) issued final guidelines for 'Basel III: a global regulatory framework for more resilient banks and banking systems' in June 2011, which propose significant changes in how banks and other financial institutions measure capital adequacy. These proposals include tighter definitions of what constitutes qualifying capital as well as higher deductions from core tier 1 capital. It is widely expected that as these requirements are brought in, financial institutions' capital ratios will fall and extensive capital raising may be required across the sector.

The Group considers itself to be positioned strongly for the new regime. Based on our current understanding of the requirements of Basel III, the impact of the proposals assuming full implementation at 30 June would be a minor reduction in the Group's core tier 1 ratio of approximately 0.5%. This impact will be significantly lower than that felt by other major institutions, according to published information***.

Finally, I would like to personally thank all our staff across the Group who are key to delivering the Yorkshire's continued success as a leading independent mutual building society.

Iain Cornish
Chief Executive

*Source: May 2011

**Source: Financial Ombudsman Service 1 July to 31 December 2010

***Source: Basel Committee's 'Results of the Comprehensive Quantitative Impact Study' - December 2010

Business highlights

The Group has made a strong start to 2011 reflecting:

- the full financial impact of integration with the Chelsea;
- our continued prudent approach to lending demonstrated by increased gross lending whilst not increasing the risk profile; and
- our ability to attract retail and wholesale funding.

Statutory profits for the six months to 30 June 2011 were:

- £73.1m on a pre-tax basis (six months to 30 June 2010: £57.5m); and
- £52.9m on a post-tax basis (six months to 30 June 2010: £46.0m).

As in previous years, some of the items impacting on our statutory profits do not necessarily reflect the long-term underlying performance of the Yorkshire, being either one-off items or timing differences that inevitably reverse over time. Because of this, the Board closely monitors the core operating performance, which removes these items, whether positive or negative. As with statutory profit, the core operating profit for the six months to 30 June 2011 increased strongly to £90.2m from £53.2m in the same period in 2010. The table below explains the adjustments made to the statutory figures to arrive at this core operating view.

		Half-year ended 30 June 2011			Half-year ended 30 June 2010 Restated*			Year ended 31 December 2010		
	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		171.7		171.7	111.5		111.5	272.7		272.7
Non-interest income	i)	20.5	(0.5)	20.0	18.5		18.5	43.4	0.6	44.0
Volatility on assets held at fair value	ii)	0.9	(0.9)	-	(3.9)	3.9	-	(4.8)	4.8	-
Fair value volatility on derivatives and hedging	ii)	(4.1)	4.1	-	(5.0)	5.0	-	(5.7)	5.7	-
Net realised (losses)/profits		(0.2)		(0.2)	15.0		15.0	15.2		15.2
Total income		188.8		191.5	136.1		145.0	320.8		331.9
Management expenses		(86.3)		(86.3)	(72.8)		(72.8)	(162.6)		(162.6)
CBS merger costs	iii)	(6.9)	6.9	-	(2.4)	2.4	-	(10.4)	10.4	-
Other exceptional transaction costs	iv)	(5.2)	5.2	-	-		-	-		-
Operating profit before provisions		90.4		105.2	60.9		72.2	147.8		169.3
Impairment of loans and advances to customers		(15.0)		(15.0)	(19.0)		(19.0)	(40.8)		(40.8)
Impairment of debt securities		-		-	-		-	(5.1)	5.1	-
Operating profit before exceptional provisions		75.4		90.2	41.9		53.2	101.9		128.5
FSCS levy	v)	(2.3)	2.3	-	(1.5)	1.5	-	(3.6)	3.6	-
Operating profit		73.1		90.2	40.4		53.2	98.3		128.5
Negative goodwill	vi)	-		-	17.1	(17.1)	-	17.1	(17.1)	-
Profit before tax		73.1		90.2	57.5		53.2	115.4		128.5

Notes - exclusions made in calculation of Core Operating Profit

i) Profits and losses on property
ii) Fair value timing differences
iii) Non-recurring costs associated with the merger with Chelsea Building Society
iv) One-off costs associated with the proposed merger with Norwich & Peterborough Building Society and the intended acquisition of retail balances from Egg Banking plc
v) Financial Services Compensation Scheme levy
vi) Negative goodwill arising on merger with Chelsea Building Society

*The provisional valuations of the balances acquired with the Chelsea have been finalised. See note 7.

Business highlights continued

The Yorkshire has focussed on a number of key areas so far in 2011:

- the integration of the Chelsea's operations into the enlarged Society, including completion of the core systems migration, leading to the realisation of £27m of annualised cost savings;
- managing down previously held excess levels of liquidity. The position at the end of June is temporarily high due to the issue of a Residential Mortgage-Backed Security (see below), however we will continue to manage the position to improve efficiency, whilst ensuring we retain a prudent level of overall liquidity;
- maintaining our overall asset size by only increasing new lending in a prudent manner and not competing aggressively for retail funding. New lending has doubled to £1,506m in the first half of the year, compared to the same period last year, without increasing our risk appetite. Similarly we have been able to attract retail funds by offering products with sustainable long-term value pricing and attractive features;
- strengthening our funding position with a successful £750m 'covered bond' issue to wholesale investors. This provides competitively priced, long-term wholesale funding and attracted a diverse pool of investors, which is testament to our financial standing and reputation;
- further diversifying our wholesale funding sources by issuing our inaugural Residential Mortgage-Backed Security. The publicly available element of the issue was oversubscribed, resulting in cheaper funding than initially estimated;
- maintaining our capital strength with a core tier 1 capital ratio of 12.7%, restored to the level before the Chelsea merger; and
- continued management of our arrears position which remains below the industry average and the Group's average indexed loan-to-value remains at 56%.

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

- a full half-year impact of income from the Chelsea portfolio;
- a rise in net interest income as a percentage of mean assets, to 1.14% (six months to 30 June 2010: 0.83%);
- non-interest income, earned principally from selling assurance, insurance and investment products to our members through a range of partners, up by £2.0m from 30 June 2010 to £20.5m; and
- a further fall in our impairment charge for actual and potential losses on our mortgage loans to £15.0m from £19.0m for the six months ended 30 June 2010.

There has been a rise in management expenses from £75.2m at 30 June 2010 to £98.4m, which includes the ongoing costs of the mergers with the Chelsea and N&P and other exceptional transaction costs. Our principal efficiency measure (management expenses as a percentage of mean assets) has increased to 0.65% (30 June 2010: 0.56%). If the merger and other exceptional costs are excluded the underlying measure reduces to 0.57% (30 June 2010: 0.54%). This is higher than the 2010 ratio as a full 6 months of costs associated with the Chelsea brand are included.

Distribution network

Following recent mergers with the Barnsley and Chelsea building societies, our overall high street presence now includes 178 branches and 90 agencies. We are continuing to invest and develop across our brands and a new online mortgage application process for Chelsea customers is now in place. Further developments are planned for the remainder of the year to ensure that we continue to offer members a high quality range of products and services.

We are also embarking on a branch revitalisation programme to reinforce the value of our branches to their local communities. It will also look at how the branch network interacts with other distribution channels. Through this work we will ensure our members are able to transact with us seamlessly using whichever method they prefer.

Principal risks and uncertainties

The principal risks and uncertainties affecting the Group were reported on page 36 of the Annual Report and Accounts as at 31 December 2010, and these continue to affect the Group at 30 June 2011.

Business highlights continued

We continue to monitor the situation in the Eurozone where concerns exist over certain banks owned or supported by states such as Ireland, Greece, Spain and Portugal. We have no exposure to Eurozone sovereign debt and our only exposure to banks supported by Eurozone states, as at 30 June 2011, is £174m we have invested in Irish banks. These loans continue to be serviced and the total exposure has reduced since 31 December 2010 when the amount outstanding was £216m. All loans are regularly assessed for possible impairment and our assessment at 30 June 2011 concluded, as it did at 31 December 2010, that there is no evidence that these loans are impaired at this time. This assessment is not based on, and does not rely on, any guarantees which may be provided by state or supra-national bodies.

As with any major transaction, the proposed merger with N&P and the intended acquisition of Egg's retail books present a number of risks. However, we are confident that these are being adequately addressed in the implementation plans which draw on our experience of the recent merger with the Chelsea.

The following section highlights where further new risks and uncertainties are emerging.

Outlook for the remaining six months in 2011

The uncertain economic outlook and changes to regulatory reform continue to pose challenges, including continued margin pressure, to the financial services industry. The mortgage market is a long way from returning to any form of normality, and the savings market remains uncertain as household incomes are squeezed in the face of rising inflation, slow economic growth, severe spending cuts and limited wage growth.

One of the key aspects of the current economic condition is the prospect that interest rates will start to rise during 2012. While this would be positive for our savers it will put pressure on our borrowing members. We will continue to apply a balanced approach to our credit risk management and to exercise forbearance only where it makes sense both for the Society and the borrower, ensuring a fair approach for all our members.

The credit rating agency Moody's has indicated it may downgrade 14 UK high street banks and building societies including the Yorkshire as it believes the UK government will be more reluctant to channel taxpayer money into bailing out any failing financial institutions in future. This is an industry-wide risk, and an industry-wide downgrade would raise borrowing costs for all banks and building societies, including the Yorkshire, putting pressure on our ability to attract funding at competitive rates. The Bank of England has already said that an emergency liquidity facility - the Special Liquidity Scheme - will not be rolled over when it expires in January 2012. However, the Group has no drawings from this scheme.

We continue to monitor closely both the wider economy and specific developments, such as the availability of funding. This includes the consideration of "stressed" scenarios, which encompass circumstances such as severe restrictions on funding, in our detailed planning to ensure that we are robustly positioned to cope with any reasonably foreseeable development.

Changes to the Board

A complete list of the Board of directors can be found in the 2010 Annual Report and Accounts, where we also announced that Iain Cornish, Chief Executive, is stepping down this year. The process to find his successor is well under way. There have been no changes to the directors during 2011. Transactions with directors and other related parties are referred to in note 5.

Signed on behalf of the Board by

Ed Anderson	**Iain Cornish**
Chairman	Chief Executive

27 July 2011

Forward-looking statements

This interim report contains certain forward-looking statements. These statements 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 and 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. Therefore actual results may differ materially from those expressed or implied by these forward-looking statements.

The directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Condensed group income statement

	Notes	**Half-year to 30 June 2011 (Unaudited) £m**	Half-year to 30 June 2010 (Unaudited) Restated* £m	Year to 31 December 2010 (Audited) £m
Interest receivable and similar income		**683.0**	613.2	1,310.7
Interest payable and similar charges		**(511.3)**	(501.7)	(1,038.0)
Net interest income		**171.7**	111.5	272.7
Fees and commissions receivable		**20.8**	18.9	46.2
Fees and commissions payable		**(4.3)**	(3.4)	(9.0)
Net fee and commission income		**16.5**	15.5	37.2
Net losses from fair value volatility on financial instruments		**(3.2)**	(8.9)	(10.5)
Net realised (losses)/profits on debt securities		**(0.2)**	15.0	15.2
Other operating income		**4.0**	3.0	6.2
Total income		**188.8**	136.1	320.8
Administrative expenses		**(78.9)**	(66.1)	(147.8)
Chelsea Building Society merger costs		**(6.9)**	(2.4)	(10.4)
Other exceptional transaction costs	9	**(5.2)**	-	-
Depreciation and amortisation		**(7.4)**	(6.7)	(14.8)
Operating profit before provisions		**90.4**	60.9	147.8
Impairment of loans and advances to customers	2	**(15.0)**	(19.0)	(40.8)
Impairment of debt securities		**-**	-	(5.1)
Operating profit before exceptional provisions		**75.4**	41.9	101.9
Financial Services Compensation Scheme levy		**(2.3)**	(1.5)	(3.6)
Operating profit		**73.1**	40.4	98.3
Negative goodwill	7	**-**	17.1	17.1
Profit before tax		**73.1**	57.5	115.4
Tax expense	4	**(20.2)**	(11.5)	(23.6)
Net profit		**52.9**	46.0	91.8

*The provisional valuations of the balances acquired with the Chelsea have been finalised. See note 7.

Condensed group statement of comprehensive income

	Notes	**Half-year to 30 June 2011 (Unaudited)**	Half-year to 30 June 2010 (Unaudited) Restated*	Year to 31 December 2010 (Audited)
		£m	£m	£m
Available for sale investments:				
Valuation gains taken to equity		**13.8**	21.2	2.4
Amounts transferred to income statement		**2.8**	(6.5)	1.2
Cash flow hedges:				
Gains/(losses) taken to equity		**1.3**	(2.4)	(1.9)
Amounts transferred to income statement		**7.1**	1.7	7.2
Actuarial gain/(loss) on retirement benefit obligations		**38.3**	(29.5)	4.8
Tax on items taken directly to or transferred from equity	4	**(19.5)**	4.4	(7.6)
Net income/(expense) not recognised directly in the income statement		**43.8**	(11.1)	6.1
Net profit		**52.9**	46.0	91.8
Total comprehensive income for the period		**96.7**	34.9	97.9

*The provisional valuations of the balances acquired with the Chelsea have been finalised. See note 7.

Condensed group statement of financial position

ASSETS	Notes	30 June 2011 (Unaudited) £m	30 June 2010 (Unaudited) Restated* £m	31 December 2010 (Audited) £m
Liquid assets				
Cash in hand and balances with the Bank of England		**2,252.7**	2,062.6	1,310.8
Loans and advances to credit institutions		**611.6**	785.4	935.8
Debt securities		**3,148.1**	4,063.7	3,615.2
Loans and advances to customers				
Loans secured on residential property		**23,078.5**	23,218.5	23,296.6
Other loans		**59.5**	133.9	74.1
Derivative financial instruments		**665.6**	555.2	579.8
Investments		**2.1**	2.1	2.1
Intangible assets		**18.6**	22.7	20.4
Investment properties		**17.9**	18.4	18.7
Property, plant and equipment		**106.4**	110.2	107.3
Deferred tax assets	4	**94.5**	117.2	107.8
Retirement benefit assets	3	**44.8**	-	-
Other assets		**20.7**	11.9	17.7
Total assets		**30,121.0**	31,101.8	30,086.3

LIABILITIES	Notes	30 June 2011 (Unaudited) £m	30 June 2010 (Unaudited) Restated* £m	31 December 2010 (Audited) £m
Shares		**21,045.0**	22,698.5	21,382.5
Amounts owed to credit institutions		**906.6**	793.3	926.4
Other deposits		**1,022.9**	1,108.7	1,061.9
Debt securities in issue		**4,743.3**	3,956.9	4,348.4
Derivative financial instruments		**418.4**	653.7	472.3
Current tax liabilities	4	**28.3**	31.9	22.6
Deferred tax liabilities	4	**25.4**	2.8	13.7
Retirement benefit obligations	3	**-**	49.6	14.2
Other liabilities		**62.8**	81.1	74.2
Provisions		**52.5**	64.0	50.4
Subordinated liabilities		**213.4**	217.0	214.9
Subscribed capital		**168.2**	169.8	167.3
		28,686.8	29,827.3	28,748.8
Total equity attributable to members		**1,434.2**	1,274.5	1,337.5
Total liabilities		**30,121.0**	31,101.8	30,086.3

*The provisional valuations of the balances acquired with the Chelsea have been finalised. See note 7.

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 2011				
At 1 January 2011 (Audited)	1,408.1	(32.6)	(38.0)	1,337.5
Current year movement net of tax	78.8	5.7	12.2	96.7
At 30 June 2011 (Unaudited)	1,486.9	(26.9)	(25.8)	1,434.2
HALF-YEAR TO 30 JUNE 2010 (Restated)*				
At 1 January 2010 (Audited)	975.6	(36.0)	(39.8)	899.8
Transfer of engagement**	339.8	-	-	339.8
Current period movement net of tax	24.8	(0.5)	10.6	34.9
At 30 June 2010 (Unaudited)	1,340.2	(36.5)	(29.2)	1,274.5
YEAR TO 31 DECEMBER 2010				
At 1 January 2010 (Audited)	975.6	(36.0)	(39.8)	899.8
Transfer of engagement**	339.8	-	-	339.8
Current period movement net of tax	92.7	3.4	1.8	97.9
At 31 December 2010 (Audited)	1,408.1	(32.6)	(38.0)	1,337.5

The hedging reserve relates to fair value adjustments on derivative financial instruments designated as cash flow hedges. It is expected that the forecast transactions will largely occur over the next four years and the amount deferred will be recognised over this period.

*The provisional valuations of the balances acquired with the Chelsea have been finalised. See note 7.

**Merger with Chelsea Building Society on 1 April 2010, see note 7.

Condensed group statement of cash flows

	Notes	**Half-year to 30 June 2011 (Unaudited)** **£m**	Half-year to 30 June 2010 (Unaudited) Restated* £m	Year to 31 December 2010 (Audited) £m
Cash flows from operating activities:				
Profit before tax		**73.1**	57.5	115.4
Working capital adjustments	6	**5.0**	(68.7)	52.7
Net decrease in operating assets	6	**202.1**	1,194.5	1,008.1
Net decrease in operating liabilities	6	**(646.2)**	(2,063.5)	(3,293.2)
Net cash flows from operating activities		**(366.0)**	(880.2)	(2,117.0)
Cash flows from investing activities:				
Cash acquired on transfer of engagements		**-**	1,227.4	1,227.4
Purchase of property, plant and equipment and intangible assets		**(4.7)**	(3.7)	(7.7)
Proceeds from sale of property, plant and equipment		**1.3**	-	0.2
Purchase of debt securities		**(662.2)**	(3,649.1)	(4,270.2)
Proceeds from sale and redemption of debt securities		**1,140.5**	5,822.0	6,881.7
Net cash flows from investing activities		**474.9**	3,396.6	3,831.4
Cash flows from financing activities:				
Redemption of securities		**(873.8)**	(2,394.9)	(2,278.6)
Issue of securities		**1,403.0**	598.5	723.7
Interest paid on subordinated liabilities and subscribed capital		**(14.8)**	(11.4)	(26.5)
Net cash flows from financing activities		**514.4**	(1,807.8)	(1,581.4)
Taxation paid		**(9.0)**	(7.8)	(20.9)
Net increase in cash and cash equivalents		**614.3**	700.8	112.1
Opening balance		**2,335.7**	2,223.6	2,223.6
Total closing cash and cash equivalents		**2,950.0**	2,924.4	2,335.7
Cash and cash equivalents:				
Cash and balances with central banks		**2,229.5**	2,034.7	1,285.8
Loans and advances to banks		**611.6**	781.7	935.8
Debt securities		**108.9**	108.0	114.1
		2,950.0	2,924.4	2,335.7

*The provisional valuations of the balances acquired with the Chelsea have been finalised. See note 7.

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 2011.

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 IFRS as adopted by the European Union.

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 2011 are given on page 32 of the 2010 Annual Report and Accounts.

The latest formal review, undertaken in June 2011, followed a similar approach and additionally considered the impact of both the proposed N&P merger, the intended acquisition of retail books from Egg Banking plc and the recently developed reverse stress tests.

As a result of the detailed assessment performed in June 2011 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.

Business combination

The Society acquired Chelsea Building Society on 1 April 2010 and has accounted for this in accordance with 'International Financial Reporting Standard 3 Business Combinations (Revised)'. More detail of this transaction can be found in Note 7.

2. IMPAIRMENT

The charge for the period relates to loans secured on residential mortgages.

Notes to the accounts continued

3. RETIREMENT BENEFIT OBLIGATIONS

	At 1 January 2011 £m	Movements £m	At 30 June 2011 £m
Present value of defined benefit obligation	(456.7)	35.1	(421.6)
Assets at fair value	442.5	23.9	466.4
Funded status/(defined liability)	(14.2)	59.0	44.8

The present value of defined benefit obligation as at 30 June 2011 has been derived in the main by using key assumptions consistent with those used for the 31 December 2010 year-end calculations. The assumptions which have changed, have done so in line with the Society's practice of adopting, where appropriate, assumptions consistent with those agreed for the Scheme's most recent triennial valuation. Based on what has provisionally been agreed for the Scheme's 31 December 2010 triennial valuation, the assumptions relating to the rate of longevity, salary growth and the difference between RPI and CPI have changed. This change in assumptions has led to a decrease in the defined benefit obligation since 31 December 2010.

A £20m special contribution paid by the Society in April 2011 and asset performance has also led to an increase in the fair value of assets in the Scheme.

4. TAXATION

It is estimated that the reduction in the corporation tax rate from 26% to 25% as announced in the Budget of 23 March 2011 will give rise to a reduction in value of the Group's deferred tax assets of up to £2.4m in the second half of 2011 and will represent a tax cost to the Group.

An effective tax rate of 27.6% has been applied to the Group's profit. This is higher than the standard corporation tax rate for the period due to the level of non tax-deductible expenses.

5. RELATED PARTIES

The Group had no material or unusual related party transactions during the half-year to 30 June 2011. Transactions for this period are similar to those for the year to 31 December 2010, details of which can be found in the 2010 Annual Report and Accounts.

*The provisional valuations of the balances acquired with the Chelsea have been finalised. See note 7.

Notes to the accounts continued

6. NOTES TO THE GROUP STATEMENT OF CASHFLOWS

	Half-year to 30 June 2011 (Unaudited) £m	Half-year to 30 June 2010 (Unaudited) Restated* £m	Year to 31 December 2010 (Audited) £m
Working capital adjustments:			
Depreciation and amortisation	**7.4**	6.8	15.5
Profit on sale of assets	**(0.5)**	-	-
Interest on subordinated liabilities and subscribed capital	**14.8**	11.4	26.5
Provisions	**17.3**	20.5	49.5
Gain attributable to transfer of engagements	**-**	(17.1)	(17.1)
Fair value of subordinated liabilities and subscribed capital	**(0.6)**	15.8	111.2
Losses/(profits) on realisation of debt securities	**0.2**	(15.0)	(15.2)
Increase in other assets	**(7.7)**	(11.0)	(13.9)
Decrease in other liabilities	**(25.9)**	(80.1)	(103.8)
Working capital adjustments	**5.0**	(68.7)	52.7
Decrease/(increase) in operating assets:			
Loans and advances to credit institutions	**(0.1)**	97.4	101.1
Loans and advances to customers	**217.7**	829.7	789.6
Derivative financial instruments	**(15.5)**	267.4	117.4
Net decrease in operating assets	**202.1**	1,194.5	1,008.1
Decrease in operating liabilities:			
Shares	**(337.5)**	(1,046.0)	(2,362.0)
Amounts owed to credit institutions	**(269.8)**	(859.8)	(726.7)
Other deposits	**(38.9)**	(157.7)	(204.5)
Net decrease in operating liabilities	**(646.2)**	(2,063.5)	(3,293.2)

*The provisional valuations of the balances acquired with the Chelsea have been finalised. See note 7.

Notes to the accounts continued

7. TRANSFER OF ENGAGEMENTS

On 1 April 2010 the Society acquired the business of Chelsea Building Society (the Chelsea).

The Interim group accounts to 30 June 2010 included provisional valuations of the balances acquired with the Chelsea. A further, updated, analysis was disclosed in the 2010 Annual Report and Accounts; there have been no further revisions and so these are the final valuations.

The comparative financials relating to the six months ended, and the financial position at, 30 June 2010 have been restated to reflect the final assessments of the fair value of the Chelsea's assets and liabilities at 1 April 2010.

This table identifies and explains the difference between the provisional and final fair values.

	Notes	Provisional fair value as at 30 June 2010 £m	Reclass-ifications £m	Adjustments £m	Final fair value as at 31 December 2010 £m
ASSETS					
Cash in hand and balances with the Bank of England		1,227.4	-	-	1,227.4
Loans and advances to credit institutions	a	97.5	3.6	-	101.1
Debt securities	a	1,642.3	(2.4)	-	1,639.9
Derivative financial instruments		85.4	-	-	85.4
Loans and advances to customers	c	9,218.1	(2.4)	6.0	9,221.7
Investment securities	a	1.2	(1.2)	-	-
Intangible assets		12.2	-	0.1	12.3
Property, plant and equipment	b	35.7	-	(3.3)	32.4
Investment properties	b	12.8	-	(1.0)	11.8
Other assets and prepayments		3.6	-	(0.1)	3.5
Current tax asset		0.4	-	2.5	2.9
Deferred tax asset		88.5	-	(0.5)	88.0
Total assets		12,425.1	(2.4)	3.7	12,426.4
LIABILITIES					
Shares		9,951.1	-	-	9,951.1
Deposits from banks and credit institutions		1,259.7	-	-	1,259.7
Due to customers		175.4	-	-	175.4
Derivative financial instruments		195.3	-	-	195.3
Debt securities in issue		311.5	-	-	311.5
Other liabilities	c	123.0	(9.3)	-	113.7
Provisions for liabilities and charges	c	24.5	6.9	11.6	43.0
Accruals and deferred income		3.4	-	-	3.4
Retirement benefit obligations		16.4	-	-	16.4
Reserves		364.8	-	(7.9)	356.9
Total liabilities		12,425.1	(2.4)	3.7	12,426.4
Goodwill					
Fair value of net assets		364.8	-	(7.9)	356.9
Less: deemed purchase consideration	d	339.8	-	-	339.8
Negative goodwill	e	25.0	-	(7.9)	17.1

The impact on the Condensed group income statement and the Condensed group statement of comprehensive income is limited to the change in Negative goodwill.

Notes to the accounts continued

7. TRANSFER OF ENGAGEMENTS (continued)

Notes and adjustments

a. Investment securities of £1.2m were reclassified to Debt securities. In addition, £3.6m of fair value adjustments were reclassified as relating to Debt securities rather than Loans and advances to credit institutions.

b. The property valuations were revised following physical inspection.

c. Revisions were made to provisions for mortgage impairment, mis-selling and FSCS and there has been a reclassification of the FSCS provision from Other liabilities to Provision for liabilities and charges.

d. The combination of the two societies did not result in any transfer of consideration. As disclosed in the 2010 Annual Report & Accounts, the deemed purchase price has been calculated by measuring the fair value of the Chelsea business.

e. The impact of the revisions to the fair value adjustments has been to reduce the negative goodwill, recognised through the income statement, by £7.9m to £17.1m.

8. WHOLESALE FUNDING

In the first half of 2011 £1.4bn was raised via a sterling Covered Bond issue and our inaugural Residential Mortgage-Backed Security transaction. Transaction costs incurred are amortised over the life of the underlying instruments.

9. OTHER EXCEPTIONAL TRANSACTION COSTS

Other exceptional transaction costs relate to the proposed merger with Norwich & Peterborough Building Society and the intended acquisition of prime mortgage and savings books from Egg Banking plc (see below).

10. POST BALANCE SHEET EVENTS

On 25 July 2011, the Yorkshire announced that it had entered into an agreement with Egg Banking plc to acquire its mortgage and savings books. Assuming the deal (which is subject to High Court approval) completes as expected, it will increase membership numbers by c.550,000 and add over £400m of prime mortgages and over £2bn of retail savings.

Responsibility statement

We confirm that to the best of our knowledge: the condensed set of financial statements has been prepared in accordance with 'IAS 34 Interim Financial reporting'; the interim management 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 management 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, Chairman

Richard Davey, Vice Chairman

Iain Cornish, Chief Executive

27 July 2011

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 2011 which comprises the group income statement, the group statement of comprehensive income, the group statement of financial position, the group statement of changes in members' interest, the group statement of cash flows and related notes 1 to 10. 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 Services 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 2011 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 Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom
27 July 2011

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 2010 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2010 have been filed with the Financial Services Authority.

The Auditor's report on these 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 the website of Yorkshire Building Society. The directors are responsible for the maintenance and integrity of the information on the Society's 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.

YBM 4370 27 07 2011