INTERIM GROUP ACCOUNTS

30 JUNE 2012

Yorkshire
BUILDING SOCIETY

INTERIM MANAGEMENT REPORT

for the six months ended 30 June 2012

Chief Executive's summary

I am pleased to report that the Group continues to go from strength to strength, reporting another strong financial and operating performance for the first six months of 2012. The results incorporate the trading of the Egg mortgage and savings business and Norwich & Peterborough Building Society (N&P), both of which were acquired in the second half of 2011. The financial highlights for the six months to 30 June 2012 include:

- **Increased profit;** statutory profit before tax increased to £82.8m (30 June 2011: £73.1m) and core operating profit[1] was broadly stable at £92.4m (30 June 2011: £90.2m);
- **Mortgage balance growth;** increased gross mortgage lending to £2.4bn (30 June 2011: £1.5bn) and coupled with strong retention rates, this resulted in a positive net lending position of £523m and mortgage balances of £27.5bn (31 December 2011: £27.0bn);
- **Stable members' savings balances;** £26.1bn (31 December 2011: £26.0bn) meaning that 98.3% of mortgages are funded by savings balances (31 December 2011: 97.4%);
- **Maintained capital strength and liquidity position;** core tier 1 capital of 12.9% (31 December 2011: 12.6%) and a group liquidity ratio of 15.9% (31 December 2011: 16.5%); and
- **Improved asset quality;** a continued improvement in the number of loans in arrears by more than three months to 1.38% (31 December 2011: 1.58%), remaining well below the industry average[2].

Our strong financial performance, allied with our merger and acquisition activity in recent years, has reinforced our position as a strong and resilient organisation, giving our members confidence to trust us to remain financially stable throughout the current economic crisis.

Our strength has allowed us, throughout the first half of 2012, to continue to deliver value to our members through our range of products and through excellent service. In particular we have:

- received 313 best buy mentions for our savings products[3];
- seen our Triple Access Saver Account (launched a year ago) go from strength to strength with over 87,000 customers holding more than £1,450m of balances;
- sold 3,783 Loyalty Bonds (£70m in total) to members who benefit from an extra 0.25% of interest on their savings;
- received 1,314 mortgage best buy mentions[3] – an increase of nearly 50% compared to the first six months of 2011;
- launched our successful Offset mortgage to our Chelsea customers, which has accounted for around 27% of all Chelsea mortgage applications for the first half of 2012;
- continued to support first time buyers - increasing lending to this group by 46% (compared to the same period last year);
- increased customer choice by introducing a range of house purchase mortgage products to Yorkshire and Chelsea customers with a fee-assisted legal service and free standard valuations – a unique offering in the current house purchase market;
- seen customers continue to rate our service highly, with 91% of Group customers rating our service as 'excellent' or 'good' in our monthly customer satisfaction survey. The Group's average Net Promoter Score[4], an industry measure of active customer advocacy, was 48% over the period of this report, compared to an average of 0% for UK banks[5];

1. Further details shown on page 3
2. Source: Council Mortgage Lenders for Q1 2012, published 04 May 2012
3. Source: Presswatch Financial from Kantar Media
4. The Net Promoter Score refers to the net percentage of customers who, when responding to the question "how likely is it that you would recommend us to a friend or colleague?" would either strongly recommend or strongly detract from the organisation
5. Source: Satmetrix 2011 Net Promoter® Benchmark Study for Consumers in France, Germany and the UK

INTERIM MANAGEMENT REPORT continued

- seen the Financial Ombudsman Service overturn only 13% of our complaint decisions for the year ended 31 March 2012, much lower than the published average for the sector, for the same period, which is 64%[6]; and
- won a range of awards including Yorkshire Building Society being named Best High Street Savings Provider at this year's Consumer Moneyfacts Awards following a consumer survey completed by over 60,000 people – the largest survey of its kind.

Awards	Accolade	Brand
Consumer Moneyfacts Awards 2012	Best High Street Savings Provider	Yorkshire Building Society
Moneynet Awards 2012	Best Overall Mortgage Provider	
	Best Offset Mortgage Provider	
	Best Fixed Rate Mortgage Provider	
Moneyfacts Awards 2012	Best Short Term Fixed Rate Mortgage Provider	
	Best Long Term Fixed Rate Mortgage Provider	
	Best Building Society Mortgage Provider	
Moneywise Mortgage Awards 2012	Best Lender for Fixed Rates	Chelsea Building Society
Moneynet Awards 2012	Best Debit Card for Use Abroad	N&P Norwich & Peterborough Building Society
Moneywise Mortgage Awards 2012	Innovator of the Year	Accord mortgages

We firmly believe that we have a strong foundation built on a track record of delivery and on the trust our customers continue to show in us. We do not take this for granted and work to protect both of these elements. We are determined to, and confident that we will, continue to grow as a business, to offer long term value to our members and to remain the employer of choice for our people.

Personally, it has been an amazing first six months and I would like to take this opportunity to thank everyone, colleagues and members, for making me feel welcome. I feel honoured to have taken on a business with such a strong legacy and with such committed colleagues. I look forward to taking the business forward during the next six months and beyond.

Chris Pilling
Chief Executive

6. Source: Financial Ombudsman Service for the year ending 31 March 2012, including N&P figures from the date of merger (1 November 2011)

BUSINESS HIGHLIGHTS

The Group has made a very strong start to the year with an increased profit position. Statutory profits for the six months to 30 June 2012 were:

- £82.8m on a pre-tax basis (six months to June 2011: £73.1m); and
- £63.1m on a post-tax basis (six months to June 2011: £52.9m).

As in previous years, some of the items impacting our statutory profits are either one-off items or timing differences that reverse over time, and do not necessarily reflect the underlying performance of the Group. The Board therefore closely monitors the core operating profit of the Group which removes these items – whether the impact is positive or negative.

Our core operating profit for the six months to 30 June 2012 increased to £92.4m from £90.2m in the same period in 2011. The table below explains the adjustments made to the statutory figures to arrive at this core operating view.

		Half-year ended 30 June 2012			Half-year ended 30 June 2011			Year ended 31 December 2011		
	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	171.7		171.7	328.6	1.9	330.5
Non-interest income (net)	i)	24.5	0.5	25.0	20.5	(0.5)	20.0	47.4	(0.6)	46.8
Volatility on assets held at fair value	ii)	0.7	(0.7)	-	0.9	(0.9)	-	(5.6)	5.6	-
Fair value volatility on derivatives and hedging	ii)	-		-	(4.1)	4.1	-	(4.5)	4.5	-
Net realised profits/(losses)		20.8		20.8	(0.2)		(0.2)	3.5		3.5
Total income		217.7		217.5	188.8		191.5	369.4		380.8
Management expenses		(111.8)		(111.8)	(86.3)		(86.3)	(192.1)	4.6	(187.5)
Merger and acquisition costs	iii)	(9.8)	9.8	-	(12.1)	12.1	-	(17.5)	17.5	-
Operating profit before provisions		96.1		105.7	90.4		105.2	159.8		193.3
Impairment of loans and advances to customers		(12.5)		(12.5)	(15.0)		(15.0)	(30.1)		(30.1)
Other provisions		(0.8)		(0.8)	-		-	-		-
Operating profit before exceptional provisions		82.8		92.4	75.4		90.2	129.7		163.2
FSCS levy	iv)	-		-	(2.3)	2.3	-	(5.6)	5.6	-
Operating profit		82.8		92.4	73.1		90.2	124.1		163.2
Negative goodwill	v)	-		-	-		-	5.6	(5.6)	-
Profit before tax		82.8		92.4	73.1		90.2	129.7		163.2

Notes - significant exclusions made in calculation of Core Operating Profit

i) Profits and losses on property.
ii) Fair value timing differences.
iii) Integration expenses associated with the mergers with Chelsea Building Society and Norwich & Peterborough Building Society and the acquisition of Egg Banking plc mortgage and savings books.
iv) Financial Services Compensation Scheme levy, see page 13.
v) Negative goodwill arising on merger with Norwich & Peterborough Building Society.

BUSINESS HIGHLIGHTS continued

During the first six months of 2012 the Board's focus has been:

- growing the business through increased new lending without changing our risk appetite, and continuing to attract retail funding at sustainable pricing;
- maintaining a strong stream of non-interest income from the products offered through our third party relationships;
- commencing integration of the Norwich & Peterborough's (N&P) operations into the enlarged Group and planning for the integration of the Egg business later this year;
- the successful issuance of a £500m four-year covered bond in March attracting 44 investors with the total order book reaching £825m. The deal was particularly successful as it was the first four-year deal, closing a gap in the sterling market covered bond maturity spectrum;
- strengthening the stability of the balance sheet, including the close monitoring of the maturity profile of our wholesale funding which has a weighted-average life of three years;
- removing reliance on the short-term interbank markets for any material amount of funding and with 98% of the Group's mortgages funded by retail savings deposits giving a very stable funding base to support our mortgage lending activity;
- maintaining capital and liquidity ratios at an efficient level, sensibly and safely above the regulatory minimum; and
- continued close management of our arrears position which has further improved (despite the continued difficult economic conditions) and which remains below the industry average.

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

- a full half-year impact of income from N&P and from the Egg portfolios;
- a £21m gain from the sale of UK Government gilts. Decisions to sell such assets are primarily driven by the requirement to prove their liquidity by transacting regularly, rather than from a desire to generate an income stream;
- a net interest margin which remained constant at £171.7m (six months to 30 June 2011: £171.7m) which, when expressed as a percentage of mean assets, falls to 1.05% (six months to 30 June 2011: 1.14%), reflecting our increased asset position following the mergers;
- an increase in non-interest income to £24.5m (six months to 30 June 2011: £20.5m), earned principally from selling assurance, insurance and investment products through our partners; and
- a fall in the impairment charge for actual and potential losses on our mortgage loans to £12.5m (six months to 30 June 2011: £15.0m) reflecting the reduction in our arrears and better than anticipated house price movements.

We have seen a rise in our management expenses (including merger and acquisition costs) from £98.4m at 30 June 2011 to £121.6m, which includes a full six months of costs relating to N&P and the management of the Egg portfolio. These running costs will remain until the completion of the integration programmes for N&P and Egg. Our principal efficiency measure (management expenses as a percentage of mean assets) increased to 0.74% (30 June 2011: 0.65%). If merger and acquisition related costs and other exceptional costs are excluded, the underlying measure falls to 0.68% (30 June 2011: 0.57%). The increase in the management expenses ratio reflects the current levels of investment in the business. Our cost:income ratio looks at the relationship between the Group's costs and the income generated by the business. The cost:income ratio has fallen (i.e. improved) in the first six months of 2012 to 56% (31 December 2011: 57%) meaning we are spending less to generate each £1 of income.

Distribution network

Our strategy continues to be to focus our branch and agency network at the heart of local communities across the UK. As promised, we have been busy extending our branch network. We plan to open 12 new branches over the next few years in our heartland areas and have already opened the first three of these in Pudsey, Ilkley and Bingley. We have also recently opened our 96th agency, in the Coventry area, and we plan to continue to grow our agency franchise.

BUSINESS HIGHLIGHTS continued

Last year we piloted a Branch Revitalisation programme to raise the profile of our branches and branch teams in their communities and to equip our people with the tools and support they need to be able to deliver an exceptional customer experience every time. This proved very successful and we are now rolling out the programme to a large number of branches. We are starting with 46 branches in the Yorkshire heartland, and will expand to more regions throughout 2012 and 2013.

Our online offering continues to be improved, with a simplified login process and a new layout for the account management area, making it easier for our members to use their accounts. Further pieces of new functionality will emerge from the Egg integration.

We will continue to work to ensure our members can transact seamlessly with us across all our channels.

Principal risks and uncertainties

The principal risks and uncertainties affecting the Group were reported on page 56 of the Annual Report and Accounts as at 31 December 2011, and these continue to affect the Group at 30 June 2012.

The Group's business activities are focused on the UK and predominantly relate to mortgage lending throughout the UK, funded primarily through domestic deposits.

We take an extremely cautious approach to liquidity management and as at 30 June 2012 this portfolio consisted almost entirely of exposure to the Bank of England and the UK Government. 83% of wholesale market credit exposure was rated AAA (31 December 2011: 81%) and 79% of the exposure had less than three months to maturity (31 December 2011: 46%), ensuring that the Group maintains an extremely robust liquidity position as well as a very strong capital position.

The Group has no direct exposure to peripheral European economies with the remaining loan to an Irish banking counterpart having matured on 20 July 2012.

Outlook for 2012

In our planning for the remainder of 2012 and beyond, we continue to believe that the biggest risk to the UK is posed by the continuing crisis within the Eurozone. A substantial portion of UK exports are reliant on demand from the Eurozone, so to the extent that tensions within the Euro currency area are not resolved by the various bailout packages, structural reforms and liquidity initiatives that continue to be announced, there are clear downside risks to a recovery in UK economic growth.

Against this backdrop, it seems likely that the Bank of England Monetary Policy Committee will maintain Bank Rate at its current historic low for some time to come, particularly as the inflation statistics have now started to fall back to target levels. Additionally, the Bank of England has recently announced an important new liquidity programme (the Funding for Lending Scheme) which is aimed at providing banks and building societies with attractive cost-effective funding to support an increase in their overall level of net lending. In terms of the Group's own lending plans, we are very comfortable with our ability to access the wholesale markets (for example via securitisation and covered bonds) as part of our objective to continue to grow our mortgage portfolio. However, we will examine the detail of the scheme closely to choose the best mix of funding options that can support growth in net lending and deliver value to the membership as a whole.

We continue to operate in a period of regulatory change. The UK Government has published a White Paper on its plans to take forward the recommendations from the Independent Commission on Banking report. The proposal is to ring fence traditional banks from investment banks to promote stability. Building societies have been excluded from any of the requirements set down due to similarities that will exist between the new rules and the current regulations that building societies work under. 'The Future of Building Societies' document, which sets out the government's proposals for changes to regulation for building societies, has recently been published for consultation, in which we will participate. In addition to this, there is the impact on the business of Basel III, the Mortgage Market Review and Retail Distribution Review – all new regulatory initiatives that come into force in the near future. Many uncertainties remain around the changes which the new regulatory regime will bring when the Financial Services Authority is replaced by the Prudential Regulation Authority and the Financial Conduct Authority in 2013.

BUSINESS HIGHLIGHTS continued

We continue to monitor closely these and other developments in the economy and in our operating environment. Our detailed planning includes the consideration of 'stressed' scenarios to ensure we are robustly positioned to cope with any reasonably foreseeable development. In line with best practice, we have also undertaken our normal periodic going concern review and concluded that preparing our accounts on this basis is appropriate, as described in note 1.

Changes to the Board

A complete list of the Board of Directors can be found in the 2011 Annual Report and Accounts. Further to this on 18 April 2012 Richard Davey retired from the Board. Richard had been a Board member for six and a half years and Vice Chairman for the past five years. During this time he made an outstanding contribution to the Board and we offer our sincere thanks. On the same date, Lynne Charlesworth was appointed Vice Chairman. Her background of working within the building society sector, her work as the chair of the Group Risk Committee and the oversight role that she held for the Group's Treating Customers Fairly policies (which now falls within the remit of Kate Barker's Conduct Risk Oversight role) give her tremendous insight and mean she is ideally suited for this role.

Signed on behalf of the Board by

Ed Anderson	**Chris Pilling**
Chairman	Chief Executive

25 July 2012

Forward-looking statements

This interim report, composing the Interim Management Report and Business Highlights, 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 2012 (Unaudited) £m	Half-year to 30 June 2011 (Unaudited) £m	Year to 31 December 2011 (Audited) £m
Interest receivable and similar income		**692.9**	683.0	1,377.5
Interest payable and similar charges		**(521.2)**	(511.3)	(1,048.9)
Net interest income		**171.7**	171.7	328.6
Fees and commissions receivable		**25.4**	20.8	48.0
Fees and commissions payable		**(3.6)**	(4.3)	(8.1)
Net fee and commission income		**21.8**	16.5	39.9
Net gains/(losses) from fair value volatility on financial instruments		**0.7**	(3.2)	(10.1)
Net realised profits/(losses)	2	**20.8**	(0.2)	3.5
Other operating income		**2.7**	4.0	7.5
Total income		**217.7**	188.8	369.4
Administrative expenses		**(104.0)**	(78.9)	(177.4)
Merger and acquisition costs	3	**(9.8)**	(12.1)	(17.5)
Depreciation and amortisation		**(7.8)**	(7.4)	(14.7)
Operating profit before provisions		**96.1**	90.4	159.8
Impairment of loans and advances to customers	4	**(12.5)**	(15.0)	(30.1)
Other provisions		**(0.8)**	-	-
Operating profit before exceptional provisions		**82.8**	75.4	129.7
Financial Services Compensation Scheme levy	5	**-**	(2.3)	(5.6)
Operating profit		**82.8**	73.1	124.1
Negative goodwill		**-**	-	5.6
Profit before tax		**82.8**	73.1	129.7
Tax expense	6	**(19.7)**	(20.2)	(23.5)
Net profit		**63.1**	52.9	106.2

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Half-year to 30 June 2012 (Unaudited) £m**	Half-year to 30 June 2011 (Unaudited) £m	Year to 31 December 2011 (Audited) £m
Net profit		**63.1**	52.9	106.2
Net (expense)/income not recognised directly in the income statement				
Available for sale investments:				
Valuation gains taken to equity		**13.6**	13.8	69.0
Amounts transferred to income statement		**(26.7)**	2.8	1.9
Cash flow hedges:				
(Losses)/gains taken to equity		**(22.2)**	1.3	(16.5)
Amounts transferred to income statement		**6.6**	7.1	12.7
Actuarial gain on retirement benefit obligations		**20.7**	38.3	18.7
Tax on items taken directly to or transferred from equity	6	**(0.1)**	(19.5)	(36.4)
		(8.1)	43.8	49.4
Total comprehensive income for the period		**55.0**	96.7	155.6

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	30 June 2012 (Unaudited) £m	30 June 2011 (Unaudited) £m	31 December 2011 (Audited) £m
Liquid assets				
Cash in hand and balances with the Bank of England		**3,265.2**	2,252.7	1,598.4
Loans and advances to credit institutions		**468.6**	611.6	582.3
Debt securities		**1,079.4**	3,148.1	2,737.1
Loans and advances to customers				
Loans secured on residential property		**27,168.9**	23,078.5	26,659.3
Other loans		**358.2**	59.5	362.9
Derivative financial instruments		**383.4**	665.6	373.8
Investments		**2.2**	2.1	2.2
Intangible assets		**35.0**	18.6	30.4
Investment properties		**18.5**	17.9	25.5
Property, plant and equipment		**110.6**	106.4	109.6
Deferred tax assets	6	**101.3**	94.5	110.1
Retirement benefit surplus	7	**57.2**	44.8	32.9
Other assets		**20.3**	20.7	22.5
Total assets		**33,068.8**	30,121.0	32,647.0

LIABILITIES	Notes	30 June 2012 (Unaudited) £m	30 June 2011 (Unaudited) £m	31 December 2011 (Audited) £m
Shares		**26,123.8**	21,045.0	25,973.4
Amounts owed to credit institutions		**992.7**	906.6	765.4
Other deposits		**483.3**	1,022.9	510.3
Debt securities in issue		**2,680.7**	4,743.3	2,591.2
Derivative financial instruments		**545.7**	418.4	609.1
Current tax liabilities	6	**7.9**	28.3	22.3
Deferred tax liabilities	6	**24.2**	25.4	18.6
Retirement benefit obligations	7	**-**	-	1.2
Other liabilities		**75.6**	62.8	79.6
Provisions		**114.0**	52.5	110.4
Subordinated liabilities		**230.3**	213.4	230.9
Subscribed capital		**178.0**	168.2	177.0
		31,456.2	28,686.8	31,089.4
Total equity attributable to members		**1,612.6**	1,434.2	1,557.6
Total liabilities		**33,068.8**	30,121.0	32,647.0

CONDENSED GROUP STATEMENT OF CHANGES IN MEMBERS' INTEREST

	General reserve £m	Hedging reserve £m	Available for sale reserve £m	Total reserves £m
HALF-YEAR TO 30 JUNE 2012				
At 1 January 2012 (Audited)	**1,581.9**	**(36.3)**	**12.0**	**1,557.6**
Current period movement net of tax	**78.6**	**(12.2)**	**(11.4)**	**55.0**
At 30 June 2012 (Unaudited)	**1,660.5**	**(48.5)**	**0.6**	**1,612.6**
HALF-YEAR TO 30 JUNE 2011				
At 1 January 2011 (Audited)	1,408.1	(32.6)	(38.0)	1,337.5
Current period 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
YEAR TO 31 DECEMBER 2011				
At 1 January 2011 (Audited)	1,408.1	(32.6)	(38.0)	1,337.5
Transfer of engagements*	60.2	-	4.3	64.5
Current period movement net of tax	113.6	(3.7)	45.7	155.6
At 31 December 2011 (Audited)	1,581.9	(36.3)	12.0	1,557.6

*Merger with Norwich and Peterborough Building Society, see note 11.

CONDENSED GROUP STATEMENT OF CASH FLOWS

	Notes	Half-year to 30 June 2012 (Unaudited) £m	Half-year to 30 June 2011 (Unaudited) £m	Year to 31 December 2011 (Audited) £m
Cash flows from operating activities:				
Profit before tax		**82.8**	73.1	129.7
Working capital adjustments	9	**(11.0)**	5.0	71.0
Net (increase)/decrease in operating assets	9	**(575.8)**	202.1	(809.6)
Net increase/(decrease) in operating liabilities	9	**350.7**	(646.2)	881.7
Net cash flows from operating activities		**(153.3)**	(366.0)	272.8
Cash flows from investing activities:				
Cash acquired on transfer of engagements		**-**	-	251.5
Purchase of property, plant and equipment and intangible assets		**(13.3)**	(4.7)	(11.5)
Proceeds from sale of property, plant and equipment		**6.4**	1.3	1.5
Purchase of debt securities		**(825.1)**	(662.2)	(1,579.5)
Proceeds from sale and redemption of debt securities		**2,490.5**	1,140.5	2,725.0
Net cash flows from investing activities		**1,658.5**	474.9	1,387.0
Cash flows from financing activities:				
Redemption of securities		**(443.3)**	(873.8)	(2,963.3)
Issue of securities		**526.5**	1,403.0	1,178.0
Interest paid on subordinated liabilities and subscribed capital		**(15.7)**	(14.8)	(30.1)
Net cash flows from financing activities		**67.5**	514.4	(1,815.4)
Taxation paid		**(19.8)**	(9.0)	(24.4)
Net increase/(decrease) in cash and cash equivalents		**1,552.9**	614.3	(180.0)
Opening balance		**2,155.7**	2,335.7	2,335.7
Total closing cash and cash equivalents		**3,708.6**	2,950.0	2,155.7
Cash and cash equivalents:				
Cash and balances with central banks		**3,240.0**	2,229.5	1,573.4
Loans and advances to credit institutions		**468.6**	611.6	582.3
Debt securities		**-**	108.9	-
		3,708.6	2,950.0	2,155.7

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 2012.

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 2012 are given on page 40 of the 2011 Annual Report and Accounts.

The latest formal review, undertaken in July 2012, followed a similar approach and additionally considered the recommendations of the Sharman Inquiry published in June 2012.

As a result of the detailed assessment performed in July 2012, 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)

The gains in the period relate to the disposal of available for sale assets. As explained in the Business Highlights on page 4, 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 comprises professional fees, external project management resource and termination payments.

4. IMPAIRMENT

The charge for the period relates to loans secured on residential mortgages. There have been no changes to our approach to provisioning since 31 December 2011.

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 126 of the 2011 Annual Report and Accounts.

NOTES TO THE ACCOUNTS continued

5. FINANCIAL SERVICES COMPENSATION SCHEME (FSCS) LEVY

In May 2012 the International Accounting Standards Board published a draft IFRIC interpretation on 'Levies Charged by Public Authorities on Entities that Operate in a Specific Market'. The interpretation states that if a levy is triggered by the entity operating in a specific market at the end of the accounting period then the provision for the levy should be recognised at the end of the accounting period. This IFRIC applies to the FSCS levy which is based on the value of deposits at the end of the year.

The Group has adopted this guidance at the half-year. Based on publically available information, the levy charge for 2012 is expected to be in the region of £11m which will be provided for in full at the end of the year.

The FSCS has borrowings of approximately £18bn in the form of loans from HM Treasury, used to safeguard depositors' money following the financial institution failures in 2008 and 2009. While it is anticipated that the majority of the borrowings will be repaid wholly from recoveries from the institutions concerned, the FSCS has advised of an expected shortfall in excess of £800m. The Group's share of the shortfall is estimated to be in the region of £9m and is expected to be levied in three equal instalments beginning in the scheme year 2013/14. The first instalment of £3m will be provided for at the end of this year in addition to the £11m, relating to interest on the outstanding loan, noted above.

6. TAXATION

The Finance Act 2012 included provisions to reduce the corporation tax rate from 26% to 24% from 1 April 2012 and to 23% from 1 April 2013. The 24% rate has been reflected in the deferred tax balances in these accounts. Reduction of the rate to 23% was not substantively enacted by 30 June 2012 and is therefore not reflected in these accounts. It is estimated that the reduction in the corporation tax rate from 24% to 23% will reduce the value of the Group's deferred tax assets by up to £2.9m in the second half of 2012 and will represent a tax cost to the Group.

7. RETIREMENT BENEFIT OBLIGATIONS

	At 1 January 2012 £m	Movements £m	At 30 June 2012 £m
Present value of defined benefit obligation	(532.9)	5.5	(527.4)
Assets at fair value	564.6	20.0	584.6
Funded status/defined benefit asset	31.7	25.5	57.2

The present value of the defined benefit obligation as at 30 June 2012 has been derived by using assumptions consistent with those used for the 31 December 2011 year end calculations. Changes in market conditions, in particular slightly lower inflation expectations, have led to a decrease in the defined benefit obligation since 31 December 2011. During the same period, the fair value of assets has increased due to positive investment experience.

8. RELATED PARTIES

The Group had no related party transactions outside the normal course of the business during the half-year to 30 June 2012. Transactions for this period are similar to those for the year to 31 December 2011, details of which can be found in the 2011 Annual Report and Accounts.

NOTES TO THE ACCOUNTS continued

9. NOTES TO THE GROUP STATEMENT OF CASHFLOWS

	Half-year to 30 June 2012 (Unaudited)	Half-year to 30 June 2011 (Unaudited)	Year to 31 December 2011 (Audited)
	£m	£m	£m
Working capital adjustments:			
Depreciation and amortisation	**7.8**	7.4	14.7
Loss/(profit) on sale of assets	**0.5**	(0.5)	(0.6)
Interest on subordinated liabilities and subscribed capital	**15.7**	14.8	30.1
Provisions	**13.3**	17.3	35.7
Gain attributable to transfer of engagements	**-**	-	(5.6)
Fair value of subordinated liabilities and subscribed capital	**0.4**	(0.6)	14.4
Net realised (profits)/losses	**(20.8)**	0.2	(3.5)
Increase in other assets	**(1.6)**	(7.7)	(11.6)
Decrease in other liabilities	**(26.3)**	(25.9)	(2.6)
Working capital adjustments	**(11.0)**	5.0	71.0
(Increase)/decrease in operating assets:			
Loans and advances to credit institutions	**-**	(0.1)	56.0
Loans and advances to customers	**(493.5)**	217.7	(1,167.0)
Derivative financial instruments	**(82.3)**	(15.5)	301.4
Net (increase)/decrease in operating assets	**(575.8)**	202.1	(809.6)
Increase/(decrease) in operating liabilities:			
Shares	**150.4**	(337.5)	1,897.8
Amounts owed to credit institutions	**227.3**	(269.8)	(166.0)
Other deposits	**(27.0)**	(38.9)	(850.1)
Net increase/(decrease) in operating liabilities	**350.7**	(646.2)	881.7

NOTES TO THE ACCOUNTS continued

10. SEGMENTAL REPORTING

The Group's reportable segments under 'IFRS 8 Operating Segments', based on the information reviewed by the Board, have been determined according to similar economic characteristics and the nature of the products and service. These are listed below:

- Retail;
- Commercial;
- Head office; and
- Other.

There are no differences in the basis of segmentation, or in the basis of measurement of segment profit or loss, from the latest audited annual financial statements. Further details on the reportable segments can be found in note 12 of the 2011 Annual Report and Accounts.

HALF-YEAR TO 30 JUNE 2012 (UNAUDITED)	Notes	Retail £m	Commercial £m	Head office £m	Other £m	Total £m
Net interest income		244.5	8.4	(81.2)	-	171.7
Non-interest income and costs	a	20.8	0.4	20.7	3.4	45.3
Fair value		-	-	0.7	-	0.7
Management expenses	b	(94.7)	(0.8)	(25.8)	(0.3)	(121.6)
Operating profit before provisions		170.6	8.0	(85.6)	3.1	96.1
Provisions	c	(12.5)	-	-	(0.8)	(13.3)
Operating profit/(loss) before exceptional provisions		158.1	8.0	(85.6)	2.3	82.8
FSCS levy		-	-	-	-	-
Operating profit/(loss)		158.1	8.0	(85.6)	2.3	82.8
Negative goodwill		-	-	-	-	-
Profit/(loss) before tax		158.1	8.0	(85.6)	2.3	82.8
Tax (expense)/credit		(37.7)	(1.9)	20.4	(0.5)	(19.7)
Net profit/(loss)		120.4	6.1	(65.2)	1.8	63.1
Total assets		26,819.4	474.8	5,774.6	-	33,068.8
Total liabilities		26,507.6	-	4,948.6	-	31,456.2
Equity		-	-	1,612.6	-	1,612.6

Notes

a. Non-interest income and costs includes fees and commissions receivable, fees and commissions payable, net realised profits/(losses) and other operating income.

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

c. Retail provisions relate to impairment of loans and advances to customers.

d. Negative goodwill arose from the merger with Norwich & Peterborough Building Society. As such, this goodwill has been apportioned according to the constituent elements of each entity's balance sheet.

10. SEGMENTAL REPORTING (continued)

HALF-YEAR TO 30 JUNE 2011 (UNAUDITED)	Notes	Retail £m	Commercial £m	Head office £m	Other £m	Total £m
Net interest income		263.8	3.2	(95.3)	-	171.7
Non-interest income and costs	a	19.1	-	(0.2)	1.4	20.3
Fair value		-	-	(3.2)	-	(3.2)
Management expenses	b	(67.3)	(0.2)	(30.8)	(0.1)	(98.4)
Operating profit before provisions		215.6	3.0	(129.5)	1.3	90.4
Provisions	c	(15.0)	-	-	-	(15.0)
Operating profit/(loss) before exceptional provisions		200.6	3.0	(129.5)	1.3	75.4
FSCS levy		(2.3)	-	-	-	(2.3)
Operating profit/(loss)		198.3	3.0	(129.5)	1.3	73.1
Negative goodwill		-	-	-	-	-
Profit/(loss) before tax		198.3	3.0	(129.5)	1.3	73.1
Tax (expense)/credit		(54.8)	(0.8)	35.8	(0.4)	(20.2)
Net profit/(loss)		143.5	2.2	(93.7)	0.9	52.9
Total assets		22,875.7	113.3	7,132.0	-	30,121.0
Total liabilities		21,975.3	-	6,711.5	-	28,686.8
Equity		-	-	1,434.2	-	1,434.2

YEAR TO 31 DECEMBER 2011 (AUDITED)	Notes	Retail £m	Commercial £m	Head office £m	Other £m	Total £m
Net interest income		517.3	7.2	(195.9)	-	328.6
Non-interest income and costs	a	44.4	0.4	3.5	2.6	50.9
Fair value		-	-	(10.1)	-	(10.1)
Management expenses	b	(146.4)	(0.7)	(62.2)	(0.3)	(209.6)
Operating profit before provisions		415.3	6.9	(264.7)	2.3	159.8
Provisions	c	(30.1)	-	-	-	(30.1)
Operating profit/(loss) before exceptional provisions		385.2	6.9	(264.7)	2.3	129.7
FSCS levy		(5.6)	-	-	-	(5.6)
Operating profit/(loss)		379.6	6.9	(264.7)	2.3	124.1
Negative goodwill	d	5.2	0.4	-	-	5.6
Profit/(loss) before tax		384.8	7.3	(264.7)	2.3	129.7
Tax (expense)/credit		(69.8)	(1.3)	48.0	(0.4)	(23.5)
Net profit/(loss)		315.0	6.0	(216.7)	1.9	106.2
Total assets		26,437.7	457.7	5,751.6	-	32,647.0
Total liabilities		26,322.9	-	4,766.5	-	31,089.4
Equity		-	-	1,557.6	-	1,557.6

NOTES TO THE ACCOUNTS continued

11. TRANSFER OF ENGAGEMENTS

On 1 November 2011 the Group acquired the business of Norwich & Peterborough Building Society (N&P). The Annual Report and Accounts to 31 December 2011 included provisional valuations of the balances acquired with N&P.

In accordance with accounting standards these provisional valuations may, under certain circumstances, be adjusted in the period until the first anniversary of the merger. In preparing these interim financial statements a review of the provisional valuations has been performed and concluded that no adjustment is warranted. A further review will be undertaken before 31 October 2012.

12. WHOLESALE FUNDING

In the first half of 2012 £0.5bn was raised via a four-year sterling floating rate covered bond issue, our first issue in the GBP covered bond floating rate note market. This brings total outstanding issuance under our covered bond programme to £1.8bn which is secured against a £3.0bn pool of the Group's residential mortgages.

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 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

25 July 2012

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 2012 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 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 2012 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
25 July 2012

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 2011 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2011 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 Yorkshire Building Society's website. The directors are responsible for the maintenance and integrity of the information on the website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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Yorkshire BUILDING SOCIETY

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