INTERIM GROUP ACCOUNTS

30 JUNE 2013

Yorkshire
BUILDING SOCIETY

INTERIM MANAGEMENT REPORT

for the six months ended 30 June 2013

Chief Executive's summary

I am pleased to report a strong performance from the Yorkshire Building Society Group for the first six months of 2013. We have built on our financial strength and laid the foundations of our investment programme designed to deliver an outstanding customer experience.

Financial highlights include:

- **Strong profits;** statutory profit before tax of £80.1m (30 June 2012: £82.8m) and core operating profit[1] of £82.6m (30 June 2012: £92.4m).
- **Mortgage balance growth;** consistent gross lending volumes of £2.5bn (30 June 2012: £2.4bn) resulting in positive net lending of £450m with mortgage balances of £28.0bn (31 December 2012: £27.6bn).
- **Funding predominantly from members' savings;** balances of £26.3bn (31 December 2012: £26.8bn) meaning that 94% of mortgages are funded by members' savings (31 December 2012: 97%).
- **Maintained capital strength;** core tier 1 capital of 13.7% (31 December 2012: 13.6%).
- **Balanced liquidity position;**
  - Overall levels safely above regulatory requirements.
  - Balances reduced to a more cost-effective level of £4.1bn (31 December 2012: £5.2bn).
  - In addition, £450m 'drawn down' and available via the Government's Funding for Lending Scheme.
- **Sustained asset quality;** number of loans in arrears by more than three months remains well below the industry average[2] at 1.28% (31 December 2012: 1.25%). The number in arrears by more than 12 months has reduced to 0.12% (31 December 2012: 0.14%).

The continued strong performance is testament to the fact that we remain different to other financial institutions, many of whom have scaled back lending, closed branches and walked away from providing face-to-face financial advice. Against this backdrop we have:

- Offered our lowest ever fixed-rate mortgages across the Group.
- Re-introduced mortgage sales to our Norwich and Peterborough Building Society (N&P) branch network.
- Commenced our branch improvement programme, which included the opening of our first new 'concept' branch in Harrogate.
- Continued to open new branches and agencies, increasing our networks to 230 and 95 respectively.
- Continued to offer face-to-face financial advice to all customers through our relationship with Legal & General.

We are committed to providing a market-leading customer experience and in the first six months of 2013 we have:

- Continued to receive a high Net Promoter Score® with an average of 34%[3], compared to an industry average of 15%[4].
- Achieved 587 best buy mentions for our savings products – more than for the same period last year and 1,657 best buy mentions for our mortgage range[5].
- Seen over 6,000 customers open Yorkshire Building Society (YBS) Regular Saver accounts – three times as many as in the same period last year.

1. Further details shown on page 3.
2. Source: Council of Mortgage Lenders for Q1 2013, published 3 May 2013.
3. Source: Nunwood. Net Promoter Score® refers to the net percentage of customers (excluding N&P) 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.
4. Source: Satmetrix 2012 Net Promoter® Benchmark Study of Consumers in France, Germany and the UK, as at 31 December 2012.
5. Source: PressWatch Financial from Kantar Media.

INTERIM MANAGEMENT REPORT continued

Chief Executive's summary continued

- Delivered an average interest rate on our savings products of 2.27% compared to the rest of the market at 1.92%[6].
- Achieved consistent growth for our current account available through N&P.

In the current environment of mistrust towards financial services it is particularly pleasing that our YBS brand has recently been awarded **Most Trusted Financial Provider** at the Moneywise Awards 2013 – a fantastic achievement in line with our vision **'to be the most trusted provider of financial services in the UK'**.

We've already won an impressive range of awards this year:

Awards	Accolade	Brand
Moneywise Awards 2013	Most Trusted Financial Provider Most Trusted Savings Provider	Yorkshire Building Society
Moneynet Awards 2013	Best Offset Mortgage Provider Best Overall Mortgage Provider	Yorkshire Building Society
Consumer Moneyfacts 2013	High Street Savings Provider of the Year	Yorkshire Building Society
Moneywise Mortgage Awards 2013	Best Lender for Fixed Rate Mortgages	Yorkshire Building Society
Moneyfacts Awards 2013	Best Short Term Fixed Rate Mortgage Provider Best Building Society Mortgage Provider	Yorkshire Building Society
Moneynet Awards 2013	Best Debit Card for use abroad	N&P Norwich & Peterborough Building Society

Despite these successes, we are not complacent and during the first half of 2013 we have been drawing up detailed plans and putting the resources in place to deliver the major investment programme we announced in our 2012 Annual Report and Accounts. This is aimed at transforming our business, delivering an outstanding customer experience and moving us closer to achieving our vision.

Almost 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 will ensure we are able to continue to help people in this way, long into the future.

Chris Pilling
Chief Executive

6. Source: Average rates based on Savings stock from CACI's Current Account and Savings Database (CSDB), currently covering 87% of retail savings market. Data as at 31 March 2013.

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 2013 were:

- £80.1m on a pre-tax basis (30 June 2012: £82.8m).
- £60.0m on a post-tax basis (30 June 2012: £63.1m).

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 for the six months to 30 June 2013 fell to £82.6m from £92.4m in the same period in 2012. The main driver of this fall was the unusually high gains from Gilt sales in the comparative period. These gains are considered to be part of core operating profit as the periodic sale of a proportion of the liquidity portfolio is part of its routine management. The table below explains the adjustments made to statutory profit to arrive at this core operating view.

		Half-year ended 30 June 2013			Half-year ended 30 June 2012			Year ended 31 December 2012		
	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		203.8		203.8	171.7		171.7	346.0		346.0
Non-interest income (net)	i)	22.1	(3.4)	18.7	24.5	0.5	25.0	48.3		48.3
Volatility on assets held at fair value	ii)	3.6	(3.6)	-	0.7	(0.7)	-	(11.8)	11.8	-
Fair value volatility on derivatives and hedging	ii)	(3.1)	3.1	-	-		-	-		-
Net realised profits		1.2		1.2	20.8		20.8	77.9	(60.2)	17.7
Total income		227.6		223.7	217.7		217.5	460.4		412.0
Management expenses	iii)	(132.0)	5.8	(126.2)	(111.8)		(111.8)	(233.6)		(233.6)
Merger and acquisition costs	iv)	(0.6)	0.6	-	(9.8)	9.8	-	(16.4)	16.4	-
Operating profit before provisions		**95.0**		**97.5**	**96.1**		**105.7**	**210.4**		**178.4**
Impairment of loans and advances to customers		(12.3)		(12.3)	(12.5)		(12.5)	(39.3)		(39.3)
Provisions		(2.6)		(2.6)	(0.8)		(0.8)	(14.0)	12.1	(1.9)
Profit before tax		**80.1**		**82.6**	**82.8**		**92.4**	**157.1**		**137.2**

Notes - significant exclusions made in calculation of core operating profit

i) Distribution from the administrators of Lifemark S.A. (2013) and losses on property (2012).

ii) Fair value timing differences.

iii) Property impairment.

iv) Integration expenses associated with the merger with Norwich & Peterborough Building Society (2013 & 2012) and the acquisition of Egg Banking plc mortgage and savings books (2012).

Business highlights continued

During the first six months of 2013 the Board's focus has been on:

- Continuing to grow the business through new lending, balancing customers' needs with our aim to lend safely and responsibly.
- Ensuring capital and liquidity ratios remain at an efficient level, sensibly and safely above the regulatory minimum.
- Maintaining close management of our arrears position which remains well below the industry average[7].
- Obtaining sustainably priced funding and optimising the funding mix by drawing down under the Funding for Lending Scheme, whilst maintaining the majority of funding from our members' savings balances.
- Commencing our investment programme to make our business better and simpler for our members and our people.

The main items of note in the income statement include:

- Net interest income of £203.8m (30 June 2012: £171.7m) which, when expressed as a percentage of mean assets is 1.23% (30 June 2012: 1.05%). This reflects the higher than anticipated mortgage balances remaining on standard variable rates.
- A decline in non-interest income to £22.1m (30 June 2012: £24.5m) reflecting reductions due to the sale of Norwich and Peterborough Insurance Brokers Ltd and withdrawal of Protected Capital Account products. Non-core items accounted for £3.4m of 2013 income.
- Lower net gains on the sale of financial instruments of £1.2m (30 June 2012: £20.8m). This is regarded as a return to a more usual level of gains compared to the profits on Gilts realised in the first half of 2012.
- An increase in management expenses (including merger and acquisition costs) to £132.6m (30 June 2012: £121.6m).

The rise in management expenses is driven by the large investment programme we are undertaking although, against this, there has been a reduction in merger and acquisition costs. Our principal efficiency measure (management expenses as a percentage of mean assets) increased to 0.80% (30 June 2012: 0.74%). If the effects of non-core items such as merger and acquisition costs and the investment programme are excluded, this ratio becomes 0.71% (30 June 2012: 0.68%). The cost:income ratio has increased in the first six months of 2013 to 58% (30 June 2012: 56%); after adjusting for non-core items and the investment programme this becomes 51% (30 June 2012: 51%).

The increased levels of costs, caused by our investment programme, will continue for the foreseeable future. This is a natural consequence of making such an important commitment to building the business for the future and helping to secure the long-term sustainability of the Group.

Principal risks and uncertainties

The principal risks and uncertainties affecting the Group were reported on page 53 of the Annual Report and Accounts as at 31 December 2012, and these continue to affect the Group at 30 June 2013.

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 continue to take an extremely cautious approach to liquidity management and as at 30 June 2013 the majority of this portfolio consisted of positions with the Bank of England and the UK Government.

The Group maintains an extremely robust capital position.

7. Source: Council of Mortgage Lenders for Q1 2013, published 3 May 2013.

Business highlights continued

Outlook for 2013

In our planning for the remainder of 2013 and beyond it is our view that, while the UK economic conditions remain challenging, there are signs of modest improvement. There is a growing belief amongst commentators that the worst for the UK economy may now be over and independent forecasters have become progressively more optimistic over recent months.

Savers will continue to feel the impact of low interest rates, driven by the record-low Bank of England Bank Rate and by the effect on the market of the Funding for Lending Scheme. We do not anticipate an increase in the Bank Rate for some time.

On 1 April 2013 the regulatory landscape changed with the Financial Services Authority (FSA) being replaced by two new regulators, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

The PRA, a subsidiary of the Bank of England, shares (with the FCA) oversight of building societies, banks and insurers and 'promotes the safety and soundness of regulated firms'. The FCA has the job of making markets work well and will focus on three objectives: protecting consumers, promoting competition and enhancing market integrity. The FCA is there to ensure that across the spectrum, from the boardroom to the point of sale, firms keep the interests of consumers at the heart of what they do. As a mutual, we embrace this wholeheartedly.

Changes to the Board

A complete list of the Board of Directors can be found in the 2012 Annual Report and Accounts.

Roger Burden, Non-executive Director, retired from the Board on 17 April 2013. Roger had been a Board member since 2010 and we would like to thank him for his commitment and excellent contribution in that time.

As part of the Board's agreed succession planning Guy Parsons has been appointed as a non-executive director, joining the Board on 1 May 2013, and Mark Pain will join the Board, as a non-executive director, on 1 August 2013.

Signed on behalf of the Board by

Ed Anderson	**Chris Pilling**
Chairman	Chief Executive

24 July 2013

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 2013 (Unaudited) £m**	Half-year to 30 June 2012 (Unaudited) £m	Year to 31 December 2012 (Audited) £m
Interest receivable and similar income		**663.0**	692.9	1,380.7
Interest payable and similar charges		**(459.2)**	(521.2)	(1,034.7)
Net interest income		**203.8**	171.7	346.0
Fees and commissions receivable		**18.6**	25.4	49.9
Fees and commissions payable		**(3.2)**	(3.6)	(6.7)
Net fee and commission income		**15.4**	21.8	43.2
Net gains/(losses) from fair value volatility on financial instruments		**0.5**	0.7	(11.8)
Net realised profits	2	**1.2**	20.8	77.9
Other operating income		**6.7**	2.7	5.1
Total income		**227.6**	217.7	460.4
Administrative expenses		**(117.3)**	(104.0)	(217.3)
Merger and acquisition costs	3	**(0.6)**	(9.8)	(16.4)
Depreciation and amortisation		**(14.7)**	(7.8)	(16.3)
Operating profit before provisions		**95.0**	96.1	210.4
Impairment of loans and advances to customers	4	**(12.3)**	(12.5)	(39.3)
Provisions	5	**(2.6)**	(0.8)	(14.0)
Profit before tax		**80.1**	82.8	157.1
Tax expense	6	**(20.1)**	(19.7)	(34.2)
Net profit		**60.0**	63.1	122.9

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

	Notes	Half-year to 30 June 2013 (Unaudited) £m	Half-year to 30 June 2012 (Unaudited) £m	Year to 31 December 2012 (Audited) £m
Net profit		**60.0**	63.1	122.9
Items that will subsequently be reclassified to profit and loss:				
Available for sale investments:				
Valuation (losses)/gains taken to equity		**(7.9)**	13.6	33.2
Amounts transferred to income statement (included in net realised profits)		**(0.8)**	(26.7)	(40.4)
Cash flow hedges:				
Gains/(losses) taken to equity		**32.0**	(22.2)	(34.8)
Amounts transferred to income statement (included in net realised profits)		**0.3**	6.6	6.2
Tax relating to items that may be reclassified	6	**(5.4)**	7.2	7.2
Items that will not subsequently be reclassified to profit and loss:				
Actuarial gain/(loss) on retirement benefit obligations		**6.1**	20.7	(22.5)
Tax relating to items not reclassified	6	**(1.4)**	(7.3)	3.5
Total comprehensive income for the period		**82.9**	55.0	75.3

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2013 (Unaudited) £m	30 June 2012 (Unaudited) £m	31 December 2012 (Audited) £m
ASSETS				
Liquid assets				
Cash in hand and balances with the Bank of England		**2,963.4**	3,265.2	4,165.3
Loans and advances to credit institutions		**455.1**	468.6	573.7
Debt securities		**721.7**	1,079.4	492.5
Loans and advances to customers				
Loans secured on residential property		**27,622.0**	27,168.9	27,213.1
Other loans		**353.8**	358.2	359.3
Derivative financial instruments		**314.2**	383.4	380.6
Investments		**1.4**	2.2	1.4
Intangible assets		**39.4**	35.0	34.3
Investment properties		**17.2**	18.5	17.3
Property, plant and equipment		**109.9**	110.6	113.0
Deferred tax assets	6	**86.9**	101.3	105.6
Retirement benefit surplus	7	**27.5**	57.2	22.0
Other assets		**16.5**	20.3	19.0
Total assets		**32,729.0**	33,068.8	33,497.1

	Notes	30 June 2013 (Unaudited) £m	30 June 2012 (Unaudited) £m	31 December 2012 (Audited) £m
LIABILITIES				
Shares		**26,293.8**	26,123.8	26,817.5
Amounts owed to credit institutions		**881.0**	992.7	911.1
Other deposits		**527.6**	483.3	475.7
Debt securities in issue		**2,587.8**	2,680.7	2,784.3
Derivative financial instruments		**398.1**	545.7	517.4
Current tax liabilities	6	**7.6**	7.9	21.5
Deferred tax liabilities	6	**13.8**	24.2	12.2
Retirement benefit obligations	7	**1.7**	-	3.5
Other liabilities		**63.9**	75.6	78.8
Provisions		**107.7**	114.0	112.1
Subordinated liabilities		**123.2**	230.3	122.8
Subscribed capital		**7.0**	178.0	7.3
		31,013.2	31,456.2	31,864.2
Total equity attributable to members		**1,715.8**	1,612.6	1,632.9
Total liabilities		**32,729.0**	33,068.8	33,497.1

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 2013				
At 1 January 2013 (Audited)	**1,685.8**	**(59.3)**	**6.4**	**1,632.9**
Reallocation of tax*	**(16.5)**	**-**	**16.5**	**-**
Current period movement net of tax	**64.6**	**24.9**	**(6.6)**	**82.9**
At 30 June 2013 (Unaudited)	**1,733.9**	**(34.4)**	**16.3**	**1,715.8**
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
YEAR TO 31 DECEMBER 2012				
At 1 January 2012 (Audited)	1,581.9	(36.3)	12.0	1,557.6
Current period movement net of tax	103.9	(23.0)	(5.6)	75.3
At 31 December 2012 (Audited)	1,685.8	(59.3)	6.4	1,632.9

*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 2013 (Unaudited)**	Half-year to 30 June 2012 (Unaudited)	Year to 31 December 2012 (Audited)
		£m	£m	£m
Cash flows from operating activities:				
Profit before tax		**80.1**	82.8	157.1
Working capital adjustments	9	**(2.2)**	(11.0)	(119.0)
Net increase in operating assets	9	**(463.0)**	(575.8)	(677.3)
Net (decrease)/increase in operating liabilities	9	**(501.9)**	350.7	955.2
Net cash flows from operating activities		**(887.0)**	(153.3)	316.0
Cash flows from investing activities:				
Purchase of property, plant and equipment and intangible assets		**(16.6)**	(13.3)	(27.0)
Proceeds from sale of property, plant and equipment		**-**	6.4	7.4
Purchase of debt securities		**(397.3)**	(825.1)	(825.1)
Proceeds from sale and redemption of debt securities		**160.6**	2,490.5	3,140.4
Net cash flows from investing activities		**(253.3)**	1,658.5	2,295.7
Cash flows from financing activities:				
Redemption of securities		**(169.7)**	(443.3)	(949.0)
Issue of securities		-	526.5	1,127.5
Redemption of subordinated capital		-	-	(176.9)
Interest paid on subordinated liabilities and subscribed capital		**(8.2)**	(15.7)	(29.0)
Net cash flows from financing activities		**(177.9)**	67.5	(27.4)
Taxation paid		**(20.5)**	(19.8)	(26.2)
Net (decrease)/increase in cash and cash equivalents		**(1,338.7)**	1,552.9	2,558.1
Opening balance		**4,713.8**	2,155.7	2,155.7
Total closing cash and cash equivalents		**3,375.1**	3,708.6	4,713.8
Cash and cash equivalents:				
Cash and balances with central banks		**2,920.0**	3,240.0	4,140.1
Loans and advances to credit institutions		**455.1**	468.6	573.7
		3,375.1	3,708.6	4,713.8

NOTES TO THE ACCOUNTS

1. INTRODUCTION

Reporting period

The financial statements show the financial performance of the Group for the half-year ended 30 June 2013.

Basis of preparation

These Interim Group Accounts have been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting' as adopted by the European Union (EU). In the current financial year, the Group has accepted the amendments to IAS 1 'Presentation of items of other comprehensive income', IAS 19 (revised 2011) 'Employee Benefits' and International Financial Reporting Standard (IFRS) 13 'Fair value measurement'. Otherwise 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 EU.

The amendments to IAS 1 require items of other comprehensive income to be grouped into those that will be subsequently reclassified to profit or loss and those that will not. This has been applied retrospectively.

IAS 19 (revised 2011) is explained in note 7.

The principal impact of IFRS 13 is to require the incorporation of credit risk into the values of all financial instruments held at fair value, both assets and liabilities. As the Group's financial instruments are primarily valued at their listed price or supported by underlying collateral agreements, the impact of the changes on the Group is judged to be minimal. Additional disclosures as required by IFRS 13, and incorporated into IAS 34, are provided in note 11.

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 2013 are given on page 38 of the 2012 Annual Report and Accounts.

The latest formal review, undertaken in July 2013, followed a similar approach. As a result of this detailed assessment, the Board concluded that the Group has sufficient resources to continue in operational existence for the foreseeable future and, as a result, that it is appropriate to prepare these financial statements on the going concern basis.

2. NET REALISED PROFITS

The gains in the period 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. IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

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 2012.

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 125 of the 2012 Annual Report and Accounts.

NOTES TO THE ACCOUNTS continued

5. PROVISIONS

	Half-year to 30 June 2013 (Unaudited) £m	Half-year to 30 June 2012 (Unaudited) £m	Year to 31 December 2012 (Audited) £m
FSCS levy	-	-	(6.1)
Other provisions	(2.6)	(0.8)	(7.9)
	(2.6)	(0.8)	(14.0)

The Group has continued to follow the draft IFRIC interpretation on 'Levies Charged by Public Authorities on Entities that Operate in a Specific Market' published by the International Accounting Standards Board in May 2012 and, as a consequence, no provision has been made for the Financial Services Compensation Scheme (FSCS) levy, for loan interest, at the half-year. Based on publically available information, the levy charge for 2013 is expected to be in the region of £10m which will be provided for in full at the end of the year.

In addition, the FSCS announced in 2012 that repayment of the shortfall in principal on the loans in respect of the Icelandic banks and London Scottish Bank would be levied in three equal instalments. The FSCS has recently announced that the first instalment, payable in September 2013, will be £363m (the initial estimate was £270m) due to uncertainty over the timing of recoveries due to the FSCS, particularly in respect of the Icesave winding up. It is unclear if this will result in any additional levy being made on member firms and the FSCS have been asked to provide a fuller explanation.

6. TAXATION

The Finance Act 2013 included provisions to reduce the corporation tax rate from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. Reduction of the rate was not substantively enacted by 30 June 2013 and is therefore not reflected in these accounts. It is estimated that the reduction in corporation tax rate will reduce the value of the Group's deferred tax assets by up to £7.6m in the second half of 2013 and will represent a tax cost to the Group.

An effective tax rate of 25.1% has been applied to the Group's profit. This is higher than the standard corporation tax rate due to non tax-deductible expenses.

7. RETIREMENT BENEFIT OBLIGATIONS

	At 1 January 2013 £m	**Movements £m**	**At 30 June 2013 £m**
Present value of defined benefit obligation	(589.3)	2.4	(586.9)
Assets at fair value	607.8	4.9	612.7
Funded status/defined benefit asset	18.5	7.3	25.8

The balance at 30 June 2013 comprises a defined benefit asset in respect of the Yorkshire Building Society Scheme of £27.5m (1 January 2013: £22.0m) and a defined benefit liability in respect of the Norwich and Peterborough Scheme of £1.7m (1 January 2013: £3.5m).

The present value of the defined benefit obligation as at 30 June 2013 has been derived by using assumptions that are mostly consistent with those used for the 31 December 2012 year end calculations. Changes in market conditions, in particular an increase in corporate bond yields, have led to a decrease in the defined benefit obligation since 31 December 2012. During the same period, the fair value of assets has increased due to positive investment experience.

7. RETIREMENT BENEFIT OBLIGATIONS (continued)

For the current period, i.e. 1 January 2013 to 30 June 2013, the profit is £1.1m lower and other comprehensive income £1.1m higher than it would have been prior to the adoption of International Accounting Standard 19 (revised 2011) 'Employee Benefits'. This is due to change from Expected Return on Assets (calculated using the expected return assumption based on the Scheme's actual asset holding) to Interest Income on Assets (calculated using the discount rate assumption) within the pension cost.

The comparative periods have not been restated for the adoption of IAS19 (revised 2011) as the impact on the results would have been inconsequential and smaller than the impact in 2013 owing to the relative movements in discount rate compared to the expected return on the schemes assets.

8. RELATED PARTIES

The Group had no related party transactions outside the normal course of the business during the half-year to 30 June 2013. Transactions for this period are similar to those for the year to 31 December 2012, details of which can be found in the 2012 Annual Report and Accounts.

9. NOTES TO THE GROUP STATEMENT OF CASH FLOWS

	Half-year to 30 June 2013 (Unaudited) £m	Half-year to 30 June 2012 (Unaudited) £m	Year to 31 December 2012 (Audited) £m
Working capital adjustments:			
Depreciation and amortisation	**14.7**	7.8	16.3
Loss on sale of assets	**-**	0.5	4.2
Interest on subordinated liabilities and subscribed capital	**8.1**	15.7	29.0
Provisions	**14.9**	13.3	53.3
Fair value of subordinated liabilities and subscribed capital	**0.1**	0.4	(100.9)
Net realised profits	**(1.2)**	(20.8)	(77.9)
Increase in other assets	**(15.2)**	(1.6)	(8.3)
Decrease in other liabilities	**(23.6)**	(26.3)	(34.7)
Working capital adjustments	**(2.2)**	(11.0)	(119.0)
(Increase)/decrease in operating assets:			
Loans and advances to customers	**(415.7)**	(493.5)	(565.6)
Derivative financial instruments	**(47.3)**	(82.3)	(112.5)
Investments	**-**	-	0.8
Net increase in operating assets	**(463.0)**	(575.8)	(677.3)
(Decrease)/ increase in operating liabilities:			
Shares	**(523.7)**	150.4	844.1
Amounts owed to credit institutions	**(30.1)**	227.3	145.7
Other deposits	**51.9**	(27.0)	(34.6)
Net (decrease)/increase in operating liabilities	**(501.9)**	350.7	955.2

NOTES TO THE ACCOUNTS continued

10. 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 service. As a result of the Group's internal divisional analysis being developed, the composition of our reportable segments has changed and as such prior periods have been restated. Details of the new 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.
- 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 out across 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.

Following the further development of our internal divisional analysis, recharging of funding across the Group has been included using the Group's transfer pricing methodology, which is based on our external cost of funds. Prior periods have also been restated to include this recharge.

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 2013 (UNAUDITED)	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 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)	(2.6)	(14.9)
Profit/(loss) before tax		**105.4**	**3.0**	**20.1**	**(48.4)**	**80.1**
Total assets		25,860.5	500.0	1,483.0	4,885.5	**32,729.0**
Total liabilities		27,365.7	-	-	3,647.5	**31,013.2**
Equity		-	-	-	1,715.8	**1,715.8**

Notes

a. Non-interest income (net) includes fees and commissions receivable, fees and commissions payable, and other operating income.

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

NOTES TO THE ACCOUNTS continued

10. SEGMENTAL REPORTING (continued)

HALF-YEAR TO 30 JUNE 2012 (RESTATED)	Notes	Retail £m	Non-Retail £m	Secondary £m	Central £m	Total £m
Net interest income		144.1	1.2	21.1	5.3	171.7
Non-interest income (net)	a	23.1	1.6	-	(0.2)	24.5
Net realised profits and fair value		-	-	0.8	20.7	21.5
Management expenses	b	(82.2)	(1.4)	(1.5)	(36.5)	(121.6)
Operating profit/(loss) before provisions		**85.0**	**1.4**	**20.4**	**(10.7)**	**96.1**
Impairment and other provisions		(9.1)	-	(3.4)	(0.8)	(13.3)
Profit/(loss) before tax		**75.9**	**1.4**	**17.0**	**(11.5)**	**82.8**
Total assets		25,147.2	419.0	1,724.1	5,778.5	**33,068.8**
Total liabilities		27,025.7	-	-	4,430.5	**31,456.2**
Equity		-	-	-	1,612.6	**1,612.6**

YEAR TO 31 DECEMBER 2012 (RESTATED)	Notes	Retail £m	Non-Retail £m	Secondary £m	Central £m	Total £m
Net interest income		299.5	2.8	41.0	2.7	346.0
Non-interest income (net)	a	47.9	3.4	-	(3.0)	48.3
Net realised profits and fair value		-	-	0.7	65.4	66.1
Management expenses	b	(171.4)	(2.8)	(3.2)	(72.6)	(250.0)
Operating profit/(loss) before provisions		**176.0**	**3.4**	**38.5**	**(7.5)**	**210.4**
Impairment and other provisions		(20.4)	(2.7)	(16.2)	(14.0)	(53.3)
Profit/(loss) before tax		**155.6**	**0.7**	**22.3**	**(21.5)**	**157.1**
Total assets		25,365.9	428.6	1,586.2	6,116.4	**33,497.1**
Total liabilities		27,821.1	-	-	4,043.1	**31,864.2**
Equity		-	-	-	1,632.9	**1,632.9**

Notes

a. Non-interest income (net) includes fees and commissions receivable, fees and commissions payable, and other operating income.

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

NOTES TO THE ACCOUNTS continued

11. FAIR VALUES

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

	30 June 2013		31 December 2012	
	Book Value £m	**Fair Value £m**	Book Value £m	Fair Value £m
Assets				
Cash in hand and balances with the Bank of England	**2,963.4**	**2,963.4**	4,165.3	4,165.3
Loans and advances to credit institutions	**455.1**	**455.1**	573.7	573.7
Debt securities – fair value	**6.4**	**6.4**	4.9	4.9
Debt securities – embedded derivative	**(7.2)**	**(7.2)**	(10.0)	(10.0)
Debt securities – available for sale	**621.0**	**621.0**	360.8	360.8
Debt securities – held to maturity	**101.5**	**98.8**	136.8	133.0
Loans and advances to customers	**27,975.8**	**28,489.5**	27,572.4	27,876.4
Investments	**1.4**	**1.4**	1.4	1.4
Liabilities				
Shares	**26,293.8**	**26,388.9**	26,817.5	26,974.4
Amounts due to credit institutions	**881.0**	**881.0**	911.1	911.1
Other deposits	**527.6**	**527.6**	475.7	475.7
Debt securities in issue	**2,587.8**	**2,604.7**	2,784.3	2,798.8
Subordinated liabilities	**123.2**	**157.9**	122.8	157.7
Subscribed capital	**7.0**	**5.1**	7.3	5.1

NOTES TO THE ACCOUNTS continued

11. 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.

	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
As at 30 June 2013				
Debt Securities – fair value	**-**	**6.4**	**-**	**6.4**
Embedded derivatives	**-**	**(7.2)**	**-**	**(7.2)**
Debt Securities – available for sale	**560.5**	**60.5**	**-**	**621.0**
Investments	**-**	**-**	**1.4**	**1.4**
Derivative assets	**-**	**314.2**	**-**	**314.2**
Derivative liabilities	**-**	**(398.1)**	**-**	**(398.1)**
	560.5	**(24.2)**	**1.4**	**537.7**

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 31 December 2012				
Debt Securities – fair value	-	4.9	-	4.9
Embedded derivatives	-	(10.0)	-	(10.0)
Debt Securities – available for sale	301.7	59.1	-	360.8
Investments	-	-	1.4	1.4
Derivative assets	-	380.6	-	380.6
Derivative liabilities	-	(517.4)	-	(517.4)
	301.7	(82.8)	1.4	220.3

12. POST BALANCE SHEET EVENT

On 2 July 2013 the Group disposed of the Equity Release mortgage portfolio, acquired on the merger with Chelsea Building Society in 2010, for consideration of £218.3m.

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

24 July 2013

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 2013 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 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom
24 July 2013

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 2012 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2012 have been filed with the Financial Conduct Authority (formerly 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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www.ybs.co.uk

Yorkshire BUILDING SOCIETY

YBM 4370 24 07 2013