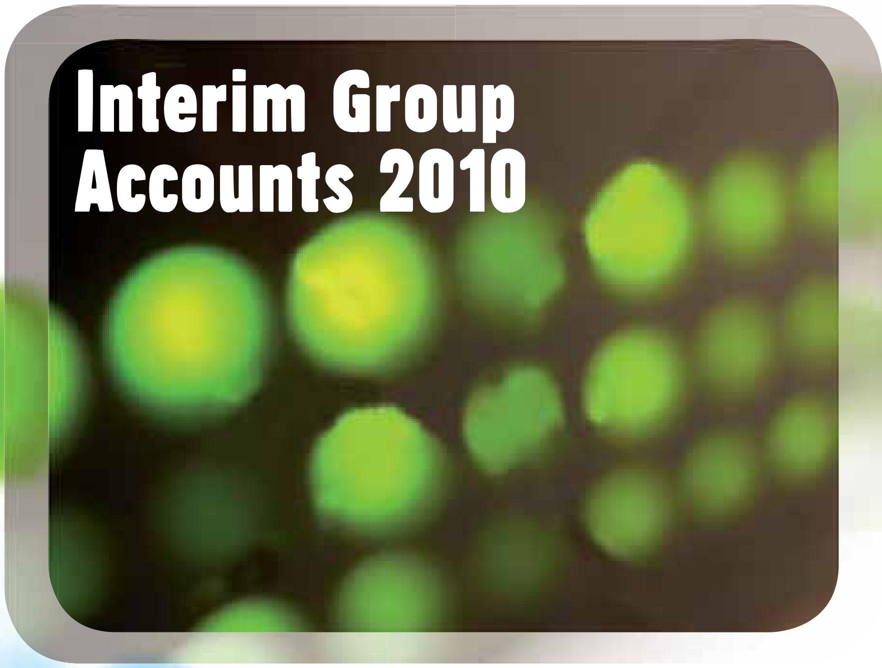

Interim Group Accounts 2010

Yorkshire
BUILDING SOCIETY

Interim Management Report for the six months ended 30 June 2010

Chief Executive's summary

The Yorkshire Building Society produced healthy statutory and operating profits in the first six months of 2010, as the actions we took during 2009 to further strengthen the Group's existing strong foundations and our successful merger with Chelsea Building Society began to bear fruit.

The highlights of the Group's performance for the first half of 2010 include:

- **return to profit**; statutory profit before tax £65.4m (H1 2009: £22.3m loss), core operating profit £53.2m (H1 2009: £0.4m);
- **increased total assets**; as a result of the merger total assets increased by 37% to £31.1bn (31 December 2009: £22.7bn);
- **increased members' balances**; member savings £22.7bn (31 December 2009: £13.8bn), and mortgages outstanding £23.3bn (31 December 2009: £15.0bn), meaning that 97% of mortgages are funded by savings balances (31 December 2009: 92%);
- **increased lending volumes**; grew gross mortgage lending to £718m (H1 2009: £420m)
- **maintained asset quality**; loans in arrears by 2.5% or more (including possessions) by volume 1.73% at 30 June 2010 (31 December 2009: 1.65%), remaining below the industry average*;
- **maintained strong capital position**; Core Tier 1 capital ratio 11.8% (30 June 2009: 11.1%)
- **continued to hold prudent levels of liquidity**; group liquidity 24.2% at 30 June 2010 (31 December 2009: 31.9%), well above the regulatory minimum; and
- **performance of Chelsea ahead of expectations** and integration well advanced.

We continue to focus on providing our members with financial security and long-term value. It is particularly pleasing to report that both our Core Tier 1 capital, the key measure of the strength of any financial institution, and our progress on integrating the Chelsea into the Group are ahead of where we expected them to be at this point in time. Our capital and liquidity positions remain among the strongest of any UK financial institution and our mortgage arrears remain below the industry average*.

We completed our merger with Chelsea Building Society on 1 April 2010 after it was overwhelmingly approved by the members of both societies, with 87% of Yorkshire shareholding members who voted (Chelsea 92%) and 85% of Yorkshire borrowing members who voted (Chelsea 90%) approving the merger. Chelsea Building Society continues to operate as a separate and distinct brand within the Yorkshire. We are progressing extremely well with the integration of the Chelsea's operations into the Group – the programme is advancing as planned and indeed is ahead of schedule in many areas, in no small way due to the hard work and professionalism of our staff across all brands and sites. Critically, and unusually for mergers at such an early stage, we expect the actual savings delivered in 2010 to more than offset the costs in 2010 and we remain confident of delivering our target savings by the end of 2011.

Meanwhile we have not lost sight of our vision - **to be the best organisation that our customers do business with** - and our purpose to continually strive to deliver financial security and long-term value to our members across both mortgage and savings products, backed up by excellent personal service. Notable examples of this during the first half of 2010 include:

- achieving over 1,000 "Best Buy" mentions in national newspapers for our mortgage and savings products;
- the launch of an internet savings service for the Chelsea brand – the first time members have been able to do business with the Chelsea via the internet;

*As measured by the Council of Mortgage Lenders

- winning the Moneywise Consumer Award for "Best Cash ISA Provider for Service" as well as being short-listed for a number of Moneyfacts awards; and
- once again our members have told us that 9 out of 10 of them, who participated in our regular customer satisfaction surveys, would recommend us to their family or friends.

Market conditions, as expected, remain extremely tough but we continue to manage the Group in a way that enhances its resilience in uncertain times, delivers optimal results with the longer term in mind and always seeks to act in our members' interests.

Against the demanding economic background, we are confident that the Yorkshire is, and will remain, financially secure and a safe place for our members' savings and we will continue to focus on delivering benefits to our members, specifically by:

- increasing the range of our core savings, mortgage products and service offerings through all our brands;
- continuing to focus on strong cost management and efficiency improvement targets, whilst not allowing this to damage our ability to provide customers with excellent levels of service through whichever channel they choose to use; and
- continuing to adopt a prudent approach to our business, maintaining a high level of financial security.

Whilst our profitability for the first six months of 2010 represents an excellent result, impacted in part by one-off items relating to the merger, we remain focused on profit optimisation rather than profit maximisation i.e. focussed on providing long-term value for our members whilst maintaining the Group's capital and financial strength, rather than constantly seeking to increase profits year on year.

I would like to recognise the efforts of all of our staff across all our brands and sites in delivering the Yorkshire's continued success as a leading independent mutual building society.

Iain Cornish, Chief Executive

Business highlights

The Group has made a strong return to profitability reflecting:

- the continuing strong foundations the Group has in place;
- the beneficial impact of decisions the Group took in 2009 to further enhance those foundations; and
- the transient nature of some of the issues affecting last year's results.

Statutory profits for the six months to 30 June 2010 were:

- £65.4m on a pre-tax basis (six months to 30 June 2009: £22.3m loss); and
- £53.9m on a post-tax basis (six months to 30 June 2009: £15.5m loss).

The figures quoted for 2009 are for Yorkshire Building Society and exclude Chelsea Building Society ("the Chelsea"), with which we merged on 1 April 2010. Direct comparisons are difficult, but for information the Chelsea reported pre and post-tax losses for the six months to 30 June 2009 of £26m and £19m respectively.

As in previous years, some of the items impacting on our statutory profits do not necessarily reflect the long-term underlying performance of the Group, being either one-off items or timing differences that inevitably reverse over time. Because of this, the board closely monitors the Group's core operating performance, which removes these items (whether positive or negative). As with statutory profits, the Group's core operating profit for the six months to 30 June 2010 rose strongly to £53.2m from £0.4m in 2009. The table below explains the adjustments that the Group makes to the statutory figures to arrive at this core operating view.

Core operating profit

(2009 comparatives exclude Chelsea Building Society)

	NOTES	Half-year ended 30 June 2010			Half-year ended 30 June 2009			Year ended 31 December 2009		
		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		111.5		111.5	70.5		70.5	147.8		147.8
Non-interest income	i)	18.5		18.5	14.6		14.6	30.7	0.5	31.2
Volatility on assets held at fair value	ii)	(3.9)	3.9	-	1.3	(1.3)	-	7.8	(7.8)	-
Fair value volatility on derivatives and hedging	ii)	(5.0)	5.0	-	(23.0)	23.0	-	(18.1)	18.1	-
Net realised profits		15.0		15.0	9.6		9.6	11.5		11.5
Total Income		**136.1**		**145.0**	**73.0**		**94.7**	**179.7**		**190.5**
Management expenses	iii)	(72.8)		(72.8)	(63.0)		(63.0)	(124.3)	0.5	(123.8)
CBS merger costs	iv)	(2.4)	2.4	-	-		-	(6.7)	6.7	-
Operating profit before provisions		**60.9**		**72.2**	**10.0**		**31.7**	**48.7**		**66.7**
Impairment of loans and advances to customers		(19.0)		(19.0)	(31.3)		(31.3)	(59.0)		(59.0)
Impairment of debt securities		-		-	-		-	(0.9)	0.9	-
Provisions		-		-	-		-	1.4	(1.4)	-
Operating profit/(loss) before exceptional provisions		**41.9**		**53.2**	**(21.3)**		**0.4**	**(9.8)**		**7.7**
FSCS levy	v)	(1.5)	1.5	-	(1.0)	1.0	-	(2.7)	2.7	-
Operating profit/(loss)		**40.4**		**53.2**	**(22.3)**		**0.4**	**(12.5)**		**7.7**
Negative goodwill	vi)	25.0	(25.0)	-	-		-	-		-
Profit/(loss) before tax		**65.4**		**53.2**	**(22.3)**		**0.4**	**(12.5)**		**7.7**

Notes - exclusions made in calculation of Core Operating Profit

i) Profits and losses on property
ii) Fair value timing differences
iii) Other one-off costs
iv) Non-recurring costs associated with the merger with Chelsea Building Society
v) Financial Services Compensation Scheme levy
vi) Negative goodwill arising on merger with Chelsea Building Society

Looking at what has driven the restoration of profitability, the Group has focussed on a number of key areas so far in 2010:

- the completion of the merger with the Chelsea, which took place on 1 April 2010, and on the subsequent integration of the Chelsea's operations into the enlarged Society. Whilst it is still early days, work on the integration is progressing well and we remain on course to deliver the targeted savings by the end of 2011. Indeed, we expect that the additional costs incurred in 2010 as a part of this integration work will be more than paid for by the savings actually delivered in 2010 i.e. the integration work will pay for itself even in this first year;
- the management of material funding maturities in both our retail (member) and wholesale (banks and companies) funding portfolios, including in particular the large levels of unsustainably priced fixed rate retail savings balances inherited from the Chelsea. This programme is going extremely well. For some time we had been holding high levels of liquid assets so that we could be sure of dealing with any issues in managing these funding maturities, even though this had a material negative impact on our net interest margin in 2009. Because of the progress made with the funding maturities we have been able to manage these levels of liquidity down – at 30 June 2010 Group liquidity stood at 24.2% as a proportion of liabilities against 31.9% at 31 December 2009. This remains a prudent level of liquidity and well above the regulatory minimum we are required to hold, and has fed directly into the improved net interest margin discussed below;
- these actions to manage our funding maturities do mean that total assets, whilst growing from £22.7bn at 31 December 2009 to £31.1bn at 30 June 2010, because of the merger, have in fact shrunk from £34.6bn immediately after the merger on 1 April 2010. This balance sheet shrinkage is, in our view, a prudent step to take in the current circumstances, in particular because it mostly reflects the repayment of very expensive fixed rate retail savings balances initially raised by the Chelsea using liquidity that earned the Group very little. In parallel we grew our gross new mortgage lending to £718m (H1 2009: £420m);
- the re-building of our already strong capital ratios to the levels seen before the merger with the Chelsea. As we stated at the time of the merger, absorbing the Chelsea had a negative impact on our capital ratios, partly because of the Chelsea's own capital position and partly because, as discussed later, we made a number of adjustments on day one against future potential losses arising from the Chelsea's historic business. This meant that our key capital measure, the Core Tier 1 ratio, fell from 12.2% at 31 December 2009 to 10.4% on 1 April. However, the actions taken to prudently shrink our balance sheet and our improved profitability mean that this ratio has risen again to 11.8% as at 30 June 2010. This position is ahead of our pre-merger expectations, and compares favourably to the same period last year (30 June 2009) when the ratio stood at 11.1% (and the Chelsea Building Society's standalone ratio was 8.8%). It remains one of the strongest capital ratios amongst UK financial institutions, and well above the regulatory minimum we are required to hold by the Financial Services Authority. As part of the merger agreement, a capital exchange was negotiated with Chelsea's subordinated bond holders involving the buy back of Chelsea's existing Lower Tier 2 debt and the issuance of new contingent convertible, or "CoCo", Lower Tier 2 capital by the Yorkshire at the merger date. The capital exchange had the result of building the Group's Tier 1 capital position and the use of a CoCo was a first for the building society sector; and
- a continued focus on arrears management that has seen our loans in arrears by 2.5% or more (including possessions) by volume broadly steady at 1.73% at 30 June 2010 against 1.65% at 31 December 2009, reflecting the impact of the Chelsea portfolios on this ratio (with the Chelsea's

standalone ratio standing at 2.12% at 31 December 2009) offset by our work on effective arrears management. This combined position remains below the industry average* (1.77% on latest figures at 31 March 2010) and below a peak level of 1.87% (and a peak of 2.12% for the Chelsea). At the same time the Group's average indexed loan-to-value stood at 55% against 52% at 31 December 2009.

These areas of focus between them have contributed to the restoration of the Group's profits, with improvements across all areas of the income statement including:

- a rise in net interest income as a percentage of mean assets, to 0.83% (six months to 30 June 2009 0.63%, and for Chelsea on a standalone basis 0.60%);
- non-interest income, earned principally from selling assurance, insurance and investment products to our members through a range of partners, up by £3.9m to £18.5m;
- a rise in absolute management expenses from £63.1m to £75.2m, but in proportion to the increase in our assets through the merger with the Chelsea meaning that our core efficiency measure (management expenses as a percentage of our mean assets) held steady at 0.56% overall (2009: 0.56%). These figures include a material element of costs related to the Chelsea merger and to the integration of the Chelsea into our Group and, if these are excluded, our efficiency measure improves to 0.54%; and
- a fall in our impairment charge for actual and potential losses on our mortgage loans of over 40% to £19.0m from £31.3m in 2009. This reflects both stable or improving arrears and defaults trends across our portfolios (and hence a reduced number of loans predicted to default) and improving house prices (and hence a smaller projected loss per loan defaulting). Whilst the latter factor is outside of our control, the former reflects a combination of market conditions and our continued focus on sympathetic but effective management of arrears cases. That said, our provisions are still based on further falls in house prices of approximately 10% from the current position.

Items relating to the merger

As we highlighted at the time, the merger with Chelsea Building Society on 1 April 2010 had, and will continue to have, a number of impacts on the financial position and reported performance of the enlarged Yorkshire Building Society Group.

In particular, accounting standards require that a number of significant adjustments are made to the Chelsea's balance sheet, at the point at which it is incorporated into the Yorkshire, so as to show those assets and liabilities at their "fair value" rather than the value at which they were recorded in Chelsea's own books and records. The effect is to value the various elements of Chelsea's balance sheet as if they had been individually acquired by the Yorkshire in standalone transactions.

Some of these adjustments will reverse over time, with these reversals reflected in the income statement, and will therefore impact on future profitability. An example of this type of adjustment is where, on items such as mortgages and savings balances, we have to calculate the difference between the actual interest rates in place on products and what we would earn or pay if we were lending/ raising money on 1 April 2010. We have to then show this pricing difference as a positive or negative adjustment to the underlying mortgage or savings balance on 1 April 2010.

Other adjustments represent straight write-offs of assets that have no, or reduced, value for the combined Group at 1 April 2010. An example of this is computer software that the Chelsea had as an asset but that, because we are integrating the Chelsea on to the Yorkshire's bespoke systems, is of no value to the combined Group. These adjustments do not reverse over time.

*As measured by the Council of Mortgage Lenders

A further example is where an adjustment is made to reflect the fair value of mortgage assets which requires us to factor in the amount we expect to lose, going forwards, through borrower defaults. This is different to the approach required to value our existing mortgage assets where only current impairment is taken into account. The effect of our being required to apply a fair value to Chelsea's mortgage assets is that, provided our valuation proves to be accurate, any future losses incurred on these assets will not be reflected in the income statement. The fair value adjustment in relation to expected losses on Chelsea's mortgages was almost £179m. Although this adversely impacts the capital position immediately on completion of the merger, it does effectively protect the combined Group's income statement against this level of losses in future years.

The final adjustment is goodwill which reflects the difference between the deemed purchase price for Chelsea Building Society and the net value of its assets after all fair value adjustments. Although there is no purchase consideration in the case of a merger, it is necessary to calculate one which is deemed to be the theoretical value of the business. The negative goodwill arising on the merger reduced the enlarged Group's opening reserves and then reversed through the income statement in the first accounting period thereafter.

Details of all of the adjustments made to Chelsea's balance sheet at 1 April 2010 are set out in Note 7 'Transfer of Engagements'.

Distribution network

Following the merger the Group's high street distribution network now includes 178 branches across the UK including 135 Yorkshire Building Society branches, 35 Chelsea Building Society branches and 8 Barnsley Building Society branches, as well as 81 agencies. The Yorkshire's award-winning internet savings channel has been introduced to the Chelsea, offering members greater choice in how they do business with us, and improving the Group's access to retail funding.

Principal risks and uncertainties

The principal risks and uncertainties affecting the Group were reported on page 18 of the Annual Report and Accounts as at 31 December 2009. The following section, 'Outlook for the remaining six months in 2010' highlights where new risks and uncertainties have developed in the period (and which in the main relate to the new political environment).

Outlook for the remaining six months in 2010

The political and economic landscapes continue to be extremely uncertain and challenging. But we believe that the Yorkshire, in particular given its core capital and financial strength, is well positioned to manage these uncertainties. Needless to say, however, we remain focussed and vigilant in the current circumstances.

The economy remains fragile, and the nascent recovery will undoubtedly be impacted by the new coalition government's strategy to address the UK's national debt. What impact, positive or negative, these plans have on the economy remains highly uncertain. Particularly important for the Yorkshire, as for all mortgage lenders, will be the impact of cuts in public sector expenditure on unemployment and hence arrears levels and losses on defaulting loans. We will continue to look to balance, in a fair way, the treatment of borrowers who find themselves in financial difficulties with the interests, and financial security, of our wider membership.

There have been some tentative signs of recovery in the housing and mortgage market in the first half of 2010, although the signs remain mixed. We expect the recovery of the housing and mortgage markets, which are inextricably linked, to be slow and patchy – with periods of, for example, house price deflation as well as inflation but no overall increases for some time to come. Critically the performance of the housing market is highly dependent on factors in the wider economy, namely unemployment, inflation and interest rates.

Meanwhile the market for retail savings remains highly competitive as many players who have been absent from these markets for many years have returned and continue to “pay up” for savings balances. The wholesale funding markets remain sporadic, and are highly restricted at best, fully closed for long periods at worst. We do not foresee any real change in these market conditions during the remainder of 2010, and resulting pressures on all lenders’ interest margins will therefore remain.

In addition to the UK-specific issues, there are material uncertainties for individual eurozone economies, such as Greece, Spain and Italy, and indeed for the Euro itself. These uncertainties inevitably have both positive and negative knock on effects for the UK economy.

We are managing the business with these uncertainties and risks in mind, and are satisfied that the Group remains extremely well placed.

Changes to the board

Roger Burden, a former Chelsea Building Society non-executive director, was appointed as a non-executive director of Yorkshire Building Society on 1 April 2010 when the merger of the two societies took effect. Roger is a former Chief Executive and Chairman of Cheltenham & Gloucester as well as a former Chairman of the Council of Mortgage Lenders. Roger joined the board of Chelsea Building Society on 1 November 2009 as a non-executive director when merger discussions between the Yorkshire and Chelsea were already well advanced.

Robin Churchouse was appointed as Finance Director of Yorkshire Building Society on 1 June 2010. Robin gained a wide range of experience across a number of financial services organisations before joining the Yorkshire in July 2004 as Head of Finance. In 2006 he was appointed General Manager Risk & Planning, with responsibility for risk and capital management across the Group and for the Society’s strategic planning.

Robin succeeds Andrew Gosling who retired after nine years as Finance Director on 31 May 2010. The board wishes to thank Andrew for his contribution and wishes him well in his retirement.

A complete list of the board of directors can be found in the 2009 Annual Report and Accounts and, with the exception of the changes detailed above, there have been no changes to the directors during 2010.

Signed on behalf of the board by

Ed Anderson
Chairman

Iain Cornish
Chief Executive

29 July 2010

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 2010 (Unaudited) £m	Half-year to 30 June 2009 (Unaudited) £m	Year to 31 December 2009 (Audited) £m
Interest receivable and similar income		**613.2**	488.5	1,050.8
Interest payable and similar charges		**(501.7)**	(417.9)	(903.0)
Net interest income		**111.5**	70.6	147.8
Fees and commissions receivable		**18.9**	16.4	33.9
Fees and commissions payable		**(3.4)**	(4.4)	(7.8)
Net fee and commission income		**15.5**	12.0	26.1
Net losses from fair value volatility on financial instruments		**(8.9)**	(21.7)	(10.3)
Net realised profits on debt securities		**15.0**	9.6	11.5
Other operating income		**3.0**	2.6	4.6
Total income		**136.1**	73.1	179.7
Administrative expenses		**(66.1)**	(58.0)	(113.7)
Chelsea Building Society merger costs		**(2.4)**	-	(6.7)
Depreciation and amortisation		**(6.7)**	(5.1)	(10.6)
Operating profit before provisions		**60.9**	10.0	48.7
Impairment of loans and advances to customers	2	**(19.0)**	(31.3)	(59.0)
Impairment of debt securities	2	**-**	-	(0.9)
Provisions		**-**	-	1.4
Operating profit/(loss) before exceptional provisions		**41.9**	(21.3)	(9.8)
Financial Services Compensation Scheme levy		**(1.5)**	(1.0)	(2.7)
Operating profit/(loss)		**40.4**	(22.3)	(12.5)
Negative goodwill	7	**25.0**	-	-
Profit/(loss) before tax		**65.4**	(22.3)	(12.5)
Tax (expense)/credit	4	**(11.5)**	6.8	9.2
Net profit/(loss)		**53.9**	(15.5)	(3.3)

Condensed group statement of comprehensive income

	NOTES	**Half-year to 30 June 2010 (Unaudited) £m**	Half-year to 30 June 2009 (Unaudited) £m	Year to 31 December 2009 (Audited) £m
Available for sale investments:				
Valuation gains/(losses) taken to equity		**21.2**	(3.0)	46.9
Amounts transferred to income statement		**(6.5)**	(11.0)	(3.0)
Cash flow hedges:				
(Losses)/gains taken to equity		**(2.4)**	8.6	3.5
Amounts transferred to income statement		**1.7**	(10.3)	(9.9)
Actuarial loss on retirement benefit obligations		**(29.5)**	(74.0)	(50.4)
Tax on items taken directly to or transferred from equity	4	**4.4**	24.6	6.7
Net expense not recognised directly in the income statement		**(11.1)**	(65.1)	(6.2)
Net profit/(loss)		**53.9**	(15.5)	(3.3)
Total comprehensive income/(losses) for the period		**42.8**	(80.6)	(9.5)

Condensed group statement of financial position

ASSETS	NOTES	30 June 2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
Liquid assets				
Cash in hand and balances with the Bank of England		**2,062.6**	331.5	1,149.8
Loans and advances to credit institutions		**781.8**	567.1	988.4
Debt securities		**4,067.3**	4,347.9	4,562.2
Loans and advances to customers				
Loans secured on residential property		**23,220.9**	15,578.2	14,975.4
Other loans		**127.9**	4.3	4.0
Derivative financial instruments		**555.2**	852.8	904.5
Investments		**2.1**	2.1	2.1
Intangible assets		**22.6**	10.7	10.6
Investment properties		**19.4**	7.1	6.7
Property, plant and equipment		**113.5**	82.3	80.6
Deferred tax assets	4	**117.7**	57.9	30.2
Other assets		**12.0**	4.3	7.5
Total assets		**31,103.0**	21,846.2	22,722.0

LIABILITIES	NOTES	30 June 2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
Shares		**22,698.5**	13,660.8	13,793.4
Amounts owed to credit institutions		**793.3**	723.9	393.4
Other deposits		**1,108.7**	1,079.9	1,091.0
Debt securities in issue		**3,956.9**	4,586.4	5,698.7
Derivative financial instruments		**653.7**	535.6	468.1
Current tax liabilities	4	**34.4**	15.2	34.5
Deferred tax liabilities	4	**2.8**	51.9	4.8
Retirement benefit obligations	3	**49.6**	45.2	4.3
Other liabilities		**90.4**	38.3	50.4
Provisions		**45.5**	17.8	12.6
Subordinated liabilities		**217.0**	106.5	111.7
Subscribed capital		**169.8**	156.0	159.3
		29,820.6	21,017.5	21,822.2
Total equity attributable to members		**1,282.4**	828.7	899.8
Total liabilities		**31,103.0**	21,846.2	22,722.0

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 2010				
At 1 January 2010 (Audited)	**975.6**	**(36.0)**	**(39.8)**	**899.8**
Transfer of engagement*	**339.8**	**-**	**-**	**339.8**
Current year movement net of tax	**32.7**	**(0.5)**	**10.6**	**42.8**
At 30 June 2010 (Unaudited)	**1,348.1**	**(36.5)**	**(29.2)**	**1,282.4**
HALF YEAR TO 30 JUNE 2009				
At 1 January 2009 (Audited)	1,042.3	(43.6)	(89.4)	909.3
Reallocation of tax**	(27.2)	-	27.2	-
Current period movement net of tax	(68.8)	(1.7)	(10.1)	(80.6)
At 30 June 2009 (Unaudited)	946.3	(45.3)	(72.3)	828.7
YEAR TO 31 DECEMBER 2009				
At 1 January 2009 (Audited)	1,042.3	(43.6)	(89.4)	909.3
Reallocation of tax**	(27.2)	-	27.2	-
Current period movement net of tax	(39.5)	7.6	22.4	(9.5)
At 31 December 2009 (Audited)	975.6	(36.0)	(39.8)	899.8

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

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

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 five years and the amount deferred will be recognised over this period.

Condensed group statement of cash flows

	NOTES	**Half-year to 30 June 2010 (Unaudited) £m**	Half-year to 30 June 2009 (Unaudited) £m	Year to 31 December 2009 (Audited) £m
Cash flows from operating activities:				
Profit/(loss)before tax		**65.4**	(22.3)	(12.5)
Working capital adjustments	6	**(76.6)**	4.4	46.2
Net decrease in operating assets	6	**1,194.5**	515.8	1,050.4
Net decrease in operating liabilities	6	**(2,063.5)**	(1,071.0)	(1,257.8)
Net cash flows from operating activities		**(880.2)**	(573.1)	(173.7)
Cash flows from investing activities:				
Cash acquired on transfer of engagements		**1,227.4**	-	-
Purchase of property, plant and equipment and intangible assets		**(3.7)**	(6.8)	(10.8)
Proceeds from sale of property, plant and equipment		**-**	0.1	-
Purchase of debt securities		**(3,649.1)**	(5,152.6)	(10,293.7)
Proceeds from sale and redemption of debt securities		**5,822.0**	6,091.5	9,807.8
Net cash flows from investing activities		**3,396.6**	932.2	(496.7)
Cash flows from financing activities:				
Redemption of securities		**(2,394.9)**	(612.4)	(1,425.2)
Issue of securities		**598.5**	1,119.5	2,961.5
Interest paid on subordinated liabilities and subscribed capital		**(11.4)**	(8.0)	(16.2)
Net cash flows from financing activities		**(1,807.8)**	499.1	1,520.1
Taxation (paid)/refunded		**(7.8)**	2.3	(13.3)
Net increase in cash and cash equivalents		**700.8**	860.5	836.4
Opening balance		**2,223.6**	1,387.2	1,387.2
Total closing cash and cash equivalents		**2,924.4**	2,247.7	2,223.6
Cash and cash equivalents:				
Cash and balances with central banks		**2,034.7**	308.0	1,132.0
Loans and advances to banks		**781.7**	567.1	988.4
Debt securities		**108.0**	1,372.6	103.2
		2,924.4	2,247.7	2,223.6

Notes to the accounts

1. INTRODUCTION

Reporting period

The financial statements show the financial performance of the Group for the half year ended 30 June 2010.

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 2010 are given on page 18 of the 2009 Annual Report and Accounts.

The latest formal review, undertaken in June 2010, followed a similar approach and additionally considered the impact of the new political climate. It also revisited the risks associated with the Chelsea merger which has moved, since the February review, from planning to integration.

As a result of the detailed assessment performed in June 2010 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 2010 £m	Acquired on transfer of engagements £m	Movements £m	At 30 June 2010 £m
Present value of defined benefit obligation	(317.3)	(119.2)	(18.4)	(454.9)
Assets at fair value	313.0	102.8	(10.5)	405.3
Funded status/Defined liability	(4.3)	(16.4)	(28.9)	(49.6)

The market conditions that determine the financial assumptions used to place a value on the defined benefit obligation have changed such that a higher value has been calculated at 30 June 2010 than would have been the case based on conditions at 31 December 2009. In particular, this is the result of a slight fall in the real yield available on high quality corporate bonds which, under 'International Accounting Standard 19 Employee Benefits', determines the discount rate used to value the obligation.

Changes in market conditions have also led to a fall in the fair value of assets. This is primarily due to the significant falls in UK and overseas equity markets leading up to 30 June 2010.

4. TAXATION

The Government annouced in the Budget on 22 June 2010 that it intends to reduce the rate of corporation tax from 28% to 24% over four years. This proposal may result in a reduction in value of the Group's deferred tax assets of up to £3.3m in the second half of 2010 and will represent a tax cost to the Group.

5. RELATED PARTIES

As part of transactional arrangements prior to the proposed merger £750 million was advanced to Chelsea Building Society, on commercial terms, as reverse repo transactions secured by a covered bond issued by that society. The arrangement came to an end as a result of the merger which completed on 1 April 2010.

The Group had no other material or unusual related party transactions during the half-year to 30 June 2010. With the exception of the advance to the Chelsea described above, transactions for this period are similar to those for the year to 31 December 2009, details of which can be found in the 2009 Annual Report and Accounts.

Notes to the accounts continued

6. NOTES TO THE CASHFLOW STATEMENTS

	Half-year to 30 June 2010 (Unaudited) £m	Half-year to 30 June 2009 (Unaudited) £m	Year to 31 December 2009 (Audited) £m
Working capital adjustments:			
Depreciation and amortisation	**6.8**	5.1	11.4
Profit on sale of assets	**-**	-	-
Interest on subordinated liabilities and subscribed capital	**11.4**	8.0	16.2
Provisions	**20.5**	32.3	61.2
Gain attributable to transfer of engagements	**(25.0)**	-	-
Fair value of subordinated liabilities and subscribed capital	**15.8**	(17.6)	(9.1)
Profits on realisation of debt securities	**(15.0)**	(9.6)	(11.5)
Increase in other assets	**(11.0)**	(36.5)	(10.4)
(Decrease)/increase in other liabilities	**(80.1)**	22.7	(11.6)
Working capital adjustments	**(76.6)**	4.4	46.2
Decrease/(increase) in operating assets:			
Loans and advances to credit institutions	**97.4**	-	-
Loans and advances to customers	**829.7**	678.0	1,253.4
Derivative financial instruments	**267.4**	(162.2)	(203.0)
Net decrease in operating assets	**1,194.5**	515.8	1,050.4
(Decrease)/increase in operating liabilities:			
Shares	**(1,046.0)**	(22.3)	110.3
Amounts owed to credit institutions	**(859.8)**	(366.6)	(697.1)
Other deposits	**(157.7)**	(682.1)	(671.0)
Net decrease in operating liabilities	**(2,063.5)**	(1,071.0)	(1,257.8)

Notes to the accounts continued

7. TRANSFER OF ENGAGEMENTS

On 1 April 2010 the Society acquired the business of Chelsea Building Society ("the Chelsea") following the approval of the shareholding and borrowing members of both societies.

Since the onset of the financial crisis the Chelsea had experienced a period of disappointing financial performance arising from a range of factors including: significant losses on investments with Icelandic Banks; the need to raise large amounts of expensive retail funds due to the Chelsea's difficulty in accessing wholesale markets; further exacerbation of these funding issues by a severe credit rating downgrade; and fraud in its buy-to-let mortgage book. These factors contributed to the Chelsea recording significant losses in both 2008 and 2009.

At the date of preparing the Group interim financial statements, information required when valuing the acquisition was incomplete and as such the valuations are provisional and may be adjusted in the following period.

The assets and liabilities acquired and the associated accounting adjustments are set out below:

	Notes	Chelsea Cessation Accounts £m	Adjustments £m	Take on balances £m
ASSETS				
Cash and balances with the Bank of England		1,227.4	-	1,227.4
Loans and advances to banks and credit institutions		101.1	(3.6)	97.5
Debt securities		1,642.3	-	1,642.3
Derivative financial instruments		84.3	1.1	85.4
Fair value adjustment for portfolio hedged risk		169.4	(169.4)	-
Loans and advances to customers	c	9,407.8	(189.7)	9,218.1
Investment securities		1.2	-	1.2
Intangible assets	d	1.8	10.4	12.2
Property, plant and equipment	e	62.8	(27.1)	35.7
Investment properties	e	1.8	11.0	12.8
Other assets and prepayments		13.9	(10.3)	3.6
Current tax asset		0.4	-	0.4
Deferred tax asset		2.8	85.7	88.5
Total assets		12,717.0	(291.9)	12,425.1
LIABILITIES				
Shares		10,039.0	(87.9)	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
Fair value adjustment for portfolio hedged risk		10.7	(10.7)	-
Debt securities in issue		302.9	8.6	311.5
Other liabilities		123.0	-	123.0
Provisions for liabilities and charges		0.8	23.7	24.5
Accruals and deferred income		3.4	-	3.4
Retirement benefit obligations		16.4	-	16.4
Reserves		590.4	(225.6)	364.8
Total liabilities		12,717.0	(291.9)	12,425.1
Goodwill				
Fair value of net assets				364.8
Less: deemed purchase consideration	f			339.8
Negative goodwill	g			25.0

Notes to the accounts continued

Notes and adjustments

a. The Income and Expenditure of the Chelsea for the period to 31 March 2010 is reported in the table below for information only and these amounts have not been included in the Income Statements of the Society or the Group. Following the transfer of engagements, the Chelsea ceased to exist, being subsumed by Yorkshire Building Society. It is thus not possible to separate its results from 1 April 2010.

b. The cessation accounts of the Chelsea have been prepared in accordance with IFRS. Certain reclassifications have been made and balances have been adjusted in accordance with 'IFRS 3, Business Combinations'.

c. A fair value adjustment to reflect estimated future losses has been made. In addition, mortgage balances have been adjusted to fair value by comparing them with the Society's current product range.

d. Identifiable intangible assets relate to the intrinsic value of a retail savings book and the Chelsea brand. They will be amortised over their useful lives of between three and five years.

e. Certain properties have been reclassified from Property, plant and equipment to Investment properties.

f. The combination of the two societies did not result in any transfer of consideration. The deemed purchase price has been calculated by measuring the fair value of the Chelsea business. This calculation has been based on a forward projection of cash flows generated by the business assuming modest growth in business assets and a saving in management expenses due to synergies. These projections have been discounted at a rate of 6.4% which approximates to the estimated long-term cost of capital.

g. Negative goodwill results from the transaction and has been recognised in the Income statement.

Income and expenditure account of Chelsea Building Society for the period 1 January 2010 to 31 March 2010

	£m
Net interest income	5.9
Net fee and commission income	3.2
Administrative expenses	(17.4)
Depreciation	(2.1)
Impairment losses on loans and advances	(0.5)
Icelandic investments release	0.3
Provision for FSCS	(0.4)
Operating loss before capital restructuring	(11.0)
Gains on cancellation of subordinated debt prior to merger	121.0
Operating profit	110.0
Taxation	(4.0)
Net profit for the period *	106.0

* The above income and expenditure relates to the cessation accounts of Chelsea Building Society and these amounts have not been included in the Income Statements of Yorkshire Building Society or the Group. They are reported here for information only. It is not felt to be practicable to disclose what the results for the enlarged Society would have been for the period to 31 March 2010 if the merger had taken place on 1 January 2010.

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

29 July 2010

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 2010 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 7. 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 2010 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 Auditors
Leeds, United Kingdom
29 July 2010

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 2009 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2009 have been filed with the Financial Services Authority.

The Auditors' report on these Annual Accounts was unqualified.

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 29 07 2010