

Skipton Building Society



Half-Yearly Financial Report 2012



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Forward-looking statements

This half-yearly financial report may contain forward-looking statements based on current expectations of, and assumptions and forecasts made by, Group management. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation development or performance of the Group and the estimates and historical results given herein. Undue reliance should not be placed on forward-looking statements which speak only as of the date of this document.

The Group accepts no obligation to publicly revise or update these forward-looking statements or adjust them for future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

Group Chief Executive's Review of the Half Year



Introduction

I am pleased to report that Skipton Building Society has delivered a robust performance in the first six months, increasing profits and strengthening capital ratios. We have grown our pre-tax profits to £22.3m, up from £6.3m in the first half of 2011 and compared to £22.2m for the whole of last year. We have done so while continuing to meet our members' needs with personal service and consistently good value and relevant products.

Financially strong

Much of this progress resulted from a £12.0m lift in the performance of our Mortgages and Savings division, which achieved a pre-tax profit of £3.9m compared to a loss of £(8.1)m for the first half of 2011. Estate Agency profits rose by £4.0m, driven by the Connells group which recorded pre-tax profits of £18.9m (six months ended 30 June 2011: £14.9m). Connells saw an increase in house sales of 4.4% compared to H1 2011, despite a continuing uncertain housing market. Meanwhile, there was also a recovery in the results of our mortgage servicing business, Homeloan Management Limited ('HML'), which made a profit of £0.1m following a loss of (£3.2)m for the six months ended 30 June 2011.

Our Group net interest margin, which is a key driver of improved profitability and predominantly relates to the Mortgages and Savings division, increased to 0.63% compared to 0.50% in H1 2011.

Our Mortgages and Savings division also saw a £9.5m reduction in impairment charges on loans, to £7.7m for the six months to the end of June 2012, compared with £17.2m in the same period of 2011, as continuing prudent

management balanced with fairness to borrowers meant arrears fell over the period. Within this division we have reviewed the carrying values of our debt securities and provided £4.0m during the period (six months ended 30 June 2011: £nil) against a Commercial Mortgage Backed Security, which was purchased prior to the credit crunch.

Our Core Tier 1 capital ratio increased, year-on-year, to 10.88% (30 June 2011: 10.53%; 31 December 2011: 10.53%) and our liquidity ratio also remained strong at 24.84% of our shares, deposits and liabilities (30 June 2011: 30.16%; 31 December 2011: 24.74%). We have maintained a healthy level of liquidity at 30 June 2012, despite repaying £650m of Government guaranteed debt in April. Our liquidity portfolio remains of high quality and we hold no investments in the sovereign debt issued by Greece, Ireland, Portugal, Italy or Spain, or any of those countries' banks. We raised £475m of funding from our second securitisation during the period – a sign of the market's confidence in the Society.

At 30 June 2012, 81.22% of our total funding was derived from retail savings balances, compared to 77.88% at 30 June 2011 and 80.21% at 31 December 2011. 99% of our residential mortgage lending is covered by retail savings balances.

Our arrears have fallen and the total number of loans where the arrears balance was greater than 2.5% of the total outstanding balance was 1.37% at 30 June 2012 (30 June 2011: 1.48%; 31 December 2011: 1.45%). This remains broadly in line with the published CML industry figure which was 1.4% at March 2012.

Focusing on our members

We continued to help people to manage their finances responsibly and to reward them for doing so, resulting in a 2.7% increase in our savings balances to £9,526.8m from 31 December 2011. We achieved this by offering a variety of attractive products. These included our innovative and successful *My Savings* range, which enables customers to save towards a specific goal, attracting over £600m in balances since it was launched just over 18 months ago.

Listening to our members in order to provide relevant products for their needs, we have launched a range of new accounts this year, including the re-introduction of tracker bonds, Regular Saver accounts and our Bonus Cash ISA.

Encouraging our members to ensure they have a tax-efficient account in their savings portfolio is a key focus for Skipton, and another successful ISA season in 2012 saw us opening twice as many new accounts as we did in the same period last year.

We continued to increase lending in the subdued mortgage market, remaining true to one of our founding mutual principles of enabling homeownership. Our gross mortgage lending totalled £663.4m in the first six months of 2012, while our net lending was £140.4m.

We did our best to help a broad spectrum of homeowners, including specific groups, like first time buyers, by providing an affordable mix of fixed and variable residential mortgages up to 95% LTV. We also continue to offer loans to buy-to-let investors, who have an increasingly important role to play in the overall health of the mortgage market.

Our range of mortgage products was independently endorsed when we were highly commended and commended respectively in the *Best First Time Buyer Mortgage Provider* and *Best Building Society Mortgage Provider* categories at the prestigious *Moneyfacts Awards 2012*. The consistent good value offered by our mortgage and savings products was recognised by 452 media 'best buy table' mentions during the period.

Underlining our commitment to doing our best for our members, we have also launched a new service called *My Review*. This is a straightforward, friendly and free service which we offer to every member.

As a mutual, involving our members in defining the future direction of the Society is important to us. We have introduced a Customer Panel, enabling members to have their say on the Society's future developments, from products to communications. More than 3,000 members have signed up to join our panel since last autumn and this complements a range of new communications introduced recently, including our *My Society* newsletter, launched in June.

Enriching communities

Playing an active role in the communities where we and our members are based is fundamental to our ethos. We continued to support initiatives close to our Head Office

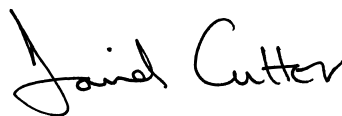
and branch network throughout the first six months of this year.

44 grassroots community projects benefited through our *Community Contribution Award* scheme and £64,057 was awarded by the Skipton Building Society Charitable Foundation to 42 charities across the UK.

We also donated a further £60,000 to key partners, mainly in our heartland, to fund community, cultural and sporting events and initiatives.

Outlook

The increase in our profitability and overall performance over the past six months is the result of our ongoing, clear strategy of prudent growth, balanced with cautious management of our business and a steadfast focus on the needs of our members. We are not complacent as we enter the second half of 2012, given the continued economic challenges facing the Eurozone in particular and the UK in general. However, we remain confident that the strength of our diversified Skipton Group, coupled with our plans for managing future challenges which might emerge, will continue to stand us in good stead as we provide a reliable haven for meeting our members' financial needs.



D J Cutter
Group Chief Executive
 31 July 2012

Business Review

Introduction

Skipton Building Society is the UK's fourth largest building society, with over 750,000 members, £14.1bn of assets and a national presence of over 100 branches. It heads up the Skipton Group, which has significant interests in estate agency and related businesses (through the Connells group), provision of outsourcing services (through Homeloan Management), independent financial and related advisory businesses and an investment portfolio of smaller businesses.

The Group's operating results are regularly reviewed by the Board (the chief operating decision maker) in the following reportable segments. Each segment offers different products and services and is managed on a divisional basis in line with the Group's management and internal reporting structure. The divisions are:

- Mortgages and Savings – principally the Society, but also includes specialist mortgage businesses Amber Homeloans ('Amber') and North Yorkshire Mortgages ('NYM') and deposit taking and mortgage lending in the Channel Islands through Skipton International ('SIL'). The division also includes the Group's special purpose vehicles formed to acquire funds from wholesale markets, Skipton Covered Bonds LLP, Darrowby No.1 plc, Darrowby No.2 plc and Beckindale No.1 Limited, and the intermediate holding company Skipton Group Holdings ('SGHL').
- Estate Agency – including survey and valuations, conveyancing, lettings, asset management and mortgage broking carried out through the Connells group.
- Mortgage Services – mortgage administration services, principally Homeloan Management ('HML').
- Financial Advice – provision of financial advice and broking services through three separate financial advice businesses, Skipton Financial Services ('SFS'), Pearson Jones and Torquil Clark.
- Investment Portfolio – includes a number of small trading companies that do not fall within the core operating segments.

Key Performance Indicators

The Group has continued to focus on Key Performance Indicators designed to ensure the Group maintains its financial strength and delivers products and services that match our members and customers' needs:

Key Performance indicator	Unaudited 6 months to 30.06.12	Unaudited 6 months to 30.06.11	Unaudited 12 months to 31.12.11
Group pre-tax profit	£22.3m	£6.3m	£22.2m
Group interest margin (% of mean assets)	0.63%	0.50%	0.52%
Group cost income ratio	82.39%	88.13%	85.55%
Group impairment charge	£11.7m	£17.2m	£30.0m
Gross mortgage advances	£663.4m	£716.7m	£1,699.7m
Capital adequacy measures:			
Core Tier 1 ratio	10.88%	10.53%	10.53%
Tier 1 ratio	12.39%	12.05%	12.02%
Tier 1 capital (before deductions)	£935.6m	£909.8m	£923.0m
Tier 1 capital (after deductions)	£739.3m	£715.3m	£726.3m
Liquidity adequacy measures:			
Liquidity as % of shares, deposits and liabilities	24.84%	30.16%	24.74%
Core liquidity buffer	£1,718.0m	£1,838.8m	£1,236.8m
Group retail funding as a % of total funding	81.22%	77.88%	80.21%

Further details are included on pages 6 to 10 of the Business Review.

Overview

During the first six months of 2012 the Skipton Group has again demonstrated the strength of its diversified business model and remains profitable, despite the continuing challenge of the low interest rate environment. For the six months ended 30 June 2012, the Group achieved pre-tax profits of £22.3m (six months ended 30 June 2011: £6.3m; year ended 31 December 2011: £22.2m).

Our focus on improving the performance of the core mortgages and savings business through careful balance sheet management saw the Group net interest margin increase to 0.63% (six months ended 30 June 2011: 0.50%; year ended 31 December 2011: 0.52%) which, together with a fall in the Group charge for losses on loans and advances to £7.7m (six months ended 30 June 2011: £17.2m; year ended 31 December 2011: £30.0m) resulted in a significant improvement in the results of the Mortgages and Savings division, despite impairment provisions of £4.0m (six months ended 30 June 2011: £nil; year ended 31 December 2011: £nil) against a debt security.

Another key contributor to our profits was the performance of our estate agency business, Connells, which delivered a pre-tax profit of £18.9m (six months ended 30 June 2011: £14.9m; year ended 31 December 2011: £35.8m), again an excellent result in an uncertain housing market.

Our capital and liquidity position allowed us to continue to lend in a controlled and prudent manner and gross mortgage advances were £663.4m (six months ended 30 June 2011: £716.7m; year ended 31 December 2011: £1,699.7m) and our total assets increased by 1.4% to £14,108.9m (30 June 2011: £14,294.8m; 31 December 2011: £13,910.3m).

Our profitability during the period has resulted in an increase in our Core Tier 1 capital ratio to 10.88% (30 June 2011: 10.53%; 31 December 2011: 10.53%).

Financial performance

Total Group pre-tax profits for the first half of 2012 were £22.3m (six months ended 30 June 2011: £6.3m; year ended 31 December 2011: £22.2m) as set out in the table below:

	Unaudited 6 months to 30.06.12 £m	Unaudited 6 months to 30.06.11 £m	Unaudited 12 months to 31.12.11 £m
Net interest income	44.3	34.6	71.2
Other income	188.3	178.3	374.7
Fair value gains on financial instruments	1.9	1.9	3.0
Profit on sale of subsidiary undertakings	0.1	-	0.9
Share of profits from joint ventures and associates	0.7	0.2	0.7
Total income	235.3	215.0	450.5
Administrative expenses	(193.2)	(189.3)	(384.8)
Operating profit before impairment losses and provisions	42.1	25.7	65.7
Impairment losses on loans and advances	(7.7)	(17.2)	(30.0)
Impairment losses on debt securities	(4.0)	-	-
Provisions for liabilities	(8.1)	(2.2)	(13.5)
Profit before tax	22.3	6.3	22.2

Net interest income

The net interest income is the amount earned on assets (mortgages, other loans and liquidity) less that paid on liabilities (retail savings and wholesale funding). The Group's net interest margin for the period increased to 0.63% from 0.50% for the same period last year.

This was the result of ongoing prudent management of the retail savings portfolio by offering attractive rates to savers which deliver sustainable returns for the Society. We have also achieved a modest increase in the margin on new mortgage lending business, while a number of previously low yielding mortgages written prior to 2008 have now reverted to the Society's Standard Variable Rate ('SVR') or other higher rates.

Other income

The Group's other income represents the net non-margin revenue generated by the Society and its subsidiaries.

The Group's other income for the first six months of the year was £188.3m (six months ended 30 June 2011: £178.2m; year ended 31 December 2011: £374.7m) and is analysed by division below:

	Unaudited 6 months to 30.06.12 £m	Unaudited 6 months to 30.06.11 £m	Unaudited 12 months to 31.12.11 £m
Mortgages and Savings	9.1	11.6	21.9
Estate Agency	112.1	95.5	211.7
Mortgage Services	30.6	32.6	65.5
Financial Advice	22.3	22.2	43.7
Investment Portfolio	17.9	19.3	38.9
Inter-divisional adjustments	(3.7)	(3.0)	(7.0)
	188.3	178.2	374.7

The Group's other income for the year increased by 5.7% over the same period last year. Estate agency income has increased by £16.6m year-on-year due to a 4.4% increase in the number of properties sold, together with improving returns on investments in Connells lettings capability and financial services headcount. Within the Mortgage Services division, the run-off of the portfolios under management and lower arrears management income resulted in a fall in revenue of £2.0m. Within the Mortgages and Savings and Financial Advice divisions, other income was impacted adversely by the ongoing volatile investment market.

Administrative expenses

Group administrative expenses increased year-on-year by £3.9m to £193.2m for the six months to 30 June 2012 (six months ended 30 June 2011: £189.3m; year ended 31 December 2011: £384.8m). The Group continues to focus on managing its cost base and the year-on-year increase in costs can largely be attributed to investments made in our Estate Agency division in late 2011, together with the increased variable costs in that division emanating from revenue growth.

The usual building society measure of efficiency, the ratio of administrative expenses to mean assets was 0.42% for the Society in the first half of 2012 (six months ended 30 June 2011: 0.45%; year ended 31 December 2011: 0.44%) which compares favourably with the industry and reflects the efforts the Society has made in managing costs and improving efficiency.

At a Group level, the cost to income ratio improved further in the period to 82.39% (six months ended 30 June 2011: 88.13%; year ended 31 December 2011: 85.55%).

Impairment losses on loans and advances

The Group's impairment charge on loans and advances for the period was £7.7m (six months ended 30 June 2011: £17.2m; year ended 31 December 2011: £30.0m). The performance of the Society's prime residential mortgage book remains good. The majority of the impairment charge arises from the specialist residential mortgage loans held in Amber and NYM and has fallen compared to 2011. A charge of £8.5m against other loans was incurred in H1 2011 which has not recurred.

Business Review (continued)

Impairment losses on debt securities

The Society continues to run-off legacy treasury investments. We continue to review the carrying value of this portfolio and during the first half of 2012 have provided £4.0m (six months ended 30 June 2011: £nil; year ended 31 December 2011: £nil) against one Commercial Mortgage Backed Security, where recovery in full of the principal amount appears doubtful. No purchases of such securities have been made since 2007.

Provisions for liabilities

Other provisions made in the period amounted to £8.1m (six months ended 30 June 2011: £2.2m; year ended 31 December 2011: £13.5m) and relate to items such as claims against Connells' survey and valuation division, customer redress within our Financial Advice division and various customer claims. The charge relating to our share of the costs of the Financial Services Compensation Scheme ('FSCS') is recognised in December annually and amounted to £5.8m for the year ended 31 December 2011. The 2012 half year accounts therefore do not include a charge for the FSCS levy which is expected to be approximately £7.0m in the second half as we expect to incur costs not only relating to the ongoing interest levy, but for expected shortfalls from the recovery of debts.

Performance by business area

The Group operates in five main divisions (as described on page 6); the results by business area are as follows:

	Unaudited 6 months to 30.06.12 £m	Unaudited 6 months to 30.06.11 £m	Unaudited 12 months to 31.12.11 £m
Mortgages and Savings	3.9	(8.1)	(13.5)
Estate Agency	18.9	14.9	35.8
Mortgage Services	0.1	(3.2)	(3.1)
Financial Advice	(0.5)	2.2	2.9
Investment Portfolio	-	0.6	1.3
Inter-division adjustments	(0.1)	(0.1)	(1.2)
	22.3	6.3	22.2

Mortgages and Savings

The Mortgages and Savings division continued its performance improvement and made a pre-tax profit of £3.9m in the period compared to an £(8.1)m loss for the same period in 2011.

A key driver of the improved performance of the division has been the improvement in its net interest margin, which has improved in the first half of 2012 to 0.60%, compared to 0.48% in the six months ended 30 June 2011. New lending volumes in the period were £663.4m (six months ended 30 June 2011: £716.7m), driven by a strong presence in the intermediary mortgage market and a competitive range of mortgage products. The retail savings proposition continues to offer an attractive range of products across all our channels, providing a steady flow of funds to the Society.

The focus at both Amber and NYM remains the level of mortgage arrears which is managed through proactive collections processes. The percentage of accounts where arrears were greater than 2.5% of the balance outstanding were 7.10% and 5.33% respectively (30 June 2011: 6.87% and 4.93%; 31 December 2011 7.14% and 5.30%), which represents a fall in monetary value from the end of 2011 as the aggregate size of these two portfolios has reduced to £1.80bn from £1.86bn.

Our Channel Islands operation, SIL, made a pre-tax profit of £2.6m in the first six months (six months ended 30 June 2011: £2.8m). SIL has continued to grow its book of mortgage assets in Guernsey and Jersey; up £36.0m since the year end to £605.9m (30 June 2011: £517.3m; 31 December 2011: £569.9m) and arrears cases remain negligible.

Estate Agency

The profit before tax for the Connells group for the first six months of 2012 was £18.9m compared to £14.9m for the six months ended 30 June 2011.

Following an increase in activity in the property market during the second half of 2011, the sales pipeline at the beginning of 2012 was notably higher compared to the 2011 position. Conversion of this pipeline together with a 4.4% increase in reservations during H1 2012 over the same period last year, has increased income and profitability.

Income in our Estate Agency division was £112.1m for the six months ended 30 June 2012 compared with £95.5m in the first half of 2011. The Connells group has a good spread of revenue generating services and maintains a tight control of costs in what remains an uncertain market constrained by a general lack of mortgage availability.

Mortgage Services

HML remains the leader in the UK third party mortgage administration services market, with a market share in the UK of circa 66% and total assets under management of £40.6bn (30 June 2011: £42.4bn). Approximately 6% of the administration of UK mortgages is currently outsourced.

The operating profit of £0.4m before restructuring costs of £0.3m yielded a profit before tax of £0.1m (six months ended 30 June 2011: £(3.2)m loss). In the first half of the year, work continued to rationalise and refine the business to better position it for success in an evolving market.

HML is committed to value enhancement by working with existing clients and by attracting new clients and aims to develop more performance based relationships and complementary new products. HML has already seen some success in retaining and expanding existing relationships and new client opportunities continue to be explored.

Financial Advice

The Financial Advice division, now comprising three separate companies, generated a loss before tax of £(0.5)m during the first half of 2012 (six months ended 30 June 2011: £2.2m profit). In addition to a reduction in the level of recurring income which has been impacted by a fall in the level of the FTSE, the division has made further provisions against the cost of potential customer redress.

The three companies offer different customer propositions, targeting different segments of the market with their own specific services and products. All three are well prepared and sufficiently advanced in readiness for the forthcoming Retail Distribution Review ('RDR') implementation.

Investment Portfolio

The Investment Portfolio includes a range of businesses for which the current economic environment has proven more challenging for some than others. Skipton Business Finance (provider of invoice discounting) and The Private Health Partnership (specialising in private medical insurance and medical support) have both performed well, however, the performance of Sterling International Brokers (money markets broker) continues to disappoint as a result of uncertain and difficult trading conditions in the wholesale cash market. Jade Software Corporation continues to invest in new products ahead of their launch and has made a small loss.

Financial Position

Loans and advances to customers

The Society continues to lend in a controlled and sustainable manner. Gross mortgage advances totalled £663.4m compared with £716.7m in the same period in 2011.

Our new lending continues to be prudent and well diversified by product type and geographical distribution. During the first half of the year we continued to help a broad spectrum of homeowners, including specific groups like first time buyers and buy-to-let investors with variable rate residential mortgages. At 30 June 2012 the Group's average indexed LTV for the residential mortgage book was 56.5% (30 June 2011: 55.0%; 31 December 2011: 55.5%).

Group residential mortgage balances totalled £9,613.3m, an increase of £140.4m on the year end position due to new lending in the Society and SIL exceeding the run-off of the Amber and NYM mortgage books.

The arrears performance of the Group's residential mortgages continues to improve, with 1,309 cases at 30 June 2012 where the arrears balance was greater than 2.5% of total outstanding balances (30 June 2011: 1,400; 31 December 2011: 1,377), representing 1.37% of the book (30 June 2011: 1.48%; 31 December 2011: 1.45%).

At 30 June 2012 the percentage of residential mortgage balances subject to forbearance, which is where terms

have been renegotiated during the last two years, is 6.0% (31 December 2011: 7.6%). For commercial balances the percentage is 6.0% (31 December 2011: 9.0%).

Liquidity

The Group continues to hold relatively high levels of liquid assets to protect cash flow, counter economic uncertainty and allow the Society to continue mortgage lending. An analysis of the Group's liquidity position is shown below:

	Unaudited as at 30.06.12	Unaudited as at 30.06.11	Unaudited as at 31.12.11
Liquidity balance	£3,069.6m	£3,825.7m	£3,020.6m
As % of shares, deposits and liabilities	24.84%	30.16%	24.74%
Core liquidity buffer* – eligible assets	£1,718.0m	£1,838.8m	£1,236.8m
Core liquidity buffer* as a % of liquidity balance	55.97%	48.06%	40.95%

* Buffer eligible assets include gilts, treasury bills, supranational bonds and reserves held with the Bank of England.

The Group's treasury investments are held to provide liquidity and 99.6% (30 June 2011: 98.5%; 31 December 2011: 98.2%) of the Group's treasury investments are rated A3 or better by Moody's credit ratings.

Within the treasury investment portfolio the Group continues to have no direct sovereign exposure to Greece, Ireland, Italy, Portugal or Spain and, following repayment in full of £38m of senior debt exposure to financial institutions based in Ireland during the period, has no direct investment exposure to banks based in those countries.

Funding

As a building society, the Group is required to obtain the majority of its funding through retail member deposits and the Society retains a strong retail base and less reliance on the wholesale markets.

Retail funding

The savings environment remains fiercely competitive as institutions who have previously relied on wholesale funds continue to seek a larger share of the retail market and savers choose to pay down their debts or choose to invest in higher yielding asset classes. Our focus remains on offering competitive products to retain our savings balances as the prime source of a stable funding base.

At 30 June 2012, £9,526.8m (30 June 2011: £9,312.4m; 31 December 2011: £9,280.4m) of our funding comes from retail savings representing 81.2% (30 June 2011: 77.9%; 31 December 2011: 80.2%) of our total funding, a net inflow of £246.4m during the period.

In addition to our UK retail funding above, the Group also accepts deposits through our Guernsey based subsidiary, SIL. Whilst the benefits of offshore funding have reduced under the FSA's current liquidity regime,

Business Review (continued)

SIL has maintained a stable retail funding base and offshore deposits amounted to £730.8m at 30 June 2012 (30 June 2011: £703.6m; 31 December 2011: £727.1m).

Wholesale funding

The remainder of the Group's funding comes from the wholesale markets. At 30 June 2012 our wholesale funding balances amounted to £2,079.8m (30 June 2011: £2,632.7m; 31 December 2011: £2,169.4m), a decrease of £89.6m since the year end.

During the period the Group repaid, in full, the remaining £650m of medium term debt sourced under the Government Guarantee Scheme. In May 2012, the Group completed its second securitisation transaction raising £475m of funds. The securitisation capability allows the Group access to this source of funding and provides options for wholesale funding in the future. The Group's wholesale funding ratio decreased to 18.8% at the half year (30 June 2011: 22.1%; 31 December 2011: 19.8%).

The Society's long term credit ratings assigned by two major credit rating agencies, Fitch and Moody's, remain unchanged at Ba1 and BBB respectively. Our securitisations through Darrowby No.1 plc and Darrowby No.2 plc remain AAA rated by both agencies.

Capital

Capital comprises the Group's general reserve and subscribed capital provided through Permanent Interest Bearing Shares ('PIBS') and subordinated liabilities. Capital is held to ensure the business can achieve its current and future plans, to provide a buffer against unexpected losses and to ensure that the minimum regulatory requirement is always met. Total capital has increased by £6.6m from 31 December 2011 to £945.2m (30 June 2011: £933.4m; 31 December 2011: £938.6m). The Core Tier 1 and Tier 1 ratios (including profits) have increased to 10.88% and 12.39% respectively compared to 10.53% and 12.02% at 31 December 2011. The Core Tier 1 and Tier 1 ratios remain in excess of the minimum Basel III requirements as they are drafted.

The Group's solvency ratio, a measure of total capital as a proportion of the Group's risk weighted assets at the balance sheet date, was 15.84% at 30 June 2012, an increase of 0.31% from 31 December 2011.

The Group's capital remains above both the Board's internal limit and the minimum established by the FSA.

Principal risks and uncertainties

The principal risks and uncertainties affecting the Group are reported on page 28 of the 2011 Annual Report and Accounts and these continue to impact the Group. The key risks include:

Credit risk

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual

obligations to the Group. The continuing fragile state of the economy could lead to, amongst other things, a risk of increased unemployment and declining house prices which would impact arrears and loan loss provision levels. We will continue to lend vigilantly and manage arrears carefully to mitigate this risk.

Additionally, mortgage lending is coming under increased regulatory scrutiny in areas such as buy-to-let and interest only lending and the application of forbearance to borrowers in difficulty. We will continue to engage fully in the regulatory process and ensure our policies and practices are aligned to industry best practice and compliant with regulatory requirements.

The Eurozone debt crisis and threat of sovereign defaults remain. We will continue to review our exposure limits to all treasury counterparties to manage the risk in this regard.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due or is only able to do so at excessive cost. The Group's liquidity policy aims, therefore, to maintain sufficient liquid assets to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in the Group and to ensure that all financial obligations are met. Whilst competition in the retail funding markets is intense, the Group remains well funded through both its retail and wholesale franchises.

Market risk

This is the risk that the value of, or income arising from, the Group's assets and liabilities changes as a result of changes in market prices, the principal elements being interest rate risk, including the use of derivatives, foreign currency risk and equity risk. The Group continues to manage its exposure to all aspects of market risk within agreed operational limits, whilst the Group's forecasts and plans take into account expected movements in market risk and are prepared and stressed accordingly, in line with FSA guidance.

Conduct risk

Conduct risk, which is the risk of loss arising from the failure to ensure fair customer outcomes resulting from poor products or services, continues to attract intense scrutiny from regulators, media and consumer groups. We remain committed to dealing with our customers fairly and have invested heavily in resources and training to ensure that our operations are designed to minimise the risk of customer detriment. Oversight is provided by both individual business unit Compliance departments and a central Group function.

Operational risk

Operational risk is the risk of financial loss or reputational damage arising from inadequate or failed internal processes or systems, human error or external events. With a diverse business model and a competitive operating environment, the Group is exposed to increased levels of operational risk, for example, in the areas of systems capability and staff competencies. The financial services sector also faces growing levels of financial crime, particularly in relation to e-distribution channels, which require increasingly sophisticated monitoring and anti-fraud controls. The Group manages operational risk through its risk management framework which details the strategy for identifying, assessing and managing operational risk.

Given the nature of the regulated sectors in which the Group operates, one of the key operational risks is the potential failure to maintain ongoing compliance with relevant external regulation across the Group. Each of the regulated businesses has an established Compliance team which both monitors compliance with existing legislation and considers the impact of new requirements. Oversight is provided by a central Group Compliance function which ensures best practice is adhered to and shared across the Group as appropriate.

Regulatory risk

Regulatory risk is the risk that the Group does not adhere to the fast changing regulatory environment in which it operates. Key changes on the horizon include the Independent Commission on Banking reforms, Resolution and Recovery Planning, the FSA moving to a 'twin peaks' regulatory approach, the replacement of Basel II by CRD IV (Basel III) and the impact upon our capital, the RDR and the Mortgage Market Review. The Group has allocated resource to ensure continued compliance in these areas and we believe we are well placed to meet all requirements.

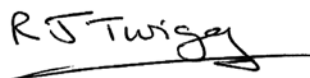
Outlook

The outlook for the UK economy remains uncertain and we continue to believe that both the housing market and interest rate environment will be subdued for some time to come. We expect the intense competition within the retail savings arena to continue as banks and building societies bid aggressively for retail funds, which places pressure on margins. The Society remains committed to offering good value to members whilst also keeping the cost of retail funding at a sustainable level. The availability of mortgages, industry wide, may mean some contraction in net lending in the year as financial institutions continue to deleverage and build up their capital reserves in advance of Basel III implementation. However, the recent Government announcement of funding at potentially favourable rates may result in an increased market appetite for lending and we shall continue to monitor the scheme and consider whether we will participate. In any

event, the Society remains well placed to take advantage of the better margins available on new lending and will continue to target good quality risks.

The Group is not immune from the challenges facing the broader economy and any significant further weakening and loss of confidence could impact the financial performance of Connells through a fall in property transactions. Whilst sales volumes may decrease, in the absence of a severe double dip recession, we believe that the shortage of supply of housing in the UK will protect house prices from significant falls.

The Group has continued to trade profitably during the first half of 2012 and we remain confident that it will continue to do so in the second half, despite an increased charge for the FSCS levy, as we continue to strive to provide long term value for our members and customers.



R J Twigg
Group Finance Director
 31 July 2012

Condensed Consolidated Income Statement

For the half year ended 30 June 2012

	Notes	Unaudited 6 months to 30.06.12 £m	Unaudited 6 months to 30.06.11 £m	Audited 12 months to 31.12.11 £m
Interest receivable and similar income	3	193.9	181.8	373.6
Interest payable and similar charges	4	(149.6)	(147.2)	(302.4)
Net interest receivable		44.3	34.6	71.2
Fees and commissions receivable	5	187.1	173.9	369.4
Fees and commissions payable	6	(4.7)	(4.1)	(7.9)
Fair value gains on financial instruments		1.9	2.0	3.0
Profit on disposal of subsidiary undertakings		0.1	-	0.9
Share of profits from joint ventures and associates		0.7	0.2	0.7
Other income		5.9	8.4	13.2
Total income		235.3	215.0	450.5
Administrative expenses	7	(193.2)	(189.3)	(384.8)
Operating profit before impairment losses and provisions		42.1	25.7	65.7
Impairment losses on loans and advances	8	(7.7)	(17.2)	(30.0)
Impairment losses on debt securities	9	(4.0)	-	-
Provisions for liabilities	10	(8.1)	(2.2)	(13.5)
Profit before tax		22.3	6.3	22.2
Tax expense	11	(6.3)	(2.4)	(6.7)
Profit for the period		16.0	3.9	15.5
Profit for the period attributable to:				
Members of Skipton Building Society		16.4	4.0	15.4
Non-controlling interests		(0.4)	(0.1)	0.1
		16.0	3.9	15.5

Segmental performance of the Group is shown in note 18.

The notes on pages 19 to 26 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Comprehensive Income

For the half year ended 30 June 2012

	Unaudited 6 months to 30.06.12 £m	Unaudited 6 months to 30.06.11 £m	Audited 12 months to 31.12.11 £m
Profit for the period	16.0	3.9	15.5
Other comprehensive income:			
Available-for-sale investments: valuation gains taken to equity	5.6	11.1	17.0
Cash flow hedges: gains / (losses) taken to equity	4.7	(1.0)	(25.8)
Exchange differences on translation of foreign operations	0.1	(0.3)	0.9
Movement in reserves attributable to non-controlling interests	0.1	(0.2)	(0.4)
Actuarial loss on retirement benefit obligations	(8.8)	(1.5)	(18.4)
Income tax relating to components of other comprehensive income	(1.0)	(2.0)	6.6
Other comprehensive income / (expense) for the period, net of tax	0.7	6.1	(20.1)
Total comprehensive income / (expense) for the period	16.7	10.0	(4.6)
Total comprehensive income attributable to:			
Members of Skipton Building Society	17.1	10.1	(4.7)
Non-controlling interests	(0.4)	(0.1)	0.1
	16.7	10.0	(4.6)

The notes on pages 19 to 26 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	Unaudited as at 30.06.12 £m	Unaudited as at 30.06.11 £m	Audited as at 31.12.11 £m
Assets				
Cash in hand and balances with the Bank of England		1,530.6	527.0	782.3
Loans and advances to credit institutions		396.5	437.0	361.0
Debt securities	9	1,142.5	2,861.7	1,877.3
Derivative financial instruments		231.6	186.6	216.3
Loans and advances to customers	12	10,381.7	9,866.5	10,252.8
Deferred tax asset		26.7	24.9	30.7
Investments in subsidiary and participating undertakings		5.3	1.4	2.5
Intangible assets		196.3	194.5	196.7
Property, plant and equipment		87.4	87.4	86.2
Investment property		6.2	7.1	6.8
Other assets		104.1	100.7	97.7
Total assets		14,108.9	14,294.8	13,910.3
Liabilities				
Shares		9,526.8	9,312.4	9,280.4
Amounts owed to credit institutions		1,007.5	1,122.9	877.4
Amounts owed to other customers		897.1	1,044.4	921.3
Debt securities in issue	13	927.9	1,206.8	1,129.9
Derivative financial instruments		398.0	291.7	374.4
Current tax liability		3.8	4.2	3.1
Other liabilities		89.3	81.6	78.0
Accruals and deferred income		31.1	34.4	41.4
Provisions for liabilities	10	36.4	30.2	34.2
Deferred tax liability		9.8	9.4	10.1
Retirement benefit obligations		49.5	28.3	43.6
Subordinated liabilities		212.1	212.1	214.2
Subscribed capital		86.4	85.3	85.8
Total liabilities		13,275.7	13,463.7	13,093.8
Members' interests				
General reserve		829.9	822.5	820.8
Available-for-sale reserve		10.2	1.5	6.0
Cash flow hedging reserve		(15.4)	(0.4)	(19.0)
Translation reserve		6.0	4.7	5.9
Attributable to members of Skipton Building Society		830.7	828.3	813.7
Non-controlling interests		2.5	2.8	2.8
Total members' interests		833.2	831.1	816.5
Total members' interests and liabilities		14,108.9	14,294.8	13,910.3

The notes on pages 19 to 26 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Changes in Members' Interests

Unaudited for the half year ended 30 June 2012

	General reserve £m	Available- for-sale financial assets £m	Cash flow hedges £m	Translation of foreign operations £m	Sub total £m	Non- controlling interests £m	Total £m
Balance at 1 January 2012	820.8	6.0	(19.0)	5.9	813.7	2.8	816.5
Profit / (loss) for the period	16.4	-	-	-	16.4	(0.4)	16.0
Other comprehensive income:							
Actuarial loss on retirement benefit obligations	(7.3)	-	-	-	(7.3)	-	(7.3)
Net gains from changes in fair value	-	4.2	3.6	-	7.8	-	7.8
Exchange differences on translation of foreign operations	-	-	-	0.1	0.1	-	0.1
Movement in reserves attributable to non-controlling interests	-	-	-	-	-	0.1	0.1
Total other comprehensive income	(7.3)	4.2	3.6	0.1	0.6	0.1	0.7
Total comprehensive income for the period	9.1	4.2	3.6	0.1	17.0	(0.3)	16.7
Balance at 30 June 2012	829.9	10.2	(15.4)	6.0	830.7	2.5	833.2

Unaudited for the half year ended 30 June 2011

	General reserve £m	Available- for-sale financial assets £m	Cash flow hedges £m	Translation of foreign operations £m	Sub total £m	Non- controlling interests £m	Total £m
Balance at 1 January 2011	819.6	(6.9)	0.3	5.0	818.0	3.1	821.1
Profit / (loss) for the period	4.0	-	-	-	4.0	(0.1)	3.9
Other comprehensive income:							
Actuarial loss on retirement benefit obligations	(1.1)	-	-	-	(1.1)	-	(1.1)
Net gains / (losses) from changes in fair value	-	8.4	(0.7)	-	7.7	-	7.7
Exchange differences on translation of foreign operations	-	-	-	(0.3)	(0.3)	-	(0.3)
Movement in reserves attributable to non-controlling interests	-	-	-	-	-	(0.2)	(0.2)
Total other comprehensive income	(1.1)	8.4	(0.7)	(0.3)	6.3	(0.2)	6.1
Total comprehensive income for the period	2.9	8.4	(0.7)	(0.3)	10.3	(0.3)	10.0
Balance at 30 June 2011	822.5	1.5	(0.4)	4.7	828.3	2.8	831.1

Condensed Consolidated Statement of Changes in Members' Interests - continued

Audited for the year ended 31 December 2011

	General reserve £m	Available- for-sale financial assets £m	Cash flow hedges £m	Translation of foreign operations £m	Sub total £m	Non- controlling interests £m	Total £m
Balance at 1 January 2011	819.6	(6.9)	0.3	5.0	818.0	3.1	821.1
Profit for the financial year	15.4	-	-	-	15.4	0.1	15.5
Other comprehensive income:							
Actuarial loss on retirement benefit obligations	(14.2)	-	-	-	(14.2)	-	(14.2)
Net gains / (losses) from changes in fair value	-	12.9	(19.3)	-	(6.4)	-	(6.4)
Exchange differences on translation of foreign operations	-	-	-	0.9	0.9	-	0.9
Movement in reserves attributable to non-controlling interests	-	-	-	-	-	(0.4)	(0.4)
Total other comprehensive income	(14.2)	12.9	(19.3)	0.9	(19.7)	(0.4)	(20.1)
Total comprehensive income for the year	1.2	12.9	(19.3)	0.9	(4.3)	(0.3)	(4.6)
Balance at 31 December 2011	820.8	6.0	(19.0)	5.9	813.7	2.8	816.5

The notes on pages 19 to 26 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Cash Flows

For the half year ended 30 June 2012

	Notes	Unaudited 6 months to 30.06.12 £m	Unaudited 6 months to 30.06.11 £m	Audited 12 months to 31.12.11 £m
Cash flows from operating activities				
Profit before taxation		22.3	6.3	22.2
Adjustments for:				
Impairment losses on loans and advances	8	7.7	17.2	30.0
Impairment losses on debt securities		4.0	-	-
Loans and advances written off, net of recoveries		(12.7)	(9.3)	(21.3)
Goodwill impairment		-	-	1.0
Depreciation and amortisation		9.5	9.9	20.6
Impairment of investment property		-	0.1	0.1
Interest on capital and subordinated liabilities		12.0	12.0	24.2
Profit on sale of property, plant and equipment and investment property		(0.2)	(1.0)	(1.4)
Share of profits from joint ventures and associates		(0.7)	(0.2)	(0.7)
Profit on disposal of subsidiary undertakings		(0.1)	-	(0.9)
Other non-cash movements		9.3	1.9	(11.4)
		51.1	36.9	62.4
Changes in operating assets and liabilities:				
Movement in prepayments and accrued income		(5.3)	(16.5)	(3.8)
Movement in accruals and deferred income		(31.7)	(21.1)	5.0
Movement in provisions for liabilities		2.2	(1.0)	2.9
Movement in loans and advances to customers		(136.1)	(59.3)	(409.5)
Movement in shares		252.7	(71.9)	(136.9)
Net movement in amounts owed to credit institutions and other customers		107.1	224.3	(141.7)
Net movement in debt securities in issue		(184.0)	360.0	288.3
Net movement in loans and advances to credit institutions		6.7	8.0	(70.0)
Net movement in other assets		(2.3)	(6.3)	(12.9)
Net movement in other liabilities		17.1	5.7	15.7
Income taxes (paid) / received		(5.0)	3.8	(0.4)
Net cash flows from operating activities		72.5	462.6	(400.9)

Condensed Consolidated Statement of Cash Flows - continued

For the half year ended 30 June 2012

	Unaudited 6 months to 30.06.12 £m	Unaudited 6 months to 30.06.11 £m	Audited 12 months to 31.12.11 £m
Net cash flows from operating activities	72.5	462.6	(400.9)
Cash flows from investing activities			
Purchase of debt securities	(1,060.6)	(2,544.8)	(4,075.2)
Proceeds from disposal of debt securities	1,799.0	2,115.9	4,637.1
Purchase of intangible assets	(3.7)	(3.2)	(7.9)
Purchase of property, plant and equipment and investment property	(6.1)	(5.1)	(10.5)
Proceeds from disposal of property, plant and equipment and investment property	1.1	2.1	4.9
Dividend from joint venture	1.0	0.3	0.4
Dividends paid to non-controlling interests	(0.7)	(0.6)	(1.8)
Purchase of subsidiary undertakings in the period	(0.2)	(1.4)	(7.0)
Net cash acquired with subsidiaries	-	0.1	0.6
Further investment in subsidiary undertakings	0.1	(0.3)	(0.3)
Investment in joint venture	(3.1)	-	(0.7)
Purchase of other business units	-	(0.4)	(0.3)
Cash received from sale of subsidiary undertakings	3.4	0.3	1.1
Net cash disposed on sale of subsidiary undertakings	-	-	(0.5)
Net cash flows from investing activities	730.2	(437.1)	539.9
Cash flows from financing activities			
Interest paid on subordinated liabilities	(7.9)	(7.9)	(16.0)
Interest paid on Permanent Interest Bearing Shares	(4.1)	(4.1)	(8.2)
Net cash flows from financing activities	(12.0)	(12.0)	(24.2)
Net increase in cash and cash equivalents	790.7	13.5	114.8
Cash and cash equivalents at 1 January	870.1	755.3	755.3
Cash and cash equivalents at end of period	1,660.8	768.8	870.1

Analysis of the cash balances as shown in the Statement of Financial Position:

	Unaudited 6 months to 30.06.12 £m	Unaudited 6 months to 30.06.11 £m	Audited 12 months to 31.12.11 £m
Cash in hand and balances with the Bank of England	1,530.6	527.0	782.3
Mandatory reserve deposit with the Bank of England	(11.2)	(10.8)	(11.0)
	1,519.4	516.2	771.3
Loans and advances to credit institutions repayable on demand	141.4	252.6	98.8
Included in cash and cash equivalents at end of period	1,660.8	768.8	870.1

The notes on pages 19 to 26 form an integral part of this condensed consolidated half-yearly financial report.

Notes to the Condensed Consolidated Financial Statements

1. Introduction

The financial statements show the financial performance of the Group for the half-year ended 30 June 2012.

a) Basis of preparation

This half-yearly financial report has been prepared in accordance with IAS 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 financial statements, which were prepared in accordance with IFRS as adopted by the European Union.

There have been no new accounting policies adopted in the period.

b) Going concern

The Group's business activities together with its financial position, capital resources and the factors likely to affect its future development and performance are set out in the Business Review on pages 6 to 11.

In common with many financial institutions, the Group meets its day-to-day liquidity requirements through managing both its retail and wholesale funding sources, and is required to maintain sufficient buffers over regulatory liquidity and capital requirements in order to continue to be authorised to carry on its business. The Group's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Group should be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

Consequently, after reviewing the Group's forecasts and the key risks it faces, the Directors are satisfied that there are no material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, the Group continues to adopt the going concern basis in preparing the half-yearly financial report.

2. Other information

The half-yearly financial report information set out in this announcement is unaudited and does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The comparative figures for the year ended 31 December 2011 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditors and the report of the auditors was (i) unqualified and (ii) did not include a reference to matters to which the auditors drew attention by way of emphasis without qualifying their report. A copy of this half-yearly financial report has been placed on the website of Skipton Building Society. The Directors are responsible for the maintenance and integrity of information on the Society's website. Copies of the 2011 Annual Report and Accounts and this half-yearly financial report are available at www.skipton.co.uk/performance.

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.

The half-yearly financial report for the six months ended 30 June 2012 was approved by the Board of Directors on 31 July 2012.

3. Interest receivable and similar income

	Unaudited 6 months to 30.06.12 £m	Unaudited 6 months to 30.06.11 £m	Audited 12 months to 31.12.11 £m
On loans fully secured on residential property	202.1	200.2	401.1
On other loans	7.2	9.2	17.7
On debt securities	19.1	19.6	41.7
On other liquid assets	3.3	3.8	7.6
Net expense on derivative financial instruments	(37.8)	(51.0)	(94.5)
	193.9	181.8	373.6

Notes to the Condensed Consolidated Financial Statements - continued

4. Interest payable and similar charges	Unaudited 6 months to 30.06.12 £m	Unaudited 6 months to 30.06.11 £m	Audited 12 months to 31.12.11 £m
On shares held by individuals	117.4	116.5	236.1
On subscribed capital	4.1	4.1	8.2
On deposits and other borrowings:			
Subordinated liabilities	7.9	7.9	16.0
Wholesale and other funding	27.4	26.4	56.3
Net income on derivative financial instruments	(6.6)	(7.2)	(14.5)
Other	(0.6)	(0.5)	0.3
	149.6	147.2	302.4

5. Fees and commissions receivable	Unaudited 6 months to 30.06.12 £m	Unaudited 6 months to 30.06.11 £m	Audited 12 months to 31.12.11 £m
Mortgage origination related fees	10.6	7.7	31.1
General insurance fees	11.8	12.1	25.2
Commissions earned on property sales	49.0	43.2	111.6
Mortgage servicing fees	31.2	33.4	66.8
Financial advice	23.2	27.5	54.1
Other fees and commissions	61.3	50.0	80.6
	187.1	173.9	369.4

6. Fees and commissions payable	Unaudited 6 months to 30.06.12 £m	Unaudited 6 months to 30.06.11 £m	Audited 12 months to 31.12.11 £m
Mortgage origination related fees	0.2	0.2	0.4
Other fees and commissions	4.5	3.9	7.5
	4.7	4.1	7.9

7. Administrative expenses	Unaudited 6 months to 30.06.12 £m	Unaudited 6 months to 30.06.11 £m	Audited 12 months to 31.12.11 £m
Employee costs:			
Wages and salaries	114.7	108.0	220.8
Social security costs	9.7	9.6	21.1
Pension costs:			
Defined contribution arrangements	3.2	3.6	6.5
Defined benefit schemes service costs	0.2	1.8	1.8
Settlement gain	-	(4.5)	(4.5)
	127.8	118.5	245.7
Other administrative expenses	65.4	70.8	139.1
	193.2	189.3	384.8

8. Impairment losses on loans and advances

	Unaudited 30.06.12 £m	Unaudited 30.06.11 £m	Audited 31.12.11 £m
Impairment charge for the period:			
Loans fully secured on residential property	7.0	8.0	17.6
Loans fully secured on land	0.8	0.5	2.8
Other loans	(0.1)	8.7	9.6
	7.7	17.2	30.0
Impairment provision at the end of the period:			
Loans fully secured on residential property	54.8	61.8	59.6
Loans fully secured on land	6.7	4.3	6.7
Other loans	21.6	21.2	21.8
	83.1	87.3	88.1

9. Movement in debt securities

Movements in debt securities during the period are summarised as follows:

	Unaudited as at 30.06.12 £m	Unaudited as at 30.06.11 £m	Audited as at 31.12.11 £m
At 1 January	1,877.3	2,421.2	2,421.2
Additions	1,060.6	2,544.8	4,075.2
Disposals	(1,799.0)	(2,115.9)	(4,637.1)
Impairment losses	(4.0)	-	-
Changes in fair value	7.6	11.6	18.0
At end of period	1,142.5	2,861.7	1,877.3

10. Provisions for liabilities

	Unaudited as at 30.06.12 £m	Unaudited as at 30.06.11 £m	Audited as at 31.12.11 £m
Provision for the costs of surplus properties	6.9	7.0	6.8
Financial Services Compensation Scheme	9.6	7.6	9.7
Regulatory and other provisions	19.9	15.6	17.7
	36.4	30.2	34.2

The movement in provisions in the period has resulted in an Income Statement charge of £8.1m for the period (six months ended 30 June 2011: £2.2m).

Notes to the Condensed Consolidated Financial Statements - continued

11. Taxation expense	Unaudited 6 months to 30.06.12 £m	Unaudited 6 months to 30.06.11 £m	Audited 12 months to 31.12.11 £m
Profit before tax	22.3	6.3	22.2
Less share of profits from joint ventures and associates (net of tax)	(0.7)	(0.2)	(0.7)
	21.6	6.1	21.5
Tax calculated at UK standard rate of 24.5% (30 June 2011: 26.5%; 31 December 2011: 26.5%)	5.3	1.6	5.7
Adjustments	1.0	0.8	1.0
Tax expense	6.3	2.4	6.7

The effective tax rate for the six month period ending 30 June 2012 was 29.2% (30 June 2011: 39.3%; 31 December 2011: 31.2%). This differs from the standard rate of corporation tax due to the impact of disallowable expenditure and the effect of the reduction in corporation tax rate from 26% to 24% announced in the March 2012 budget on the Group's net deferred tax asset.

The reduction in the corporation tax rate to 24% from 1 April 2012 resulted in a £0.3m charge to the Income Statement in respect of the Group's net deferred tax asset. No account has been taken of future planned reductions in corporation tax rates as these have not yet been substantively enacted and it is not possible to quantify the effects of the proposed reductions at this time.

12. Loans and advances to customers	Unaudited as at 30.06.12 £m	Unaudited as at 30.06.11 £m	Audited as at 31.12.11 £m
Loans fully secured on residential property	9,613.3	9,113.6	9,472.9
Other loans:			
Loans fully secured on land	447.2	480.7	460.4
Other loans	87.9	71.1	78.6
Fair value adjustment for hedged risk	233.3	201.1	240.9
	10,381.7	9,866.5	10,252.8
The remaining maturity of loans and advances to customers from the reporting date is as follows:			
On call and at short notice	57.7	51.2	52.6
In not more than three months	16.1	32.3	36.1
In more than three months but not more than one year	74.9	51.6	58.1
In more than one year but not more than five years	532.1	445.7	474.7
In more than five years	9,784.0	9,373.0	9,719.4
	10,464.8	9,953.8	10,340.9
Less: Impairment (note 8)	(83.1)	(87.3)	(88.1)
	10,381.7	9,866.5	10,252.8

13. Debt securities in issue

	Unaudited as at 30.06.12 £m	Unaudited as at 30.06.11 £m	Audited as at 31.12.11 £m
Certificates of deposit	19.1	39.0	19.1
Other debt securities	886.9	1,130.2	1,078.7
Fair value adjustment for hedged risk	21.9	37.6	32.1
	927.9	1,206.8	1,129.9
Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:			
In not more than one year	21.7	707.8	690.2
In more than one year	906.2	499.0	439.7
	927.9	1,206.8	1,129.9

Included in other debt securities is 1 (30 June 2011: 3; 31 December 2011: 2) floating rate note issued to the capital markets totalling £40.4m (30 June 2011: £50.8m; 31 December 2011: £45.7m).

14. Related party transactions

A number of transactions are entered into with related parties in the normal course of business. The Group has had no unusual related party transactions during the half year ended 30 June 2012 and none that have materially affected the financial position or the performance of the Group during that period.

Related party transactions for the half year ended 30 June 2012 are similar in nature to those for the year ended 31 December 2011. Full details of the Group's related party transactions for the year to 31 December 2011 can be found in note 10 *Related party transactions* in the 2011 Annual Report and Accounts.

15. Subsequent events

There have been no material post balance sheet events between 30 June 2012 and the approval of this half-yearly financial report by the Board.

16. Contingent liabilities

- a) The Society is obliged under section 22 of the Building Societies Act 1986 to discharge the liabilities of its subsidiary undertakings incurred prior to 11 June 1996 when this section was repealed. Additionally, the Society has given a legal undertaking agreeing to discharge the liabilities of Skipton International Limited in so far as it is unable to discharge them out of its own assets whilst it remains a subsidiary of Skipton Building Society. Furthermore, the Society has confirmed it will provide continuing support to those subsidiary undertakings that have net liabilities.
- b) In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. During 2008 and 2009 claims were triggered against the FSCS when a number of UK deposit takers failed and the FSCS is meeting these claims by way of loans received from HM Treasury. The terms of these loans remain interest only and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members. In addition to the management levies, the FSCS has now indicated that compensation levies are likely to be charged over a number of scheme years commencing 1 April 2012.
- c) Within the Financial Advice division, we are in the process of reviewing the suitability of advice given to certain customers on past sales. The Group has made provisions for the expected cost of liabilities which may arise from these reviews. However, the investigations are at a relatively early stage, and whilst it is possible that further liabilities may arise, the outcome is uncertain. Consequently the Board is unable to determine the likelihood or quantum of any contingent liability.

17. Credit risk

The significant credit risks which the Group is exposed to are in relation to Loans and advances to credit institutions, Debt securities, Loans and advances to customers (note 12) and Derivative financial instruments.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, except for loans and advances to customers where a fair value adjustment for hedged risk of £233.3m (30 June 2011: £201.1m; 31 December 2011: £240.9m) is included.

Notes to the Condensed Consolidated Financial Statements - continued

17. Credit risk (continued)

Credit risk – debt securities and loans and advances to credit institutions

The percentage of these exposures that are rated A3 or better by Moody's credit ratings for 2012 is 99.6% (30 June 2011: 98.5%; 31 December 2011: 98.2%).

Credit risk – loans and advances to customers

The table below shows an analysis of the Group's loans and advances to customers:

	Unaudited as at 30.06.12		Unaudited as at 30.06.11		Audited as at 31.12.11	
	£m	%	£m	%	£m	%
Total residential mortgages	9,668.1	94.5	9,175.4	94.1	9,532.5	94.4
Commercial loans	453.9	4.4	485.0	5.0	467.1	4.6
Other lending:						
Debt factoring loans	48.7	0.5	39.1	0.4	42.0	0.4
Other loans	60.8	0.6	53.2	0.5	58.4	0.6
Gross balances	10,231.5	100.0	9,752.7	100.0	10,100.0	100.0
Impairment provisions (note 8)	(83.1)		(87.3)		(88.1)	
Fair value adjustment for hedged risk	233.3		201.1		240.9	
	10,381.7		9,866.5		10,252.8	

a) Residential mortgages

The majority of loans and advances to customers are secured on UK residential properties with no particular geographic concentrations. By their nature, our residential lending books are comprised of a large number of smaller loans and historically had a low volatility of credit risk outcomes.

The Group's portfolio of loans fully secured on residential property includes the Society, SIL, which lends in the Channel Islands, and the specialist mortgage lending in Amber and NYM.

The average linked LTV percentage is 56.5% (30 June 2011: 55.0%; 31 December 2011: 55.5%).

The table below provides further information on residential loans and advances by payment due status:

	Unaudited as at 30.06.12		Unaudited as at 30.06.11		Audited as at 31.12.11	
	£m	%	£m	%	£m	%
Neither past due nor individually impaired	9,142.5	94.7	8,607.8	93.8	8,981.6	94.2
Past due but not individually impaired:						
Up to 3 months	70.1	0.7	97.1	1.1	74.2	0.8
3 to 6 months	11.9	0.1	26.0	0.3	12.2	0.1
6 to 9 months	3.2	-	11.4	0.1	5.0	0.1
9 to 12 months	2.6	-	7.8	0.1	2.3	-
Over 12 months	2.3	-	5.4	-	3.3	-
Total	9,232.6	95.5	8,755.5	95.4	9,078.6	95.2
Individually impaired	409.9	4.2	393.2	4.3	420.8	4.4
Possessions	25.6	0.3	26.7	0.3	33.1	0.4
	9,668.1	100.0	9,175.4	100.0	9,532.5	100.0

Loans in the analysis above which are less than one month past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears.

17. Credit risk (continued)

b) Commercial loans

Loans secured on commercial property are well diversified by both industry type and geographical location. The table below provides further information on commercial loans and advances by payment due status:

	Unaudited as at 30.06.12		Unaudited as at 30.06.11		Audited as at 31.12.11	
	£m	%	£m	%	£m	%
Neither past due nor individually impaired	432.5	95.3	467.1	96.4	441.0	94.5
Past due but not individually impaired:						
Up to 3 months	10.0	2.2	2.3	0.5	12.4	2.7
3 to 6 months	3.2	0.7	0.6	0.1	0.1	-
6 to 9 months	-	-	0.7	0.1	0.5	0.1
9 to 12 months	0.1	-	0.7	0.1	0.1	-
Over 12 months	0.5	0.1	1.1	0.2	1.1	0.2
Total	446.3	98.3	472.5	97.4	455.2	97.5
Individually impaired	7.5	1.7	12.5	2.6	11.9	2.5
Possessions	0.1	-	-	-	-	-
	453.9	100.0	485.0	100.0	467.1	100.0

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears.

c) Forbearance

At 30 June 2012 the percentage of residential mortgage balances subject to forbearance, which is where terms have been renegotiated during the last two years, is 6.0% (31 December 2011: 7.6%). For commercial balances the percentage is 6.0% (31 December 2011: 9.0%).

18. Group segmental reporting

The Group's operating results are regularly reviewed by the chief operating decision maker in the following reportable segments. Each segment offers different products and services and is managed separately based on the Group's management and internal reporting structure.

- Mortgages and Savings – principally the Society, but also includes specialist mortgage businesses Amber and NYM, and deposit taking and lending in Jersey and Guernsey through SIL.
- Estate Agency – including survey and valuations, conveyancing, lettings, asset management and mortgage broking carried out through the Connells group.
- Mortgage Services – mortgage administration services, principally Homeloan Management.
- Financial Advice – provision of financial advice and broking services through three separate financial advice companies.
- Investment Portfolio – includes a number of small trading companies that do not fall within the core operating segments.

These segments reflect how internal reporting is provided to management and how management allocate resources and assess performance.

Transactions between the segments are on normal commercial terms and conditions. The accounting policies of the reportable segments are consistent with the Group's accounting policies.

No geographical analysis is presented because substantially all of the Group's activities are conducted within the UK. Of the total external income, £14.0m (six months ended 30 June 2011: £12.6m; year ended 31 December 2011: £31.3m) was generated outside the UK.

Notes to the Condensed Consolidated Financial Statements - continued

18. Group segmental reporting (continued)

Unaudited 6 months to 30.06.12

	Mortgages and Savings £m	Estate Agency £m	Mortgage Services £m	Financial Advice £m	Investment Portfolio £m	Inter- divisional adjustments £m	Total £m
Profit / (loss) before tax	3.9	18.9	0.1	(0.5)	-	(0.1)	22.3
Taxation	(0.7)	(4.5)	-	0.1	(0.1)	(1.1)	(6.3)
Profit / (loss) after tax	3.2	14.4	0.1	(0.4)	(0.1)	(1.2)	16.0
Total assets	14,616.4	167.6	25.6	24.2	126.0	(850.9)	14,108.9
Total liabilities	13,741.8	75.7	4.5	2.3	96.9	(645.5)	13,275.7
Capital expenditure	0.9	5.2	1.6	0.6	1.7	(0.2)	9.8

Unaudited 6 months to 30.06.11

	Mortgages and Savings* £m	Estate Agency £m	Mortgage Services £m	Financial Advice £m	Investment Portfolio* £m	Inter- divisional adjustments* £m	Total £m
(Loss) / profit before tax	(8.1)	14.9	(3.2)	2.2	0.6	(0.1)	6.3
Taxation	2.9	(3.9)	0.8	(0.6)	0.1	(1.7)	(2.4)
(Loss) / profit after tax	(5.2)	11.0	(2.4)	1.6	0.7	(1.8)	3.9
Total assets	14,129.3	151.9	26.2	24.6	116.9	(154.1)	14,294.8
Total liabilities	13,253.3	53.9	5.2	0.5	86.0	64.8	13,463.7
Capital expenditure	0.8	3.4	2.0	0.7	1.4	-	8.3

Audited 12 months to 31.12.11

	Mortgages and Savings £m	Estate Agency £m	Mortgage Services £m	Financial Advice £m	Investment Portfolio £m	Inter- divisional adjustments £m	Total £m
(Loss) / profit before tax	(13.5)	35.8	(3.1)	2.9	1.3	(1.2)	22.2
Taxation	3.8	(10.7)	0.9	(0.8)	0.1	-	(6.7)
(Loss) / profit after tax	(9.7)	25.1	(2.2)	2.1	1.4	(1.2)	15.5
Total assets	13,726.5	159.3	26.4	24.8	118.6	(145.3)	13,910.3
Total liabilities	12,871.5	67.5	5.4	2.4	89.8	57.2	13,093.8
Capital expenditure	1.8	7.5	4.2	1.2	3.7	-	18.4

* As reported in the 2011 Report and Accounts, Skipton Group Holdings Limited was transferred from the Investment Portfolio to the Mortgages and Savings division in 2011. The 6 months to 30 June 2011 have been restated accordingly. Had this change not been made, the Mortgages and Savings division would have made an additional profit before tax of £2.9m with a corresponding additional loss in the Investment Portfolio for the 6 months to 30 June 2011.

Responsibility Statement of the Directors in respect of the Half-Yearly Financial Report

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*, as adopted by the European Union;
- the half-yearly financial report includes a fair review of the information required by:

DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year.

The Board of Directors represents those individuals responsible for the half-yearly financial report as listed below:

Ms M Cassoni	(appointed 31 July 2012)
Mr I D Cornelius*	(appointed 11 June 2012)
Mr D J Cutter*	
Mr R East	
Mr M H Ellis	(Chairman)
Mr M Fleet*	
Mr P R Hales	
Mr C N Hutton	(Vice Chairman)
Ms A B E Kinney	
Mr G Picken	(appointed 17 January 2012)
Mr P J S Thompson	
Mr R J Twigg*	

* Executive Directors

Signed on behalf of the Board by



M H Ellis
Chairman
 31 July 2012

Independent Review Report to Skipton Building Society

Introduction

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 consolidated income statement, the condensed consolidated statement of financial position, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in members' interests and the condensed consolidated statement of cash flows and the relevant explanatory notes. 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 the terms of our engagement to assist the Society in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Society those matters we are required to state to it in this 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 reached.

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 DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the Society are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the EU.

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 UK. 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 IAS 34 as adopted by the EU and the DTR of the UK FSA.

J L Ellacott
for and on behalf of KPMG Audit Plc
Chartered Accountants
Leeds
31 July 2012

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Skipton Building Society is a member of the Building Societies Association. Authorised and regulated by the Financial Services Authority (FSA) under registration number 153706 for accepting deposits, advising on and arranging mortgages and insurance.

*To help maintain service and quality, some telephone calls may be recorded and monitored.

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