Skipton Building Society

Half-Yearly Financial Report

2013

SKIPTON
MY BUILDING SOCIETY

Contents

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 announce a further improvement in the Society's financial performance for the first six months of 2013.

We have increased our pre-tax profits by 59%, to £34.4m compared to £21.7m in the first half of 2012, and compared to £35.4m during the whole of 2012.

We also continue to increase our key capital ratios and maintain prudent levels of high quality liquidity, while maintaining our focus on meeting our members' needs, through our personalised approach to service, further growth in lending and a competitive savings offering.

The Society's strategy

The aim of the Society is to provide mortgage finance for homeowners and to be a safe and rewarding haven for retail savers, as well as providing investment advice through our wholly owned subsidiary Skipton Financial Services.

Our success in achieving this is evidenced by our growing customer base and the increase in both mortgage and savings balances, which we have accomplished while maintaining strong capital and liquidity positions. Generating sufficient profits is essential to sustaining this model. The Society achieves this by operating a robust Mortgages and Savings division, and also benefits from investing in a diverse portfolio of subsidiaries.

Growing the business requires having suitably trained and engaged people who listen to our members and provide products and services that satisfy their needs, and we continue to invest in developing our people accordingly.

Overall performance

During the six months ended 30 June 2013 we improved our performance across all key metrics:

- The number of Society customers increased by almost 11,000;
- Gross mortgage lending increased by 64% to £1,090m;
- Our net lending grew by £455m, representing a growth in our UK mortgage balances of 4.4% in a period where overall UK residential mortgage lending was flat;
- Retail savings balances increased by £319m to £9,739m, representing a growth of 3.4%;
- Mortgage arrears (where the arrears balance was greater than 2.5% of the total outstanding balance) declined to 1.16% from 1.30%, which compares favourably to an industry average of 1.42% (per Council of Mortgage Lenders figures at 31 March 2013);
- Core Tier One capital ratio increased to 11.42% from 11.08%;
- Leverage Ratio increased to 5.1% from 4.8%; and
- Pre-tax profit increased by 59% to £34.4m.

Divisional performances

A key contributor to our improved profitability was continued progress in the performance of our Mortgages and Savings division, where profits increased by £12.5m, to £16.2m, year-on-year. This was underpinned by further improvement in our Group net interest margin, which rose to 0.89% from the 0.63% achieved during the six months ended 30 June 2012. The main reason for the increase was increased mortgage lending combined with a fall in retail savings rates due to changing market conditions.

Our Estate Agency division benefited from the housing market's positive start to 2013, increasing its profits by 24% to £23.0m compared to £18.5m for the six months ended 30 June 2012, as a result of a 16.8% increase in house sales.

Our Mortgage Services division continues to trade profitably in a subdued mortgage outsourcing market, and made a pre-tax profit of £0.3m (six months ended 30 June 2012: £0.1m), whilst our Financial Advice division achieved a profit of £0.5m (six months ended 30 June 2012: loss of £(0.5)m).

Compared to a break-even position during the six months ended 30 June 2012, the Investment Portfolio division reported a loss of £(2.6)m, predominantly due to investment made by our subsidiary Wynyard Group Limited. However, this company achieved a successful flotation on the New Zealand Stock Exchange in July 2013, which will bring a one-off profit benefit in the order of £20m to the Group in the second half of the year.

Committed to our members

Despite a market wide reduction in savings rates resulting from the availability of cheaper funding since the introduction of the Funding for Lending Scheme (FLS), we continue our endeavours to support savers, particularly those who rely on their nest eggs for top-up retirement income. The average savings rate payable to customers at 30 June 2013 was 2.21% (31 December 2012: 2.56%).

As ever, we strive to deliver outstanding service to all our customers and, in July, launched our new 'No Pressure Promise'. This commits to giving customers the time and space to make their own decisions, backed up with support and information, and follows extensive feedback from our members that they dislike what they perceive to be pressure selling by financial services businesses. Responding to our customers' needs remains vital to us and we continue to invest in our Customer Panel, which launched in January 2012 and currently has around 2,500 members. This forum enables our members to have their say on future Society developments from products to communications.

We will also shortly be launching a new customer experience programme, which will see us talking to over 18,000 of our customers each year to help us continually improve the service we provide. In addition a new Customer Forum, launched in July, will invite selected customers to engage with us on a regular basis about the strategic development of the Society.

Community

We continue to recognise the need to play a part in the communities in which we serve. In the first half of 2013 our investment has centred on a new 'Grassroots Giving' programme which offers grants of £500 to clubs and societies which enrich life in their local communities. More than 600 organisations have applied since January and we will select 160 of those shortlisted to receive their donation in celebration of our 160th anniversary in 2013. We also donated a total of £62,430 during the first six months of the year, through our Skipton Building Society Charitable Foundation, mainly to charities across the country which help the young and the elderly.

Outlook

Our strong results show how we are building on our firm foundations, and coincide with some encouraging signs that the economy may be improving.

I am particularly pleased at the way in which we have achieved our results. We remain committed to being an organisation that cares about our customers, continually offering good value products to our members, backed up by outstanding personal service.

We are mindful that our markets remain heavily influenced by central bank support and the economy will doubtless suffer further setbacks en route to lasting, long term recovery, and hence we continue to build appropriate prudence into our plans. However, our clear, customer-centric focus and the opportunities emanating from our diversified group, place us in a strong position to continue to move forward in the second half of the year.

David Cutter

D J Cutter
Group Chief Executive
31 July 2013

Business Review

Introduction

Skipton Building Society is the UK's fourth largest building society, with over 740,000 customers, £13.9bn of assets and a national presence of 102 branches and agencies. The Skipton Group 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 Board is the chief operating decision maker and reviews the Group's operating results regularly 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 Limited (Amber) and North Yorkshire Mortgages Limited (NYM) and deposit taking and mortgage lending in the Channel Islands through Skipton International Limited (SIL). The division also includes the Group's special purpose vehicles (SPVs), Darrowby No 1 plc and Darrowby No 2 plc, formed to acquire funds from the wholesale securitisation markets, and the intermediate holding company Skipton Group Holdings Limited (SGHL).
- Estate Agency – including surveys and valuations, conveyancing, lettings, asset management and mortgage broking carried out through the Connells group.
- Mortgage Services – mortgage administration services, principally Homeloan Management Limited (HML).
- Financial Advice – provision of financial advice and broking services through three separate financial advice businesses, Skipton Financial Services Limited (SFS), Pearson Jones Plc and Torquil Clark Limited.
- Investment Portfolio – includes a number of trading companies that do not fall within the core operating segments.

Key Performance Indicators

The Group focuses on Key Performance Indicators designed to ensure that it maintains and improves its financial strength and delivers products and services that match our members' and customers' needs:

Key Performance indicator	**Unaudited 6 months to 30.06.13**	Unaudited 6 months to 30.06.12	Unaudited 12 months to 31.12.12
Group pre-tax profit	**£34.4m**	£21.7m	£35.4m
Group interest margin (% of mean assets)	**0.89%**	0.63%	0.61%
Group cost income ratio	**81.33%**	82.56%	83.88%
Group loan loss impairment charge	**£12.2m**	£7.7m	£12.3m
Gross mortgage advances	**£1,090.4m**	£663.4m	£1,483.7m
Capital adequacy measures:			
Core Tier 1 ratio	**11.42%**	10.88%	11.08%
Tier 1 ratio	**12.89%**	12.39%	12.59%
Tier 1 capital (before deductions)	**£982.0m**	£935.6m	£948.2m
Tier 1 capital (after deductions)	**£789.4m**	£739.3m	£752.0m
Liquidity adequacy measures:			
Liquidity as a % of shares, deposits and liabilities	**18.60%**	24.88%	21.10%
Core liquidity buffer	**£1,201.2m**	£1,718.0m	£1,240.2m
Group retail funding as a % of total funding	**84.69%**	81.22%	83.07%

Further details are included on pages 7 to 11 of the Business Review.

Overview

During the first six months of 2013 the performance of the core Mortgages and Savings division has continued to improve which, together with the benefits arising from the diversified business model, has seen the Skipton Group increase its profits. For the six months ended 30 June 2013, the Group achieved pre-tax profits of £34.4m (six months ended 30 June 2012: £21.7m; year ended 31 December 2012: £35.4m).

We continue to focus on ensuring that the performance of the Mortgages and Savings business progresses and a combination of increased mortgage lending, together with reduced funding costs since the introduction of the Funding for Lending Scheme (FLS), resulted in the Group net interest margin increasing to 0.89% (six months ended 30 June 2012: 0.63%; year ended 31 December 2012: 0.61%). Gross mortgage advances were £1,090.4m (six months ended 30 June 2012: £663.4m; year ended 31 December 2012: £1,483.7m) and during the six months ended 30 June 2013 our total assets increased by 1.2% to £13,922.4m (30 June 2012: £14,108.9m; 31 December 2012: £13,760.2m). Despite a year-on-year increase in the Group charge for impairment losses on loans and advances to customers to £12.2m (six months ended 30 June 2012: £7.7m; year ended 31 December 2012: £12.3m), as we took a more conservative view on our equity release mortgage portfolio, the improved net interest margin drove significant improvement in the pre-tax profits of the Mortgages and Savings division which increased to £16.2m (six months ended 30 June 2012: £3.7m; year ended 31 December 2012: £4.5m).

A key contributor to our profits remains our estate agency business, Connells, which delivered a pre-tax profit of £23.0m (six months ended 30 June 2012: £18.5m; year ended 31 December 2012: £35.6m), as the volume of house sales increased by 16.8% in a more optimistic housing market.

Our profitability during the period has resulted in an increase in our Core Tier 1 capital ratio to 11.42% (30 June 2012: 10.88%; 31 December 2012: 11.08%). Whilst we have allowed liquidity to fall from the levels seen during the height of the financial crisis, at 18.60% of shares and deposit liabilities (30 June 2012: 24.88%; 31 December 2012: 21.10%), liquidity remains well above both our internal and regulatory limits.

Financial performance

Total Group pre-tax profits for the first half of 2013 were £34.4m (six months ended 30 June 2012: £21.7m; year ended 31 December 2012: £35.4m) as set out in the table below:

	Unaudited 6 months to 30.06.13 £m	Unaudited 6 months to 30.06.12 £m	Unaudited 12 months to 31.12.12 £m
Net interest income	**61.1**	44.3	84.2
Other income	**202.6**	187.7	401.1
Fair value gains on financial instruments	**1.5**	1.9	3.6
Profit on sale of subsidiary undertakings	**-**	0.1	-
Share of profits from joint ventures and associates	**1.0**	0.7	1.6
Total income	**266.2**	234.7	490.5
Administrative expenses	**(215.7)**	(193.2)	(410.1)
Operating profit before impairment losses and provisions	**50.5**	41.5	80.4
Impairment losses on loans and advances	**(12.2)**	(7.7)	(12.3)
Impairment losses on debt securities	**(0.7)**	(4.0)	(4.0)
Provisions for liabilities	**(3.2)**	(8.1)	(28.7)
Profit before tax	**34.4**	21.7	35.4

Net interest income

Net interest income is the amount earned on assets (mortgages, other loans and liquidity) less that paid on liabilities (retail savings, wholesale funding and capital).

The Group's net interest margin for the period increased to 0.89% from 0.63% for the same period last year. This was the result of increased mortgage lending together with continuing prudent management of the retail savings portfolio by offering attractive rates to savers which deliver sustainable returns for the Society. The Group margin has also benefited from the impact of the Government's FLS, which has driven down the market price of retail funding since its introduction in August 2012. We have participated in the FLS and at 30 June 2013 had drawn £410m (30 June 2012: £nil; 31 December 2012: £nil) at the attractive rates available.

Other income

The Group's other income represents the net non-margin revenue generated by the Society and its subsidiaries and amounted to £202.6m (six months ended 30 June 2012: £187.7m; year ended 31 December 2012: £401.1m), analysed by division below:

	Unaudited 6 months to 30.06.13 £m	Unaudited 6 months to 30.06.12 £m	Unaudited 12 months to 31.12.12 £m
Mortgages and Savings	**7.6**	8.9	17.7
Estate Agency	**131.4**	111.7	250.5
Mortgage Services	**29.0**	30.6	60.6
Financial Advice	**19.9**	22.3	44.5
Investment Portfolio	**18.4**	17.9	35.2
Inter-divisional adjustments	**(3.7)**	(3.7)	(7.4)
	202.6	187.7	401.1

The Group's other income for the year increased by 7.9% over the same period last year. Estate agency income has increased by £19.7m year-on-year due to a 16.8% increase in the number of properties sold, together with improved income from recent 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 £1.6m. The Financial Advice division benefited from a buoyant Stock Market for the majority of the period but its income was impacted as we continued to invest in training staff to be able to operate compliantly and remain customer focussed in the changing regulatory climate. The increase in revenue in the Investment Portfolio has been driven by our New Zealand based software subsidiaries, who have secured a number of new contracts in the period; offset by a reduction in revenue as a result of the sale of Sterling International Brokers in February 2013.

Administrative expenses

Group administrative expenses increased by 11.6% to £215.7m for the six months to 30 June 2013 (six months ended 30 June 2012: £193.2m; year ended 31 December 2012: £410.1m). Whilst all entities within the Group continue to focus on managing costs, inflationary increases and an ever increasing need to invest further in regulatory compliance has produced upward pressure on expenditure. Additionally, investments made in our Estate Agency division since late 2011 have increased the Group's cost footprint, although these are now beginning to bear fruit in generating revenue growth.

The usual building society measure of efficiency, the ratio of administrative expenses to mean assets increased to 0.46% for the Society in the first half of 2013 (six months ended 30 June 2012: 0.42%; year ended 31 December 2012: 0.44%) as a result of the pressures explained above.

At a Group level, the cost to income ratio improved in the period to 81.33% (six months ended 30 June 2012: 82.56%; year ended 31 December 2012: 83.88%) due to increased revenue.

Business Review (continued)

Impairment losses on loans and advances

The Group's impairment charge on loans and advances for the period was £12.2m (six months ended 30 June 2012: £7.7m; year ended 31 December 2012: £12.3m). £5.3m of this charge (six months ended 30 June 2012: £nil; year ended 31 December 2012: £0.5m) relates to impairment provisions on the Society's equity release portfolio, acquired when we merged with Scarborough Building Society in 2009, because we have revised our long term assumptions of house prices. The performance of the Society's prime residential mortgage book remains good and arrears levels within the specialist residential mortgages held in Amber and NYM have also fallen.

Impairment losses on debt securities

The Society continues to run-off legacy treasury investments and we continue to review the carrying value of this portfolio. During the first half of 2013 we have provided a further £0.7m (six months ended 30 June 2012: £4.0m; year ended 31 December 2012: £4.0m) 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

Provisions for liabilities made in the period amounted to £3.2m (six months ended 30 June 2012: £8.1m; year ended 31 December 2012: £28.7m) and relate to items such as claims against Connells' survey and valuation division, customer redress within our Financial Advice division, various customer claims and provisions for the cost of surplus properties. The charge relating to the Society's share of the costs of the Financial Services Compensation Scheme (FSCS) is recognised in December annually and amounted to £7.5m for the year ended 31 December 2012. The 2013 half year accounts charge for FSCS levies was £0.1m, however this is expected to be approximately £8.0m in the second half of the year.

The table below provides a breakdown of the total provisions charge:

	Unaudited 6 months to 30.06.13 £m	Unaudited 6 months to 30.06.12 £m	Unaudited 12 months to 31.12.12 £m
Provisions for the cost of surplus properties	**0.2**	1.2	2.3
Financial Services Compensation Scheme	**0.1**	0.4	7.5
Commission clawbacks / rebates	**1.1**	1.5	6.2
Survey and valuation claims	**0.5**	2.6	8.4
Customer compensation	**0.7**	2.2	3.7
Regulatory and other provisions	**0.6**	0.2	0.6
	3.2	8.1	28.7

Other comprehensive income

During the first half of the year the Group generated £27.0m (net of tax) of other comprehensive income (six months ended 30 June 2012: £1.3m; year ended 31 December 2012: £(7.6)m).

This consisted primarily of a £19.6m unrealised gain resulting from an increase in the fair value of the Group's shareholding in Zoopla Group Limited (Zoopla), which has been recognised in the available-for-sale reserve as referred to in note 17d), following a reassessment of the fair value of Zoopla in light of its current performance and relevant market comparables.

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 30.06.13 £m	Unaudited 6 months to 30.06.12 £m	Unaudited 12 months to 31.12.12 £m
Mortgages and Savings	**16.2**	3.7	4.5
Estate Agency	**23.0**	18.5	35.6
Mortgage Services	**0.3**	0.1	0.8
Financial Advice	**0.5**	(0.5)	(0.9)
Investment Portfolio	**(2.6)**	-	(3.9)
Inter-divisional adjustments	**(3.0)**	(0.1)	(0.7)
	34.4	21.7	35.4

Mortgages and Savings

The Mortgages and Savings division continued its performance improvement and made a pre-tax profit of £16.2m in the period compared to a £3.7m profit for the six months ended 30 June 2012.

A key driver of the performance of the division has been the improvement in its net interest margin, which has increased in the first half of 2013 to 0.88%, compared to 0.62% in the six months ended 30 June 2012. New lending volumes in the period were £1,090.4m (six months ended 30 June 2012: £663.4m), driven by a strong presence in the intermediary mortgage market and a competitive range of mortgage products, whilst our retail savings proposition continues to offer an attractive range of products across all our channels.

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 6.55% and 5.05% respectively (30 June 2012: 7.10% and 5.33%; 31 December 2012: 7.24% and 5.53%), which represents a significant reduction in monetary value from the end of 2012 given the aggregate size of these two portfolios has reduced to £1.67bn from £1.73bn.

Our Channel Islands operation, SIL, made a pre-tax profit of £3.5m in the first six months (six months ended 30 June 2012: £2.6m; year ended 31 December 2012: £5.8m). SIL has continued to grow its book of mortgage assets in Guernsey and Jersey; up £25.7m since the year end to £647.3m (30 June 2012: £605.9m; 31 December 2012: £621.6m) and the quality of this book remains good with few cases in arrears.

Estate Agency

The profit before tax for the Connells group for the first six months of 2013 was £23.0m compared to £18.5m for the six months ended 30 June 2012.

The group started the year with a similar sales pipeline to that in 2012 but house sales were up 16.8% during the period, which has contributed to this increased profitability and also bodes well for a strong performance in the second half of the year.

Income in our Estate Agency division was £131.4m for the six months ended 30 June 2013 compared with £111.7m in the first half of 2012. The Connells group has a good spread of revenue generating services, maintains a tight control of costs and is therefore well placed to capitalise on the current market opportunities arising from the improving availability of UK mortgage lending.

Mortgage Services

HML remains the leader in the UK third party mortgage administration services market, with a market share in the UK of around 54% and total assets under management of £38.3bn (30 June 2012: £40.6bn; 31 December 2012: £39.3bn).

An operating profit of £0.6m before restructuring costs of £0.3m yielded a profit before tax of £0.3m (six months ended 30 June 2012: £0.1m). 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 performance of the Financial Advice division improved in the first half of 2013 compared to 2012. The division generated a profit before tax of £0.5m compared to a loss of £(0.5)m in the same period of 2012. The performance has been helped by a better than anticipated Stock Market performance which has benefited both the division but more importantly our clients.

The primary focus for the start of 2013 has been the transition for each business into the new Retail Distribution Review (RDR) world. Whilst Pearson Jones and Torquil Clark have remained ‘independent’, Skipton Financial Services (SFS) has adopted a ‘restricted’ approach under the new guidelines. Each advisory firm continues to provide high quality advice within their chosen markets and specifically through SFS, provide Skipton Building Society customers access to a complementary range of products and services.

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 continued to perform well during the first half of the year.

In contrast, Sterling International Brokers (money markets broker), which struggled in difficult trading conditions during the financial crisis, was sold in February 2013 at its written down book value.

During the period, Jade Software Corporation sold its intelligence and investigations business, to Wynyard Group, a separate Group entity. Wynyard Group continues to invest in its product offering and consequently reported a loss for the period. However, it was subsequently floated on the New Zealand Stock Exchange in July 2013; and a one-off profit in the order of £20m will be recognised in the Skipton Group during the second half of the year. Following the listing, the Group retains a 24.5% stake in Wynyard. Our holding in Jade remains unchanged at 56.8%.

Inter-divisional adjustments

Inter-divisional adjustments relate to the elimination of intra-divisional trading and adjustments made to the carrying value of subsidiaries. During the six months ended 30 June 2013 we reviewed the carrying value of subsidiaries and provided £3.3m (six months ended 30 June 2012: £nil; year ended 31 December 2012: £nil) against the carrying value of consolidated goodwill based on our estimate of future cashflows from the underlying cash generating units.

Financial Position

Loans and advances to customers

The Society has increased its lending during the period but continues to lend in a controlled and sustainable manner. Gross mortgage advances totalled £1,090.4m across the Group compared with £663.4m in the same period in 2012. £102m of our new lending was to 876 first time buyers.

Our new lending remains 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, by offering loans requiring only a 10% deposit for first and next-time buyers, longer term deals offering payment certainty for up to 10 years and a suite of buy-to-let loans. At 30 June 2013 the Group’s average indexed loan-to-value (LTV) for the residential mortgage book was 54.2% (30 June 2012: 56.5%; 31 December 2012: 57.0%).

Group mortgage balances totalled £10,910.6m, an increase of £454.5m on the year end position due to new lending in the Society and SIL which more than offset the run-off of the Amber, NYM and commercial mortgage books.

The arrears performance of the Group’s residential mortgages continues to improve, with 1,172 cases at 30

Business Review (continued)

June 2013 where the arrears balance was greater than 2.5% of total outstanding balances (30 June 2012: 1,309 cases; 31 December 2012: 1,262 cases), representing 1.16% of the book (30 June 2012: 1.37%; 31 December 2012: 1.30%).

At 30 June 2013 the percentage of residential mortgage balances subject to forbearance, which is where terms have been renegotiated during the last two years, is 3.1% (30 June 2012: 6.0%; 31 December 2012: 4.3%). For commercial balances the percentage is 7.6% (30 June 2012: 6.0%; 31 December 2012: 7.0%).

Liquidity

The Group continues to maintain a high quality liquid asset portfolio. During the period, we have managed down our levels of liquidity but continue to maintain prudent levels of high quality assets, well above both our internal and regulatory limits. An analysis of the Group's liquidity position is shown below:

	Unaudited as at 30.06.13	Unaudited as at 30.06.12	Unaudited as at 31.12.12
Liquidity balance (£m)	**2,263.0**	3,069.6	2,531.8
As a % of shares, deposits and liabilities (%)	**18.60**	24.88	21.10
Core liquidity buffer* – eligible assets (£m)	**1,201.2**	1,718.0	1,240.2
Core liquidity buffer* as a % of liquidity balance (%)	**53.08**	55.97	48.98

* 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 98.9% (30 June 2012: 99.6%; 31 December 2012: 99.6%) are rated A3 or better by Moody's credit ratings.

Within the treasury investment portfolio the Group continues to restrict the number of counterparties to which it lends and has no direct sovereign exposure to Greece, Ireland, Italy, Portugal or Spain, or direct investment exposures 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 is less reliant on the wholesale markets.

Retail funding

The launch of the Government's FLS in August 2012 has resulted in reduced price competition for retail funding. However, as a mutual building society, our focus has always been on offering competitive products to retain savings as the prime source of a stable funding base. Notable products we offered during the period included a Regular Saver paying 3.00%, a Celebration Bond to mark our 160th anniversary and competitive fixed rate ISAs including a 5-year product with an interest rate of 3.00%. Since the end of the reporting period, we have launched a Limited Edition 7 Year Fixed Rate Bond at 3.50%. The attractiveness of our product offering has been independently endorsed by 180 newspaper best buy table mentions for savings accounts during the period.

At 30 June 2013, £9,768.7m (30 June 2012: £9,526.8m; 31 December 2012: £9,462.4m) of our funding came from retail savings, representing 84.7% (30 June 2012: 81.2%; 31 December 2012: 83.1%) of our total funding, and a net funds inflow of £335.5m during the period.

In addition to our UK retail funding, the Group also accepts deposits through our Guernsey based subsidiary, SIL. Whilst the benefits of offshore funding have reduced under the current regulatory liquidity regime, SIL has maintained a stable retail funding base and offshore deposits grew to £747.7m at 30 June 2013 (30 June 2012: £730.8m; 31 December 2012: £725.7m).

Wholesale Funding

The remainder of the Group's funding comes from the wholesale markets. At 30 June 2013 our wholesale funding balances amounted to £1,652.6m (30 June 2012: £2,079.8m; 31 December 2012: £1,810.5m), a decrease of £157.9m since the year end.

As a result of the strong retail inflows seen during the period, together with undrawn amounts sourced from the FLS, the Group's wholesale funding ratio decreased to 15.31% at the half year (30 June 2012: 18.78%; 31 December 2012: 16.93%).

The Society's long term credit ratings assigned by two major credit rating agencies, Fitch and Moody's, remain unchanged at BBB- and Ba1 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 £54.2m from 31 December 2012 to £1,006.2m (30 June 2012: £945.2m; 31 December 2012: £952.0m). The Core Tier 1 and Tier 1 ratios (including profits) have increased to 11.42% and 12.89% respectively compared to 11.08% and 12.59% at 31 December 2012. 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 reporting date, was 16.43% at 30 June 2013, an increase of 0.49% from 31 December 2012.

The Basel III / CRD IV regulations, which replace the current regulatory capital framework on 1 January 2014, include the introduction of a new capital leverage ratio defined as the ratio of Tier 1 capital to total exposure. The Basel Committee have set a minimum limit of 3% for the leverage ratio, however the limit that will apply to Skipton under CRD IV is yet to be finalised by the UK regulator. To provide an indication of the potential impact of the leverage ratio we have estimated our leverage ratio applying the following two approaches to the position as at 30 June 2013:

- A leverage ratio based on the CRD IV end-point definition of Tier 1, with the sole exception that Tier 1 instruments which will be ineligible once the transitional phase has ended, count in full towards eligible capital. The exposure value is based on the December 2010 Basel III text. On this basis, the leverage ratio at 30 June 2013 was 5.8% (31 December 2012: 5.5%).
- A leverage ratio based on the CRD IV end-point definition of Tier 1. The end-point definition of Tier 1 is the definition applicable from 1 January 2022. On this basis, the leverage ratio as at 30 June 2013 was 5.1% (31 December 2012: 4.8%).

The leverage ratios disclosed above are not necessarily fully aligned to the final UK rules in this area as these will be defined by the regulator following a consultation exercise led by the Prudential Regulation Authority (PRA) over the next few months.

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

Principal risks and uncertainties

The directors do not consider that the principal risks and uncertainties affecting the Group have changed materially since the publication of the 2012 Annual Report and Accounts. A detailed explanation of the risks summarised below, and how the Group seeks to mitigate these risks, can be found on pages 28 to 33 of the 2012 Annual Report and Accounts.

Credit risk

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group. Whilst improving slowly, 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.

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 the Board's assessment which is at least as severe as the regulatory guidance.

Conduct risk

Conduct risk, which is the risk of delivering poor or inappropriate outcomes for customers, continues to attract intense scrutiny from regulators, media and consumer groups. We remain committed to dealing with our customers fairly and continue to invest heavily in resources and training to ensure that our operations are designed to minimise the risk of customer detriment. Oversight is provided by a combination of 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 or human error. With a diverse business model and a competitive operating environment, the Group is exposed to increased levels of operational risk, in particular 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 sets out 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 either its own established Compliance team or is overseen by the Society's Compliance team, which both monitor compliance with existing legislation and consider the impact of new requirements. Oversight is provided by the Society's Compliance function which ensures best practice is adhered to and shared across the Group as appropriate.

Business Review (continued)

Business risk

Business risk is the risk of changes in the environment in which the Group operates or the occurrence of events which damage the franchise or operating economics of the Group's businesses.

Reputational risk

Reputational risk is the risk to earnings, liquidity or capital arising from negative market or public opinion. Management has considered how this might arise and what the impact could be. The consequences would adversely impact the future prospects of the Group and could expose the Group to litigation and financial loss.

Pension obligation risk

The Group has funding obligations for five defined benefit schemes which are all now closed to new entrants and to future accrual of benefit. Pension risk is the risk that the value of the schemes' assets, together with ongoing contributions, will be insufficient to cover their obligations over time. The return on assets, which includes equities and bonds, will vary with movements in equity prices and interest rates. The projection of the schemes' obligations includes estimates of mortality, inflation and future salary increases, the actual outturn of which may differ from the estimates. The schemes are also exposed to possible changes in pensions legislation.

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 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.

Taxation risk

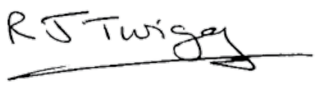
Taxation risk is the risk associated with changes in tax law or in the interpretation of tax law. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to an additional tax charge. It could also lead to reputational damage or financial penalties. The Group has effective, well-documented and controlled processes in place to ensure compliance with tax disclosure and filing obligations and employs its own tax professionals who take appropriate advice from reputable professional firms when necessary.

Outlook

Whilst recent economic signs have shown some improvement, the outlook for the UK economy is uncertain and we continue to believe that both the housing market and interest rate environment will remain subdued for some time to come. The introduction, in August 2012, of the FLS scheme by the Government, has resulted in the market for savings softening, however we believe this will only be temporary and we expect a future increase in competition within the retail savings arena which will place pressure on margins. We will therefore aim to continue to provide long term value for a growing number of retail savers whilst keeping the cost of retail funding at a sustainable level. We will continue to participate in the FLS as appropriate, but remain committed to ensuring that the vast majority of our funding comes from retail savers. Similarly, the availability of cheaper funding has enabled the Society to increase its mortgage lending, at favourable margins, during the period and we will continue to lend prudently, within strict credit criteria, whilst the better margins available on new lending persist.

Connells continues to perform well, but we are mindful that a weakening and loss of confidence in the broader economy 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 and Connells will continue to perform well.

The Group has increased its profits during the first half of 2013 and we remain confident that the full year results will continue to build profitability, despite the annual charge for the FSCS levy.



R J Twigg
Group Finance Director
31 July 2013

Condensed Consolidated Income Statement

For the half year ended 30 June 2013

	Notes	**Unaudited 6 months to 30.06.13 £m**	Unaudited 6 months to 30.06.12 Restated* £m	Audited 12 months to 31.12.12 Restated* £m
Interest receivable and similar income	3	**187.7**	193.9	381.2
Interest payable and similar charges	4	**(126.6)**	(149.6)	(297.0)
Net interest receivable		**61.1**	44.3	84.2
Fees and commissions receivable	5	**202.6**	187.1	399.4
Fees and commissions payable	6	**(2.5)**	(4.7)	(7.4)
Fair value gains on financial instruments		**1.5**	1.9	3.6
Profit on disposal of subsidiary undertakings		**-**	0.1	-
Share of profits from joint ventures and associates		**1.0**	0.7	1.6
Other income		**2.5**	5.3	9.1
Total income		**266.2**	234.7	490.5
Administrative expenses	7	**(215.7)**	(193.2)	(410.1)
Operating profit before impairment losses and provisions		**50.5**	41.5	80.4
Impairment losses on loans and advances	8	**(12.2)**	(7.7)	(12.3)
Impairment losses on debt securities	9	**(0.7)**	(4.0)	(4.0)
Provisions for liabilities	10	**(3.2)**	(8.1)	(28.7)
Profit before tax		**34.4**	21.7	35.4
Tax expense	11	**(8.6)**	(6.3)	(8.8)
Profit for the period		**25.8**	15.4	26.6
Profit for the period attributable to:				
Members of Skipton Building Society		**27.3**	15.8	27.6
Non-controlling interests		**(1.5)**	(0.4)	(1.0)
		25.8	15.4	26.6

Segmental performance of the Group is shown in note 18.

The notes on pages 20 to 33 form an integral part of this condensed consolidated half-yearly financial report.

* During the period, the Group has adopted IAS 19 (revised 2011), *Employee Benefits* as detailed in notes 1a) and 19.

If the revised standard had applied in 2012, other income would have been £0.6m and £1.0m lower than previously stated at 30 June 2012 and 31 December 2012 respectively, with an equivalent increase in Other Comprehensive Income. The 2012 comparatives included in these condensed financial statements have been restated accordingly.

Condensed Consolidated Statement of Comprehensive Income

For the half year ended 30 June 2013

	Unaudited 6 months to 30.06.13 £m	Unaudited 6 months to 30.06.12 Restated £m	Audited 12 months to 31.12.12 Restated £m
Profit for the period	**25.8**	15.4	26.6
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial gain / (loss) on retirement benefit obligations	**3.7**	(8.2)	(4.5)
Movement in reserves attributable to non-controlling interests	**0.1**	0.1	-
Income tax on items that will not be reclassified to profit or loss	**(0.9)**	1.5	0.7
	2.9	(6.6)	(3.8)
Items that may be reclassified subsequently to profit or loss			
Available-for-sale investments: valuation gains / (losses) taken to equity	**24.4**	8.8	(4.5)
Available-for-sale investments: realised gains transferred to Income Statement	**(3.8)**	(3.2)	(6.6)
Cash flow hedges: gains taken to equity	**4.7**	4.7	6.4
Exchange differences on translation of foreign operations	**0.1**	0.1	0.1
Income tax on items that may be reclassified to profit or loss	**(1.3)**	(2.5)	0.8
	24.1	7.9	(3.8)
Other comprehensive income / (expense) for the period, net of tax	**27.0**	1.3	(7.6)
Total comprehensive income for the period	**52.8**	16.7	19.0
Total comprehensive income attributable to:			
Members of Skipton Building Society	**54.3**	17.1	20.0
Non-controlling interests	**(1.5)**	(0.4)	(1.0)
	52.8	16.7	19.0

The notes on pages 20 to 33 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Financial Position

As at 30 June 2013

	Notes	**Unaudited as at 30.06.13 £m**	Unaudited as at 30.06.12 £m	Audited as at 31.12.12 £m
Assets				
Cash in hand and balances with the Bank of England		**597.1**	1,530.6	1,014.8
Loans and advances to credit institutions		**352.3**	396.5	383.1
Debt securities	9	**1,313.6**	1,142.5	1,133.9
Derivative financial instruments		**162.4**	231.6	202.7
Loans and advances to customers	12	**11,058.4**	10,381.7	10,593.5
Deferred tax asset		**21.8**	26.7	28.8
Investments in joint ventures and associates		**3.0**	4.2	3.1
Equity shares	17d)	**22.7**	1.1	3.1
Property, plant and equipment		**80.5**	87.4	81.4
Investment property		**8.1**	6.2	11.6
Intangible assets		**192.7**	196.3	196.2
Other assets		**109.8**	104.1	108.0
Total assets		**13,922.4**	14,108.9	13,760.2
Liabilities				
Shares		**9,768.7**	9,526.8	9,462.4
Amounts owed to credit institutions		**788.6**	1,007.5	907.6
Amounts owed to other customers		**958.6**	897.4	897.7
Debt securities in issue	13	**653.2**	906.0	730.9
Derivative financial instruments		**330.8**	398.0	370.8
Current tax liability		**3.2**	3.8	3.7
Other liabilities		**85.7**	89.3	83.0
Accruals and deferred income		**36.6**	31.1	40.2
Provisions for liabilities	10	**46.1**	36.4	54.5
Deferred tax liability		**8.8**	9.8	8.8
Retirement benefit obligations		**41.0**	49.5	45.1
Subordinated liabilities		**217.9**	224.3	223.9
Subscribed capital		**94.9**	95.8	96.1
Total liabilities		**13,034.1**	13,275.7	12,924.7
Members' interests				
General reserve		**875.0**	829.9	844.9
Available-for-sale reserve		**18.1**	10.2	(2.3)
Cash flow hedging reserve		**(11.0)**	(15.4)	(14.6)
Translation reserve		**5.8**	6.0	5.7
Attributable to members of Skipton Building Society		**887.9**	830.7	833.7
Non-controlling interests		**0.4**	2.5	1.8
Total members' interests		**888.3**	833.2	835.5
Total members' interests and liabilities		**13,922.4**	14,108.9	13,760.2

The notes on pages 20 to 33 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 2013

	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 2013	**844.9**	**(2.3)**	**(14.6)**	**5.7**	**833.7**	**1.8**	**835.5**
Profit / (loss) for the period	27.3	-	-	-	**27.3**	(1.5)	**25.8**
Other comprehensive income:							
Actuarial gain on retirement benefit obligations	2.8	-	-	-	**2.8**	-	**2.8**
Net gains from changes in fair value	-	23.3	3.6	-	**26.9**	-	**26.9**
Available-for-sale gains transferred to profit or loss on sale	-	(2.9)	-	-	**(2.9)**	-	**(2.9)**
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	**2.8**	**20.4**	**3.6**	**0.1**	**26.9**	**0.1**	**27.0**
Total comprehensive income for the period	**30.1**	**20.4**	**3.6**	**0.1**	**54.2**	**(1.4)**	**52.8**
Balance at 30 June 2013	**875.0**	**18.1**	**(11.0)**	**5.8**	**887.9**	**0.4**	**888.3**

Unaudited for the half year ended 30 June 2012

Restated

	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	15.8	-	-	-	15.8	(0.4)	15.4
Other comprehensive income:							
Actuarial loss on retirement benefit obligations	(6.7)	-	-	-	(6.7)	-	(6.7)
Net gains from changes in fair value	-	6.6	3.6	-	10.2	-	10.2
Available-for-sale gains transferred to profit or loss on sale	-	(2.4)	-	-	(2.4)	-	(2.4)
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	(6.7)	4.2	3.6	0.1	1.2	0.1	1.3
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

Condensed Consolidated Statement of Changes in Members' Interests - continued

Audited for the year ended 31 December 2012

Restated	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 financial year	27.6	-	-	-	27.6	(1.0)	26.6
Other comprehensive income:							
Actuarial loss on retirement benefit obligations	(3.8)	-	-	-	(3.8)	-	(3.8)
Net (losses) / gains from changes in fair value	-	(3.3)	4.4	-	1.1	-	1.1
Available-for-sale gains transferred to profit or loss on sale	-	(5.0)	-	-	(5.0)	-	(5.0)
Exchange differences on translation of foreign operations	-	-	-	0.1	0.1	-	0.1
Transfer of realised profits	0.3	-	-	(0.3)	-	-	-
Total other comprehensive income	(3.5)	(8.3)	4.4	(0.2)	(7.6)	-	(7.6)
Total comprehensive income for the year	24.1	(8.3)	4.4	(0.2)	20.0	(1.0)	19.0
Balance at 31 December 2012	844.9	(2.3)	(14.6)	5.7	833.7	1.8	835.5

The notes on pages 20 to 33 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 2013

	Notes	**Unaudited 6 months to 30.06.13 £m**	Unaudited 6 months to 30.06.12 Restated £m	Audited 12 months to 31.12.12 Restated £m
Cash flows from operating activities				
Profit before tax		**34.4**	21.7	35.4
Adjustments for:				
Impairment losses on loans and advances	8	**12.2**	7.7	12.3
Impairment losses on debt securities	9	**0.7**	4.0	4.0
Loans and advances written off, net of recoveries		**(27.5)**	(12.7)	(27.6)
Goodwill impairment		**3.7**	-	-
Depreciation and amortisation		**8.7**	9.5	19.2
Impairment of investment property		**0.6**	-	1.3
Interest on subscribed capital and subordinated liabilities		**10.7**	12.0	23.9
Loss / (profit) on sale of property, plant and equipment and investment properties		**0.3**	(0.2)	(0.2)
Share of profits from joint ventures and associates		**(1.0)**	(0.7)	(1.6)
Profit on disposal of subsidiary undertakings		**-**	(0.1)	-
Other non-cash movements		**13.9**	9.9	0.6
		56.7	51.1	67.3
Changes in operating assets and liabilities:				
Movement in prepayments and accrued income		**(9.9)**	(5.3)	3.1
Movement in accruals and deferred income		**(24.9)**	(31.7)	(5.2)
Movement in provisions for liabilities		**(8.4)**	2.2	20.3
Movement in loans and advances to customers		**(451.5)**	(136.1)	(365.2)
Movement in shares		**335.5**	252.7	183.6
Net movement in amounts owed to credit institutions and other customers		**(56.7)**	107.1	6.9
Net movement in debt securities in issue		**(77.2)**	(184.0)	(358.2)
Net movement in loans and advances to credit institutions		**22.2**	6.7	51.4
Net movement in other assets		**5.9**	(2.3)	(7.7)
Net movement in other liabilities		**(1.1)**	17.1	6.3
Income taxes paid		**(9.2)**	(5.0)	(4.9)
Net cash flows from operating activities		**(218.6)**	72.5	(402.3)

Condensed Consolidated Statement of Cash Flows - continued

For the half year ended 30 June 2013

	Notes	**Unaudited 6 months to 30.06.13 £m**	Unaudited 6 months to 30.06.12 Restated £m	Audited 12 months to 31.12.12 Restated £m
Net cash flows from operating activities		**(218.6)**	72.5	(402.3)
Cash flows from investing activities				
Purchase of debt securities	9	**(840.3)**	(1,060.6)	(2,280.5)
Proceeds from disposal of debt securities	9	**647.7**	1,799.0	3,031.3
Purchase of intangible assets		**(4.2)**	(3.7)	(7.8)
Purchase of property, plant and equipment and investment property		**(4.9)**	(6.1)	(12.0)
Proceeds from disposal of property, plant and equipment and investment property		**4.3**	1.1	1.6
Dividends received from joint ventures		**1.1**	1.0	1.0
Dividends paid to non-controlling interests		**(0.7)**	(0.7)	(1.3)
Purchase of subsidiary undertakings		**-**	(0.2)	(0.2)
Net cash acquired with subsidiaries		**-**	0.1	-
Investment in joint ventures and equity shares		**-**	(3.1)	(3.1)
Cash received from sale of subsidiary undertakings		**-**	3.4	3.3
Net cash flows from investing activities		**(197.0)**	730.2	732.3
Cash flows from financing activities				
Interest paid on subordinated liabilities		**(6.6)**	(7.9)	(15.6)
Interest paid on Permanent Interest Bearing Shares		**(4.1)**	(4.1)	(8.3)
Net cash flows from financing activities		**(10.7)**	(12.0)	(23.9)
Net (decrease) / increase in cash and cash equivalents		**(426.3)**	790.7	306.1
Cash and cash equivalents at 1 January		**1,176.2**	870.1	870.1
Cash and cash equivalents at end of period		**749.9**	1,660.8	1,176.2

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

	Unaudited 6 months to 30.06.13 £m	Unaudited 6 months to 30.06.12 £m	Audited 12 months to 31.12.12 £m
Cash in hand and balances with the Bank of England	**597.1**	1,530.6	1,014.8
Mandatory reserve deposit with the Bank of England	**(17.5)**	(11.2)	(11.1)
	579.6	1,519.4	1,003.7
Loans and advances to credit institutions	**170.3**	141.4	172.5
Included in cash and cash equivalents at end of period	**749.9**	1,660.8	1,176.2

The notes on pages 20 to 33 form an integral part of this condensed consolidated half-yearly financial report.

Notes to the Condensed Consolidated Financial Statements

1. Introduction

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

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 (EU).

The Directors have adopted IAS 19 (revised 2011), *Employee Benefit*s, IFRS 13, *Fair Value Measurement*, and Annual Improvements to IFRS (2009 – 2011), as well as amendments to IAS 1, *Presentation of items of Other Comprehensive Income*, IAS 12, *Deferred Tax – Recovery of Underlying Assets*, and IFRS 7, *Financial Instruments – Disclosures*. Note 19 summarises the impact.

The Directors have not adopted IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangeme*nts, and IFRS 12, *Disclosure of Interest in Other Entities*, which although endorsed by the EU are currently not effective.

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 EU, with the exception of the following:

Defined benefit pension schemes

As a result of IAS 19 (revised 2011), which is effective for accounting periods starting on or after 1 January 2013, the Group has changed its accounting policy in respect to the basis for determining the income or expense related to defined benefit.

Under IAS 19 (revised 2011), the Group determines the net interest income or expense for the period on the net defined benefit liability by applying the same discount rate used to measure the defined benefit obligation. Previously, the Group determined interest income on scheme assets based on their long term rate of expected return.

The 2012 comparatives have been restated accordingly. Further details of the effect of this change are set out in note 19.

b) Adjustments to comparative information

In addition to the restatement for IAS 19 (revised 2011) as detailed above, certain 30 June 2012 comparatives have been reclassified to be presented on a basis which is consistent with the current year and the 2012 year end. The fair value for hedged risk previously reported in 'Debt securities in issue' has been reclassified and allocated between amounts owed to other customers, debt securities in issue, subordinated liabilities and subscribed capital, in a manner consistent with the 2012 Annual Report and Accounts. The impact of the reclassification is not material and has not impacted the net assets of the Group.

c) 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 12.

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 2012 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 2012 Annual Report and Accounts and this half-yearly financial report are available at **www.skipton.co.uk/performance**.

2. Other information (continued)

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 2013 was approved by the Board of Directors on 31 July 2013.

3. Interest receivable and similar income

	Unaudited 6 months to 30.06.13 £m	Unaudited 6 months to 30.06.12 £m	Audited 12 months to 31.12.12 £m
On loans fully secured on residential property	**206.8**	202.1	402.3
On other loans	**5.6**	7.2	13.6
On debt securities	**13.4**	19.1	38.7
On other liquid assets	**2.3**	3.3	7.4
Net expense on derivative financial instruments	**(40.4)**	(37.8)	(80.8)
	187.7	193.9	381.2

4. Interest payable and similar charges

	Unaudited 6 months to 30.06.13 £m	Unaudited 6 months to 30.06.12 £m	Audited 12 months to 31.12.12 £m
On shares held by individuals	**111.2**	117.4	240.1
On subscribed capital	**4.1**	4.1	8.3
On deposits and other borrowings:			
Subordinated liabilities	**6.6**	7.9	15.6
Wholesale and other funding	**19.7**	27.4	53.0
Net income on derivative financial instruments	**(14.3)**	(6.6)	(20.2)
Other	**(0.7)**	(0.6)	0.2
	126.6	149.6	297.0

5. Fees and commissions receivable

	Unaudited 6 months to 30.06.13 £m	Unaudited 6 months to 30.06.12 £m	Audited 12 months to 31.12.12 £m
Mortgage origination related fees	**13.7**	10.6	20.7
General insurance fees	**14.5**	11.8	32.4
Commissions earned on property sales	**55.0**	49.0	104.2
Commissions earned on property lettings	**13.3**	10.9	23.1
Mortgage servicing fees	**25.9**	31.2	54.5
Financial advice	**24.0**	23.2	52.3
Other fees and commissions	**56.2**	50.4	112.2
	202.6	187.1	399.4

6. Fees and commissions payable

	Unaudited 6 months to 30.06.13 £m	Unaudited 6 months to 30.06.12 £m	Audited 12 months to 31.12.12 £m
Mortgage origination related fees	**0.2**	0.2	0.3
Other fees and commissions	**2.3**	4.5	7.1
	2.5	4.7	7.4

7. Administrative expenses

	Unaudited 6 months to 30.06.13 £m	Unaudited 6 months to 30.06.12 £m	Audited 12 months to 31.12.12 £m
Employee costs:			
Wages and salaries	**122.0**	114.7	229.4
Social security costs	**12.4**	9.7	21.8
Pension costs:			
Defined contribution arrangements	**3.4**	3.2	6.7
	137.8	127.6	257.9
Other administrative expenses	**77.9**	65.6	152.2
	215.7	193.2	410.1

8. Impairment losses on loans and advances to customers

	Unaudited 30.06.13 £m	Unaudited 30.06.12 £m	Audited 31.12.12 £m
Impairment charge for the period:			
Loans fully secured on residential property	**11.1**	7.0	9.4
Loans fully secured on land	**1.1**	0.8	2.9
Other loans	**-**	(0.1)	-
	12.2	7.7	12.3
Impairment provision at the end of the period:			
Loans fully secured on residential property	**51.5**	54.8	47.6
Loans fully secured on land	**5.1**	6.7	5.0
Other loans	**0.9**	21.6	20.2
	57.5	83.1	72.8

9. Debt securities

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

	Unaudited as at 30.06.13 £m	Unaudited as at 30.06.12 £m	Audited as at 31.12.12 £m
At 1 January	**1,133.9**	1,877.3	1,877.3
Additions	**840.3**	1,060.6	2,280.5
Disposals	**(647.7)**	(1,799.0)	(3,031.3)
Impairment losses	**(0.7)**	(4.0)	(4.0)
Changes in fair value	**(12.2)**	7.6	11.4
At end of period	**1,313.6**	1,142.5	1,133.9

10. Provisions for liabilities

	Unaudited as at 30.06.13 £m	Unaudited as at 30.06.12 £m	Audited as at 31.12.12 £m
Provisions for the costs of surplus properties	**6.1**	6.9	7.9
Financial Services Compensation Scheme	**12.8**	9.6	12.9
Commission clawbacks / rebates	**5.8**	4.3	5.9
Survey and valuation claims	**11.3**	8.6	12.1
Customer compensation	**6.9**	4.7	13.5
Regulatory and other provisions	**3.2**	2.3	2.2
	46.1	36.4	54.5

The movement in provisions in the period has resulted from an Income Statement charge of £3.2m for the period (six months ended 30 June 2012: £8.1m; year ended 31 December 2012: £28.7m).

11. Tax expense

	Unaudited 6 months to 30.06.13 £m	Unaudited 6 months to 30.06.12 £m	Audited 12 months to 31.12.12 £m
Profit before tax	**34.4**	21.7	35.4
Less share of profits from joint ventures and associates (net of tax)	**(1.0)**	(0.7)	(1.6)
	33.4	21.0	33.8
Tax calculated at UK standard rate of 23.25% (30 June 2012: 24.5%; 31 December 2012: 24.5%)	**7.8**	5.1	8.3
Adjustments	**0.8**	1.2	0.5
Tax expense	**8.6**	6.3	8.8

The effective tax rate for the six month period ending 30 June 2013 is 25.7% (30 June 2012: 30.0%; 31 December 2012: 26.0%). This differs from the standard rate of corporation tax due to the impact of disallowable expenditure, offset by non-taxable income, and prior period tax adjustments.

No account has been taken of future planned reductions in corporation tax rates as these have not yet been substantively enacted.

12. Loans and advances to customers

	Unaudited as at 30.06.13 £m	Unaudited as at 30.06.12 £m	Audited as at 31.12.12 £m
Loans fully secured on residential property	**10,342.7**	9,613.3	9,860.7
Other loans:			
Loans fully secured on land	**418.4**	447.2	433.2
Other loans	**92.0**	87.9	89.4
Fair value adjustment for hedged risk	**205.3**	233.3	210.2
	11,058.4	10,381.7	10,593.5
The remaining maturity of loans and advances to customers from the reporting date is as follows:			
On call and at short notice	**62.4**	57.7	55.8
In not more than three months	**16.6**	16.1	15.8
In more than three months but not more than one year	**55.4**	74.9	79.7
In more than one year but not more than five years	**596.6**	532.1	571.0
In more than five years	**10,384.9**	9,784.0	9,944.0
	11,115.9	10,464.8	10,666.3
Less: Impairment (note 8)	**(57.5)**	(83.1)	(72.8)
	11,058.4	10,381.7	10,593.5

13. Debt securities in issue

	Unaudited as at 30.06.13 £m	Unaudited as at 30.06.12 £m	Audited as at 31.12.12 £m
Certificates of deposit	**15.1**	19.1	19.1
Other debt securities	**638.1**	886.9	711.8
	653.2	906.0	730.9
Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:			
In not more than one year	**16.4**	21.6	20.7
In more than one year	**636.8**	884.4	710.2
	653.2	906.0	730.9

Included in other debt securities is 1 (30 June 2012: 1; 31 December 2012: 1) floating rate note issued to the capital markets totalling £42.6m (30 June 2012: £40.4m; 31 December 2012: £40.8m).

Notes to the Condensed Consolidated Financial Statements - continued

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 2013 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 2013 are similar in nature to those for the year ended 31 December 2012. Full details of the Group's related party transactions for the year to 31 December 2012 can be found in note 10 *Related party transactions* in the 2012 Annual Report and Accounts.

15. Subsequent events

On 19 July 2013 The Wynyard Group Limited (specialist software business), part of the Group's Investment Portfolio, raised funding within an Initial Public Offering on the New Zealand Stock Exchange which resulted in the Group's shareholding decreasing to 24.5%. We have agreed not to sell any of our shares in Wynyard Group Limited until after it has reported its results for the year ending 31 December 2014. As a result of the Group's reduced shareholding, Wynyard is accounted for as an associate undertaking from July 2013 and accounted for under the equity method of accounting. This partial disposal is expected to generate a one-off profit to the Group in the order of £20m in the second half of the year.

There have been no other material post balance sheet events between 30 June 2013 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 insofar 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 were interest only for the first three years and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members over this period. In addition to the management levies, from scheme year 2013/14, triggered by participation in the market at 31 December 2012, the FSCS is to levy over three years the current estimated shortfall on capital loans outstanding of £802m.

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 ongoing, and whilst it is possible that further liabilities may arise, the outcome is uncertain.

d) The Group is taking action to reduce risk in relation to its pension schemes and to address the pension scheme deficits. As part of this work, the Group initiated a number of exercises in 2013, including an early retirement exercise and an enhanced pension transfer exercise. The enhanced transfer exercise gave members the opportunity to transfer their benefits out of the schemes to other registered pension arrangements of their choosing. The offer enhanced the standard transfer values available to members and allowed members to take this enhancement as either an enhanced transfer value into a new pension arrangement or as a cash payment to the member.

   The enhanced pension transfer exercise was made to eligible deferred members in the Scarborough Scheme. Offer letters were issued to members at the end of April 2013 which gave members a 12 week offer period, ending in July 2013, in which to take up the offer.

   In accordance with IAS 19, the offer is recognised on settlement of the transaction, when an eligible member accepts the offer and a transfer is made. At the half year no transfers had been made but the offer period was still open. If 20% of members took up the offer this would result in transfer payments of £1.5m being paid by the pension schemes with a further enhancement of £0.5m being paid by the Society in total. The IAS 19 liability would reduce by £1.5m resulting in no expected change in the deficit and a charge to the Income Statement of £0.5m.

e) From time to time, claims arise within the Group with regard to how it has applied existing regulatory or customer frameworks that are in place. It is therefore possible that a liability may crystallise, whether from a fine, redress or both. Provisions are made where possible but at present the likelihood and quantum of any contingent liability is not possible to determine.

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 (note 9), 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 £205.3m (30 June 2012: £233.3m; 31 December 2012: £210.2m) is included.

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 at 30 June 2013 is 98.9% (30 June 2012: 99.6%; 31 December 2012: 99.6%).

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 30.06.13		Unaudited as at 30.06.12		Audited as at 31.12.12	
	£m	**%**	£m	%	£m	%
Total residential mortgages	**10,394.2**	**95.2**	9,668.1	94.5	9,908.3	94.8
Commercial loans	**423.5**	**3.9**	453.9	4.4	438.2	4.2
Other lending:						
Debt factoring loans	**53.1**	**0.5**	48.7	0.5	48.2	0.4
Other loans	**39.8**	**0.4**	60.8	0.6	61.4	0.6
Gross balances	**10,910.6**	**100.0**	10,231.5	100.0	10,456.1	100.0
Impairment provisions (note 8)	**(57.5)**		(83.1)		(72.8)	
Fair value adjustment for hedged risk	**205.3**		233.3		210.2	
	11,058.4		10,381.7		10,593.5	

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 comprise a large number of smaller loans and historically have a low volatility of credit risk outcomes.

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

The average indexed LTV percentage is 54.2% (30 June 2012: 56.5%; 31 December 2012: 57.0%).

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

	Unaudited as at 30.06.13		Unaudited as at 30.06.12		Audited as at 31.12.12	
	£m	**%**	£m	%	£m	%
Neither past due nor individually impaired	**9,923.4**	**95.6**	9,142.5	94.7	9,415.6	95.1
Past due but not individually impaired:						
Up to 3 months	**65.9**	**0.6**	70.1	0.7	67.3	0.7
3 to 6 months	**12.9**	**0.1**	11.9	0.1	11.4	0.1
6 to 9 months	**4.6**	**-**	3.2	-	4.6	-
9 to 12 months	**1.8**	**-**	2.6	-	1.3	-
Over 12 months	**2.5**	**-**	2.3	-	2.0	-
Total	**10,011.1**	**96.3**	9,232.6	95.5	9,502.2	95.9
Individually impaired	**359.1**	**3.5**	409.9	4.2	384.8	3.9
Possessions	**24.0**	**0.2**	25.6	0.3	21.3	0.2
	10,394.2	**100.0**	9,668.1	100.0	9,908.3	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 up to date or 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 30.06.13		Unaudited as at 30.06.12		Audited as at 31.12.12	
	£m	**%**	£m	%	£m	%
Neither past due nor individually impaired	**409.9**	**96.8**	432.5	95.3	425.5	97.1
Past due but not individually impaired:						
Up to 3 months	**9.2**	**2.2**	10.0	2.2	6.0	1.4
3 to 6 months	**-**	**-**	3.2	0.7	3.5	0.8
6 to 9 months	**0.1**	**-**	-	-	-	-
9 to 12 months	**0.1**	**-**	0.1	-	-	-
Over 12 months	**-**	**-**	0.5	0.1	-	-
Total	**419.3**	**99.0**	446.3	98.3	435.0	99.3
Individually impaired	**3.7**	**0.9**	7.5	1.7	3.2	0.7
Possessions	**0.5**	**0.1**	0.1	-	-	-
	423.5	**100.0**	453.9	100.0	438.2	100.0

Loans in the analysis above which are not past due have collective impairment allowances set aside to cover credit losses on these loans.

c) Forbearance

Where appropriate for customers' needs, the Group applies a policy of forbearance and may grant a concession to borrowers. This may be applied where actual or apparent financial stress of the customer is considered to be short term with a potential to be recovered. A concession may involve arrears capitalisation, a reduction in the monthly payment, a conversion to interest only or a mortgage term extension. These strategies are undertaken in order to achieve reduced long term arrears and allow the best outcome for both the customer and the business by dealing with arrears at an early stage. The customer accounts are monitored to ensure that these strategies remain appropriate.

At 30 June 2013 the percentage of residential mortgage balances subject to forbearance, which is where terms have been renegotiated during the last two years, is 3.1% (30 June 2012: 6.0%; 31 December 2012: 4.3%). For commercial balances the percentage is 7.6% (30 June 2012: 6.0%; 31 December 2012: 7.0%).

17. Credit risk (continued)

d) Fair values of financial instruments

The tables below are a comparison of the book and fair values of the Group's financial instruments by category as at the reporting date. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated for options by using option-pricing models and for other financial instruments by discounting cash flows at prevailing interest rates.

	Unaudited as at 30.06.13			
	Positive book value £m	**Positive fair value £m**	**Negative book value £m**	**Negative fair value £m**
Cash in hand and balances with the Bank of England	597.1	597.1	-	-
Debt securities	1,313.6	1,314.0	-	-
Loans and advances to customers	11,058.4	11,035.5	-	-
Loans and advances to credit institutions	352.3	352.3	-	-
Equity shares	22.7	22.7	-	-
Trade receivables	34.2	34.2	-	-
Shares	-	-	(9,768.7)	(9,845.1)
Amounts owed to credit institutions	-	-	(788.6)	(788.5)
Amounts owed to other customers	-	-	(958.6)	(958.2)
Debt securities in issue	-	-	(653.2)	(670.0)
Subordinated liabilities and subscribed capital	-	-	(312.8)	(287.0)
Trade payables	-	-	(11.3)	(11.3)
Derivative financial instruments	162.4	162.4	(330.8)	(330.8)
	13,540.7	**13,518.2**	**(12,824.0)**	**(12,890.9)**

	Audited as at 31.12.12			
	Positive book value £m	Positive fair value £m	Negative book value £m	Negative fair value £m
Cash in hand and balances with the Bank of England	1,014.8	1,014.8	-	-
Debt securities	1,133.9	1,134.2	-	-
Loans and advances to customers	10,593.5	10,568.4	-	-
Loans and advances to credit institutions	383.1	383.1	-	-
Equity shares	3.1	3.1	-	-
Trade receivables	34.8	34.8	-	-
Shares	-	-	(9,462.4)	(9,547.0)
Amounts owed to credit institutions	-	-	(907.6)	(907.6)
Amounts owed to other customers	-	-	(897.7)	(904.9)
Debt securities in issue	-	-	(730.9)	(744.3)
Subordinated liabilities and subscribed capital	-	-	(320.0)	(295.9)
Trade payables	-	-	(6.3)	(6.3)
Derivative financial instruments	202.7	202.7	(370.8)	(370.8)
	13,365.9	13,341.1	(12,695.7)	(12,776.8)

17. Credit risk (continued)

d) Fair values of financial instruments (continued)

The fair value of loans and advances to customers has been determined at a unit of account level of the individual mortgage and is based on the present value of future cash flows. These cash flows represent the expected future interest flows adjusted for credit risk, and may include prepayment speeds and default rates. However, were the Group to dispose of portfolio mortgages, it is likely that the fair value would be lower than that shown above, as there is currently no active market for the sale of mortgage books.

The table below summarises the Group's main financial instruments by financial asset type:

	Unaudited as at 30.06.13			
	Amortised cost £m	**Held at fair value as available-for-sale assets £m**	**Fair value through profit or loss £m**	**Total £m**
Cash in hand and balances with the Bank of England	597.1	-	-	597.1
Trade receivables	34.2	-	-	34.2
Loans and advances to credit institutions	352.3	-	-	352.3
Loans and advances to customers	11,058.4	-	-	11,058.4
Debt securities	145.0	1,168.6	-	1,313.6
Derivative financial instruments	-	-	162.4	162.4
Equity shares	-	22.7	-	22.7
Shares	(9,768.7)	-	-	(9,768.7)
Amounts owed to credit institutions and other customers	(1,747.2)	-	-	(1,747.2)
Trade payables	(11.3)	-	-	(11.3)
Debt securities in issue	(653.2)	-	-	(653.2)
Subordinated liabilities	(217.9)	-	-	(217.9)
Derivative financial instruments	-	-	(330.8)	(330.8)
	(211.3)	**1,191.3**	**(168.4)**	

	Audited as at 31.12.12			
	Amortised cost £m	Held at fair value as available-for-sale assets £m	Fair value through profit or loss £m	Total £m
Cash in hand and balances with the Bank of England	1,014.8	-	-	1,014.8
Trade receivables	34.8	-	-	34.8
Loans and advances to credit institutions	383.1	-	-	383.1
Loans and advances to customers	10,593.5	-	-	10,593.5
Debt securities	173.3	960.6	-	1,133.9
Derivative financial instruments	-	-	202.7	202.7
Equity shares	-	3.1	-	3.1
Shares	(9,462.4)	-	-	(9,462.4)
Amounts owed to credit institutions and other customers	(1,805.3)	-	-	(1,805.3)
Trade payables	(6.3)	-	-	(6.3)
Debt securities in issue	(730.9)	-	-	(730.9)
Subordinated liabilities	(223.9)	-	-	(223.9)
Derivative financial instruments	-	-	(370.8)	(370.8)
	(29.3)	963.7	(168.1)	

17. Credit risk (continued)

d) Fair values of financial instruments (continued)

Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1

The most reliable fair values of derivative financial instruments and available-for-sale assets are quoted market prices in an actively traded market. Examples of these are gilts and sovereign debt.

Level 2

These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are quoted prices available for similar instruments in active markets. Where discounting techniques are used, management use LIBOR rather than Overnight Index Swaps (OIS) as using OIS would have no significant impact. This is kept under review. No Credit (CVA) or Debit (DVA) Value Adjustments have been made in respect of credit risk in the fair value of the Group's derivative financial instruments as the risk is significantly mitigated because all swaps are fully cash collateralised. Examples of level 2 instruments are certificates of deposit and interest rate swaps.

In considering which similar instruments to use, the Market and Liquidity Risk function take into account the sensitivity of the instrument to changes in market rates and the credit quality of the instrument.

Basis swaps are valued using discounted cash flow models, including observable market data.

Level 3

These are valuation techniques for which any one or more significant input is not based on observable market data.

Valuation techniques include net present value and discounted cashflow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, foreign currency exchange rates, equity index prices and expected price volatilities. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's-length.

Observable prices are those that have been seen either from counterparties or from market pricing sources including Bloomberg. The use of these depends upon the liquidity of the relevant market.

The tables below summarise the fair value measurement basis used for assets and liabilities held at fair value. There have been no transfers of assets or liabilities between levels of the fair value hierarchy during the period, and there are no non-recurring fair value measurements.

	Unaudited as at 30.06.13			
	Quoted prices in active markets (Level 1) £m	Valuation techniques using observable inputs (Level 2) £m	Valuation techniques using significant unobservable inputs (Level 3) £m	Total £m
Financial assets				
Financial assets held at fair value as available-for-sale:				
Debt securities	1,021.1	147.5	-	1,168.6
Equity shares	-	-	22.7	22.7
Financial assets at fair value through profit or loss:				
Derivative financial instruments	-	162.4	-	162.4
	1,021.1	309.9	22.7	1,353.7
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	-	330.8	-	330.8
	-	330.8	-	330.8

17. Credit risk (continued)

d) Fair values of financial instruments (continued)

	Audited as at 31.12.12			
	Quoted prices in active markets (Level 1) £m	Valuation techniques using observable inputs (Level 2) £m	Valuation techniques using significant unobservable inputs (Level 3) £m	Total £m
Financial assets				
Financial assets held at fair value as available-for-sale:				
Debt securities	905.5	55.1	-	960.6
Equity shares	-	-	3.1	3.1
Financial assets at fair value through profit or loss:				
Derivative financial instruments	-	202.7	-	202.7
	905.5	257.8	3.1	1,166.4
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	-	370.8	-	370.8
	-	370.8	-	370.8

Included in the Level 3 portfolio are equity shares held in unlisted companies. The table below analyses the movements in the year:

	Unaudited as at 30.06.13 £m	Unaudited as at 30.06.12 £m	Audited as at 31.12.12 £m
At 1 January	**3.1**	-	-
Gain recognised in other comprehensive income	**19.6**	-	-
Additions	**-**	1.1	3.1
At end of period	**22.7**	1.1	3.1

The Group's investments in equity shares represent a 5.6% holding in Zoopla Group Limited (Zoopla) and a 22.74% holding in Hearthstone Investments Limited (Hearthstone). At 31 December 2012, in the absence of a recognised market for these investments, the Directors assessed their fair values to be approximately equal to their cost.

At 30 June 2013, the Directors have reviewed the fair value of Zoopla, which is a private company, and so any assessment of its fair value is judgemental. The Directors have considered the price that the Group paid for its shares in April 2012, together with a comparison with the price to earnings ratio of quoted competitors, discounted to reflect the difference in size and market position of Zoopla. This values Zoopla at £370m, with the Group's share being £20.7m, resulting in an unrealised gain of £19.6m being recorded in the available-for-sale reserve at 30 June 2013.

The Group's investment in Hearthstone, where the fair value cannot be reliably measured, continues to be held at cost.

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 Limited.
- 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, £13.2m (six months ended 30 June 2012: £14.0m; year ended 31 December 2012: £23.9m) was generated outside the UK.

Unaudited 6 months to 30.06.13

	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	**16.2**	**23.0**	**0.3**	**0.5**	**(2.6)**	**(3.0)**	**34.4**
Taxation	(3.5)	(5.0)	(0.1)	(0.1)	0.4	(0.3)	(8.6)
Profit / (loss) after tax	**12.7**	**18.0**	**0.2**	**0.4**	**(2.2)**	**(3.3)**	**25.8**
Total assets	**13,696.7**	**198.5**	**23.8**	**29.4**	**131.1**	**(157.1)**	**13,922.4**
Total liabilities	**12,907.9**	**72.0**	**1.8**	**6.8**	**96.7**	**(51.1)**	**13,034.1**
Capital expenditure	**1.2**	**3.5**	**1.1**	**0.5**	**3.0**	**(0.2)**	**9.1**

Total income, which is included in profit or loss before tax above, can be analysed as follows:

	Mortgages and Savings £m	Estate Agency £m	Mortgage Services £m	Financial Advice £m	Investment Portfolio £m	Inter-divisional adjustments £m	Total £m
Income from other segments	**2.4**	**2.4**	**2.3**	**(3.9)**	**1.6**	**(4.8)**	**-**
External income	**66.3**	**130.8**	**26.7**	**23.8**	**17.0**	**1.6**	**266.2**
Total income	**68.7**	**133.2**	**29.0**	**19.9**	**18.6**	**(3.2)**	**266.2**

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	3.7	18.5	0.1	(0.5)	-	(0.1)	21.7
Taxation	(0.7)	(4.5)	-	0.1	(0.1)	(1.1)	(6.3)
Profit / (loss) after tax	3.0	14.0	0.1	(0.4)	(0.1)	(1.2)	15.4
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

Total income, which is included in profit or loss before tax above, can be analysed as follows:

	Mortgages and Savings £m	Estate Agency £m	Mortgage Services £m	Financial Advice £m	Investment Portfolio £m	Inter-divisional adjustments £m	Total £m
Income from other segments	2.0	1.7	2.3	(3.7)	0.8	(3.1)	-
External income	50.7	111.5	28.3	25.9	18.0	0.3	234.7
Total income	52.7	113.2	30.6	22.2	18.8	(2.8)	234.7

Audited 12 months to 31.12.12

	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	4.5	35.6	0.8	(0.9)	(3.9)	(0.7)	35.4
Taxation	(0.7)	(9.0)	-	0.2	0.1	0.6	(8.8)
Profit / (loss) after tax	3.8	26.6	0.8	(0.7)	(3.8)	(0.1)	26.6
Total assets	13,524.4	178.2	23.5	34.2	125.3	(125.4)	13,760.2
Total liabilities	12,766.9	81.0	1.6	12.0	98.8	(35.6)	12,924.7
Capital expenditure	2.5	9.1	3.2	1.3	3.9	(0.2)	19.8

Total income, which is included in profit or loss before tax above, can be analysed as follows:

	Mortgages and Savings £m	Estate Agency £m	Mortgage Services £m	Financial Advice £m	Investment Portfolio £m	Inter-divisional adjustments £m	Total £m
Income from other segments	3.7	3.7	4.7	(7.3)	1.7	(6.5)	-
External income	99.5	249.2	55.9	51.7	34.8	(0.6)	490.5
Total income	103.2	252.9	60.6	44.4	36.5	(7.1)	490.5

19. Adoption of new and revised International Financial Reporting Standards

Disclosed below are the new standards and amendments to IFRS which have been adopted during the period:

- Amendments to IAS 1, *Presentation of items of Other Comprehensive Income*. This amendment is effective from 1 January 2013 and requires entities to group items presented in the Statement of Other Comprehensive Income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods. This amendment has resulted in a small change to the presentation of items in the Statement of Other Comprehensive Income, and comparatives have been represented accordingly.
- Amendments to IAS 12, *Deferred Tax – Recovery of Underlying Assets*. The amendment provides a practical approach for measuring deferred tax liabilities and assets when investment property is measured using the fair value model in IAS 40, *Investment Property*. The amendment has had no impact on these condensed financial statements.
- IAS 19 (revised 2011), *Employee Benefits*. This amendment is effective from 1 January 2013 and updates the recognition, presentation and disclosures of retirement benefit plans. The most significant impact for the Group is the replacement of the expected return on plan assets and interest cost with a single measure of net interest income (or expense) based on the net retirement benefit asset (or obligation). If the revised standard had applied in 2012, reported net interest income would have been £0.6m and £1.0m lower at 30 June 2012 and 31 December 2012 respectively, with an equivalent increase in Other Comprehensive Income. The 2012 comparatives included in these condensed financial statements have been restated accordingly. There has been no impact on the Group's net assets or reserves.
- IFRS 13, *Fair Value Measurement*. This new standard defines fair value and sets out in a single framework comprehensive guidance for measuring fair value. The standard does not change the requirements with regards to which financial and non-financial assets and liabilities will be measured at fair value. The standard is effective from 1 January 2013, and has resulted in increased disclosure in note 17 but has had no financial impact on these condensed financial statements.
- IFRS 7, *Financial Instruments – Disclosures*. Amendments to IFRS 7 '*Disclosures – Offsetting Financial Assets and Financial Liabilities*' is effective from 1 January 2013 and requires new disclosures for all recognised financial instruments that are offset in the Statement of Financial Position. The amendment has had no impact on these condensed financial statements.
- The annual improvements to IFRS programme was endorsed in March 2013 and is effective immediately. This amends IAS 34 with respect to the disclosure of segmental assets and liabilities. There is no impact on these condensed financial statements and disclosure continues to be provided in note 18.

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:

Mr M H Ellis	(Chairman)
Ms C C Black	(appointed 1 March 2013)
Ms M L Cassoni	
Mr I M Cornelius*	
Mr D J Cutter*	(Group Chief Executive)
Mr R D East	
Mr M R Fleet*	
Mr P R Hales	
Mr G Picken	
Ms H C Stevenson	(appointed 1 March 2013)
Mr P J S Thompson	
Mr R J Twigg*	

* Executive Directors

Mr C N Hutton was a Director throughout the period of the half-yearly financial report and subsequently retired on 30 July 2013.

Signed on behalf of the Board by

M H Ellis
Chairman
31 July 2013

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 2013 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 related 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 Conduct Authority ("the UK FCA"). 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 FCA.

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 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

John Ellacott
for and on behalf of KPMG Audit Plc
Chartered Accountants
Leeds
31 July 2013

For more information

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