Half-Yearly Financial Report 2015

SKIPTON
BUILDING SOCIETY
For life ahead

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 report another strong performance in the first six months of this year, by maintaining our focus on our core mortgage and savings business and continuing to invest to improve services to members. In the first half of the year, membership of the Society increased by 25,520 customers to 820,259, Group gross mortgage lending was £1,919m (31% above the same period last year) and retail savings balances grew by £629m, showing an annualised growth rate of 11%. The increases in mortgage and savings balances emphasise Skipton's competitiveness in the market, with the Society delivering rates of growth well above its market share of UK mortgage and savings balances.

Total Group profit before tax for the period was £72.1m (six months ended 30 June 2014: £90.0m; year ended 31 December 2014: £181.6m). Underlying Group profit before tax (prior to Financial Services Compensation Scheme (FSCS) charges, gains or losses on disposal of subsidiary, associate and equity share investments and profits from discontinued operations) totalled £78.2m (six months ended 30 June 2014: £84.7m; year ended 31 December 2014: £151.1m).

The mortgage and savings business showed a slight decline in profits, with increased net interest income being more than offset by increased costs and impairment charges. Impairment provisions on loans and advances to customers increased as a result of enhancements we made to our credit risk loan impairment models. Arrears across our portfolios continued to fall.

Connells, our estate agency subsidiary, performed well during the period but reported a reduction in underlying profits compared to a very strong first half of 2014, before the market cooled. In the first half of 2015 the market showed a gradual improvement and Connells' pipeline of house sales is currently higher than as at 30 June 2014.

In May 2015, the Society completed the disposal of Pearson Jones plc, to Standard Life plc.

Performance highlights

In the six months to 30 June 2015 the Group's performance highlights included:

Robust financial performance

The Mortgages and Savings division generated profits before tax of £49.1m, compared to £51.3m for the same period last year.

The Society increased its savings balances by an annualised rate of 11% despite stiff competition from National Savings & Investments (NS&I), and the Group increased mortgage balances by an annualised rate of 15.5%. This increase in lending during the period has been achieved within our existing credit risk appetite. The average loan-to-value (LTV) of new lending for the Society was 65.9% (six months ended 30 June 2014: 66.8%; year ended 31 December 2014: 65.8%).

The number of Group residential mortgages in arrears by three months or more fell to 1.00% (30 June 2014: 1.37%; 31 December 2014: 1.20%), which compares favourably to the Council of Mortgage Lenders' (CML) industry average of 1.30% of mortgages in arrears by more than three months (CML figures as at 31 March 2015).

The Common Equity Tier 1 (CET 1) ratio for the prudential consolidation group increased to 16.5% compared to 16.2% at 31 December 2014, having increased from 14.7% at 30 June 2014. The CET 1 ratio was maintained at a strong level despite significant growth in mortgage balances. The leverage ratio, being a non-risk based measure of capital, was 6.0% (30 June 2014: 5.6%; 31 December 2014: 6.0%).

In June 2015, credit ratings agency Moody's upgraded the Society's credit rating to Baa2 from Baa3 and Fitch upgraded the Society's rating to BBB+ from BBB.

Unwavering focus on our members and our people

In the first six months of 2015 the Society grew its membership by 25,520. 17,458 of our existing members benefited from our popular loyalty savings accounts. We also received 347 independent 'best-buy' mentions for our range of mortgage and savings products.

As a proud mutual we are working hard to make sure Skipton remains relevant to our members. We continue to invest across all channels so that customers can easily interact through the channel of their choice.

Our people strive to deliver a high level of service to all our members, listening to their needs and providing solutions which are suitable to them. In June 2015, we again achieved an employee engagement score well above industry norms, 90% compared to 88% at the same point a year ago. We focus on developing and inspiring our people to deliver good outcomes for our customers and making Skipton a great place to work. This was further evidenced by Skipton making its debut in the Sunday Times 'Top 100 companies to work for' survey.

Enabling our members to achieve their home ownership, savings and life ahead aspirations

- The Society helped 11,852 homeowners to purchase or remortgage their properties, including 2,038 first time buyers;
- Net mortgage lending was up by 53% at £1.0bn. In the first five months of the year, our net residential lending accounted for 11.1% of all net residential mortgage lending in the UK and was well above Skipton's share of existing UK mortgage balances of 1.0% (source: Bank of England statistics, May 2015);

- The rental market remained strong and 9.1% of our new lending in the six months ended 30 June 2015 was in the form of buy-to-let mortgages;
- Our savings performance, although adversely impacted by NS&I's launch of Pensioner Bonds at the start of the year, saw balances grow by £0.6bn during the first six months of the year to £12.1bn (six months ended 30 June 2014: growth of £0.7bn to £10.9bn). Over the first five months of the year, our savings growth represented a 1.7% share of the growth in savings balances in the UK savings market (source: Bank of England statistics, May 2015). The Society had a particularly successful ISA season, with over 21,000 transfers-in during April and May, recording the fourth highest levels for such activity out of all UK deposit takers in each of those two months (based on British Bankers' Association statistics).

Subsidiary performance

- Connells, our Estate Agency division, achieved a profit before tax of £27.3m (six months ended 30 June 2014: £42.6m; year ended 31 December 2014: £63.2m - both of which included a one-off gain of £10.1m arising from the part disposal of shares in Zoopla Property Group Plc);
- The housing market remains good; however the pipeline of sales at 1 January 2015 was lower than the same point at the start of 2014 following a cooling of the market during the second half of 2014. As 2015 has progressed, sales activity has increased; consequently whilst second hand property exchanges were 8.5% lower (on a like-for-like basis, i.e. excluding Peter Alan, which was acquired in July 2014) than the same period last year, the pipeline is now ahead of the same point a year ago;
- The Financial Advice division reported a loss before tax of £(0.9)m (six months ended 30 June 2014: £0.8m profit; year ended 31 December 2014: £1.4m profit);
- During the first half of the year the Group disposed of its entire shareholding in Pearson Jones plc, which was previously part of the Financial Advice division. This resulted in a loss on disposal of £(0.8)m;
- Our Investment Portfolio reported profits before tax of £1.6m (six months ended 30 June 2014: £2.6m; year ended 31 December 2014: £5.2m).

Giving something back to our communities

In April, we launched our Grassroots Giving appeal for 2015. Through this, the Society will donate £81,000 to small community groups, clubs and organisations across the UK. The people who work in these groups and organisations are often unsung heroes and are typically overlooked for mainstream funding. This is where our award winning community funding initiative steps in and helps. People wishing to apply this year can do so through www.skiptongrg.co.uk and the 162 recipients will be chosen by public vote later in the year.

In addition to Grassroots Giving, April also saw Skipton launch an online community, www.retiresavvy.co.uk, to encourage and empower people to take control of their own financial futures.

With the new pension rules introduced on 6 April 2015, people are facing more confusion and uncertainty than ever about their pensions and the options available to them before and at retirement. Recognising that people need help, Skipton established www.retiresavvy.co.uk to help guide people to the retirement they want by offering information, real-life case studies and peer to peer support and discussion through a live forum.

Conclusion and outlook

The first six months of this year has seen a strong financial performance as we continue our focus on our core mortgage and savings business and invest for the future of the Society. Our commitment to our members extends much further than remaining a financially strong society for them. We are proud to be a building society that remains committed to mutuality with an increasing membership. We are also proud to be part of the communities in which our branches serve.

We are on course to deliver another strong and balanced performance this year. But we are not complacent; we recognise there are many uncertainties ahead. We monitor closely the uncertainties surrounding the Euro, in particular with respect to Greece, and the uncertainties created by the UK referendum on its continuing membership of the European Union (EU), what the long term effects of Quantitative Easing will be on a global basis, and what will happen next for Western economies with unprecedented low interest rates and inflation when interest rates begin to rise.

Looking ahead over the next six months we will focus on what matters to our members, supporting them at key life stages with good value products, genuine member benefits and a first rate service with the human touch.

It has been a good start to the year and we will build on this to ensure we continue to serve our members for their lives ahead.

David Cutter

D J Cutter

Group Chief Executive

28 July 2015

Business Review

Our Business Model and Group Structure

Skipton Building Society is the fourth largest building society in the UK, with £17bn of assets and a national presence of branches and agencies. The Society is at the heart of the Skipton Group and the main constituent of the Mortgages and Savings division, whose business model centres on providing a secure home for our members' savings which allows us to lend to borrowers and enable home ownership. Our strategic objectives are to grow our mortgage and savings business, provide high quality financial advice through Skipton Financial Services and maintain a significant presence in estate agency through the Connells group in order to generate profits that can be used for the benefit of members. In addition, the Group holds interests in a small number of companies which comprise an Investment Portfolio.

Further details on the Group's strategic priorities, which remained unchanged during the six months ended 30 June 2015, can be found in the Strategic Report in the 2014 Annual Report and Accounts.

The Group's operating results are reviewed regularly by the Board (the chief operating decision maker) in the following reportable segments ('divisions'):

- Mortgages and Savings – principally the Society but also includes specialist mortgage businesses Amber Homeloans Limited (Amber) and North Yorkshire Mortgages Limited (NYM), as well as deposit taking and mortgage lending in the Channel Islands and the UK through Skipton International Limited (SIL). The division also includes the Group's special purpose vehicles (SPVs) Darrowby No. 1 plc, Darrowby No. 2 plc and Darrowby No. 3 plc, formed to acquire funds from the wholesale markets, and the intermediate holding company Skipton Group Holdings Limited (SGHL).
- Estate Agency – includes property sales, surveys and valuations, conveyancing, lettings, asset management and mortgage and insurance broking carried out through the Connells group.
- Financial Advice – provides financial advice through Skipton Financial Services (SFS) and, prior to its disposal, Pearson Jones plc, which was sold in the first half of the year.
- Investment Portfolio – includes a small number of trading companies that do not fall within the core operating segments.

On 11 May 2015 the Group sold its entire shareholding in Pearson Jones plc and its subsidiary businesses for a loss of £(0.8)m. As this business was not considered a major line of business for the Group, it is not classified as a discontinued operation in this half-yearly financial report.

During 2014, the Group disposed of certain subsidiary companies. The Private Health Partnership Limited, which was part of the Investment Portfolio, and Torquil Clark Limited, which was included within the Financial Advice division, were both disposed of in the second half of 2014. As these businesses were not considered to be major lines of business for the Group, neither were classed as discontinued operations and as such the comparative figures in this half-yearly financial report have not been re-presented in respect of these businesses.

In addition, the Group disposed of its entire shareholding in Homeloan Management Limited in the second half of 2014, which represented the whole of the Mortgage Services division. This business was classed as a discontinued operation and as such the comparative figures in this half-yearly financial report have been presented to show the results of this division separately.

Key Performance Indicators

The Board and senior management continue to use the following key performance indicators to monitor business performance against the Group's strategic objectives which are built around four pillars:

Key Performance Indicator	Purpose	**Unaudited 6 months to 30.06.15**	Unaudited 6 months to 30.06.14	Unaudited 12 months to 31.12.14
Our Customers				
Growth in membership (Society only)	To ensure we are attracting and retaining members	**25,520**	22,268	31,276
Increase in member savings balances (Society only)	To help more members save for their future and provide a stable funding base	**£629m**	£671m	£1,196m
Group gross mortgage advances	To enable us to meet our goal of enabling home ownership through prudent and controlled lending	**£1,919m**	£1,464m	£2,981m
Group net mortgage growth	To enable us to meet our goal of enabling home ownership through prudent and controlled lending	**£987m**	£646m	£1,275m
Our People				
Employee engagement (Society only)	To ensure our people are passionate, loyal and committed	**90%**	88%	88%
Our Proposition				
Society net customer satisfaction score	To ensure we are putting the customer at the heart of our business	**88%**	88%	88%
Our Financial Strength				
Total Group profit before tax	To ensure we generate the necessary capital to enable the business to develop	**£72.1m**	£90.0m	£181.6m
Underlying Group profit before tax from continuing operations	To ensure we generate the necessary capital to enable the business to develop regardless of any non-recurring or one-off costs or benefits	**£78.2m**	£84.7m	£151.1m
Group net interest margin (% of mean assets)	To underpin the earnings of our core Mortgages and Savings division	**1.38%**	1.45%	1.40%
Mortgages and Savings division cost income ratio	To maintain a manageable cost base to ensure the business is cost efficient	**44.1%**	42.8%	44.5%
Mortgages and Savings division management expense ratio	To maintain a manageable cost base to ensure the business is cost efficient	**0.63%**	0.64%	0.65%
Number of Group residential mortgages in arrears by three months or more	To manage and monitor our arrears and credit risk management	**1.00%**	1.37%	1.20%
Core liquidity buffer as a % of liquidity balance	To ensure we are holding sufficient high quality liquidity within our liquidity risk appetite and regulatory requirements	**73.03%**	63.78%	59.08%
Liquidity as a % of shares, deposits and borrowings	To ensure we hold sufficient levels of overall liquidity	**17.77%**	18.22%	18.36%
Group retail funding as a % of total funding	To ensure we fund the majority of our mortgages through retail savings, in line with our customer proposition	**84.72%**	85.84%	85.85%
Group Common Equity Tier 1 ratio	To ensure the Group remains financially strong by having a strong capital base	**16.46%**	14.70%*	16.23%
Group leverage ratio	To ensure the Group remains financially strong by having a strong capital base	**6.0%**	5.6%	6.0%

* The comparative capital figure as at 30 June 2014 has been updated to include a Credit Valuation Adjustment, which is used in the calculation of the above ratio. This adjustment has been made to reflect the CRD IV requirements (as defined on page 12).

Further details on the measures above are included on pages 7 to 13.

Performance overview

In the first half of 2015 the Society continued to grow its membership, with an increase of 25,520 members since the end of 2014 to 820,259, in comparison to growth of 22,268 in the first half of 2014. We aim to continue to grow our customer base to bring the benefits of membership to an increasing number of members. This is demonstrated by the further increase in savings balances during the period, which increased by £628.9m (5.5%) from £11,442.0m at the end of 2014 to £12,070.9m at 30 June 2015 (six months ended 30 June 2014: growth of £670.8m, or 6.5%).

During the first half of the year we grew our residential mortgage book by £986.7m (7.8%), without extending our credit risk appetite, with gross mortgage advances totalling £1,919m (six months ended 30 June 2014: £1,464m; year ended 31 December 2014: £2,981m).

Business Review *(continued)*

Ensuring we deliver excellent customer service is at the heart of our relationship with customers. One way we measure this is through measuring net customer satisfaction. We do this quarterly, using an independent third party to ask our customers about their levels of satisfaction with the service they received. For the first half of the year, our net customer satisfaction score was 88% (six months ended 30 June 2014: 88%; year ended 31 December 2014: 88%), demonstrating the continued delivery of high quality products and services to our customers.

We believe great customer service is delivered through highly motivated, engaged and skilled people. Our employee engagement score, as measured by an independent company who provide benchmarking on employee surveys in both the UK and globally, was 90% when measured in June and this remains significantly ahead of Financial Services averages. Building and sustaining high engagement is achieved through a range of activities, reflecting all aspects of our people strategy, including learning and development, recruitment and reward.

Another demonstration of our commitment to delivering high quality products and services is shown by receiving 347 independent 'best-buy' mentions during the first six months of 2015 (six months ended 30 June 2014: 507; year ended 31 December 2014: 804), and by also featuring in best-buy tables every week throughout the period, which was also the case for the whole of 2014.

As a mutual, it is also vital that we generate strong profits to enable the business to develop in order to continue to offer all the benefits mutuality brings to our growing number of members. Group profit before tax (PBT) from continuing operations for the six months to 30 June 2015 was £72.1m (six months ended 30 June 2014: £89.8m; year ended 31 December 2014: £156.8m). The comparative periods also included profits from discontinued operations of £0.2m for the six months ended 30 June 2014 and £24.8m for the year ended 31 December 2014; as a result total Group PBT was £72.1m (six months ended 30 June 2014: £90.0m; year ended 31 December 2014: £181.6m).

Underlying Group PBT from continuing operations (prior to Financial Services Compensation Scheme (FSCS) charges, gains or losses on the disposal of Group undertakings and profits from discontinued operations) amounted to £78.2m (six months ended 30 June 2014: £84.7m; year ended 31 December 2014: £151.1m).

New business within the Mortgages and Savings division is undertaken by the Society and, to a lesser extent, our Guernsey-based subsidiary SIL. Through a combination of increased lending and careful management of our retail savings portfolio, offering attractive savings rates whilst maintaining a reasonable average cost of funds, the Group's net interest margin remained healthy at 1.38% (six months ended 30 June 2014: 1.45%; year ended 31 December 2014: 1.40%). As reported in the 2014 Annual Report and Accounts, the full year net interest margin benefited from a one-off gain of £8.1m (giving a 5 basis points benefit to the margin) as a result of the unwind of a merger fair value adjustment following the sale of treasury assets in the year.

Profits before tax for the Mortgages and Savings division for the first half of the year were £49.1m (six months ended 30 June 2014: £51.3m; year ended 31 December 2014: £98.4m). A £7.9m increase in net interest income was more than offset by a £4.1m increase in costs and a £4.2m increase in loan impairment provisions reflecting the enhancements that have been made to our credit risk loan impairment models. Arrears levels have continued to fall across our mortgage portfolios. Underlying profits before tax for the division (prior to Financial Services Compensation Scheme (FSCS) charges, gains or losses on disposal of subsidiary, associate and equity share investments and profits from discontinued operations) amounted to £55.5m (six months ended 30 June 2014: £58.3m; year ended 31 December 2014: £105.7m).

Connells is a key part of the Group's business model and reported profits before tax of £27.3m (six months ended 30 June 2014: £42.6m; year ended 31 December 2014: £63.2m). The 2014 half-yearly and full year results included a gain of £10.1m following the part disposal of Connells' shareholding in Zoopla Property Group Plc when it listed on the London Stock Exchange in June 2014. Excluding this, profits were £5.2m below the same period last year, which reflects the stronger housing market in the first half of 2014.

During the first half of the year, the Group disposed of its entire shareholding in Pearson Jones plc and its subsidiary businesses, resulting in a loss on disposal of £(0.8)m. Including the impact of this disposal, the Financial Advice division reported a loss before tax of £(0.9)m (six months ended 30 June 2014: profit of £0.8m; year ended 31 December 2014: profit of £1.4m). This included a loss of £(0.5)m from Skipton Financial Services Limited, the remaining company in the division.

The Investment Portfolio reported a pre-tax profit for the first half of the year of £1.6m (six months ended 30 June 2014: profit of £2.6m; year ended 31 December 2014: profit of £5.2m), lower than the prior year comparative period as some one-off gains recognised in 2014 were not repeated to the same extent, including the part deemed disposal of the Group's associate holding in Wynyard Group Limited.

Further information on performance by division is set out on pages 12 to 13.

Financial performance

Total Group profit before tax (PBT) for the first half of the year was £72.1m (six months ended 30 June 2014: £90.0m; year ended 31 December 2014: £181.6m), as set out in the table below:

	Unaudited 6 months to 30.06.15 £m	Unaudited 6 months to 30.06.14 £m	Unaudited 12 months to 31.12.14 £m
Profit before tax from continuing operations	**72.1**	89.8	156.8
Profit before tax from discontinued operations	**-**	0.2	0.1
Profit on disposal of discontinued operations	**-**	-	24.7
Total Group profit before tax	**72.1**	90.0	181.6

Group PBT from continuing operations for the six months ended 30 June 2015 was £72.1m (six months ended 30 June 2014: £89.8m; year ended 31 December 2014: £156.8m) as set out in the table below:

	Unaudited 6 months to 30.06.15 £m	Unaudited 6 months to 30.06.14 £m	Unaudited 12 months to 31.12.14 £m
Net interest income	**113.3**	106.4	213.3
Net non-interest income	**192.4**	197.2	395.6
Fair value (losses) / gains on financial instruments	**(1.8)**	0.1	(2.0)
Losses on treasury assets	**-**	(3.7)	(3.7)
(Loss) / profit on disposal of subsidiary undertakings	**(0.5)**	-	1.1
Profit on part disposal of equity share investments	**-**	10.1	10.1
Profit on part disposal of associate	**1.2**	2.4	2.3
Dividend income from equity share investments	**0.3**	1.1	1.1
Share of profits / (losses) from joint ventures and associates	**0.3**	0.6	(0.2)
Total income	**305.2**	314.2	617.6
Administrative expenses	**(215.8)**	(211.2)	(426.7)
Operating profit before impairment losses and provisions	**89.4**	103.0	190.9
Impairment losses on loans and advances to customers	**(8.0)**	(3.8)	(13.3)
Impairment losses on debt securities	**-**	-	(2.0)
Impairment losses on equity share investments	**-**	-	(1.3)
Provisions for liabilities	**(9.3)**	(9.4)	(17.5)
Profit before tax from continuing operations	**72.1**	89.8	156.8
Profit before tax from discontinued operations	**-**	0.2	24.8
Total Group profit before tax	**72.1**	90.0	181.6
Tax expense	**(14.1)**	(19.5)	(34.9)
Profit after tax	**58.0**	70.5	146.7

Group statutory PBT for the six months ended 30 June 2014 was bolstered by a profit on part disposal of Connells' investment in Zoopla Property Group Plc of £10.1m, together with a £2.4m profit on a deemed disposal of the Group's associate holding in Wynyard Group Limited. During the second half of 2014, when Wynyard released their own half year accounts, it was disclosed that there were some costs associated with the share issue, which reduced the deemed disposal profits by £0.1m to £2.3m.

Underlying Group PBT from continuing operations for the six months ended 30 June 2015 was £78.2m (six months ended 30 June 2014: £84.7m; year ended 31 December 2014: £151.1m) as follows:

	Unaudited 6 months to 30.06.15 £m	Unaudited 6 months to 30.06.14 £m	Unaudited 12 months to 31.12.14 £m
Total Group profit before tax	**72.1**	90.0	181.6
Less profit before tax from discontinued operations	**-**	(0.2)	(0.1)
Less profit on disposal of discontinued operations	**-**	-	(24.7)
Loss / (profit) on disposal of subsidiary undertakings	**0.5**	-	(1.1)
Less profit on part disposal of associate and equity share investments	**(1.2)**	(12.5)	(12.4)
Add back FSCS levy	**6.8**	7.4	7.8
Underlying Group profit before tax from continuing operations	**78.2**	84.7	151.1

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 subscribed and subordinated capital). The Group's net interest margin, which measures net interest income as a percentage of mean assets, was 1.38% for the first half of the year (six months ended 30 June 2014: 1.45%; year ended 31 December 2014: 1.40%). As reported in the 2014 Annual Report and Accounts, the full year net interest margin benefited from a one-off gain of £8.1m as a result of the unwind of a merger fair value adjustment following the sale of treasury assets during the year; excluding this impact the 2014 full year net interest margin would have been 1.35%.

The improvement in net interest income was the result of increased mortgage lending at competitive pricing, without extending our credit risk appetite, together with continuing prudent management of the retail savings portfolio by offering attractive rates to savers which delivers economic funding for the business.

We participated in the Funding for Lending Scheme (FLS) during 2015, and at 30 June 2015 we had drawn a total of £855m (30 June 2014: £450m; 31 December 2014: £650m) of FLS funding.

Net non-interest income

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

Net non-interest income from continuing operations by division is set out below:

	Unaudited 6 months to 30.06.15 £m	Unaudited 6 months to 30.06.14 £m	Unaudited 12 months to 31.12.14 £m
Mortgages and Savings	**4.1**	7.5	14.0
Estate Agency	**164.3**	158.9	322.9
Financial Advice	**16.0**	19.9	36.6
Investment Portfolio	**10.1**	13.5	26.4
Inter-divisional adjustments*	**(2.1)**	(2.6)	(4.3)
	192.4	197.2	395.6

* Inter-divisional adjustments relate primarily to the elimination of intra-divisional trading.

The Group's net non-interest income for the period from continuing operations was £192.4m (six months ended 30 June 2014: £197.2m; year ended 31 December 2014: £395.6m). Income in the Mortgages and Savings division fell by £3.4m, predominantly as a result of a larger proportion of mortgage products being offered 'application fee-free' or with lower fees.

Total income across the Estate Agency division was consistent with the prior year on a like-for-like basis (excluding Peter Alan which was acquired in the second half of 2014) and included a 23% increase in lettings income, a 16% increase in mortgage services income and an 11% increase in surveying income, offset by a fall in second hand house sales income of 8%.

The decrease in net non-interest income in the Financial Advice division was driven by the loss of revenues following the disposal of Torquil Clark Limited during 2014. Similarly, the Investment Portfolio has seen a reduction in income due to the loss of revenues from The Private Health Partnership Limited, which was disposed of during 2014, and from Bailey Computer Services Limited, which ceased trading towards the end of 2014.

Further details of the Group's performance by business area are set out on pages 12 to 13.

Administrative expenses

Administrative expenses for the Group saw a small increase of 2.2% to £215.8m (six months ended 30 June 2014: £211.2m; year ended 31 December 2014: £426.7m).

The Estate Agency division continued its significant investment in the business during the first half of 2015, resulting in increased costs, including the increasing cost of regulation.

For the wider Group, the cost income ratio (from continuing operations) increased slightly to 71.0% (six months ended 30 June 2014: 70.4%; year ended 31 December 2014: 70.7%). This figure is materially impacted by trading subsidiaries, most notably Connells, which naturally operate with a higher level of costs compared to income than a balance sheet business such as the Society. A more industry comparable measure of our cost income ratio is when measured at a Mortgages and Savings division level, with this ratio relatively stable at 44.1% (six months ended 30 June 2014: 42.8%; year ended 31 December 2014: 44.5%).

Impairment losses on loans and advances to customers

The Group's impairment charge on loans and advances to customers for the six months ended 30 June 2015 was £8.0m (six months ended 30 June 2014: £3.8m; year ended 31 December 2014: £13.3m) and is broken down as follows:

	Unaudited 6 months to 30.06.15 £m	Unaudited 6 months to 30.06.14 £m	Unaudited 12 months to 31.12.14 £m
Residential mortgages	**5.3**	1.8	4.3
Equity release mortgages	**2.5**	-	5.7
Commercial mortgages*	**0.2**	1.9	3.1
Other loans	**-**	0.1	0.2
	8.0	3.8	13.3

* Also known as loans fully secured on land.

The increase in loan impairment provisions against residential mortgages in the first half of the year reflects the enhancements that have been made to our credit risk loan impairment models. The increase in loan impairment provisions predominantly relates to our specialist lending portfolios, which were closed to new business in 2008, resulting in a residential impairment charge of £5.3m for the first half of the year (six months ended 30 June 2014: £1.8m; year ended 31 December 2014: £4.3m). The quality of the Society and SIL residential mortgage portfolios remains high.

The number of mortgages in arrears across the Group has reduced, with the number of residential mortgages in arrears by three months or more falling to 1.00% (30 June 2014: 1.37%; 31 December 2014: 1.20%). The mortgage arrears methodology for reporting purposes is based on the Council of Mortgage Lenders' (CML) definition of calculating arrears, which calculates months in arrears by dividing the total arrears balance outstanding by the latest contractual payment. Group arrears, based on the above definition, compare favourably to the CML industry average for mortgages in arrears by more than three months of 1.30% (CML figures as at 31 March 2015).

The equity release charge relates to the portfolio that was acquired when we merged with the Scarborough Building Society in 2009. Losses on this portfolio arise from the 'No Negative Equity Guarantee' provided to customers (as described in note 17 to this half-yearly financial report), and are a function of the actual and projected interrelationship between market-wide long term house prices and Retail Price Inflation (RPI) and the specific behaviour of this portfolio. During the period we have further revised our assumptions of RPI based on the future expected performance of the wider economy, resulting in a charge of £2.5m for the period (six months ended 30 June 2014: £nil; year ended 31 December 2014: £5.7m).

Arrears levels within our commercial lending portfolio, which was closed to new business in 2008, remain low. The charge to the Income Statement in the period for incurred losses on this portfolio has reduced to £0.2m (six months ended 30 June 2014: £1.9m; year ended 31 December 2014: £3.1m).

Provisions for liabilities

Provisions for liabilities amounted to £9.3m (six months ended 30 June 2014: £9.4m; year ended 31 December 2014: £17.5m) and predominantly consist of our share of the costs of the Financial Services Compensation Scheme (FSCS). The charge for the FSCS levy is primarily based on our latest estimate of our share of what HM Treasury will charge the FSCS for loans to finance depositor protection, together with the third of three years' charges for anticipated losses on realisation of Icelandic banks' and Dunfermline Building Society's lending assets. The Financial Advice division is also subject to levies for particular market events such as the failure of Keydata. The total Group FSCS charge amounted to £6.8m (six months ended 30 June 2014: £7.4m; year ended 31 December 2014: £7.8m).

Other provisions for liabilities relate to items such as claims against Connells' survey and valuation division, provisions made for the cancellation of insurance products sold by Connells' mortgage services business, and Mortgage Payment Protection Insurance (MPPI) claims in the Mortgages and Savings and Estate Agency divisions.

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

	Unaudited 6 months to 30.06.15 £m	Unaudited 6 months to 30.06.14 £m	Unaudited 12 months to 31.12.14 £m
FSCS levy	**6.8**	7.4	7.8
Provision for the costs of surplus properties	**0.2**	(0.3)	-
Commission clawbacks / rebates	**1.5**	0.4	3.9
Survey and valuation claims	**0.3**	2.1	5.0
Customer compensation	**0.6**	(0.2)	0.2
Other provisions	**(0.1)**	-	0.6
	9.3	9.4	17.5

We expect all these provisions to crystallise substantially within the next few years.

Other comprehensive income

During the period, the Group recognised £14.5m (net of tax) of other comprehensive income (six months ended 30 June 2014: £1.4m income; year ended 31 December 2014: £(6.5)m expense), which mainly consisted of gains arising from an increase in the market value of the Group's equity shareholding in Zoopla Property Group Plc, resulting in a gain, gross of tax, of £13.1m for the period (six months ended 30 June 2014: £12.2m; year ended 31 December 2014: £6.7m). The gain is based on the share price as at 30 June 2015 and has been recognised in the available-for-sale reserve.

Financial position

Loans and advances to customers

The Group has again increased its lending during the period and continues to lend in a controlled manner, within its credit risk appetite. Gross mortgage advances in the period increased to £1,919.3m across the Group compared with £1,464.2m in the same period in 2014 (year ended 31 December 2014: £2,980.8m).

Our new lending remains prudent and well diversified by product type and geographical location. During the first half of the year, the Society helped a broad spectrum of homeowners, house movers and first time buyers by offering a number of different products, such as loans that only require a 10% deposit and longer term deals offering payment certainty for up to seven years.

Our well-managed spread of risk ensures that the quality of the Group's lending remains high. As at 30 June 2015, the average indexed loan-to-value (LTV) of the residential mortgage book was 50.8% (30 June 2014: 52.9%; 31 December 2014: 50.3%).

Group mortgage balances totalled £13.7bn, up from £12.7bn at the end of 2014, an increase of 7.8%. The mortgage balances of Amber and NYM, our specialist lending companies, as well as our commercial portfolio, continued to run off during the period as these portfolios remain closed to new lending.

Liquidity

The Group continues to hold healthy levels of liquid assets to support business and to counter economic uncertainty, with the liquidity ratio (as a percentage of shares, deposits and borrowings) reducing slightly from 18.4% to 17.8%.

An analysis of the Group's liquidity position is shown below:

	Unaudited as at 30.06.15	Unaudited as at 30.06.14	Unaudited as at 31.12.14
Liquidity balance*	**£2,690.4m**	£2,445.3m	£2,594.1m
As a % of shares, deposits and borrowings	**17.77%**	18.22%	18.36%
Core liquidity buffer^ - eligible assets	**£1,964.8m**	£1,559.7m	£1,532.6m
Core liquidity buffer^ as a % of liquidity balance	**73.03%**	63.78%	59.08%

* Represented by the sum of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities as shown within the Statement of Financial Position.

^ 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 prudential liquidity and at the end of the reporting period 99.9% (30 June 2014: 96.2%; 31 December 2014: 96.7%) of the Group's treasury investments were rated A3 or better. The Society continues to carry out regular liquidity stress testing in accordance with the Prudential Regulation Authority's (PRA) liquidity guidelines and the Board remains satisfied that the Group has sufficient liquid assets at its disposal in order to meet its obligations as they fall due.

Funding

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

Retail funding

The launch of the Government's FLS in August 2012 has had an impact on price competition for retail funding across the industry. However, although we have participated in the FLS, 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.

As at 30 June 2015, £12,081.5m (30 June 2014: £10,911.9m; 31 December 2014: £11,467.5m) of our funding came from retail savings, representing 84.7% (30 June 2014: 85.8%; 31 December 2014: 85.9%) of our total funding.

In addition to our UK retail funding, the Group also accepts deposits through our Guernsey-based subsidiary SIL. SIL has maintained a stable retail funding base, with its deposits growing to £1,012.4m at 30 June 2015 (30 June 2014: £828.0m; 31 December 2014: £899.2m).

Wholesale funding

The remainder of the Group's funding comes from the wholesale markets. At 30 June 2015 our wholesale funding balances amounted to £2,050.2m (30 June 2014: £1,680.6m; 31 December 2014: £1,764.4m), an increase of £285.8m during the six month period, resulting in the Group's wholesale funding ratio increasing to 15.3% at 30 June 2015 (30 June 2014: 14.2%; 31 December 2014: 14.1%).

A further £205m of FLS funding has been drawn since 31 December 2014, resulting in £855m of FLS funding remaining outstanding at 30 June 2015.

Capital

Capital comprises the Group's general reserve, 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. Our capital is calculated under the CRD IV regulations introduced on 1 January 2014. The requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) are collectively known as the CRD IV regulations. Under CRD IV the key level at which we monitor our capital is at a prudential consolidation group level. The prudential group consists of the entire Group except a small number of entities (including Connells) whose activities are not aligned with the core Financial Services businesses.

The comparative capital figures as at 30 June 2014 in the table below have been updated to include an adjustment to reflect the potential mark to market losses that could arise if the creditworthiness of the counterparties to our derivatives were to deteriorate; this is known as a Credit Valuation Adjustment charge. In addition, an adjustment has been made to remove collective provisions which no longer meet the criteria to be included in Tier 2 capital. Both of these adjustments have been made to reflect the CRD IV requirements.

Total capital has increased by £58.2m from 31 December 2014 to £1,048.6m under the fully loaded definition of CRD IV (30 June 2014: £887.3m; 31 December 2014: £990.4m). The fully loaded position represents the CRD IV end-point definition applicable from 1 January 2022. Under the fully loaded rules all existing Tier 1 and Tier 2 instruments that become ineligible capital are excluded in full.

The capital ratios for the prudential group are set out below:

Prudential consolidation group

	Fully loaded		
	Unaudited as at 30.06.15 %	Unaudited as at 30.06.14 Restated %	Unaudited as at 31.12.14 %
Common Equity Tier 1 ratio	**16.46**	14.70	16.23
Tier 1 ratio	**16.46**	14.70	16.23
Total capital ratio	**17.17**	15.49	16.99
	Transitional		
	Unaudited as at 30.06.15 %	Unaudited as at 30.06.14 Restated %	Unaudited as at 31.12.14 %
Common Equity Tier 1 ratio	**16.42**	14.63	16.13
Tier 1 ratio	**17.45**	15.88	17.37
Total capital ratio	**18.46**	16.91	18.33

Leverage ratio on a CRD IV basis

The leverage ratio is defined as Tier 1 capital divided by total exposure, which includes on and off balance sheet exposures, excluding intangible assets.

The leverage ratio is based on the revised January 2015 Capital Requirements Regulation. We have applied this definition to calculate a fully loaded leverage ratio at a prudential group level as this is the key consolidation level at which we are regulated under CRD IV. The fully loaded leverage ratio calculated on this basis is 6.0% and remains strong (30 June 2014: 5.6%; 31 December 2014: 6.0%).

Performance by business area

The Group's results from continuing operations by business area were as follows:

	Unaudited 6 months to 30.06.15 £m	Unaudited 6 months to 30.06.14 £m	Unaudited 12 months to 31.12.14 £m
Mortgages and Savings	**49.1**	51.3	98.4
Estate Agency	**27.3**	42.6	63.2
Financial Advice	**(0.9)**	0.8	1.4
Investment Portfolio	**1.6**	2.6	5.2
Sundry, including inter-divisional adjustments*	**(5.0)**	(7.5)	(11.4)
Profit before tax (PBT)	**72.1**	89.8	156.8

* Sundry, including inter-divisional adjustments relate primarily to the elimination of intra-divisional trading, the write down of goodwill arising on consolidation relating to subsidiary investments and the cost of the Connells management incentive scheme.

Mortgages and Savings

The Mortgages and Savings division reported pre-tax profits of £49.1m, compared to £51.3m for the six months ended 30 June 2014 (year ended 31 December 2014: £98.4m).

The strong performance was driven by the division's net interest margin, which remains healthy at 1.39% (30 June 2014: 1.44%; 31 December 2014: 1.40%). New lending volumes in the first half of the year increased by 31.1% to £1,919.3m (six months ended 30 June 2014: £1,464.2m; year ended 31 December 2014: £2,980.8m). The increase in lending was a result of our strong relationships with our intermediary partners and our competitive offerings across a range of mortgage products. We continue to offer our savers competitive rates, though we understand this sustained low interest rate environment has been a difficult period for our savers. The Society saw a growth in savings customers of 17,809 (15,987 in the six months ended 30 June 2014) and has seen its savings balances increase by £628.9m since the end of 2014, representing growth of 5.5% (six months ended 30 June 2014: 6.5%).

The focus within the Mortgages and Savings division remains on managing our cost base, in particular the increasing costs of regulatory compliance, whilst making investments in our customer proposition and developing our people. Despite these investments, the ratio of administrative expenses to mean assets for the division, the traditional building society measure of efficiency, improved slightly in the first half of the year to 0.63% (six months ended 30 June 2014: 0.64%; year ended 31 December 2014: 0.65%).

The focus at both Amber and NYM remains to reduce the level of mortgage arrears, which is managed through an efficient and proactive collections process, including a number of appropriate forbearance measures for borrowers in difficulty. The aggregate size of these two portfolios continues to reduce as the portfolios are managed downwards, reducing by 4.5% since 31 December 2014. The number of mortgages in arrears by three months or more has also reduced in the first six months of 2015, reducing to 7.25% for Amber (30 June 2014: 9.03%; 31 December 2014: 8.13%) and to 5.80% for NYM (30 June 2014: 6.80%; 31 December 2014: 6.45%).

Skipton International Limited (SIL), our Channel Islands operation, has performed well over the first half of the year, reporting an increase in pre-tax profits to £6.8m (six months ended 30 June 2014: £5.9m; year ended 31 December 2014: £12.2m). SIL also reported significant increases in both its mortgage and savings books, which increased to £856.8m and £1,012.4m respectively (30 June 2014: £740.6m and £828.0m respectively; 31 December 2014: £782.8m and £899.2m respectively), representing growth of 9.5% in the mortgage book and 12.6% growth in savings balances since the year end. The quality of the mortgage book remains good, with very few cases in arrears.

Estate Agency

The Connells group achieved a pre-tax profit of £27.3m for the first six months of 2015 compared to £42.6m for the six months ended 30 June 2014, however the 2014 profit included a £10.1m profit from the part disposal of Connells' shareholding in Zoopla.

Income across the Estate Agency division was £159.2m for the six months ended 30 June 2015 (on a like-for-like basis) compared to £158.9m for the first half of 2014. The Connells group retains a good spread of revenue generating activities and has seen significant increases in lettings, mortgage services and surveying income. Connells continues to invest for the future by expanding its lettings footprint and increasing the number of mortgage services consultants and surveyors.

The first half of the year was impacted by the lower business volumes seen in the second half of 2014 resulting in a lower sales pipeline entering 2015. However activity has picked up during the period, resulting in a higher pipeline entering the second half of 2015 than at the same point last year.

Financial Advice

The Financial Advice division reported a pre-tax loss of £(0.9)m (six months ended 30 June 2014: £0.8m profit; year ended 31 December 2014: £1.4m profit). The movement since the same period last year is partly due to the loss of revenues following the disposal of Torquil Clark, which was sold in the second half of 2014. The reduction in profit is also due to a loss on disposal of £(0.8)m recognised on disposal of Pearson Jones, which was sold during the period. The remaining company in the division, Skipton Financial Services, which remains a key part of the extended Society customer offering, reported a loss of £(0.5)m in the six months ended 30 June 2015.

Investment Portfolio

The Investment Portfolio reported a profit of £1.6m for the six months ended 30 June 2015, which compares to profits of £2.6m for the first half of 2014. The reduction in profits compared to the first half of 2014 is primarily due to a gain recognised in the first half of 2014 of £2.4m from a deemed disposal of part of the Group's shareholding in its associate investment Wynyard Group Limited. A further gain on deemed disposal has been recognised in the first half of 2015 of £1.2m following a share issue by Wynyard to which we did not subscribe.

Skipton Business Finance (provider of debt factoring and invoice discounting) performed well during the first half of the year and although Jade Software Corporation (a software solutions provider that specialises in digital solutions, large enterprise solutions and logistics) has delivered encouraging year-on-year sales growth, it continues to trade at a small loss.

Sundry including inter-divisional adjustments

'Sundry including inter-divisional adjustments' relate to the elimination of intra-divisional trading, any adjustments to the carrying value of subsidiaries and the costs of the management incentive scheme for senior managers at Connells Limited.

No impairment was booked against the carrying value of consolidated goodwill in relation to subsidiaries in the six months ended 30 June 2015 (six months ended 30 June 2014: £nil; year ended 31 December 2014: £3.3m), whilst the cost of the management incentive scheme for the senior managers of Connells was £3.7m (six months ended 30 June 2014: £5.9m; year ended 31 December 2014: £5.4m).

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 2014 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 49 to 55 of the 2014 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.

The controlled management of credit risk is critical to the Group's overall strategy. The Group has therefore embedded a comprehensive and robust approach to managing credit risk with clear lines of accountability and oversight as part of its overall governance framework.

The Group retains its prudent approach to new lending with a robust affordability assessment process factored into any new lending it undertakes. House price increases have moderated somewhat over the past 12 months but are continuing to rise and therefore we closely monitor loan to income ratios as any future increase in interest rates could create affordability issues for certain customers. The key driver of credit risk, however, remains a slowdown in the UK economy leading to higher unemployment, deterioration in household finances and falling house prices, all of which would be likely to result in increased arrears and mortgage losses. In addition, an increase in interest rates could also result in similar outcomes.

Whilst the wholesale markets are less volatile than during the global financial crisis, the Group remains cautious given the current situation in the Eurozone and therefore continues to monitor wholesale counterparty exposures within limits set by reference to the underlying credit quality of each counterparty.

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 has developed comprehensive funding and liquidity policies to ensure that it maintains sufficient liquid assets to be able to meet all financial obligations as they fall due and maintain public confidence.

The wholesale funding markets are now less restricted than a few years ago and the trend for firms to seek longer term wholesale funding and stable retail funds has continued, as has the requirement for banks and building societies to maintain better quality, albeit lower yielding, liquid assets. The new CRD IV Liquidity regulations are in the process of being phased in, and these include the Liquidity Coverage Ratio and the Net Stable Funding Ratio, which are due to come into force from 1 October 2015 and 1 January 2018 respectively. The Society has been measuring and monitoring these ratios for some time, and is in a good position for when the regulations come into force, alongside the requirement to report the ratios externally.

Market risk

Market risk 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 are interest rate risk (including the use of derivatives), foreign currency risk and equity risk.

The Group continues to manage its exposures 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.

Conduct and operational risk

Conduct risk is the risk of delivering poor or inappropriate outcomes for customers, while operational risk is the risk of financial loss or reputational damage arising from inadequate or failed internal processes or systems, or human error.

As a business with a retail franchise in Financial Services, the management of conduct and operational risk is key to the ongoing success of the Group. Central to managing this risk is maintenance of a robust product governance framework, to ensure that we develop and market products and services designed to meet the needs of our target market, exercise strong control over providing advice and efficiently administer the services provided.

As well as the core business, the Group owns a large estate agency business also providing advice on mortgages and insurance (Connells Limited), and Skipton Financial Services Limited, a subsidiary specialising in pensions and investment advice. Alert to the loss of customer trust experienced by Financial Services firms as a result of mis-selling scandals, the Group continues to invest in and develop its conduct and operational risk management processes and oversight arrangements.

The Financial Services sector also faces heightened levels of fraud and financial crime, particularly in relation to e-distribution channels, which require increasingly sophisticated controls. We are fully aware of the risk of cyber crime and have developed and continue to enhance the key controls in place to mitigate these risks.

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. Reputational risk is inherent across the Group and senior management manage this risk in the following ways:

- by maintaining and investing in our control structures;
- by a continued focus on customer outcomes;
- by considering reputational risk when delivering our marketing and external communications; and
- through the risk management framework which has reputational risk as a key consideration.

Technological risk

The pace of technological development is creating a period of significant change in Financial Services. The Society will continue to invest in its technology provision to help ensure it delivers resilient and reliable systems and services to its customers.

Pension obligation risk

The Group has funding obligations for three defined benefit schemes, which are all now closed to new entrants and to future accrual of benefit. Pension obligation 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 investment strategy for the scheme assets is proactively managed by the Trustees, whilst the key assumptions that affect the scheme liabilities such as the discount rate, estimates of mortality, inflation and future salary increases, are closely monitored.

We continue to monitor the deficit on the schemes to manage the funds in a responsible manner, with the aim of ultimately eliminating the actuarial funding deficit.

Regulatory risk

Regulatory risk arises from a failure or inability of the Group to fully comply with the laws, regulations or codes applicable to the Group. Non-compliance could lead to damage to reputation, public censure, fines or increased prudential requirements. Key legislative changes on the horizon include the EU Mortgage Credit Directive which is due to come into force in 2016, the Bank Recovery and Resolution Directive (BRRD) which includes the Minimum Required Eligible Liabilities requirements, and further remuneration policy changes. The Group has a well-established Compliance function that considers the implications of any new requirement and helps to ensure appropriate steps are taken in a timely manner.

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.

B Ndawula

Group Finance Director

28 July 2015

Condensed Consolidated Income Statement

For the half year ended 30 June 2015

	Notes	**Unaudited 6 months to 30.06.15 £m**	Unaudited 6 months to 30.06.14 Re-presented* £m	Audited 12 months to 31.12.14 £m
Interest receivable and similar income	3	**217.8**	220.1	442.8
Interest payable and similar charges	4	**(104.5)**	(113.7)	(229.5)
Net interest receivable		**113.3**	106.4	213.3
Fees and commissions receivable	5	**193.5**	200.6	402.0
Fees and commissions payable		**(4.0)**	(4.7)	(10.2)
Fair value (losses) / gains on financial instruments		**(1.8)**	0.1	(2.0)
Losses on treasury assets		**-**	(3.7)	(3.7)
(Loss) / profit on disposal of subsidiary undertakings		**(0.5)**	-	1.1
Profit on part disposal of equity share investments		**-**	10.1	10.1
Profit on part disposal of associate		**1.2**	2.4	2.3
Dividend income from equity share investments		**0.3**	1.1	1.1
Share of profits from joint ventures		**1.2**	1.2	2.4
Share of losses from associate		**(0.9)**	(0.6)	(2.6)
Other income		**2.9**	1.3	3.8
Total income		**305.2**	314.2	617.6
Administrative expenses	6	**(215.8)**	(211.2)	(426.7)
Operating profit before impairment losses and provisions		**89.4**	103.0	190.9
Impairment losses on loans and advances to customers	7	**(8.0)**	(3.8)	(13.3)
Impairment losses on debt securities	8	**-**	-	(2.0)
Impairment losses on equity share investments		**-**	-	(1.3)
Provisions for liabilities	9	**(9.3)**	(9.4)	(17.5)
Profit before tax		**72.1**	89.8	156.8
Tax expense	10	**(14.1)**	(19.5)	(34.9)
Profit for the period from continuing operations		**58.0**	70.3	121.9
Discontinued operation				
Profit from discontinued operation		**-**	0.2	24.8
Profit for the period		**58.0**	70.5	146.7
Profit for the period attributable to:				
Members of Skipton Building Society				
Profit for the period from continuing operations		**58.3**	71.1	122.3
Profit for the period from discontinued operation		**-**	0.2	24.8
		58.3	71.3	147.1
Non-controlling interests				
Loss for the period from continuing operations		**(0.3)**	(0.8)	(0.4)
		(0.3)	(0.8)	(0.4)
		58.0	70.5	146.7

* The prior period interim figures have been re-presented in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations*, to reflect the disposal of Homeloan Management Limited and its subsidiary companies, which became a discontinued operation during 2014.

Segmental performance of the Group is shown in note 18.

The notes on pages 23 to 43 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Comprehensive Income

For the half year ended 30 June 2015

	Unaudited 6 months to 30.06.15 £m	Unaudited 6 months to 30.06.14 £m	Audited 12 months to 31.12.14 £m
Profit for the period	**58.0**	70.5	146.7
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement gains / (losses) on defined benefit obligations	**9.6**	(4.3)	(22.8)
Movement in reserves attributable to non-controlling interests	**(0.4)**	0.2	-
Income tax on items that will not be reclassified to profit or loss	**(1.9)**	0.9	4.6
	7.3	(3.2)	(18.2)
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments: valuation gains taken to equity	**12.7**	13.9	13.5
Available-for-sale investments: realised gains transferred to Income Statement	**-**	(8.7)	(6.6)
Cash flow hedges: (losses) / gains taken to equity	**(2.4)**	(1.3)	4.5
Cash flow hedges: realised losses transferred to Income Statement	**1.2**	0.8	2.6
Exchange differences on translation of foreign operations	**(2.4)**	0.4	0.1
Translation loss transferred to Income Statement on deemed disposal of associate	**0.3**	-	-
Income tax on items that may be reclassified to profit or loss	**(2.2)**	(0.5)	(2.4)
	7.2	4.6	11.7
Other comprehensive income / (expense) for the period, net of tax	**14.5**	1.4	(6.5)
Total comprehensive income for the period	**72.5**	71.9	140.2
Total comprehensive income attributable to:			
Members of Skipton Building Society	**73.2**	72.7	140.6
Non-controlling interests	**(0.7)**	(0.8)	(0.4)
	72.5	71.9	140.2

The notes on pages 23 to 43 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Financial Position

As at 30 June 2015

	Notes	**Unaudited as at 30.06.15 £m**	Unaudited as at 30.06.14 £m	Audited as at 31.12.14 £m
Assets				
Cash in hand and balances with the Bank of England		**1,196.0**	826.1	1,076.1
Loans and advances to credit institutions		**329.3**	302.9	365.4
Debt securities	8	**1,165.1**	1,316.3	1,152.6
Derivative financial instruments		**102.1**	120.8	133.4
Loans and advances to customers	11	**13,796.6**	12,121.9	12,836.8
Deferred tax asset		**20.1**	19.6	21.7
Investments in joint ventures		**9.2**	3.1	8.9
Investments in associates		**11.9**	15.6	13.2
Equity share investments		**46.0**	39.7	32.9
Property, plant and equipment		**64.7**	79.8	64.0
Investment property		**20.1**	6.7	22.1
Intangible assets		**161.7**	180.7	166.5
Other assets		**106.7**	113.1	88.1
Total assets		**17,029.5**	15,146.3	15,981.7
Liabilities				
Shares		**12,081.5**	10,911.9	11,467.5
Amounts owed to credit institutions		**1,022.6**	570.8	789.8
Amounts owed to other customers		**1,320.0**	1,066.0	1,143.2
Debt securities in issue	12	**720.0**	871.8	730.6
Derivative financial instruments		**277.9**	237.1	307.3
Current tax liability		**13.3**	20.2	18.3
Other liabilities		**112.1**	114.0	101.8
Accruals and deferred income		**34.1**	36.8	41.5
Provisions for liabilities	9	**35.8**	42.2	32.4
Deferred tax liability		**14.7**	13.8	12.1
Retirement benefit obligations		**62.7**	56.7	73.0
Subordinated liabilities		**96.6**	107.6	98.0
Subscribed capital		**93.8**	93.7	94.3
Total liabilities		**15,885.1**	14,142.6	14,909.8
Members' interests				
General reserve		**1,112.2**	985.3	1,046.2
Available-for-sale reserve		**36.6**	25.1	26.4
Cash flow hedging reserve		**(6.2)**	(11.4)	(5.3)
Translation reserve		**3.2**	5.6	5.3
Attributable to members of Skipton Building Society		**1,145.8**	1,004.6	1,072.6
Non-controlling interests		**(1.4)**	(0.9)	(0.7)
Total members' interests		**1,144.4**	1,003.7	1,071.9
Total members' interests and liabilities		**17,029.5**	15,146.3	15,981.7

The notes on pages 23 to 43 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 2015

	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 2015	**1,046.2**	**26.4**	**(5.3)**	**5.3**	**1,072.6**	**(0.7)**	**1,071.9**
Profit / (loss) for the period	58.3	-	-	-	**58.3**	(0.3)	**58.0**
Other comprehensive income:							
Remeasurement gains on defined benefit obligations	7.7	-	-	-	**7.7**	-	**7.7**
Net gains / (losses) from changes in fair value	-	10.2	(1.9)	-	**8.3**	-	**8.3**
Cash flow hedges: realised losses transferred to Income Statement	-	-	1.0	-	**1.0**	-	**1.0**
Exchange differences on translation of foreign operations	-	-	-	(2.4)	**(2.4)**	-	**(2.4)**
Translation loss transferred to Income Statement on deemed disposal of associate	-	-	-	0.3	**0.3**	-	**0.3**
Movement in reserves attributable to non-controlling interests	-	-	-	-	**-**	(0.4)	**(0.4)**
Total other comprehensive income	**7.7**	**10.2**	**(0.9)**	**(2.1)**	**14.9**	**(0.4)**	**14.5**
Total comprehensive income for the period	**66.0**	**10.2**	**(0.9)**	**(2.1)**	**73.2**	**(0.7)**	**72.5**
Balance at 30 June 2015	**1,112.2**	**36.6**	**(6.2)**	**3.2**	**1,145.8**	**(1.4)**	**1,144.4**

Unaudited for the half year ended 30 June 2014

	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 2014	917.3	20.5	(11.0)	5.2	932.0	2.9	934.9
Profit / (loss) for the period	71.3	-	-	-	71.3	(0.8)	70.5
Other comprehensive income:							
Remeasurement losses on defined benefit obligations	(3.4)	-	-	-	(3.4)	-	(3.4)
Net gains / (losses) from changes in fair value	-	11.4	(1.0)	-	10.4	-	10.4
Available-for-sale: realised gains transferred to Income Statement on sale	-	(6.8)	-	-	(6.8)	-	(6.8)
Cash flow hedges: realised losses transferred to Income Statement	-	-	0.6	-	0.6	-	0.6
Exchange differences on translation of foreign operations	-	-	-	0.4	0.4	-	0.4
Movement in reserves attributable to non-controlling interests	-	-	-	-	-	0.2	0.2
Total other comprehensive income	(3.4)	4.6	(0.4)	0.4	1.2	0.2	1.4
Total comprehensive income for the period	67.9	4.6	(0.4)	0.4	72.5	(0.6)	71.9
Changes in ownership interests:							
Subsidiary share buy-back	0.1	-	-	-	0.1	(3.2)	(3.1)
Balance at 30 June 2014	985.3	25.1	(11.4)	5.6	1,004.6	(0.9)	1,003.7

Condensed Consolidated Statement of Changes in Members' Interests *(continued)*

Audited for the year ended 31 December 2014

	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 2014	917.3	20.5	(11.0)	5.2	932.0	2.9	934.9
Profit / (loss) for the year	147.1	-	-	-	147.1	(0.4)	146.7
Other comprehensive income:							
Remeasurement losses on defined benefit obligations	(18.2)	-	-	-	(18.2)	-	(18.2)
Net gains from changes in fair value	-	11.1	3.7	-	14.8	-	14.8
Available-for-sale: realised gains transferred to Income Statement on sale	-	(5.2)	-	-	(5.2)	-	(5.2)
Cash flow hedges: realised losses transferred to Income Statement	-	-	2.0	-	2.0	-	2.0
Exchange differences on translation of foreign operations	-	-	-	0.1	0.1	-	0.1
Total other comprehensive income	(18.2)	5.9	5.7	0.1	(6.5)	-	(6.5)
Total comprehensive income for the year	128.9	5.9	5.7	0.1	140.6	(0.4)	140.2
Changes in ownership interests:							
Subsidiary share buy-back	-	-	-	-	-	(3.2)	(3.2)
Balance at 31 December 2014	1,046.2	26.4	(5.3)	5.3	1,072.6	(0.7)	1,071.9

The notes on pages 23 to 43 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 2015

	Notes	**Unaudited 6 months to 30.06.15 £m**	Unaudited 6 months to 30.06.14 £m	Audited 12 months to 31.12.14 £m
Cash flows from operating activities				
Profit before tax from all operations		**72.1**	90.0	181.6
Adjustments for:				
Impairment losses on debt securities	8	**-**	-	2.0
Impairment losses on loans and advances to customers	7	**8.0**	3.8	13.3
Loans and advances written off, net of recoveries		**(2.5)**	(7.2)	(13.5)
Depreciation and amortisation		**8.2**	9.1	15.8
Impairment of investment property and property, plant and equipment		**0.4**	2.9	4.7
Impairment of goodwill		**-**	0.2	3.5
Impairment of other intangible assets		**-**	-	0.6
Impairment losses on equity share investments		**-**	-	1.3
Dividend income from equity share investments		**(0.3)**	(1.1)	(1.1)
Interest on subscribed capital and subordinated liabilities		**6.1**	6.5	12.7
Profit on sale of property, plant and equipment, investment property and intangible assets		**(0.2)**	(0.2)	(0.3)
Losses on treasury assets		**-**	3.7	3.7
Share of (profits) / losses from joint ventures and associates		**(0.3)**	(0.6)	0.2
Profit on part disposal of associate		**(1.2)**	(2.4)	(2.3)
Profit on part disposal of equity share investments		**-**	(10.1)	(10.1)
Loss / (profit) on disposal of subsidiary undertakings		**0.5**	-	(25.8)
Other non-cash movements		**8.9**	5.1	1.9
		99.7	99.7	188.2
Changes in operating assets and liabilities:				
Movement in prepayments and accrued income		**(3.5)**	(6.6)	5.1
Movement in accruals and deferred income		**(20.0)**	(10.1)	4.3
Movement in provisions for liabilities		**3.4**	4.9	(4.9)
Movement in fair value of derivatives		**1.9**	(22.5)	35.1
Movement in fair value adjustments for hedged risk		**4.6**	23.5	(35.0)
Fair value movements in debt securities		**5.1**	(14.5)	(29.5)
Movement in loans and advances to customers		**(990.4)**	(644.5)	(1,276.7)
Movement in shares		**643.4**	673.5	1,190.5
Net movement in amounts owed to credit institutions and other customers		**407.0**	(339.8)	(42.7)
Net movement in debt securities in issue		**(10.6)**	317.3	176.9
Net movement in loans and advances to credit institutions		**20.0**	25.2	(41.7)
Net movement in other assets		**(19.7)**	(7.1)	(2.6)
Net movement in other liabilities		**8.4**	9.9	23.3
Income taxes paid		**(19.1)**	(9.0)	(31.0)
Net cash flows from operating activities		**130.2**	99.9	159.3

Condensed Consolidated Statement of Cash Flows *(continued)*

For the half year ended 30 June 2015

	Notes	**Unaudited 6 months to 30.06.15 £m**	Unaudited 6 months to 30.06.14 £m	Audited 12 months to 31.12.14 £m
Net cash flows from operating activities		**130.2**	99.9	159.3
Cash flows from investing activities				
Purchase of debt securities	8	**(386.9)**	(379.1)	(831.2)
Proceeds from disposal of debt securities		**369.3**	269.1	897.9
Purchase of property, plant and equipment and investment property		**(5.8)**	(6.7)	(14.0)
Purchase of intangible assets		**(0.9)**	(2.4)	(4.3)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		**1.5**	0.4	2.1
Dividends received from equity share investments		**0.3**	1.1	1.1
Share options issued		**-**	0.2	0.2
Proceeds from disposal of equity share investments		**-**	10.6	10.6
Dividends received from joint ventures		**1.2**	2.4	2.7
Dividends paid to non-controlling interests		**-**	(1.0)	(1.0)
Purchase of subsidiary undertakings, net of cash acquired		**-**	-	(14.8)
Further investment in subsidiary undertakings		**(0.9)**	-	(10.6)
Investment in joint ventures and equity share investments		**(0.3)**	(1.1)	(6.1)
Proceeds from disposal of joint ventures		**-**	-	0.1
Purchase of other business units		**(0.8)**	-	(1.1)
Cash received from sale of subsidiary undertakings, net of cash disposed of		**3.0**	-	64.3
Cash paid to non-controlling interests on subsidiary share buy-back		**-**	(3.2)	(3.2)
Net cash flows from investing activities		**(20.3)**	(109.7)	92.7
Cash flows from financing activities				
Redemption of subordinated liabilities		**-**	(15.0)	(15.0)
Repurchase of subordinated liabilities		**-**	-	(10.0)
Interest paid on subordinated liabilities		**(1.9)**	(2.4)	(4.4)
Interest paid on subscribed capital		**(4.2)**	(4.1)	(8.3)
Net cash flows from financing activities		**(6.1)**	(21.5)	(37.7)
Net increase / (decrease) in cash and cash equivalents		**103.8**	(31.3)	214.3
Cash and cash equivalents at 1 January		**1,202.6**	988.3	988.3
Cash and cash equivalents at end of period		**1,306.4**	957.0	1,202.6

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

	Unaudited 6 months to 30.06.15 £m	Unaudited 6 months to 30.06.14 £m	Audited 12 months to 31.12.14 £m
Cash in hand and balances with the Bank of England	**1,196.0**	826.1	1,076.1
Mandatory reserve deposit with the Bank of England	**(20.6)**	(19.7)	(20.2)
	1,175.4	806.4	1,055.9
Loans and advances to credit institutions	**131.0**	150.6	146.7
Cash and cash equivalents at end of period	**1,306.4**	957.0	1,202.6

The notes on pages 23 to 43 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 2015.

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).

During the period the Directors have adopted amendments to IAS 19 *Employee benefits (2011)* which are effective for accounting periods starting on or after 1 July 2014, and have also adopted amendments to a number of accounting standards as part of the annual improvements to IFRS 2011 – 2013 cycle, which are also effective for accounting periods starting on or after 1 July 2014. In addition, the Directors have adopted amendments to accounting standards as part of the annual improvements to IFRS 2010 – 2012 cycle, which are only effective in the EU for accounting periods beginning on or after 1 February 2015, however the Directors have adopted these amendments early, as permitted by the EU. Note 19 details the impact of these amendments on these condensed consolidated financial statements.

Other than the minor amendments outlined above and the development of the loan impairment methodology (note 7), which had not been adopted as at 31 December 2014, 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.

b) Going concern

The Group's business activities together with its financial position, capital resources and the factors likely to affect its future development and performance are set out in the Business Review on pages 6 to 15.

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 over 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 2014 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditor and the report of the auditor was (i) unqualified and (ii) did not include a reference to matters to which the auditor 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 2014 Annual Report and Accounts and this half-yearly financial report are available at www.skipton.co.uk/about-us/financial-results.

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 2015 was approved by the Board of Directors on 28 July 2015.

3. Interest receivable and similar income

	Unaudited 6 months to 30.06.15 £m	Unaudited 6 months to 30.06.14 £m	Audited 12 months to 31.12.14 £m
On financial assets not at fair value through profit or loss:			
On loans fully secured on residential property	**232.3**	224.2	458.5
On other loans	**5.3**	5.6	11.2
On debt securities	**7.8**	17.2	27.0
On other liquid assets	**2.6**	2.8	5.3
	248.0	249.8	502.0
On financial assets at fair value through profit or loss:			
Net expense on derivative financial instruments held for hedging assets	**(30.2)**	(29.7)	(59.2)
	217.8	220.1	442.8

4. Interest payable and similar charges

	Unaudited 6 months to 30.06.15 £m	Unaudited 6 months to 30.06.14 £m	Audited 12 months to 31.12.14 £m
On financial liabilities not at fair value through profit or loss:			
On shares held by individuals	**103.7**	110.8	230.9
On shares held by others	**0.6**	0.7	1.5
On subscribed capital	**4.2**	4.1	8.3
On deposits and other borrowings:			
Subordinated liabilities	**1.9**	2.4	4.4
Wholesale and other funding	**14.8**	14.2	29.4
Other	**(0.1)**	(1.0)	(0.1)
	125.1	131.2	274.4
On financial liabilities at fair value through profit or loss:			
Net income on derivative financial instruments held for hedging liabilities	**(20.6)**	(17.5)	(44.9)
	104.5	113.7	229.5

5. Fees and commissions receivable

	Unaudited 6 months to 30.06.15 £m	Unaudited 6 months to 30.06.14 Re-presented* £m	Audited 12 months to 31.12.14 £m
Mortgage origination related fees	**11.2**	10.1	18.3
Other mortgage related fees	**1.1**	3.9	5.9
General insurance fees	**20.1**	17.5	33.3
Commissions earned on property sales	**69.8**	70.3	145.6
Commissions earned on property lettings	**21.2**	15.9	35.1
Survey and valuation services	**23.9**	28.2	51.6
Financial advice fees	**18.5**	23.9	44.3
Other fees and commissions	**27.7**	30.8	67.9
	193.5	200.6	402.0

* The prior period interim figures have been re-presented to reflect the disposal of Homeloan Management Limited and its subsidiary companies, which became a discontinued operation during 2014.

6. Administrative expenses

	Unaudited 6 months to 30.06.15 £m	Unaudited 6 months to 30.06.14 Re-presented* £m	Audited 12 months to 31.12.14 £m
Employee costs:			
Wages and salaries	**123.8**	119.7	241.3
Social security costs	**11.9**	13.3	23.3
Pension costs:			
Defined contribution arrangements	**3.4**	2.8	6.3
Settlement gain	**-**	(0.4)	(0.4)
	139.1	135.4	270.5
Other administrative expenses	**76.7**	75.8	156.2
	215.8	211.2	426.7

* The prior period interim figures have been re-presented to reflect the disposal of Homeloan Management Limited and its subsidiary companies, which became a discontinued operation during 2014.

7. Impairment losses on loans and advances to customers

	Unaudited 30.06.15 £m	Unaudited 30.06.14 £m	Audited 31.12.14 £m
Impairment charge for the period:			
Loans fully secured on residential property	**5.3**	1.8	4.3
Loans fully secured on land	**0.2**	1.9	3.1
Other loans	**-**	0.1	0.2
Fair value movements of embedded derivatives on equity release loans	**2.5**	-	5.7
	8.0	3.8	13.3
Impairment provision at the end of the period:			
Loans fully secured on residential property	**32.4**	32.2	29.3
Loans fully secured on land	**11.2**	10.5	11.2
Other loans	**0.8**	1.2	0.9
Fair value of embedded derivatives on equity release loans	**20.0**	11.8	17.5
	64.4	55.7	58.9

During the period the residential loan impairment approach has been revised by incorporating Internal Ratings Based methodologies to assess the inherent risk within the Group's residential mortgage portfolios.

The No Negative Equity Guarantee provided to equity release customers is accounted for as an embedded derivative due to its economic characteristics (as described in note 17). The losses on this portfolio represent the fair value movement of these embedded derivatives, and are a function of the actual and projected interrelationship between market-wide long term house prices and retail price inflation and the specific behaviour of this portfolio.

During the period the Directors have assessed the fair value of these embedded derivatives, based on the performance of the wider economy and management's assessment of the specific characteristics of the portfolio, resulting in a charge of £2.5m for the period (six months ended 30 June 2014: £nil; year ended 31 December 2014: £5.7m).

8. Debt securities

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

	Unaudited as at 30.06.15 £m	Unaudited as at 30.06.14 £m	Audited as at 31.12.14 £m
At 1 January	**1,152.6**	1,195.5	1,195.5
Additions	**386.9**	379.1	831.2
Disposals	**(369.3)**	(272.8)	(901.6)
Impairment losses	**-**	-	(2.0)
Changes in fair value	**(5.1)**	14.5	29.5
At end of period	**1,165.1**	1,316.3	1,152.6

9. Provisions for liabilities

	Unaudited as at 30.06.15 £m	Unaudited as at 30.06.14 £m	Audited as at 31.12.14 £m
Provision for the costs of surplus properties	**4.5**	4.5	4.6
Financial Services Compensation Scheme (FSCS)	**11.0**	12.6	4.3
Commission clawbacks / rebates	**4.9**	5.4	5.4
Survey and valuation claims	**11.7**	11.6	13.0
Customer compensation	**2.1**	3.7	3.4
Other provisions	**1.6**	4.4	1.7
	35.8	42.2	32.4

The movement in provisions in the period has resulted in an Income Statement charge of £9.3m for the period (six months ended 30 June 2014: £9.4m; year ended 31 December 2014: £17.5m).

10. Tax expense

	Unaudited 6 months to 30.06.15 £m	Unaudited 6 months to 30.06.14 Re-presented* £m	Audited 12 months to 31.12.14 £m
Profit before tax	**72.1**	89.8	156.8
Share of (profits) / losses from joint ventures and associates, net of tax	**(0.3)**	(0.6)	0.2
	71.8	89.2	157.0
Tax calculated at UK standard rate of 20.25% (30 June 2014: 21.5%; 31 December 2014: 21.5%)	**14.5**	19.2	33.8
Adjustments	**(0.4)**	0.3	1.1
Tax expense	**14.1**	19.5	34.9

* The prior period interim figures have been re-presented to reflect the disposal of Homeloan Management Limited and its subsidiary companies, which became a discontinued operation during 2014.

The effective tax rate for the six month period ending 30 June 2015 is 19.6% (six months ended 30 June 2014: 21.9%; year ended 31 December 2014: 22.2% (both from continuing operations)). This differs from the standard rate of corporation tax in the UK due to the impact of disallowable expenditure, offset by non-taxable income, and prior period tax adjustments.

11. Loans and advances to customers

	Unaudited as at 30.06.15 £m	Unaudited as at 30.06.14 £m	Audited as at 31.12.14 £m
Loans fully secured on residential property*	**13,148.0**	11,517.9	12,153.3
Other loans:			
Loans fully secured on land	**358.5**	384.7	370.9
Other loans	**107.7**	104.6	108.8
Fair value adjustment for hedged risk	**182.4**	114.7	203.8
	13,796.6	12,121.9	12,836.8

* Including equity release.

The remaining maturity of loans and advances to customers from the reporting date is as follows:			
On call and at short notice	**67.5**	67.6	69.2
In not more than three months	**34.5**	21.8	26.9
In more than three months but not more than one year	**70.3**	59.9	64.9
In more than one year but not more than five years	**608.0**	605.4	615.8
In more than five years	**13,080.7**	11,422.9	12,118.9
	13,861.0	12,177.6	12,895.7
Less: Impairment provision (note 7)	**(64.4)**	(55.7)	(58.9)
	13,796.6	12,121.9	12,836.8

12. Debt securities in issue

	Unaudited as at 30.06.15 £m	Unaudited as at 30.06.14 £m	Audited as at 31.12.14 £m
Certificates of deposit	**17.1**	9.0	7.0
Floating rate notes	**702.9**	862.9	723.6
Fair value adjustment for hedged risk	**-**	(0.1)	-
	720.0	871.8	730.6

Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:			
In not more than one year	**18.0**	50.3	8.0
In more than one year	**702.0**	821.5	722.6
	720.0	871.8	730.6

13. Related party transactions

Transactions with related parties are entered into in the normal course of business. The Group has had no related party transactions during the half year ended 30 June 2015 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 2015 are similar in nature to those for the year ended 31 December 2014. Full details of the Group's related party transactions for the year ended 31 December 2014 can be found in note 10 *Related party transactions* in the 2014 Annual Report and Accounts.

14. Subsequent events

There have been no material post balance sheet events between 30 June 2015 and the approval of this half-yearly financial report by the Board.

15. Other financial commitments and contingent liabilities

a) 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. Additionally, the Society has confirmed it will provide continuing support to those subsidiary undertakings that have net liabilities at 30 June 2015 or which rely on it for ongoing funding.

b) In common with all regulated deposit takers, the Society pays levies to the Financial Services Compensation Scheme (FSCS). The FSCS provides compensation to depositors in the event that a financial institution is unable to repay amounts due and is funded by contributions from the Financial Services industry. Following the failure of Bradford and Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society during 2008 and 2009, the FSCS raised loans from HM Treasury to cover compensation payable to customers in relation to protected deposits. The terms of these loans were interest only for the first three years and the FSCS seeks to recover the interest cost, together with related management expenses, by way of an annual Management Expense Levy payable by member firms.

   Whilst it is anticipated that the majority of the outstanding loans received from HM Treasury will be recovered from the failed institutions, a capital shortfall is also being levied against UK retail deposit holders as a Capital Levy over a three year period which started in 2013/14.

   As there is uncertainty over the level of assets that will be realised from the above institutions, a further capital shortfall may arise that member firms may be required to fund in the form of further capital levies. The Management Expense Levy is also subject to change. As such, the Society's ultimate FSCS contribution is uncertain and there is further potential exposure to future levies.

c) In 2014, a European Court of Justice ruling ruled that 'normal pay' for the purposes of calculating statutory holiday pay should include an element of contractual commission payments, rather than being limited to basic salary. Subsequently, in March 2015, a UK Employment Tribunal ruled that UK domestic law should be read as being consistent with EU law. However, this decision has been appealed, which means that uncertainty remains over the ultimate impact on employers. Should the appeal be unsuccessful, there is a possibility that employees may seek compensation for a shortfall in their holiday pay in prior periods. This gives rise to a possible obligation for the Group but, given the uncertainty of the appeal decision and the uncertainty around the scope of any compensation arising, the Group is unable to quantify with any significant degree of accuracy any liability that may arise.

16. 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 8), Derivative financial instruments and Loans and advances to customers (note 11).

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 £182.4m (30 June 2014: £114.7m; 31 December 2014: £203.8m) is included.

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

The percentage of these exposures (also including cash in hand and balances with the Bank of England) that are rated A3 or better by Moody's credit ratings at 30 June 2015 is 99.9% (30 June 2014: 96.2%; 31 December 2014: 96.7%).

Credit risk – derivative financial instruments

A credit exposure could arise in respect of derivative contracts entered into by the Group if the counterparty was unable to fulfil its contractual obligations. The Group addresses the risks associated with these activities by monitoring counterparty credit exposure and requiring additional collateral to be posted or returned as necessary. The only form of collateral accepted by the Group is cash, with the exception of the securitisation companies that will also accept high quality securities. Derivatives are transacted under International Swaps and Derivatives Association (ISDA) Master Agreements. 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 as all swaps are cash collateralised. Credit Support Annexes (CSAs) executed with certain counterparties in conjunction with the ISDA Master Agreement require collateral to be posted regularly, as required by specific terms and conditions of the arrangements. Due to the frequency of the posting of collateral, there is no material exposure from these minimal timing differences which would require CVA or DVA adjustments.

16. Credit risk *(continued)*

Netting arrangements do not necessarily result in an offset of Statement of Financial Position assets and liabilities, as transactions are usually settled on a gross basis. The Group's legal documentation for derivative transactions does grant legal rights of set-off for those transactions with the same counterparty. Accordingly the credit risk associated with such contracts is reduced to the extent that negative mark to market valuations on derivatives will offset positive mark to market valuations on derivatives, subject to an absolute exposure of zero.

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 30.06.15		Unaudited as at 30.06.14		Audited as at 31.12.14	
	£m	**%**	£m	%	£m	%
Total residential mortgages*	**13,200.4**	**96.5**	11,561.9	95.8	12,200.1	96.1
Commercial loans^	**369.7**	**2.7**	395.2	3.3	382.1	3.0
Other lending:						
Debt factoring loans	**62.9**	**0.5**	62.2	0.5	63.8	0.5
Other loans	**45.6**	**0.3**	43.6	0.4	45.9	0.4
Gross balances	**13,678.6**	**100.0**	12,062.9	100.0	12,691.9	100.0
Impairment provisions (note 7)	**(64.4)**		(55.7)		(58.9)	
Fair value adjustment for hedged risk	**182.4**		114.7		203.8	
	13,796.6		12,121.9		12,836.8	

* Including equity release portfolio.
^ Also known as loans fully secured on land.

a) Residential mortgages

The majority of loans and advances to customers are secured on UK residential properties and are geographically diverse. 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, Skipton International Limited, which lends in the Channel Islands and to a limited extent in the UK, and the specialist mortgage lending in Amber Homeloans Limited and North Yorkshire Mortgages Limited. The credit risk appetite explicitly considers geographical regions to manage concentration risk.

The average indexed loan-to-value percentage of Group residential mortgages at 30 June 2015 is 50.8% (30 June 2014: 52.9%; 31 December 2014: 50.3%).

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

	Unaudited as at 30.06.15		Unaudited as at 30.06.14		Audited as at 31.12.14	
	£m	**%**	£m	%	£m	%
Neither past due nor individually impaired	**12,897.2**	**97.7**	11,180.3	96.7	11,859.4	97.2
Past due but not impaired:						
Up to 3 months	**142.1**	**1.1**	162.4	1.4	150.9	1.2
	13,039.3	**98.8**	11,342.7	98.1	12,010.3	98.4
Individually impaired:						
Low risk	**42.3**	**0.3**	35.4	0.3	45.0	0.4
High risk	**109.0**	**0.8**	168.4	1.5	136.3	1.1
Possessions	**9.8**	**0.1**	15.4	0.1	8.5	0.1
	13,200.4	**100.0**	11,561.9	100.0	12,200.1	100.0

16. Credit risk *(continued)*

During the period the methodology for defining accounts that are regarded as individually impaired has been revised in order to align with the industry standard. Mortgage accounts are now regarded as individually impaired in the table above if they are in arrears by three months or more, whereas previously they were regarded as individually impaired if they were in arrears by one month or more. The comparatives as at 30 June 2014 and 31 December 2014 have therefore been re-presented in order that they are shown on a consistent basis.

Low risk accounts in the table above relate to loans with an indexed loan-to-value of less than or equal to 70%. High risk accounts relate to loans with an indexed loan-to-value of more than 70%.

b) Commercial loans

The commercial mortgage portfolio (also known as loans fully secured on land) is currently closed to new business. 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 30.06.15		Unaudited as at 30.06.14		Audited as at 31.12.14	
	£m	**%**	£m	%	£m	%
Neither past due nor individually impaired	**361.3**	**97.7**	384.8	97.4	375.3	98.2
Past due but not impaired:						
Up to 3 months	**6.2**	**1.7**	7.6	1.8	4.8	1.3
	367.5	**99.4**	392.4	99.2	380.1	99.5
Individually impaired:						
Low risk	**0.3**	**0.1**	1.0	0.3	0.7	0.2
High risk	**1.9**	**0.5**	1.8	0.5	1.3	0.3
	369.7	**100.0**	395.2	100.0	382.1	100.0

During the period, the methodology for defining accounts that are regarded as individually impaired in the table above has been revised in order to align with the industry standard, as described above.

Low risk accounts in the table above relate to loans with an indexed loan-to-value of less than or equal to 70%. High risk accounts relate to loans with an indexed loan-to-value of more than 70%.

c) Forbearance

Where appropriate for customers, the Group applies a policy of forbearance. This may be applied where the actual or apparent financial stress of the customer is considered to be short term with a potential to be recovered. Forbearance may involve arrears capitalisation, a reduction in the monthly payment (known as a concession), a conversion to interest only or a mortgage term extension. These strategies are undertaken in order to achieve the best outcome for both the customer and the business through dealing with arrears at an early stage. Possession balances represent loans against which the Group has taken ownership of properties pending their sale. Possession is generally only considered as a last resort once all other options for the customer have been exhausted. All customer accounts are monitored to ensure that these strategies remain appropriate.

At 30 June 2015, the percentage of residential mortgage balances that have been subject to forbearance, which is where terms have been renegotiated during the last two years, is 1.0% (30 June 2014: 3.0%; 31 December 2014: 1.3%). For commercial balances the percentage is 5.1% (30 June 2014: 9.8%; 31 December 2014: 6.1%).

17. Financial instruments

a) Classification and measurement

The table below summarises the classification of the carrying amounts of the Group's financial assets and liabilities:

	Unaudited as at 30.06.15			
	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	1,196.0	-	-	**1,196.0**
Loans and advances to credit institutions	329.3	-	-	**329.3**
Debt securities	1.7	1,163.4	-	**1,165.1**
Derivative financial instruments	-	-	102.1	**102.1**
Loans and advances to customers	13,816.6	-	(20.0)	**13,796.6**
Equity share investments	-	46.0	-	**46.0**
Trade receivables	33.0	-	-	**33.0**
Total financial assets	**15,376.6**	**1,209.4**	**82.1**	**16,668.1**
Other non-financial assets				**361.4**
Total assets				**17,029.5**
Shares	12,081.5	-	-	**12,081.5**
Amounts owed to credit institutions and other customers	2,342.6	-	-	**2,342.6**
Debt securities in issue	720.0	-	-	**720.0**
Derivative financial instruments	-	-	277.9	**277.9**
Trade payables	5.5	-	-	**5.5**
Fair value of put option obligation	-	-	6.2	**6.2**
Subordinated liabilities and subscribed capital	190.4	-	-	**190.4**
Total financial liabilities	**15,340.0**	-	**284.1**	**15,624.1**
Other non-financial liabilities				**261.0**
Total liabilities				**15,885.1**

17. Financial instruments *(continued)*

	Unaudited as at 30.06.14			
	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	826.1	-	-	826.1
Loans and advances to credit institutions	302.9	-	-	302.9
Debt securities	17.9	1,298.4	-	1,316.3
Derivative financial instruments	-	-	120.8	120.8
Loans and advances to customers	12,133.7	-	(11.8)	12,121.9
Equity share investments	-	39.7	-	39.7
Trade receivables	36.4	-	-	36.4
Total financial assets	13,317.0	1,338.1	109.0	14,764.1
Other non-financial assets				382.2
Total assets				15,146.3
Shares	10,911.9	-	-	10,911.9
Amounts owed to credit institutions and other customers	1,636.8	-	-	1,636.8
Debt securities in issue	871.8	-	-	871.8
Derivative financial instruments	-	-	237.1	237.1
Trade payables	9.1	-	-	9.1
Fair value of put option obligation	-	-	19.4	19.4
Subordinated liabilities and subscribed capital	201.3	-	-	201.3
Total financial liabilities	13,630.9	-	256.5	13,887.4
Other non-financial liabilities				255.2
Total liabilities				14,142.6

17. Financial instruments *(continued)*

	Audited as at 31.12.14			
	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	1,076.1	-	-	1,076.1
Loans and advances to credit institutions	365.4	-	-	365.4
Debt securities	1.7	1,150.9	-	1,152.6
Derivative financial instruments	-	-	133.4	133.4
Loans and advances to customers	12,854.3	-	(17.5)	12,836.8
Equity share investments	-	32.9	-	32.9
Trade receivables	25.3	-	-	25.3
Total financial assets	14,322.8	1,183.8	115.9	15,622.5
Other non-financial assets				359.2
Total assets				15,981.7
Shares	11,467.5	-	-	11,467.5
Amounts owed to credit institutions and other customers	1,933.0	-	-	1,933.0
Debt securities in issue	730.6	-	-	730.6
Derivative financial instruments	-	-	307.3	307.3
Trade payables	5.2	-	-	5.2
Fair value of put option obligation	-	-	7.5	7.5
Subordinated liabilities and subscribed capital	192.3	-	-	192.3
Total financial liabilities	14,328.6	-	314.8	14,643.4
Other non-financial liabilities				266.4
Total liabilities				14,909.8

17. Financial instruments *(continued)*

b) Valuation of financial instruments carried at fair value

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

Valuation techniques

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

Level 1

The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Group's Level 1 portfolio mainly comprises gilts, fixed rate bonds and floating rate notes for which traded prices are readily available.

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 when no active market exists and quoted prices are available for similar instruments in active markets. Where discounting techniques are used in arriving at derivative fair values, management uses a LIBOR curve for LIBOR-linked swaps and a SONIA curve for SONIA-linked swaps. 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 cash collateralised. Examples of Level 2 instruments are certificates of deposit and interest rate swaps.

When considering the credit quality of instruments and their sensitivity to changes in market rates, the Market and Liquidity Risk function makes use of quoted prices available for other similar instruments.

Basis swaps are valued using discounted cash flow models, including observable market data, either by our internal Treasury function or by our external counterparties.

Level 3

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

Valuation techniques include deriving the net present value by way of discounted cash flow models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, similar market products, foreign currency exchange rates and equity index prices. Critical judgment is applied by management in utilising unobservable inputs including expected price volatilities, expected mortality rates and prepayment rates, based on industry practice or historical observation. 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.

Transfers between different levels of the fair value hierarchy

The Group makes transfers between the different levels of the fair value hierarchy where the inputs used to measure the fair value of the financial instruments in question no longer satisfy the conditions required to be classified in a certain level within the hierarchy. Any such transfer between different levels of the fair value hierarchy is made at the date the event in question that results in a change in circumstances occurs. This could occur, for example, where a previously unlisted company (whose fair value involves a degree of management judgment and is therefore regarded as a Level 3 fair valuation technique) lists on the stock exchange; as a result its listed share price can now be used in order to determine its fair value, meaning that the associated valuation in the Group's accounts would become a Level 1 input.

17. Financial instruments *(continued)*

The following tables provide an analysis of financial assets and liabilities held within the Group Statement of Financial Position at fair value, grouped into Levels 1 to 3 of the fair value hierarchy.

	Unaudited as at 30.06.15			
	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	830.3	333.1	-	**1,163.4**
Equity share investments	45.3	-	0.7	**46.0**
Financial assets at fair value through profit or loss:				
Derivative financial instruments	-	93.1	9.0	**102.1**
Embedded derivatives within loans and advances to customers	-	-	(20.0)	**(20.0)**
	875.6	**426.2**	**(10.3)**	**1,291.5**
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	-	103.5	174.4	**277.9**
Fair value of put option obligation	-	-	6.2	**6.2**
	-	**103.5**	**180.6**	**284.1**
	875.6	**322.7**	**(190.9)**	**1,007.4**

	Unaudited as at 30.06.14			
	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	1,074.0	224.4	-	1,298.4
Equity share investments	37.7	-	2.0	39.7
Financial assets at fair value through profit or loss:				
Derivative financial instruments	-	98.7	22.1	120.8
Embedded derivatives within loans and advances to customers	-	-	(11.8)	(11.8)
	1,111.7	323.1	12.3	1,447.1
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	-	107.9	129.2	237.1
Fair value of put option obligation	-	-	19.4	19.4
	-	107.9	148.6	256.5
	1,111.7	215.2	(136.3)	1,190.6

One of the Group's swaps, with a value of £12.2m as at 30 June 2014 and included within derivative financial liabilities in the table above, originally stated as Level 2 and reported as such in the 2014 half-yearly financial report, has now been reclassified as Level 3 due to the use of estimated redemption rates as inputs, which are considered unobservable. As a result, Level 3 more appropriately reflects the basis of this fair value and the comparatives as at 30 June 2014 have therefore been restated accordingly.

17. Financial instruments *(continued)*

	Audited as at 31.12.14			
	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	892.5	258.4	-	1,150.9
Equity share investments	32.2	-	0.7	32.9
Financial assets at fair value through profit or loss:				
Derivative financial instruments	-	116.0	17.4	133.4
Embedded derivatives within loans and advances to customers	-	-	(17.5)	(17.5)
	924.7	374.4	0.6	1,299.7
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	-	130.3	177.0	307.3
Fair value of put option obligation	-	-	7.5	7.5
	-	130.3	184.5	314.8
	924.7	244.1	(183.9)	984.9

The table below analyses the movements in the Level 3 portfolio during the period:

	Unaudited as at 30.06.15				
	Equity share investments £m	**Embedded derivatives £m**	**Derivative financial instruments £m**	**Fair value of put option obligation £m**	**Total £m**
At 1 January	0.7	(17.5)	(159.6)	(7.5)	**(183.9)**
(Loss) / credit recognised in Income Statement	-	(2.5)[1]	(5.8)[2]	0.1[3]	**(8.2)**
Revaluation of market values	-	-	-	0.1	**0.1**
Disposals	-	-	-	0.2	**0.2**
Exercise of put options by non-controlling shareholders	-	-	-	0.9	**0.9**
At end of period	**0.7**	**(20.0)**	**(165.4)**	**(6.2)**	**(190.9)**

Notes

1. Included in the ‘Impairment losses on loans and advances to customers’ line in the Income Statement.
2. Included in the ‘Fair value (losses) / gains on financial instruments’ line in the Income Statement. As noted below, the majority of these derivatives are held to hedge the Group’s equity release mortgage book and a gain, largely offsetting the above amount, was recognised through the same line in the Income Statement in respect of the underlying mortgages that are being hedged. However some hedge ineffectiveness resulted during the period and this resulted in an overall credit to the Income Statement of £0.1m.
3. Included in the ‘Interest payable and similar charges’ line in the Income Statement and arises from the unwind of the liability and changes to exercise dates.

17. Financial instruments *(continued)*

	Unaudited as at 30.06.14				
	Equity share investments £m	Embedded derivatives £m	Derivative financial instruments £m	Fair value of put option obligation £m	Total £m
At 1 January	37.1	(11.8)	(120.8)	(13.5)	(109.0)
Credit recognised in Income Statement	-	-	13.7[1]	1.0[2]	14.7
Gain recognised in Other Comprehensive Income	12.2[3]	-	-	-	12.2
Revaluation of market values	-	-	-	(7.9)	(7.9)
Dividends paid to non-controlling shareholders	-	-	-	1.0	1.0
Additions	1.0	-	-	-	1.0
Disposals	(10.6)	-	-	-	(10.6)
Transfer to Level 1 portfolio	(37.7)	-	-	-	(37.7)
At end of period	2.0	(11.8)	(107.1)	(19.4)	(136.3)

Notes

1. Included in the 'Fair value (losses) / gains on financial instruments' line in the Income Statement. As noted below, the majority of these derivatives are held to hedge the Group's equity release mortgage book, and a corresponding loss was recognised through the same line in the Income Statement in respect of the underlying mortgages that are being hedged. The overall impact on the Income Statement was therefore nil.
2. Included in the 'Interest payable and similar charges' line in the Income Statement and arises from the unwind of the liability and changes to exercise dates.
3. Included in the 'Available-for-sale investments: valuation gains taken to equity' line in the Statement of Comprehensive Income.

	Audited as at 31.12.14				
	Equity share investments £m	Embedded derivatives £m	Derivative financial instruments £m	Fair value of put option obligation £m	Total £m
At 1 January	37.1	(11.8)	(120.8)	(13.5)	(109.0)
(Loss) / credit recognised in Income Statement	-	(5.7)[1]	(38.8)[2]	0.1[3]	(44.4)
Gain recognised in Other Comprehensive Income	12.2[4]	-	-	-	12.2
Impairment	(1.3)[5]	-	-	-	(1.3)
Revaluation of market values	-	-	-	(7.3)	(7.3)
Dividends paid to non-controlling shareholders	-	-	-	1.0	1.0
Additions	1.0	-	-	-	1.0
Disposals	(10.6)	-	-	1.6	(9.0)
Exercise of put options by non-controlling shareholders	-	-	-	10.6	10.6
Transfer to Level 1 portfolio	(37.7)	-	-	-	(37.7)
At end of period	0.7	(17.5)	(159.6)	(7.5)	(183.9)

Notes

1. Included in the 'Impairment losses on loans and advances to customers' line in the Income Statement.
2. Included in the 'Fair value (losses) / gains on financial instruments' line in the Income Statement. As noted below, the majority of these derivatives are held to hedge the Group's equity release mortgage book and a gain, largely offsetting the above amount, was recognised through the same line in the Income Statement in respect of the underlying mortgages that are being hedged. However some hedge ineffectiveness resulted during the year and this resulted in an overall charge to the Income Statement of £2.0m.
3. Included in the 'Interest payable and similar charges' line in the Income Statement and arises from the unwind of the liability and changes to exercise dates.
4. Included in the 'Available-for-sale investments: valuation gains taken to equity' line in the Statement of Comprehensive Income.
5. Included in the 'Impairment losses on equity share investments' line in the Income Statement.

17. Financial instruments *(continued)*

Equity share investments

The Group's equity share investments represent a 3.9% (30 June 2014: 3.9%; 31 December 2014: 3.9%) holding in Zoopla Property Group Plc and a 16.5% (30 June 2014: 20.6%; 31 December 2014: 17.7%) holding in Hearthstone Investments Limited.

The Group's holding in Zoopla is measured based on the fair value of the shareholding by reference to a quoted share price in an active market and therefore represents a Level 1 fair value measurement. Any movement in the fair value of the Group's holding in Zoopla is recognised in the available-for-sale reserve. As at 30 June 2015 the cumulative balance recognised in the available-for-sale reserve in respect of Zoopla, gross of taxation, is £42.9m (30 June 2014: £35.3m; 31 December 2014: £29.8m).

The Group's investment in Hearthstone cost £2.0m when purchased in 2012, and the Directors had subsequently written down its carrying value to £0.7m in 2014. The Directors have again reviewed the carrying value of this investment during the period, and have concluded that the current carrying value of this investment is equivalent to its fair value. The Directors believe that it is appropriate to continue to hold the Group's investment in Hearthstone at £0.7m as, in the absence of any observable inputs or other relevant information, the fair value of our shareholding in the company cannot be reliably measured, and the Directors do not consider that any reasonably possible alternative valuation assumptions exist.

Embedded derivatives

The Group holds an equity release mortgage book under the terms of which the Group is required to provide a 'No Negative Equity Guarantee' to its customers. This guarantee means that the Group's maximum return is limited to the value of the customer's property on redemption.

In accordance with the Group accounting policy, this guarantee is accounted for as an embedded derivative as the characteristics and risks of the guarantee are not closely related to the economic characteristics and risks of the underlying mortgage. The guarantee is impacted by the interaction of a number of factors, not all of which also impact on the performance of the underlying equity release book. These factors include future expected house prices, future expected interest rates, mortality rates and estimated redemption profiles. As a result the embedded derivatives are bifurcated from the underlying mortgage book and measured at fair value, with any changes in fair value recognised within the 'Impairment charge on loans and advances to customers' line in the Income Statement. As certain of these inputs are not market observable, then the fair value of the embedded derivatives is regarded as a Level 3 valuation technique.

The following table outlines the impact of reasonably possible alternative assumptions of certain inputs outlined above:

Assumption	**Change to current assumption**	**Unaudited as at 30.06.15 (Decrease) / increase in impairment provision £m**	Unaudited as at 30.06.14 (Decrease) / increase in impairment provision £m	Audited as at 31.12.14 (Decrease) / increase in impairment provision £m
Future change in house prices	+/-10% in any one year	**(5.7) / 8.2**	(6.9) / 9.6	(7.2) / 9.6
Redemption rates	+/-1% pa	**(1.4) / 1.5**	(1.1) / 1.3	(1.9) / 2.2

Derivative financial instruments

The majority of the derivative financial instruments included in the tables on pages 35 to 36 comprise swaps which are used to hedge the Group's equity release mortgage book (with the exception of the No Negative Equity Guarantee described above, i.e. the embedded derivative, for which the Group holds no natural hedging instrument). Derivatives hedging equity release mortgages are valued using discounted cash flow models using market observable benchmark rates consistent with accepted economic methodologies for pricing financial instruments, and, as the notional values of the derivatives are intended to match the balance of the underlying mortgage assets, also include estimated redemption profiles that are based on historical data and reviewed periodically to ensure forecasts remain broadly in line with actual data.

These redemption profiles are not market observable, therefore these derivatives are categorised as Level 3 financial instruments within the fair value hierarchy.

17. Financial instruments *(continued)*

Two of the swaps described above contain contractual 'boundaries', within which any change in fair value of the swaps will be offset by a corresponding but opposite change in the value of the associated hedged item within loans and advances to customers. These boundaries exist in order to alleviate risk to the counterparty. If these boundaries are crossed, then hedge ineffectiveness and therefore Income Statement volatility could arise and this resulted in an Income Statement credit of £0.1m during the period (six months ended 30 June 2014: £nil; year ended 31 December 2014: charge of £2.0m), which is included in the 'Fair value (losses) / gains on financial instruments' line in the Income Statement. In addition, as described above, certain inputs into the valuation of these swaps are not market observable and the effect on the fair value of these swaps of reasonably possible alternative valuation assumptions of certain of these inputs is outlined below:

Assumption	Change to current assumption	Unaudited as at 30.06.15 Increase / (decrease) in liability £m	Unaudited as at 30.06.14 Increase / (decrease) in liability £m	Audited as at 31.12.14 Increase / (decrease) in liability £m
Retail price inflation	+/-0.1% pa	**6.4 / (6.3)**	4.9 / (4.9)	6.3 / (6.3)
Redemption rates	+/-1% pa	**(18.7) / 23.0**	(11.7) / 13.8	(16.7) / 20.7

As can be seen, the valuation of these swaps is very sensitive to the underlying assumptions such as redemption rates; however changes in the fair value of these swaps are generally offset to a significant degree by changes in the fair value of the associated hedged item within loans and advances to customers.

Fair value of put option obligation

Key inputs into the calculation of the fair value of the put option obligation include an estimate of the market value of the non-controlling shareholding and an estimate of when the put option will be exercised by the non-controlling shareholders. As these inputs are based on the judgment of senior management, the valuation of the put option obligation is considered to be a Level 3 valuation technique. Any increase in the estimate of the market value of the non-controlling shareholding, or a reduction in the estimate of the remaining time period to exercise, would result in an increase in the fair value of the put option obligation, and vice versa.

c) Fair values of financial assets and liabilities not carried at fair value

The tables below summarise the carrying values and fair values of those financial assets and liabilities not held within the Statement of Financial Position at fair value.

	Unaudited as at 30.06.15		Unaudited as at 30.06.14		Audited as at 31.12.14	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets						
Cash in hand and balances with the Bank of England	**1,196.0**	**1,196.0**	826.1	826.1	1,076.1	1,076.1
Loans and advances to credit institutions	**329.3**	**329.3**	302.9	302.9	365.4	365.4
Debt securities	**1.7**	**1.7**	17.9	18.1	1.7	1.7
Loans and advances to customers	**13,816.6**	**13,801.2**	12,133.7	12,044.7	12,854.3	12,779.5
Trade receivables	**33.0**	**33.0**	36.4	36.4	25.3	25.3
	15,376.6	**15,361.2**	13,317.0	13,228.2	14,322.8	14,248.0
Financial liabilities						
Shares	**12,081.5**	**12,196.2**	10,911.9	11,012.1	11,467.5	11,492.7
Amounts owed to credit institutions	**1,022.6**	**1,021.0**	570.8	567.5	789.8	788.6
Amounts owed to other customers	**1,320.0**	**1,325.4**	1,066.0	1,068.9	1,143.2	1,143.6
Debt securities in issue	**720.0**	**726.9**	871.8	886.1	730.6	738.6
Trade payables	**5.5**	**5.5**	9.1	9.1	5.2	5.2
Subordinated liabilities and subscribed capital	**190.4**	**212.2**	201.3	225.5	192.3	204.3
	15,340.0	**15,487.2**	13,630.9	13,769.2	14,328.6	14,373.0

17. Financial instruments *(continued)*

Key considerations in the calculation of fair values of those financial assets and liabilities not presented on the balance sheet at fair value are set out below unless there is no significant difference between carrying value and fair value.

Loans and advances to customers

For fixed rate and 'tracker' mortgage products, the Group has estimated the fair value of these products using discounted cash flows, and has applied relevant current market product rates as discount rates in order to also incorporate an element of future expected credit losses. Incurred losses have also been included. Fixed rate and tracker mortgages have been discounted using current market product rates that are specific to the particular market to which they relate.

Market prices will generally have moved since the fixed or tracker rate was taken out, therefore the valuation of these products will change reflecting upwards or downwards movements in market rates. The valuation includes information and expectations regarding estimated redemption profiles, which are regularly reviewed and updated in light of experience.

As these redemption profiles are not considered to be observable by the market, then the fair value of loans and advances to customers is considered to be derived by using Level 3 valuation techniques.

For standard variable rate mortgage products, the interest rate on such products is equivalent to a current market product rate and as such the Group considers the discounted future cash flows of these mortgages to be equal to their carrying value.

Shares

Savings products at variable rates are at current market rates and therefore the Group regards the fair value to be equal to the carrying value.

The fair value of fixed rate savings products has been determined using discounted cash flows, discounted using a combined yield curve of cash and swap term rates.

Changes in market prices since the product was taken out will result in increases or decreases in the fair value of the fixed rate savings products. Penalties for early withdrawal on notice accounts are such as to suggest a negligible early withdrawal rate and none has therefore been applied; as a result the valuation of shares is considered to be a Level 2 valuation technique.

Amounts owed to credit institutions

Balances in this category with re-pricing dates greater than six months are valued using discounted cash flows which use only observable market inputs consisting of the combined yield curve of cash and swap term rates, discounted using this same yield curve, as their rates are now considered 'off-market'. The Group considers balances with re-pricing dates of less than six months to be at current rates and these therefore have a carrying value materially the same as fair value. All inputs to this valuation technique are market observable and as such they are categorised within Level 2 of the fair value hierarchy.

Amounts owed to other customers

As with the above category, the Group considers that balances with re-pricing dates of less than six months are at current rates and thus have a fair value equal to their carrying value. All remaining longer term balances are fair valued using discounted cash flows which use the combined yield curve of cash and swap term rates, discounted using this same yield curve. Again, these are therefore considered to be Level 2 valuation techniques.

Debt securities in issue

Where securities are actively traded in a recognised market, with readily available and quoted prices, these have been used to value the securities. These securities are therefore regarded as having Level 1 fair values. Where such prices are not available, discounted cash flows are used, again using only market observable inputs consisting of a combined yield curve of cash and swap term rates, together with adjustments for credit risk derived from similar instruments issued by the Group where an actively quoted price is readily available. As such, these securities are categorised as having Level 2 fair values.

Subordinated liabilities and subscribed capital

Where prices are quoted for instruments in actively traded markets, these prices have been used in the valuation. As a result, these instruments are categorised as having Level 1 fair values. Where these prices are not available, valuations have been derived from discounted cash flows which utilise a combined yield curve of cash and swap term rates, adjusted for credit risk for similar instruments of the same maturity. These inputs are considered to be observable market inputs and therefore the resulting valuations are categorised as Level 2.

18. Group segmental reporting

The Group's operating results are regularly reviewed by the Board (the chief operating decision maker) in the following reportable segments. Each segment offers different products and services and is managed on a divisional basis in line with the Group's management and internal reporting structure. The divisions in the six month period to 30 June 2015 were:

- Mortgages and Savings – principally the Society, but also includes specialist mortgage businesses Amber Homeloans Limited and North Yorkshire Mortgages Limited and deposit taking and mortgage lending in the Channel Islands and the UK through Skipton International Limited. The division also includes the Group's special purpose vehicles formed to acquire funds from wholesale markets, Darrowby No. 1 plc, Darrowby No. 2 plc and Darrowby No. 3 plc, and the intermediate holding company Skipton Group Holdings Limited.
- Estate Agency – including property sales, survey and valuations, conveyancing, lettings, asset management and mortgage and insurance broking carried out through the Connells group.
- Financial Advice – provision of financial advice through Skipton Financial Services Limited and, prior to its disposal in 2015, Pearson Jones plc.
- Investment Portfolio – includes a small number of trading companies that do not fall within the core operating segments.

These segments reflect how internal reporting is provided to management and how management allocates resources and assesses 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, £15.8m (six months ended 30 June 2014: £19.0m; year ended 31 December 2014: £33.0m) was generated outside the UK.

On 11 May 2015 the Group disposed of its entire shareholding in Pearson Jones plc and its subsidiary businesses. As this business was not considered a major line of business for the Group, it is not classified as a discontinued operation in this half-yearly financial report.

Unaudited 6 months to 30.06.15

	Mortgages and Savings £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Profit / (loss) before tax	49.1	27.3	(0.9)	1.6	(5.0)	72.1
Taxation	(9.5)	(5.4)	-	(0.4)	1.2	(14.1)
Profit / (loss) after tax	39.6	21.9	(0.9)	1.2	(3.8)	58.0
Total assets	16,768.4	285.9	12.7	123.9	(161.4)	17,029.5
Total liabilities	15,748.9	122.7	4.8	112.6	(103.9)	15,885.1
Capital expenditure	1.4	4.5	0.1	0.7	-	6.7

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

	Mortgages and Savings £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
External income	111.5	163.3	17.6	12.0	0.8	305.2
Income from other segments	2.9	2.7	(2.4)	(0.2)	(3.0)	-
Total income	114.4	166.0	15.2	11.8	(2.2)	305.2

18. Group segmental reporting *(continued)*

Unaudited 6 months to 30.06.14

	Mortgages and Savings £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Continuing operations £m	Discontinued operations £m	Total £m
Profit / (loss) before tax	51.3	42.6	0.8	2.6	(7.5)	89.8	0.2	90.0
Taxation	(11.1)	(8.7)	(0.2)	(0.6)	1.1	(19.5)	-	(19.5)
Profit / (loss) after tax	40.2	33.9	0.6	2.0	(6.4)	70.3	0.2	70.5
Total assets	14,892.9	227.2	26.3	131.0	(159.4)	15,118.0	28.3	15,146.3
Total liabilities	14,040.8	66.2	1.8	108.5	(80.3)	14,137.0	5.6	14,142.6
Capital expenditure	1.4	4.9	0.4	0.8	-	7.5	1.6	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	Financial Advice £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Continuing operations £m	Discontinued operations £m	Inter-divisional adjustments relating to discontinued operations £m	Total £m
External income	103.6	170.0	23.8	16.6	0.2	314.2	30.8	(0.6)	344.4
Income from other segments	4.5	2.3	(3.8)	(0.3)	(2.7)	-	-	-	-
Total income	108.1	172.3	20.0	16.3	(2.5)	314.2	30.8	(0.6)	344.4

The deal to sell Homeloan Management Limited (HML) included a contractual agreement whereby all profits or losses from the effective date of disposal, which was 31 May 2014, were due to the purchaser rather than to the Group, with completion subsequently occurring after this date in November 2014. As at 30 June 2014, the disposal was still subject to regulatory approval, and as such, the results of HML (profit of £0.2m) were consolidated into the Group's accounts at that date. Following completion on 17 November 2014, the results of HML between 31 May 2014 and 30 June 2014 (which were a profit of £0.1m) were reversed out of the Group's accounts as these were due to the purchaser. As such the trading profits from HML that were consolidated into the Group's full year accounts for 2014 were £0.1m, which is included in the amounts shown in the table below.

Audited 12 months to 31.12.14

	Mortgages and Savings £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Continuing operations £m	Discontinued operations £m	Total £m
Profit / (loss) before tax	98.4	63.2	1.4	5.2	(11.4)	156.8	24.8^	181.6
Taxation	(20.8)	(13.1)	(0.6)	(0.8)	0.4	(34.9)	-	(34.9)
Profit / (loss) after tax	77.6	50.1	0.8	4.4	(11.0)	121.9	24.8	146.7
Total assets	15,752.1	273.9	25.7	118.5	(188.5)	15,981.7	-	15,981.7
Total liabilities	14,790.0	133.0	9.0	105.4	(127.6)	14,909.8	-	14,909.8
Capital expenditure	3.8	10.5	0.5	2.1	-	16.9	1.4	18.3

^ Including a profit on disposal of £24.7m.

18. Group segmental reporting *(continued)*

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

	Mortgages and Savings £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Continuing operations £m	Discontinued operations £m	Inter-divisional adjustments relating to discontinued operations £m	Total £m
External income	209.8	332.6	43.1	30.8	1.3	617.6	49.6	(0.6)	666.6
Income from other segments	9.1	4.6	(7.5)	(0.7)	(5.5)	-	-	-	-
Total income	218.9	337.2	35.6	30.1	(4.2)	617.6	49.6	(0.6)	666.6

19. Adoption of new and revised International Financial Reporting Standards and interpretations

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

- Amendments to IAS 19 *Employee benefits (2011)* which is effective for accounting periods starting on or after 1 July 2014. These amendments have had no impact on these condensed consolidated financial statements.
- Amendments to accounting standards as part of the annual improvements to IFRS 2011 - 2013 cycle, which are effective for accounting periods starting on or after 1 July 2014. These amendments have had no impact on these condensed consolidated financial statements.
- Amendments to accounting standards as part of the annual improvements to IFRS 2010 - 2012 cycle, which are effective in the EU for accounting periods starting on or after 1 February 2015. The Directors have adopted these amendments early for the current accounting period, as permitted by the EU. These amendments have had no impact on these condensed consolidated financial statements.

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. The Directors who served during the period are listed below:

Mr M H Ellis	(Chairman)
Mrs C Black	
Ms M L Cassoni	
Mr I M Cornelius*	
Mr D J Cutter*	(Group Chief Executive)
Mr R D East	
Mr P R Hales	(retired 31 March 2015)
Mr R S D M Ndawula*	(appointed 23 February 2015)
Mr G E Picken	
Ms H C Stevenson	
Mr P J S Thompson	

* Executive Directors

Signed on behalf of the Board by

M H Ellis

Chairman

28 July 2015

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 2015 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in members' interests, 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 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Jonathan Holt

for and on behalf of KPMG LLP

Chartered Accountants

Leeds

28 July 2015

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