Skipton Building Society

Half-Yearly Financial Report

2014

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Forward-looking statements

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

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

Group Chief Executive's Review of the Half Year

Introduction

I am pleased to announce that Skipton Building Society has achieved excellent results for the six months to 30 June 2014, with pre-tax profits of £90.0m, an increase of £61.7m from £28.3m (restated, see note 1b) of these Financial Statements for further details) for the six months ended 30 June 2013.

The Society has continued to make good progress in growing its customer base, showing above-market growth in both its mortgage and savings balances. It has also increased its financial strength with profits and capital further improved. Significant investment continues to be made in the growth and development of the Society, the products and services we provide, the people who make Skipton what it is, and the communities in which we operate.

Since 30 June 2014, the Group has agreed the disposals of Homeloan Management Limited (subject to regulatory approval) and The Private Health Partnership Limited, both of which enable us to further focus on growing our core business of mortgages and savings, and investing in the products and services provided to our members, whilst also maintaining our significant presence in estate agency.

Performance highlights

Highlights for the six months ended 30 June 2014 include:

Membership growth

- We have extended the benefits of mutuality by growing the number of customers of the Society to 785,675 at 30 June 2014, from 763,407 at 31 December 2013.

Robust financial performance

- Statutory Group pre-tax profits were £90.0m, an increase of £61.7m from £28.3m for the six months to 30 June 2013, and compared to £103.6m for the last full year;
- Underlying Group pre-tax profits (defined as statutory profits prior to Financial Services Compensation Scheme (FSCS) charges and gains on disposal of subsidiary, associate and equity investments) amounted to £84.9m, an increase of £50.4m from £34.5m for the six months ended 30 June 2013 (year ended 31 December 2013: £85.5m);
- The improvement in the underlying Group profit was largely due to an increase in net interest margin from £61.1m during the six months ended 30 June 2013 to £106.4m during the six months ended 30 June 2014 (year ended 31 December 2013: £142.6m). This, when measured as a percentage of mean assets, increased from 0.89% in the first half of 2013 to 1.45% in the first half of 2014 (year ended 31 December 2013: 1.01%);
- Group profits also benefited from a reduction in impairment losses on loans and advances to customers, from £12.2m to £3.8m (year ended 31 December 2013: £21.5m);
- In addition, gains totalling £12.5m were recognised as profits from the part disposal of the Group's equity investment holding in the property website Zoopla and the deemed part disposal of our associate holding in crime analytics software company Wynyard Group Limited; these gains are not reflected in underlying Group profit before tax;
- In the first six months of 2014, we reduced the Group cost income ratio to 72.7% compared to 81.5% for the comparative period in 2013.

Mortgages and Savings division

- The core Mortgages and Savings division increased its pre-tax profits by £39.1m, to £51.3m from £12.2m (year ended 31 December 2013: £51.5m), and was the major driver of the increase in overall Group profitability. This was due to the margin earned on higher mortgage balances and lower funding costs, and the reduction in impairment losses referred to above;
- Our savings balances increased to £10.9bn, from £9.7bn at 30 June 2013 and £10.2bn at 31 December 2013, representing an annualised growth rate during the six month period of 13%;

- Gross residential mortgage lending in the six months amounted to £1.5bn, up 34% from £1.1bn in the first half of 2013 and compared to £2.4bn in the whole of 2013. This increase in lending during the period has been achieved without increasing our credit risk appetite;
- Net residential mortgage lending, being the growth in mortgage balances, amounted to £0.6bn during the first six months of 2014, compared to £0.5bn for the comparative period in 2013 and £1.0bn for the whole of last year, representing an annualised growth rate of 11% during the first half of 2014;
- Residential mortgage arrears, where the arrears balance is more than 2.5% of the outstanding balance, have fallen further to 0.92% (30 June 2013: 1.16%; 31 December 2013: 1.04%), compared to the CML industry average of 1.24% (CML figures as at 31 March 2014);
- The Society remains primarily funded by retail savings (representing 86% of total funding), as we continue to focus on retail savings balances to fund asset growth. The Society had drawn £800m under the Government's Funding for Lending Scheme by the end of January 2014, but subsequently repaid £350m, resulting in £450m remaining outstanding at 30 June 2014.

Financial strength

- Our fully loaded CRD IV Common Equity Tier 1 (CET1) ratio, for the prudential consolidation group, has increased to 15.02% from 14.60% at 31 December 2013 on the Standardised Approach;
- During this period of controlled growth of our mortgage and savings business, we have still maintained our leverage ratio at 5.6% (31 December 2013: 5.6%);
- Liquidity amounted to 18.22% of shares, deposits and liabilities (30 June 2013: 18.60%; 31 December 2013: 18.61%);
- We also successfully completed a further securitisation, Darrowby 3, which provided us with £400m of additional funding;
- Group total assets increased by 9% year-on-year to £15.1bn (30 June 2013: £13.9bn; 31 December 2013: £14.5bn).

Skipton – For Life Ahead

We are channelling our recent success into our exciting new customer offering which will help people overcome one of the biggest financial hurdles they face today – planning for retirement. This new customer offering marks the culmination of 18 months of research and planning, where we engaged our customers in shaping our future offering. With the strapline 'Skipton – For Life Ahead', this marks a natural progression, catering for our core customer base of people planning for and in retirement, and their families, with a suite of products and services which is unique on the high street.

In partnership with our wholly owned subsidiary Skipton Financial Services Limited, we are now providing a planning service centred on our new '*Retirement Review*' which is available to new and existing customers, the initial review meeting being free of charge.

Focusing in this way will ensure we continue to grow and develop our trusted and valued brand, by deepening our relationships with existing customers and extending our reach to new ones who can benefit from our help.

Support for savers

Despite the ongoing challenges of a marketplace where Base Rate has remained at 0.5% for over five years, and which in turn has meant UK savers' interest rates have also remained low, we remain focused on doing what we can for savers.

- We paid an average savings rate of 1.97%, nearly four times the Base Rate, during the six months ending 30 June 2014 (12 months ending 31 December 2013: 2.24%);
- The further increase in our retail balances at 30 June 2014 to £10.9bn, compared to £9.7bn at 30 June 2013 and £10.2bn at 31 December 2013, further underlines our competitiveness, and represents an annualised growth rate of 13%;
- The attractiveness of our savings products was endorsed by 306 independent media best buy table mentions during the period, as well as numerous editorial mentions;
- We also experienced a record ISA season, with over 14,500 transfers-in carried out during April and May 2014, thanks to the value our accounts represent and the seamless transfer processes we provide, and which resulted in us being the fourth largest transfer-in provider in May;
- Skipton also stood out from competitors in terms of service and responsiveness. We were the first financial services provider to publicise our readiness for the New ISA (NISA) limits announced by the Chancellor in his March Budget, allowing existing customers to top up their annual allowance to £15,000 throughout the month of July, an opportunity seized by over 10,000 of our customers in the first week alone.

Promoting homeownership

A continued strong mortgage offering resulted in us growing our book by an annualised rate of 11% during the six months ended 30 June 2014. We helped 15,997 homeowners during the six month period to purchase or remortgage their properties, including 2,247 first time buyers – 78 of those via our participation in the Government's Help to Buy equity loan scheme since 10 April 2014. This growth was achieved while maintaining the high quality of our lending, with the average loan-to-value ratio of the Group's residential portfolio remaining flat at 52.9%. 13% of our lending during the period was on buy-to-let mortgages, reflecting the continued popularity of that sector.

Group Chief Executive's Review of the Half Year *(continued)*

Keeping our customers at the heart of everything we do

We are investing significantly in the Society's continued development, in areas highlighted by our customers as most important to them. This includes committing more than £1million per year to increasing the size of our Skipton-based telephone customer service centre, Skipton Direct, by almost 50%. The 71 new roles being created will complement improvements we have already made to calling options, in order to improve service levels. To further enhance the experience of customers in our branches we remain on plan to refurbish 25 of the Society's branches this year. Enhancing our multi-channel and digital capability is also a key focus, to enable our customers to transact when and where they wish. The feedback from our customers has been positive with 91% of them saying they were either extremely or very satisfied with the service they received from Skipton.

Subsidiary performance

Connells, our Estate Agency division, increased its pre-tax profits by 85% to £42.6m, from £23.0m in the first half of 2013, and compared to £50.2m for the whole of 2013. This reflects an improving housing market as well as Connells reaping the rewards from previous years' investment in its core residential estate agency; and the growth of its lettings, mortgage services and surveying operations. House sales were 20% higher in the first half of 2014 compared to the first half of 2013, and the division also recorded an 18% increase in lettings instructions and a 7% increase in mortgage appointments. The profit of £42.6m includes £10.1m profit from the disposal of shares on the flotation of Zoopla, which was listed on the Stock Exchange in June. Connells sold approximately 25% of its shareholding in Zoopla and now retains a 3.9% stake in the company. Excluding the Zoopla disposal, Connells profits increased by 41% to £32.5m from £23.0m in the first half of 2013, and compared to £50.2m for the whole of last year. After the reporting period end, on 30 July 2014, Connells Limited acquired 100% of the share capital of the estate agency business Peter Alan Limited for a cash consideration of £16.4m.

Our Mortgage Services division, Homeloan Management Limited (HML), delivered a profit before tax of £0.2m, compared to £0.3m in the first half of 2013 (year ended 31 December 2013: £0.9m). The administration market is showing signs of improvement, with several new clients secured in both the UK and Ireland.

Since 30 June 2014, the Group has agreed to sell HML, with completion conditional upon regulatory approval of the change in control. In exchange for the sale of its 100% shareholding, the Group will receive an initial consideration of £47.5m, plus an adjustment for surplus working capital, together with potential additional payments based on revenue growth in 2015 and 2016. The initial consideration will generate a profit in the order of £26m to be recognised in the Group's results in the second half of the year.

Our Financial Advice division achieved pre-tax profits of £0.8m compared to £0.5m in the same period last year and £3.9m for the whole of 2013.

The Investment Portfolio reported a pre-tax profit of £2.6m compared to a loss of £2.6m in the same period last year (year ended 31 December 2013: profit of £20.5m). Within this division, Skipton Business Finance and The Private Health Partnership (PHP) continue to trade profitably. Losses in Jade Software Corporation reflected the costs of investment for future production. This was offset by an accounting gain of £2.4m resulting from a deemed disposal from the dilution of our shareholding in Wynyard Group Limited from 24.5% to 21.7% (profits from the sale of Wynyard shares amounted to £nil during the first six months of 2013 and £24.8m for the whole of 2013). Subsequent to 30 June 2014, on 29 July, the Group sold its entire shareholding in PHP and its subsidiary businesses, generating a small profit for the Group which will be recognised in the second half of the year.

Investing in our people

It is our people who make the Society special and provide our customers with the experience they require. For this reason, we continue to invest in their potential, ongoing development, engagement and reward.

For the past two years we have invested in leadership programmes for around 250 of our managers, to ensure a consistent level of leadership capability across the Society.

We have also undertaken a large scale Delivering Service Excellence training programme for around 600 people who serve our customers in our branches and on the telephone. In line with our unique '*No Pressure Promise*' commitment, this gives our teams the skills to have helpful needs-based conversations with customers, building relationships and giving our customers the time and space to make their own decisions.

In order to reward our people for providing our customers with an outstanding experience, we have backed up this training with additional investments in our reward packages for Society employees in 2014, including offering a discretionary bonus scheme for all our employees for the second year running.

Giving something back to our communities – mutuality in action

In April, we launched our Grassroots Giving appeal for 2014. This will make 161 donations of £500 in our 161st year, to organisations which do much to help their local communities but are typically overlooked for mainstream funding. Clubs and societies wishing to apply this year can do so via www.skiptongrg.co.uk and the 161 recipients will be chosen by public vote later in the year. This multi-award-winning programme was most recently awarded silver in the Charity Support Category at the International Corporate Social Responsibility Awards in June.

To the end of June, the Society had also donated £46,000 through our Charitable Foundation, helping to support many people via charities across the UK, particularly the young and the elderly.

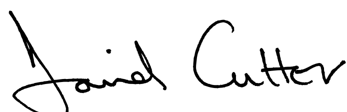
We also continued to support a number of key community partners, including the Great Yorkshire Show, which brings over 100,000 visitors to the region each July, and the Skipton Building Society Camerata, sponsored by the Society, which introduces new audiences to the delights of classical music.

Conclusion and outlook

The Society's financial strength continues to grow, with profits and capital further improved, providing current and future members with the reassurance that they are dealing with a solid financial institution with a bright future. The competitiveness of the Society's core offering is demonstrated by our mortgages and savings portfolios growing during the six month period by an annualised growth rate of 11% and 13% respectively.

We are channelling this success into developing our products and services for the core mortgages and savings business, such as the For Life Ahead proposition, for the benefit of our members.

The outlook for our trading environment is summarised in the Business Review. Our strategic objective is to grow our mortgage and savings business in excess of our market share, whilst maintaining our significant presence in estate agency. The recent corporate transactions referred to above will enable us to further focus on these objectives.



D J Cutter

Group Chief Executive

31 July 2014

Business model and Group strategy

Skipton Building Society is the UK's fourth largest building society, with £15.1bn of assets and a national presence of branches and agencies. The business model and our strategic priorities to develop the core business remained unchanged during the six months ended 30 June 2014, and further details on these can be found on pages 14 to 15 of the 2013 Annual Report and Accounts.

During the six month period the Skipton Group held significant interests in estate agency and related businesses (through the Connells group), provision of outsourcing services (through Homeloan Management Limited), independent financial and related advisory businesses and an investment portfolio of smaller businesses. The Group's operating results are reviewed regularly by the Board 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), and 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 – including surveys and valuations, conveyancing, lettings, asset management and mortgage broking carried out through the Connells group.
- Mortgage Services – provision of mortgage administration services through Homeloan Management Limited (HML) and its subsidiaries.
- Financial Advice – provision of financial advice and broking services through three separate financial advice businesses, Skipton Financial Services Limited (SFS), Pearson Jones plc and Torquil Clark Limited.
- Investment Portfolio – includes a number of trading companies that do not fall within the other core operating segments.

Since the end of the reporting period, on 23 July, the Group has announced the sale of its entire shareholding in HML (subject to regulatory approval) as detailed further in note 15 to these financial statements. As HML represents the whole of our Mortgage Services division its results are classified as being derived from discontinued operations at 30 June 2014.

In addition, on 29 July the Group agreed the sale of its entire shareholding in The Private Health Partnership Limited (PHP) and its subsidiary businesses. As this business is not considered a major line of business for the Group it is not classified as a discontinued operation at 30 June 2014.

Key Performance Indicators

The Board and management use the following KPIs in monitoring business performance towards achievement of the Group's strategic objectives.

Key Performance Indicator	**Unaudited 6 months to 30.06.14**	Unaudited 6 months to 30.06.13 Restated*	Unaudited 12 months to 31.12.13 Restated*
Group pre-tax profit	**£90.0m**	£28.3m	£103.6m
Group interest margin (% of mean assets)	**1.45%**	0.89%	1.01%
Group cost income ratio	**72.74%**	81.49%	79.32%
Group impairment charge on loans and advances to customers	**£3.8m**	£12.2m	£21.5m
Gross mortgage advances	**£1,464.2m**	£1,090.4m	£2,415.4m
Prudential group capital adequacy measures:			
Common Equity Tier 1 ratio	**15.02%**	14.09%	14.60%
Tier 1 ratio	**15.02%**	14.09%	14.60%
Total capital	**16.29%**	15.28%	15.88%
Leverage ratio	**5.6%**	5.6%	5.6%
Liquidity adequacy measures:			
Liquidity as a % of shares, deposits and liabilities	**18.22%**	18.60%	18.61%
Core liquidity buffer	**£1,559.7m**	£1,201.2m	£1,186.8m
Group retail funding as a % of total funding	**85.84%**	84.69%	84.63%

* The comparative figures have been restated due to a change in accounting policy relating to the Financial Services Compensation Scheme (FSCS) levy and a revised interpretation of regulatory guidance. Further details are provided in note 1b).

Further details on the measures above are included on pages 8 to 14 of the Business Review.

Financial overview

Group profit before tax for the six months ended 30 June 2014 was £90.0m (six months ended 30 June 2013: £28.3m; year ended 31 December 2013: £103.6m). During the first six months of 2014 the strong performance of the core Mortgages and Savings division has continued, supplemented by the performance of the wider Group.

We continue to focus on further improving the performance of the Mortgages and Savings business. A combination of increased mortgage lending, together with the continuation of reduced funding costs since the introduction of the Funding for Lending Scheme (FLS), resulted in the Group net interest margin increasing year-on-year by 56bps to 1.45% (six months ended 30 June 2013: 0.89%; year ended 31 December 2013: 1.01%). Gross mortgage advances were £1,464.2m (six months ended 30 June 2013: £1,090.4m; year ended 31 December 2013: £2,415.4m) and during the six months ended 30 June 2014 our total Group assets increased by 5% to £15,146.3m (30 June 2013: £13,922.4m; 31 December 2013: £14,486.7m).

The improved net interest margin drove significant improvement in the pre-tax profits of the Mortgages and Savings division, which increased to £51.3m (six months ended 30 June 2013: £12.2m; year ended 31 December 2013: £51.5m).

Our estate agency business, Connells, remains a key contributor to the Group profits and delivered a pre-tax profit of £42.6m (six months ended 30 June 2013: £23.0m; year ended 31 December 2013: £50.2m). The results include a one-off gain of £10.1m following the sale of approximately 25% of the Connells group's holding in Zoopla Property Group when it listed on the London Stock Exchange in June. Excluding this one-off gain, underlying profits were still up £9.5m on the same period last year, with the volume of house sales up 20% due to a strong housing market. Our Financial Advice division reported pre-tax profits of £0.8m (six months ended 30 June 2013: £0.5m; year ended 31 December 2013: £3.9m).

The Mortgage Services division produced a pre-tax profit of £0.2m (six months ended 30 June 2013: £0.3m; year ended 31 December 2013: £0.9m), and following the sale of HML in July (subject to regulatory approval), these results are classified as being derived from discontinued operations. The sale took place for an initial consideration of £47.5m, plus an adjustment for surplus working capital, together with deferred consideration, the amounts of which are currently unknown as they are dependent on revenue growth of HML in 2015 and 2016. The initial consideration will generate a profit in the order of £26m to be recognised in the Group's results for the second half of the year, together with our assessment of any deferred consideration receivable.

Our profitability during the period has resulted in an increase in our prudential group fully loaded Common Equity Tier 1 capital ratio to 15.02% (30 June 2013: 14.09%; 31 December 2013: 14.60%). The combined impact of the sale of HML and PHP in July on the above ratio would be to increase it from 15.02% to 16.04%.

Liquidity levels have reduced slightly to 18.22% of deposit liabilities (30 June 2013: 18.60%; 31 December 2013: 18.61%), but remain well above both our internal and regulatory requirements.

Financial performance

Total Group pre-tax profits for the first half of 2014 were £90.0m (six months ended 30 June 2013: £28.3m; year ended 31 December 2013: £103.6m) as set out in the table below:

	Unaudited 6 months to 30.06.14 £m	Unaudited 6 months to 30.06.13 Restated* £m	Unaudited 12 months to 31.12.13 Restated* £m
Net interest income	**106.4**	61.1	142.6
Net non-interest income	**227.4**	202.1	427.5
Fair value gains on financial instruments	**0.1**	1.5	3.9
Net realised losses on treasury assets	**(3.7)**	-	-
Profit on disposal of subsidiary undertakings	**-**	-	24.7
Profit on disposal of equity share investments	**10.1**	-	-
Profit on part disposal of associate	**2.4**	-	-
Dividend income from equity share investments	**1.1**	0.5	1.1
Share of profits from joint ventures and associates	**0.6**	1.0	1.3
Total income	**344.4**	266.2	601.1
Administrative expenses	**(240.2)**	(215.7)	(455.3)
Operating profit before impairment losses and provisions	**104.2**	50.5	145.8
Impairment losses on loans and advances to customers	**(3.8)**	(12.2)	(21.5)
Impairment losses on debt securities	**-**	(0.7)	(1.2)
Provisions for liabilities	**(10.4)**	(9.3)	(19.5)
Profit before tax	**90.0**	28.3	103.6

* The comparative figures have been restated as described in note 1b) to the financial statements.

Net interest income

Net interest income is the amount earned on assets (mortgages, other loans and liquidity) less that paid on liabilities (retail savings, wholesale funding and capital). The Group's net interest margin for the period increased to 1.45% from 0.89% for the same period last year. This was the result of increased mortgage lending, without increasing our credit risk appetite, together with continuing prudent management of the retail savings portfolio by offering attractive rates to savers which also deliver sustainable returns for the Society. The Group margin has also benefited from the impact of the Government's FLS, which has driven down the market price of retail funding since its introduction in August 2012. We have participated in the FLS and at 30 June 2014 had drawn £450m (30 June 2013: £410m; 31 December 2013: £460m) at the attractive rates available.

Net non-interest income

The Group's other income represents the net non-margin revenue generated by the Society and its subsidiaries and amounted to £227.4m (six months ended 30 June 2013: £202.1m; year ended 31 December 2013: £427.5m), analysed by division below:

	Unaudited 6 months to 30.06.14 £m	Unaudited 6 months to 30.06.13 £m	Unaudited 12 months to 31.12.13 £m
Mortgages and Savings	**7.5**	7.6	19.2
Estate Agency	**158.9**	130.9	281.9
Mortgage Services	**30.8**	29.0	58.6
Financial Advice	**19.9**	19.9	40.5
Investment Portfolio	**13.5**	18.4	33.0
Inter-divisional adjustments	**(3.2)**	(3.7)	(5.7)
	227.4	202.1	427.5

The Group's net non-interest income for the year increased by 13% over the same period last year. Estate agency income has increased by £28.0m year-on-year due to a 20% increase in the number of properties sold, together with improved income from investments in the Connells lettings capability and financial services headcount. Within the Mortgage Services division, income has increased 6% year-on-year as a result of a number of new contract wins and success in retaining and expanding existing relationships through the development of new products and services. The Financial Advice division income has remained consistent with 2013 reflecting a relatively stable Stock Market. The decrease in revenue in the Investment Portfolio in the period has been mainly driven by a reduction in revenues as a result of the flotation of Wynyard in July 2013, at which point Wynyard was no longer accounted for as a subsidiary but as an associate investment. This fall in revenue in the Investment Portfolio is also partly due to the loss of revenues from Mutual One Limited and Sterling International Brokers Limited, both of which were sold in 2013.

Administrative expenses

Group administrative expenses increased by 11% to £240.2m for the six months to 30 June 2014 (six months ended 30 June 2013: £215.7m; year ended 31 December 2013: £455.3m). The increase in administrative expenses has been outstripped by the increase in income. Nevertheless, we continue to focus on managing costs to offset inflationary pressures and an ever increasing need to invest further in regulatory compliance. Additionally, investments made in our Estate Agency division since late 2011 have increased the Group's cost footprint, although these are now bearing fruit in generating revenue growth.

The usual building society measure of efficiency, the ratio of administrative expenses to mean assets, increased to 0.55% for the Society in the first half of 2014 (six months ended 30 June 2013: 0.46%; year ended 31 December 2013: 0.50%) as a result of the same pressures experienced by the wider Group as explained above, together with continued investment in our people and our customer strategy.

At a Group level, the cost to income ratio improved in the period to 72.74% (six months ended 30 June 2013: 81.49%; year ended 31 December 2013: 79.32%) due to the increased revenue levels.

Impairment losses on loans and advances to customers

The Group's impairment charge on loans and advances to customers for the period was £3.8m (six months ended 30 June 2013: £12.2m; year ended 31 December 2013: £21.5m) and is broken down as follows:

	Unaudited 6 months to 30.06.14 £m	Unaudited 6 months to 30.06.13 £m	Unaudited 12 months to 31.12.13 £m
Residential mortgages	**1.8**	5.8	7.5
Equity release mortgages	**-**	5.3	8.3
Commercial and other loans	**2.0**	1.1	5.7
	3.8	12.2	21.5

The performance of the Society's prime residential mortgage book remains good and arrears levels within the specialist residential mortgage portfolios held in Amber and NYM have also fallen. This, combined with improvements in the key macro-economic indicators of HPI and unemployment, has resulted in a reduction in the residential mortgage provision. In 2013, the Society incurred a provision charge against its equity release portfolio, which it acquired on merger with Scarborough Building Society in 2009, having revised our long term assumptions around house prices and inflation; a charge which has not been repeated in the first half of 2014.

The arrears levels in our commercial portfolio also remain low, however, due to the ongoing pressures on commercial property values the Group continues to review the level of provisions held against these loans and consequently has increased the amount set aside for future losses in the commercial portfolio.

Provisions for liabilities

Provisions for liabilities made in the period amounted to £10.4m (six months ended 30 June 2013: £9.3m; year ended 31 December 2013: £19.5m) and relate primarily to the Society's share of the costs of the FSCS, the total Group charge for which amounted to £7.4m in the period. The remaining charge relates to items such as claims against Connells' survey and valuation division and other customer and regulatory provisions, partly offset by the release of customer redress provisions within our Financial Advice division and releases of provisions for the cost of surplus properties.

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

	Unaudited 6 months to 30.06.14 £m	Unaudited 6 months to 30.06.13 Restated* £m	Unaudited 12 months to 31.12.13 Restated* £m
FSCS levy	**7.4**	6.2	6.6
Provision for the cost of surplus properties	**(0.3)**	0.2	0.9
Commission clawbacks / rebates	**0.4**	1.1	5.4
Survey and valuation claims	**2.1**	0.5	3.1
Customer compensation provision	**(0.2)**	0.7	1.7
Other provisions	**1.0**	0.6	1.8
	10.4	9.3	19.5

* The comparative figures have been restated as described in note 1b).

Other comprehensive income

During the first half of the year the Group generated £1.4m (net of tax) of other comprehensive income (six months ended 30 June 2013: £27.0m; year ended 31 December 2013: £17.4m).

This included a £12.2m unrealised gain resulting from an increase in the fair value of the Group's shareholding in Zoopla, which was recognised in the available-for-sale reserve following the flotation of this company in June 2014 at a share price in excess of the value previously assumed. This has been partially offset by the transfer of £10.1m of unrealised gains to the Income Statement (£8.2m of which was recognised as an unrealised gain in the year ended 31 December 2013), following the sale of part of our shareholding in Zoopla on flotation.

Performance by business area

The Group operates in five main divisions (as described on page 8); the results by business area are as follows:

	Unaudited 6 months to 30.06.14 £m	Unaudited 6 months to 30.06.13 Restated* £m	Unaudited 12 months to 31.12.13 Restated* £m
Mortgages and Savings	**51.3**	12.2	51.5
Estate Agency	**42.6**	23.0	50.2
Mortgage Services	**0.2**	0.3	0.9
Financial Advice	**0.8**	0.5	3.9
Investment Portfolio	**2.6**	(2.6)	20.5
Sundry incl. inter-divisional adjustments	**(7.5)**	(5.1)	(23.4)
	90.0	28.3	103.6

* The comparative figures have been restated as described in note 1b).

Mortgages and Savings

The Mortgages and Savings division delivered an increase in profits of £39.1m, making a pre-tax profit of £51.3m in the period compared to a £12.2m profit for the six months ended 30 June 2013.

A key driver of the performance of the division has been the continued improvement in its net interest margin. This has increased from 0.88% in the six months ended 30 June 2013 to 1.44%. New lending volumes over the first half of 2014 were £1,464.2m (six months ended 30 June 2013: £1,090.4m), driven by a strong presence in the intermediary mortgage market and a competitive range of mortgage products. Despite the low interest rate environment and the impact this has on our savers, we have continued to offer a strong range of savings products, increasing our net savings customer numbers by 15,987 (3,027 in the six months ended 30 June 2013). Savings balances have increased from £10.2bn at 31 December 2013 to £10.9bn, representing growth of 6.4% (six months ended 30 June 2013: 3.4%).

The focus at both Amber and NYM remains the level of mortgage arrears, which is managed through proactive collections processes which include appropriate forbearance measures for borrowers in difficulty. The percentage of accounts where arrears were greater than 2.5% of the balance outstanding were 5.65% and 4.05% respectively (30 June 2013: 6.55% and 5.05% respectively; 31 December 2013: 5.96% and 4.64% respectively), which represents a significant reduction in monetary value from the end of 2013 given the aggregate size of these two portfolios has reduced to £1.52bn from £1.59bn.

Our Channel Islands operation, SIL, made a pre-tax profit of £5.9m in the first six months of 2014 (six months ended 30 June 2013: £3.5m). The mortgage book increased by £51.2m since the year end to £740.6m (30 June 2013: £647.3m) and the quality of this book remains good with relatively few cases in arrears.

Estate Agency

The Connells group achieved a pre-tax profit of £42.6m for the first six months of 2014 compared to £23.0m for the six months ended 30 June 2013. The profit for the period included the profits from the part disposal of Connells' shareholding in Zoopla – see below for details.

Income in our Estate Agency division was £158.9m for the six months ended 30 June 2014 compared to £130.9m in the first half of 2013. The Connells group has a good spread of revenue generating services, maintains a prudent control of costs and is therefore well placed to capitalise on current market opportunities arising from the improving UK economy.

The improved housing market seen in the latter half of 2013 resulted in a strong pipeline as the Group entered 2014. This momentum carried into the early part of the year and, despite the market moderating towards the end of the six months, house sales increased by 20% during the period. This increased level of activity has contributed to an increase in Connells group profits, and a good performance should also be seen in the second half of the year.

During June 2014, Zoopla executed an Initial Public Offering on the London Stock Exchange and, as a result, Connells sold approximately 25% of its shareholding in Zoopla on flotation. This created a profit on disposal of £10.1m, which is included in the Income Statement under 'Profit on disposal of equity share investments'. Connells retains a 3.9% shareholding in Zoopla.

After the reporting period end, on 30 July 2014, Connells Limited acquired 100% of the share capital of the estate agency business Peter Alan Limited for a cash consideration of £16.4m.

Mortgage Services

HML is the market leader in UK third party residential mortgage administration services, with market share in the UK of around 60%. HML also has a strong presence in Ireland where it services €2.3bn of assets from operational locations in Dublin and Derry. Total assets under management as at 30 June 2014 are £35bn (31 December 2013: £37bn). As reported earlier in the Business Review, the Group sold its entire holding in HML (subject to regulatory approval) on 23 July 2014.

An operating profit of £0.5m, before restructuring costs of £0.3m, yielded a profit before tax of £0.2m (six months ended

30 June 2013: £0.3m). In the first half of the year, the market continued to show strong signs of improvement with several new clients secured in both the UK and Ireland.

HML has also seen significant success in retaining and expanding existing relationships as a result of its commitment to enhance value for its clients through improved arrears performance and the development of new products and services.

HML successfully implemented the changes arising from the Mortgage Market Review, effective from 26 April 2014, which included the establishment of a mortgage advice service for its clients and their customers.

Financial Advice

The financial performance of the Financial Advice division improved in the first half of 2014 compared to 2013. The division generated a profit before tax of £0.8m compared to £0.5m in the same period last year. The performance has been aided by a relatively stable Stock Market which has benefited both the division and our clients, whilst the division also benefited from a release of provisions made in 2012 for potential customer compensation. Following the completion of thorough customer reviews the provisions were lower than our original prudent estimates.

Investment Portfolio

The pre-tax profit for the Investment Portfolio was £2.6m compared to a loss of £2.6m in the first half of 2013. Skipton Business Finance (provider of invoice discounting) and PHP (specialising in private medical insurance and medical support) have both continued to perform well during the first half of the year. Jade's (software specialist) underlying trading was encouraging, with a number of new client wins in the master terminal division, but the business is still trading at a loss.

During the period, our associate holding in Wynyard Group was diluted from 24.5% to 21.7% following share issues in February and April to which we did not subscribe. The deemed disposal generated a profit of £2.4m (which is included in the Income Statement under 'Profit on part disposal of associate') for the Skipton Group in the first half of the year.

On 29 July, the Group sold its entire shareholding in PHP and its subsidiary businesses, generating a small profit for the Group which will be recognised in the second half of the year.

Inter-divisional adjustments

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

No impairment was booked against the carrying value of consolidated goodwill in relation to our subsidiaries in the six months ended 30 June 2014 (30 June 2013: £3.3m; 31 December 2013: £16.2m) as this goodwill is considered supportable by our estimate of future cashflows.

Financial Position

Loans and advances to customers

The Group has increased its lending during the period without increasing its credit risk appetite. Gross mortgage advances totalled £1,464.2m across the Group compared with £1,090.4m in the same period in 2013.

Our new lending remains prudent and well diversified by product type and geographical distribution. During the first half of the year we continued to help a broad spectrum of homeowners, by offering loans requiring only a 10% deposit for first and next-time buyers, longer term deals offering payment certainty for up to five years and a suite of buy-to-let loans. At 30 June 2014 the Group's average indexed loan-to-value (LTV) for the residential mortgage book was 52.9% (30 June 2013: 54.2%; 31 December 2013: 52.9%).

Group mortgage balances totalled £12.1bn, an increase of £605.0m on the year end position due to new residential lending in the Society and SIL which more than offset the run-off of the Amber, NYM and commercial mortgage portfolios.

The arrears performance of the Group's residential mortgages continues to improve, with 989 cases at 30 June 2014 where the arrears balance was greater than 2.5% of total outstanding balances (30 June 2013: 1,172 cases; 31 December 2013: 1,088 cases), representing 0.92% of the book (30 June 2013: 1.16%; 31 December 2013: 1.04%).

At 30 June 2014 the percentage of residential mortgage balances subject to forbearance, which is where terms have been renegotiated during the last two years, is 3.0% (30 June 2013: 3.1%; 31 December 2013: 3.3%). For commercial balances the percentage is 9.8% (30 June 2013: 7.6%; 31 December 2013: 8.2%).

Liquidity

During the period, we have maintained prudent levels of high quality liquid assets, well above both our internal and regulatory requirements. An analysis of the Group's liquidity position is shown below:

	Unaudited as at 30.06.14	Unaudited as at 30.06.13	Unaudited as at 31.12.13
Liquidity balance	**£2,445.3m**	£2,263.0m	£2,381.1m
As a % of shares, deposits and liabilities	**18.22%**	18.60%	18.61%
Core liquidity buffer* – eligible assets	**£1,559.7m**	£1,201.2m	£1,186.8m
Core liquidity buffer* as a % of liquidity balance	**63.78%**	53.08%	49.84%

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

The Group's treasury investments are held to provide liquidity and 96.2% (30 June 2013: 98.9%; 31 December 2013: 99.0%) are rated A3 or better by Moody's credit ratings. All treasury investments are reviewed for signs of impairment on a regular basis by the Group's Market & Liquidity Risk function by conducting a series of daily, weekly and monthly stress tests.

During the period, the Group reduced its wholesale credit risk through the disposal of all outstanding commercial mortgage backed securities (CMBS) along with all non-conforming residential mortgage backed securities (RMBS).

These assets had previously been held as legacy investments following a deterioration in their liquidity as a result of the economic downturn given heightened credit concerns. The Group used the recent opportunity of strong investor demand and a significant lack of supply to reduce its risk to treasury assets it no longer has an appetite to invest in or hold.

Funding

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

Retail Funding

The launch of the Government's FLS in August 2012 has resulted in reduced price competition for retail funding. However, as a mutual building society, our focus has always been on offering competitive long term value products to retain savings as the prime source of a stable funding base.

At 30 June 2014, £10,911.9m (30 June 2013: £9,768.7m; 31 December 2013: £10,260.1m) of our funding came from retail savings, representing 85.8% (30 June 2013: 84.7%; 31 December 2013: 84.6%) of our total funding.

In addition to our UK retail funding, the Group also accepts deposits through our Guernsey based subsidiary, SIL. Whilst the benefits of offshore funding have reduced under the PRA's current regulatory liquidity regime, SIL has maintained a stable retail funding base and offshore deposits grew to £828.0m at 30 June 2014 (30 June 2013: £747.7m; 31 December 2013: £783.5m).

Wholesale Funding

The remainder of the Group's funding comes from the wholesale markets. At 30 June 2014 our wholesale funding balances amounted to £1,680.6m (30 June 2013: £1,652.6m; 31 December 2013: £1,748.3m), a decrease of £67.7m since the year end.

In April 2014, the Group completed its third securitisation transaction through Darrowby No. 3 plc. The transaction raised £400m of funds, which provided the opportunity for the Society to repay £350m of previously drawn down funds from the Government's FLS scheme, resulting in £450m of FLS funding remaining outstanding at 30 June 2014.

As a result of the strong retail inflows seen during the period the Group's wholesale funding ratio decreased to 14.16% at the half year (30 June 2013: 15.31%; 31 December 2013: 15.37%).

The Society's long term credit ratings assigned by two major credit rating agencies, Fitch and Moody's, remain unchanged at BBB- and Ba1 respectively. Our securitisations through Darrowby No. 1 plc, Darrowby No. 2 plc and Darrowby No. 3 plc remain AAA rated by both agencies.

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.

On 1 January 2014, the Basel II regulation, upon which capital calculations were previously based, was replaced by the CRD IV regulation. CRD IV has introduced a number of changes to the capital framework which impact how our capital is calculated. The impact of CRD IV in some areas was immediate; however in some cases the impact is being phased in under transitional arrangements up to 2022. Under CRD IV the key level at which we monitor our capital is at a prudential consolidation group level; the equivalent consolidation group under Basel II was the UK consolidation group. Further details regarding the capital impact of CRD IV are set out in the 2013 Pillar 3 disclosures available on our website.

CRD IV fully loaded total capital has increased by £39.4m from 31 December 2013 to £912.0m (30 June 2013: £830.9m; 31 December 2013: £872.6m). The fully loaded position represents the CRD IV end-point definition applicable from 1 January 2022.

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

Prudential consolidation group

	Fully loaded			Transitional	
	Unaudited as at 30.06.14	Unaudited as at 30.06.13	Unaudited as at 01.01.14 Restated*	**Unaudited as at 30.06.14**	Unaudited as at 01.01.14 Restated*
	%	%	%	%	%
Common Equity Tier 1 ratio (CET1 – Basel II core Tier 1 equivalent)	**15.02**	14.09	14.60	**14.95**	14.51
Tier 1 ratio	**15.02**	14.09	14.60	**16.24**	15.82
Total capital ratio	**16.29**	15.28	15.88	**17.74**	17.56

* The comparative figures have been restated, as described in note 1b), to take into account IFRIC 21 *Levies*, and also to reflect revised interpretation of regulatory guidance, in order that the comparative figures are presented on a consistent basis with those as at 30 June 2014.

The key impacts on capital resources of the CRD IV fully loaded rules are that all existing additional Tier 1 and Tier 2 instruments that become ineligible as capital by 1 January 2022 are excluded in full now. Therefore, the fully loaded CET1 ratio is higher than the transitional CET1 ratio as certain fair value adjustments in relation to these ineligible instruments are not deducted from reserves under the fully loaded position; further details can be found on page 27 of the 2013 Annual Report and Accounts.

The prudential group's capital remains above both the Board's internal limit and the minimum requirement set by the regulator.

Leverage ratio on CRD IV basis

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

In January 2014 the Basel Committee set out a revised definition of the leverage ratio. We have applied this definition to calculate a fully loaded leverage ratio at a prudential group level. The fully loaded leverage ratio calculated on this basis is 5.6%, maintained at this level since 31 December 2013. The equivalent ratio at 30 June 2013 was also 5.6%.

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 2013 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 41 to 46 of the 2013 Annual Report and Accounts.

Credit risk

Credit risk is the risk of financial loss stemming from a customer's failure to repay their mortgage or other contractual obligation to the Group. The Society adopts a prudent approach to lending and we monitor and manage arrears carefully to mitigate this risk.

Uncertainty around the impact of future interest rate rises, and the extent to which our customers would be able to absorb increases in their monthly mortgage repayments remains a risk for the existing Group mortgage portfolios. However, through the implementation of the Mortgage Market Review in the first half of the year, we have enhanced our affordability assessment process to help ensure that our customers do not become financially over-stretched as interest rates rise.

UK mortgage lenders have seen a steady increase in loan-to-income multiples over the past 18 months. Whilst we believe that this is a crude indicator, and prefer a more rigorous assessment of a customer's total income and expenditure to determine whether or not a mortgage is affordable, we have not seen an increase in our income multiples over this period and our average loan-to-income ratio remains below the industry average.

We are also closely monitoring the UK housing market, particularly amid concerns that the London market may be over-heating, and the potential for this to ripple out to the South East. Whilst there is some recent evidence of a dampening in London, with new buyer enquiries down, we remain vigilant for any signs of adverse credit risk trends in the region.

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, therefore, 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.

Market risk

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

Conduct risk

Conduct risk, which is the risk of delivering poor or inappropriate outcomes for customers, continues to attract intense scrutiny from regulators, media and consumer groups. We remain committed to dealing with our customers fairly and continue to invest heavily in resources and training to ensure that our operations are designed to minimise the risk of customer detriment. Oversight is provided by a combination of individual business unit Compliance departments and a central Group function.

Operational risk

Operational risk is the risk of financial loss or reputational damage arising from inadequate or failed internal processes or systems or human error, which in turn could also result in poor customer outcomes. The financial services sector also faces growing levels of financial crime, particularly in relation to e-distribution channels, which require increasingly sophisticated monitoring and anti-fraud controls. The Group manages operational risk through its risk management framework which sets out the strategy for identifying, assessing and managing operational risk.

Reputational risk

Reputational risk is the risk to earnings, liquidity or capital arising from negative market or public opinion and may come about as a result of not effectively managing other known risks. The consequences could expose the Group to financial loss and adversely impact the future prospects of the organisation. Alert to this risk, the Group continues to invest in its risk management framework and management capabilities.

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 risk is the risk that the value of the schemes' assets, together with ongoing contributions, will be insufficient to cover their obligations over time. The return on assets, which includes equities and bonds, will vary with movements in equity prices and interest rates. The projection of the schemes' obligations includes estimates of mortality,

inflation and future salary increases, the actual outturn of which may differ from the estimates. The schemes are also exposed to possible changes in pensions legislation.

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 is the risk that the Group does not adhere to the fast changing regulatory environment in which it operates. Key changes on the horizon include the implementation of those recommendations made by the Independent Commission on Banking which the government chooses to bring into law, Resolution and Recovery Planning, further technical interpretations on the implementation of CRD IV and the impact upon our capital.

The Mortgage Market Review requirements introduced this year have been successfully implemented by the Group but these are likely to be further impacted by European regulation. The Group allocates sufficient and appropriate resources to ensure continued compliance in these areas.

In addition, each of the regulated businesses has either its own established Compliance team or is overseen by the Society's Compliance team, which both monitor compliance with existing legislation and consider the impact of new requirements. Oversight is provided by the Society's Compliance function, which ensures best practice is adhered to and shared across the Group as appropriate.

Taxation risk

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

Outlook

Recent economic signs within the UK are encouraging and point to a recovery slowly gathering momentum. However, this is against a backdrop of historically very low interest rates which are expected to rise at some point in the next 12 months, albeit slowly; therefore we remain vigilant to any signs of possible adverse consequences for our business.

Undoubtedly the savings market will change over the next 12 months and beyond as a result of the New ISA (NISA) and pension announcements made recently by the Chancellor in his Budget. We believe we are well placed to help our customers take advantage of the opportunities that arise from these changes.

We plan to maintain our lending growth at acceptable margins without increasing our credit risk appetite, to help more customers to own their own home. However, we are cognisant of the recent rapid increase in house prices in London and the South East, albeit this has started to slow in the past few weeks, and therefore have enhanced risk monitoring measures to ensure that we are well placed to act upon any emerging risks.

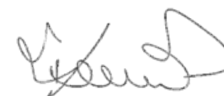
Housing transaction volumes increased in 2014 but there remains uncertainty around the sustainability of housing market recovery. The threat of increasing interest rates and regulatory intervention designed to cool house price inflation may dampen sales volumes. However, in the absence of a severe recession, we believe that the shortage of supply of housing in the UK will protect house prices from significant falls.

The impact of the Government's FLS scheme continues to be felt with downward pressure on retail funding costs, which combined with the improving economy, has provided a tail wind to our strong performance. We remain committed to continue to invest in the business, including our digital capabilities and customer strategy, to provide products and services that are genuinely valued by our members.

I M Cornelius

Commercial Director

31 July 2014



M R Fleet

Distribution Director

31 July 2014

Condensed Consolidated Income Statement

For the half year ended 30 June 2014

	Notes	**Unaudited 6 months to 30.06.14 £m**	Unaudited 6 months to 30.06.13 Restated* £m	Audited 12 months to 31.12.13 Restated* £m
Interest receivable and similar income	3	**220.1**	187.7	393.4
Interest payable and similar charges	4	**(113.7)**	(126.6)	(250.8)
Net interest receivable		**106.4**	61.1	142.6
Fees and commissions receivable	5	**228.4**	202.6	425.9
Fees and commissions payable		**(1.7)**	(2.5)	(5.0)
Fair value gains on financial instruments		**0.1**	1.5	3.9
Net realised losses on treasury assets	6	**(3.7)**	-	-
Profit on disposal of subsidiary undertakings		**-**	-	24.7
Profit on disposal of equity share investments	18b)	**10.1**	-	-
Profit on part disposal of associate		**2.4**	-	-
Dividend income from equity share investments		**1.1**	0.5	1.1
Share of profits from joint ventures and associates		**0.6**	1.0	1.3
Other income		**0.7**	2.0	6.6
Total income		**344.4**	266.2	601.1
Administrative expenses	7	**(240.2)**	(215.7)	(455.3)
Operating profit before impairment losses and provisions		**104.2**	50.5	145.8
Impairment losses on loans and advances to customers	8	**(3.8)**	(12.2)	(21.5)
Impairment losses on debt securities	9	**-**	(0.7)	(1.2)
Provisions for liabilities	10	**(10.4)**	(9.3)	(19.5)
Profit before tax		**90.0**	28.3	103.6
Tax expense	11	**(19.5)**	(7.3)	(26.4)
Profit for the period		**70.5**	21.0	77.2
Profit for the period attributable to:				
Members of Skipton Building Society		**71.3**	22.5	76.1
Non-controlling interests		**(0.8)**	(1.5)	1.1
		70.5	21.0	77.2

* The comparative figures have been restated due to a change in accounting policy relating to the Financial Services Compensation Scheme (FSCS) levy. Further details are provided in note 1b).

Segmental performance of the Group is shown in note 19.

The results for the current and comparative periods include profit after tax of £0.2m (30 June 2013: £0.2m; 31 December 2013: £0.8m) derived from operations which were classified as discontinued at 30 June 2014; see note 15 for further details. The remaining profit for the current and comparative periods was derived wholly from continuing operations.

The notes on pages 23 to 44 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 2014

	Unaudited 6 months to 30.06.14	Unaudited 6 months to 30.06.13 Restated*	Audited 12 months to 31.12.13 Restated*
	£m	£m	£m
Profit for the period	**70.5**	21.0	77.2
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement (losses) / gains on defined benefit obligations	**(4.3)**	3.7	(9.2)
Movement in reserves attributable to non-controlling interests	**0.2**	0.1	-
Income tax on items that will not be reclassified to profit or loss	**0.9**	(0.9)	0.7
	(3.2)	2.9	(8.5)
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments: valuation gains taken to equity	**13.9**	24.4	28.8
Available-for-sale investments: realised (gains) / losses transferred to Income Statement	**(8.7)**	(3.8)	0.7
Cash flow hedges: (losses) / gains taken to equity	**(1.3)**	4.7	5.2
Cash flow hedges: realised losses transferred to Income Statement	**0.8**	-	-
Exchange differences on translation of foreign operations	**0.4**	0.1	(0.5)
Income tax on items that may be reclassified to profit or loss	**(0.5)**	(1.3)	(8.3)
	4.6	24.1	25.9
Other comprehensive income for the period, net of tax	**1.4**	27.0	17.4
Total comprehensive income for the period	**71.9**	48.0	94.6
Total comprehensive income attributable to:			
Members of Skipton Building Society	**72.7**	49.5	93.5
Non-controlling interests	**(0.8)**	(1.5)	1.1
	71.9	48.0	94.6

* The comparative figures have been restated due to a change in accounting policy relating to the Financial Services Compensation Scheme (FSCS) levy. Further details are provided in note 1b).

The notes on pages 23 to 44 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Financial Position

As at 30 June 2014

	Notes	**Unaudited as at 30.06.14 £m**	Unaudited as at 30.06.13 £m	Audited as at 31.12.13 Restated* £m
Assets				
Cash in hand and balances with the Bank of England		**826.1**	597.1	859.4
Loans and advances to credit institutions		**302.9**	352.3	326.2
Debt securities	9	**1,316.3**	1,313.6	1,195.5
Derivative financial instruments		**120.8**	162.4	148.8
Loans and advances to customers	12	**12,121.9**	11,058.4	11,516.9
Deferred tax asset		**19.6**	21.8	18.9
Investments in joint ventures		**3.1**	3.0	4.2
Investments in associates		**15.6**	-	13.4
Equity share investments		**39.7**	22.7	37.1
Property, plant and equipment		**79.8**	80.5	81.6
Investment property		**6.7**	8.1	6.7
Intangible assets		**180.7**	192.7	174.2
Other assets		**113.1**	109.8	103.8
Total assets		**15,146.3**	13,922.4	14,486.7
Liabilities				
Shares		**10,911.9**	9,768.7	10,260.1
Amounts owed to credit institutions		**570.8**	788.6	1,046.3
Amounts owed to other customers		**1,066.0**	958.6	930.8
Debt securities in issue	13	**871.8**	653.2	554.7
Derivative financial instruments		**237.1**	330.8	287.6
Current tax liability		**20.2**	3.2	9.3
Other liabilities		**114.0**	85.7	95.7
Accruals and deferred income		**36.8**	36.6	42.8
Provisions for liabilities	10	**42.2**	46.1	37.3
Deferred tax liability		**13.8**	8.8	15.4
Retirement benefit obligations		**56.7**	41.0	53.3
Subordinated liabilities		**107.6**	217.9	124.4
Subscribed capital		**93.7**	94.9	94.1
Total liabilities		**14,142.6**	13,034.1	13,551.8
Members' interests				
General reserve		**985.3**	875.0	917.3
Available-for-sale reserve		**25.1**	18.1	20.5
Cash flow hedging reserve		**(11.4)**	(11.0)	(11.0)
Translation reserve		**5.6**	5.8	5.2
Attributable to members of Skipton Building Society		**1,004.6**	887.9	932.0
Non-controlling interests		**(0.9)**	0.4	2.9
Total members' interests		**1,003.7**	888.3	934.9
Total members' interests and liabilities		**15,146.3**	13,922.4	14,486.7

* The comparative figures have been restated due to a change in accounting policy relating to the Financial Services Compensation Scheme (FSCS) levy. Further details are provided in note 1b).

The notes on pages 23 to 44 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 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**	**(1.0)**	**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**
Net (gains) / losses transferred to profit or loss on sale	-	(6.8)	0.6	-	**(6.2)**	-	**(6.2)**
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**

Unaudited for the half year ended 30 June 2013

	General reserve Restated* £m	Available-for-sale financial assets £m	Cash flow hedges £m	Translation of foreign operations £m	Sub total Restated* £m	Non-controlling interests £m	Total Restated* £m
Balance at 1 January 2013	849.7	(2.3)	(14.6)	5.7	838.5	1.8	840.3
Profit / (loss) for the period	22.5	-	-	-	22.5	(1.5)	21.0
Other comprehensive income:							
Remeasurement gains on defined benefit obligations	2.8	-	-	-	2.8	-	2.8
Net gains from changes in fair value	-	23.3	3.6	-	26.9	-	26.9
Available-for-sale gains transferred to profit or loss on sale	-	(2.9)	-	-	(2.9)	-	(2.9)
Exchange differences on translation of foreign operations	-	-	-	0.1	0.1	-	0.1
Movement in reserves attributable to non-controlling interests	-	-	-	-	-	0.1	0.1
Total other comprehensive income	2.8	20.4	3.6	0.1	26.9	0.1	27.0
Total comprehensive income for the period	25.3	20.4	3.6	0.1	49.4	(1.4)	48.0
Balance at 30 June 2013	875.0	18.1	(11.0)	5.8	887.9	0.4	888.3

* The comparative figures have been restated due to a change in accounting policy relating to the Financial Services Compensation Scheme (FSCS) levy. Further details are provided in note 1b).

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

Audited for the year ended 31 December 2013

	General reserve Restated* £m	Available-for-sale financial assets £m	Cash flow hedges £m	Translation of foreign operations £m	Sub total Restated* £m	Non-controlling interests £m	Total Restated* £m
Balance at 1 January 2013	849.7	(2.3)	(14.6)	5.7	838.5	1.8	840.3
Profit for the financial year	76.1	-	-	-	76.1	1.1	77.2
Other comprehensive income:							
Remeasurement losses on defined benefit obligations	(8.5)	-	-	-	(8.5)	-	(8.5)
Net gains from changes in fair value	-	22.3	3.6	-	25.9	-	25.9
Available-for-sale losses transferred to profit or loss on sale	-	0.5	-	-	0.5	-	0.5
Exchange differences on translation of foreign operations	-	-	-	(0.5)	(0.5)	-	(0.5)
Total other comprehensive income	(8.5)	22.8	3.6	(0.5)	17.4	-	17.4
Total comprehensive income for the year	67.6	22.8	3.6	(0.5)	93.5	1.1	94.6
Balance at 31 December 2013	917.3	20.5	(11.0)	5.2	932.0	2.9	934.9

* The comparative figures have been restated due to a change in accounting policy relating to the Financial Services Compensation Scheme (FSCS) levy. Further details are provided in note 1b).

The notes on pages 23 to 44 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 2014

	Notes	**Unaudited 6 months to 30.06.14 £m**	Unaudited 6 months to 30.06.13 Restated* £m	Audited 12 months to 31.12.13 Restated* £m
Cash flows from operating activities				
Profit before tax		**90.0**	28.3	103.6
Adjustments for:				
Impairment losses on debt securities	9	**-**	0.7	1.2
Impairment losses on loans and advances to customers	8	**3.8**	12.2	21.5
Loans and advances written off, net of recoveries		**(7.2)**	(27.5)	(35.2)
Depreciation and amortisation		**9.1**	8.7	18.3
Impairment of investment property and property, plant and equipment		**2.9**	0.6	1.2
Impairment of goodwill		**0.2**	3.7	16.6
Dividends receivable from equity share investments		**(1.1)**	(0.5)	(1.1)
Interest on subscribed capital and subordinated liabilities		**6.5**	10.7	21.1
(Profit) / loss on sale of property, plant and equipment, investment properties and intangible assets		**(0.2)**	0.3	(0.2)
Net realised losses on treasury assets		**3.7**	-	-
Share of profits from joint ventures and associates		**(0.6)**	(1.0)	(1.3)
Profit on part disposal of associate		**(2.4)**	-	-
Profit on disposal of equity share investments		**(10.1)**	-	-
Profit on disposal of subsidiary undertakings		**-**	-	(24.7)
Other non-cash movements		**5.2**	14.6	4.7
		99.8	50.8	125.7
Changes in operating assets and liabilities:				
Movement in prepayments and accrued income		**(6.6)**	(9.9)	1.0
Movement in accruals and deferred income		**(10.1)**	(24.9)	(23.4)
Movement in provisions for liabilities		**4.9**	(2.3)	(11.1)
Movement in fair value of derivatives		**(22.5)**	0.2	(29.3)
Movement in fair value adjustments for hedged risk		**23.5**	(13.1)	13.0
Fair value movements in debt securities	9	**(14.5)**	12.2	20.7
Movement in loans and advances to customers		**(644.5)**	(451.5)	(964.3)
Movement in shares		**673.5**	335.5	848.9
Net movement in amounts owed to credit institutions and other customers		**(339.8)**	(56.7)	174.8
Net movement in debt securities in issue		**317.3**	(77.2)	(175.7)
Net movement in loans and advances to credit institutions		**25.2**	22.2	24.5
Net movement in other assets		**(7.1)**	5.9	7.3
Net movement in other liabilities		**9.9**	(1.1)	12.8
Income taxes paid		**(9.0)**	(9.2)	(20.2)
Net cash flows from operating activities		**100.0**	(219.1)	4.7

* The comparative figures have been restated due to a change in accounting policy relating to the Financial Services Compensation Scheme (FSCS) levy. Further details are provided in note 1b).

Condensed Consolidated Statement of Cash Flows *(continued)*

For the half year ended 30 June 2014

	Notes	**Unaudited 6 months to 30.06.14 £m**	Unaudited 6 months to 30.06.13 Restated* £m	Audited 12 months to 31.12.13 Restated* £m
Net cash flows from operating activities		**100.0**	(219.1)	4.7
Cash flows from investing activities				
Purchase of debt securities	9	**(379.1)**	(535.6)	(767.1)
Proceeds from disposal of debt securities		**269.1**	343.0	683.6
Purchase of property, plant and equipment and investment property		**(6.7)**	(4.9)	(11.6)
Purchase of intangible assets		**(2.4)**	(4.2)	(7.4)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		**0.4**	4.3	5.2
Dividends received from equity share investments		**1.1**	0.5	1.1
Proceeds from disposal of equity share investments		**10.6**	-	-
Dividends received from joint ventures		**2.4**	1.1	1.1
Dividends paid to non-controlling interests		**(1.0)**	(0.7)	(1.9)
Further investment in subsidiary undertakings		**-**	-	(0.2)
Investment in joint ventures and equity share investments		**(1.1)**	-	(0.8)
Purchase of other business units		**-**	-	(0.7)
Cash paid to minority shareholders on subsidiary share buy-back		**(3.1)**	-	-
Cash received from sale of subsidiary undertakings, net of cash disposed of		**-**	-	(0.3)
Cash received on flotation of subsidiary		**-**	-	19.2
Net cash flows from investing activities		**(109.8)**	(196.5)	(79.8)
Cash flows from financing activities				
Redemption of subordinated liabilities		**(15.0)**	-	-
Repurchase of subordinated liabilities		**-**	-	(91.7)
Interest paid on subordinated liabilities		**(2.4)**	(6.6)	(12.8)
Interest paid on subscribed capital		**(4.1)**	(4.1)	(8.3)
Net cash flows from financing activities		**(21.5)**	(10.7)	(112.8)
Net decrease in cash and cash equivalents		**(31.3)**	(426.3)	(187.9)
Cash and cash equivalents at 1 January		**988.3**	1,176.2	1,176.2
Cash and cash equivalents at end of period		**957.0**	749.9	988.3

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

	Unaudited 6 months to 30.06.14 £m	Unaudited 6 months to 30.06.13 £m	Audited 12 months to 31.12.13 £m
Cash in hand and balances with the Bank of England	**826.1**	597.1	859.4
Mandatory reserve deposit with the Bank of England	**(19.7)**	(17.5)	(18.4)
	806.4	579.6	841.0
Loans and advances to credit institutions	**150.6**	170.3	147.3
Cash and cash equivalents at end of period	**957.0**	749.9	988.3

* The comparative figures have been restated due to a change in accounting policy relating to the Financial Services Compensation Scheme (FSCS) levy. Further details are provided in note 1b).

The notes on pages 23 to 44 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 2014.

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 IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities*, IAS 27 (revised) *Separate Financial Statements*, IAS 28 (revised) *Investments in Associates and Joint Ventures*, and *Investment Entities* (amendments to IFRS 10, IFRS 12 and IAS 27), as well as the amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*, IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* and IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*, all of which are EU endorsed. Note 20 summarises the impact. The Directors have also adopted IFRIC 21 *Levies*, which became EU endorsed during the period, and the impact is summarised in note 1b) below.

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited financial statements, which were prepared in accordance with IFRS as adopted by the EU, with the exception of a change of accounting policy for accounting for the Financial Services Compensation Scheme (FSCS) levy as detailed in note 1b) below.

b) Change of accounting policy

IFRIC 21 *Levies* clarifies the accounting for government imposed levies within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* It clarifies that the obligating event for the recognition of a liability in respect of payment of a levy is the activity that triggers the payment of the levy in accordance with the relevant legislation. The Group has aligned its accounting policy with the principles of IFRIC 21 and has therefore changed its accounting policy with respect to the date at which a liability for the FSCS levy is recognised. In previous years the Society has recognised a provision on the basis that recognition of the liability was triggered by being a deposit taker at 31 December of the year preceding the scheme year in question. As the FSCS can only raise a levy within its scheme year (which commences on 1 April), then under IFRIC 21 the Society should instead recognise its FSCS provision in the scheme year itself, rather than in the year prior to the scheme year.

The 2013 comparatives have been restated accordingly. The effect on the comparative figures is shown below:

Income Statement	**Unaudited as at 30.06.13**			**Audited as at 31.12.13**		
	Previously published £m	IFRIC 21 adjustment £m	**Restated £m**	Previously published £m	IFRIC 21 adjustment £m	**Restated £m**
Provisions for liabilities	(3.2)	(6.1)	**(9.3)**	(20.6)	1.1	**(19.5)**
Profit before tax	34.4	(6.1)	**28.3**	102.5	1.1	**103.6**
Tax expense	(8.6)	1.3	**(7.3)**	(26.2)	(0.2)	**(26.4)**
Profit for the period	25.8	(4.8)	**21.0**	76.3	0.9	**77.2**
Profit for the period attributable to members of Skipton Building Society	27.3	(4.8)	**22.5**	75.2	0.9	**76.1**

Statement of Comprehensive Income	**Unaudited as at 30.06.13**			**Audited as at 31.12.13**		
	Previously published £m	IFRIC 21 adjustment £m	**Restated £m**	Previously published £m	IFRIC 21 adjustment £m	**Restated £m**
Profit for the period	25.8	(4.8)	**21.0**	76.3	0.9	**77.2**
Total comprehensive income for the period	52.8	(4.8)	**48.0**	93.7	0.9	**94.6**
Total comprehensive income attributable to members of Skipton Building Society	54.3	(4.8)	**49.5**	92.6	0.9	**93.5**

Notes to the Condensed Consolidated Financial Statements *(continued)*

1. Introduction *(continued)*

b) Change of accounting policy *(continued)*

Statement of Financial Position	Audited as at 31.12.13		
	Previously published £m	IFRIC 21 adjustment £m	**Restated £m**
Deferred tax liability	13.9	1.5	**15.4**
Provisions for liabilities	44.5	(7.2)	**37.3**
Total liabilities	13,557.5	(5.7)	**13,551.8**
General reserve	911.6	5.7	**917.3**
Members' interests attributable to members of Skipton Building Society	926.3	5.7	**932.0**
Total members' interests	929.2	5.7	**934.9**

The above changes have had no impact on the Statement of Financial Position as at 30 June 2013. In addition, as the above changes did not have a material effect at the beginning of the preceding period, a restated Statement of Financial Position as at 31 December 2012 has not been presented in these condensed consolidated financial statements.

Statement of Cash Flows	Unaudited as at 30.06.13			Audited as at 31.12.13		
	Previously published £m	IFRIC 21 adjustment £m	**Restated £m**	Previously published £m	IFRIC 21 adjustment £m	**Restated £m**
Profit before tax	34.4	(6.1)	**28.3**	102.5	1.1	**103.6**
Movement in provisions for liabilities	(8.4)	6.1	**(2.3)**	(10.0)	(1.1)	**(11.1)**

The restatement also impacts a number of the Group's key capital adequacy measures as shown below:

Capital	As at 01.01.14 Fully loaded			
	Previously published %	IFRIC 21 adjustment %	Other adjustments %	**Restated %**
Common Equity Tier 1 (CET1) ratio	14.23	0.11	0.26	**14.60**
Tier 1 ratio	14.23	0.11	0.26	**14.60**
Total capital ratio	15.67	0.11	0.10	**15.88**
Leverage ratio	5.6	0.1	(0.1)	**5.6**

	As at 01.01.14 Transitional			
	Previously published %	IFRIC 21 adjustment %	Other adjustments %	**Restated %**
Common Equity Tier 1 (CET1) ratio	14.14	0.11	0.26	**14.51**
Tier 1 ratio	15.43	0.11	0.28	**15.82**
Total capital ratio	17.14	0.11	0.31	**17.56**

The comparative figures in the final two tables above have been restated for the impact of IFRIC 21 and also for the treatment of hedged assets reflecting regulatory guidance, disclosed under the 'other adjustments' columns above, in order that the comparative figures are presented on the same basis as the corresponding numbers as at 30 June 2014.

In addition, the capital measures above were not reported in the 2013 half year accounts and therefore no restatement has been presented.

1. Introduction *(continued)*

c) Going concern

The Group's business activities together with its financial position, capital resources and the factors likely to affect its future development and performance are set out in the Business Review on pages 8 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 2013 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 2013 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 2014 was approved by the Board of Directors on 31 July 2014.

3. Interest receivable and similar income

	Unaudited 6 months to 30.06.14 £m	Unaudited 6 months to 30.06.13 £m	Audited 12 months to 31.12.13 £m
On financial assets not at fair value through profit or loss:			
On loans fully secured on residential property	**224.2**	206.8	427.5
On other loans	**5.6**	5.6	11.4
On debt securities	**17.2**	13.4	23.1
On other liquid assets	**2.8**	2.3	4.8
	249.8	228.1	466.8
On financial assets at fair value through profit or loss:			
Net expense on derivative financial instruments held for hedging assets	**(29.7)**	(40.4)	(73.4)
	220.1	187.7	393.4

Notes to the Condensed Consolidated Financial Statements *(continued)*

4. Interest payable and similar charges

	Unaudited 6 months to 30.06.14 £m	Unaudited 6 months to 30.06.13 £m	Audited 12 months to 31.12.13 £m
On financial liabilities not at fair value through profit or loss:			
On shares	**111.5**	111.2	217.7
On subscribed capital	**4.1**	4.1	8.3
On deposits and other borrowings:			
Subordinated liabilities	**2.4**	6.6	12.8
Wholesale and other funding	**14.2**	19.7	30.5
Other	**(1.0)**	(0.7)	0.1
	131.2	140.9	269.4
On financial liabilities at fair value through profit or loss:			
Net income on derivative financial instruments held for hedging liabilities	**(17.5)**	(14.3)	(18.6)
	113.7	126.6	250.8

5. Fees and commissions receivable

	Unaudited 6 months to 30.06.14 £m	Unaudited 6 months to 30.06.13 £m	Audited 12 months to 31.12.13 £m
Mortgage origination related fees	**14.0**	13.7	29.7
General insurance fees	**17.5**	14.5	33.8
Commissions earned on property sales	**70.3**	55.0	125.0
Commissions earned on property lettings	**15.9**	13.3	27.8
Survey and valuation services	**28.2**	17.4	43.0
Mortgage servicing fees	**27.1**	25.9	51.9
Financial advice fees	**23.9**	24.0	48.5
Other fees and commissions	**31.5**	38.8	66.2
	228.4	202.6	425.9

6. Net realised losses on treasury assets

Net realised losses on treasury assets arise on the sale of debt securities and similar treasury instruments held at amortised cost, which have been sold in the normal course of business.

7. Administrative expenses

	Unaudited 6 months to 30.06.14 £m	Unaudited 6 months to 30.06.13 £m	Audited 12 months to 31.12.13 £m
Employee costs:			
Wages and salaries	**136.2**	122.0	250.7
Social security costs	**14.6**	12.4	24.7
Pension costs:			
Defined contribution arrangements	**3.6**	3.4	7.0
Defined benefit schemes service costs	**-**	-	0.5
Settlement gain	**(0.4)**	-	(0.1)
	154.0	137.8	282.8
Other administrative expenses	**86.2**	77.9	172.5
	240.2	215.7	455.3

8. Impairment losses on loans and advances to customers

	Unaudited 30.06.14 £m	Unaudited 30.06.13 £m	Audited 31.12.13 £m
Impairment charge for the period:			
Loans fully secured on residential property	**1.8**	11.1	15.8
Loans fully secured on land	**1.9**	1.1	5.5
Other loans	**0.1**	-	0.2
	3.8	12.2	21.5
Impairment provision at the end of the period:			
Loans fully secured on residential property	**44.0**	51.5	48.5
Loans fully secured on land	**10.5**	5.1	9.5
Other loans	**1.2**	0.9	1.1
	55.7	57.5	59.1

9. Debt securities

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

	Unaudited as at 30.06.14 £m	Unaudited as at 30.06.13 £m	Audited as at 31.12.13 £m
At 1 January	**1,195.5**	1,133.9	1,133.9
Additions	**379.1**	535.6	767.1
Disposals	**(272.8)**	(343.0)	(683.6)
Impairment losses	**-**	(0.7)	(1.2)
Changes in fair value	**14.5**	(12.2)	(20.7)
At end of period	**1,316.3**	1,313.6	1,195.5

For the period ended 30 June 2013 in the table above, both the additions and disposals figures have been revised downwards from those previously presented by £304.7m, to be presented on a basis which is consistent with the current period and prior year end. These adjustments have not impacted the carrying amount of debt securities in the Statement of Financial Position, or the net assets of the Group.

10. Provisions for liabilities

	Unaudited as at 30.06.14 £m	Unaudited as at 30.06.13 £m	Audited as at 31.12.13 Restated* £m
Provision for the costs of surplus properties	**4.5**	6.1	5.3
Financial Services Compensation Scheme (FSCS)	**12.6**	12.8	5.1
Commission clawbacks / rebates	**5.4**	5.8	5.7
Survey and valuation claims	**11.6**	11.3	11.4
Customer compensation	**3.7**	6.9	6.4
Regulatory and other provisions	**4.4**	3.2	3.4
	42.2	46.1	37.3

* The comparative figures for the FSCS levy have been restated. Further details are provided in note 1b).

10. Provisions for liabilities *(continued)*

The movement in provisions in the period has resulted in an Income Statement charge of £10.4m for the period (six months ended 30 June 2013: £9.3m (restated); year ended 31 December 2013: £19.5m (restated)).

Within the Mortgage Services division, the Group is aware of certain issues relating to a portfolio of CCA regulated loans which HML administers on behalf of a client. The Group has made provision for the potential costs which may arise from these issues and this is included within the customer compensation figure above. The provision made at 30 June 2014 represents management's best estimate of the liability arising, although given the technical complexities associated with administering CCA regulated accounts some uncertainty remains regarding the actual potential cost.

11. Tax expense

	Unaudited 6 months to 30.06.14 £m	Unaudited 6 months to 30.06.13 Restated* £m	Audited 12 months to 31.12.13 Restated* £m
Profit before tax	**90.0**	28.3	103.6
Less share of profits from joint ventures and associates (net of tax)	**(0.6)**	(1.0)	(1.3)
	89.4	27.3	102.3
Tax calculated at UK standard rate of 21.5% (30 June 2013: 23.25%; 31 December 2013: 23.25%)	**19.2**	6.3	23.8
Adjustments	**0.3**	1.0	2.6
Tax expense	**19.5**	7.3	26.4

* The comparative figures have been restated as described in note 1b).

The effective tax rate for the six month period ending 30 June 2014 is 21.8% (30 June 2013: 26.7%; 31 December 2013: 25.8%). 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.

12. Loans and advances to customers

	Unaudited as at 30.06.14 £m	Unaudited as at 30.06.13 £m	Audited as at 31.12.13 £m
Loans fully secured on residential property	**11,517.9**	10,342.7	10,858.3
Other loans:			
Loans fully secured on land	**384.7**	418.4	400.3
Other loans	**104.6**	92.0	99.0
Fair value adjustment for hedged risk	**114.7**	205.3	159.3
	12,121.9	11,058.4	11,516.9
The remaining maturity of loans and advances to customers from the reporting date is as follows:			
On call and at short notice	**67.6**	62.4	66.0
In not more than three months	**21.8**	16.6	21.1
In more than three months but not more than one year	**59.9**	55.4	56.9
In more than one year but not more than five years	**605.4**	596.6	617.7
In more than five years	**11,422.9**	10,384.9	10,814.3
	12,177.6	11,115.9	11,576.0
Less: Impairment provision (note 8)	**(55.7)**	(57.5)	(59.1)
	12,121.9	11,058.4	11,516.9

13. Debt securities in issue

	Unaudited as at 30.06.14 £m	Unaudited as at 30.06.13 £m	Audited as at 31.12.13 £m
Certificates of deposit	**9.0**	15.1	8.0
Floating rate notes	**862.9**	638.1	546.8
Fair value adjustment for hedged risk	**(0.1)**	-	(0.1)
	871.8	653.2	554.7
Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:			
In not more than one year	**50.3**	16.4	50.8
In more than one year	**821.5**	636.8	503.9
	871.8	653.2	554.7

14. 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 2014 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 2014 are similar in nature to those for the year ended 31 December 2013. Full details of the Group's related party transactions for the year ended 31 December 2013 can be found in note 10 *Related party transactions* in the 2013 Annual Report and Accounts.

15. Subsequent events

On 23 July 2014, the Group sold its entire shareholding in Homeloan Management Limited (HML), subject to regulatory approval, for an initial consideration of £47.5m, plus an adjustment for surplus working capital, together with deferred consideration, the amounts of which are currently unknown as they are dependent on HML's performance during the two years ending 31 December 2016. The initial consideration generated a profit in the order of £26m to be recognised in the Group's results in the second half of the year. An assessment will be made at the year end as to whether any profit should be recognised in 2014 on the deferred consideration.

At 30 June 2014, the net assets of the HML group are classified as held for sale but are not considered material enough to warrant separate disclosure on the face of the Statement of Financial Position. As HML represents the whole of the Mortgage Services division, its results are also classified as being derived from discontinued operations, but again are not considered material enough to warrant separate disclosure on the face of the Income Statement. HML's contribution to the Group's profit after tax in the first half of 2014 was £0.2m.

On 29 July 2014, the Group sold its entire shareholding in The Private Health Partnership Limited and its subsidiary businesses. Whilst this business is classified as held for sale at 30 June 2014, it is not considered a major line of business for the Group and has therefore not been classified as discontinued in these interim accounts. The contribution of this business to the Group's profit after tax in the first half of 2014 was £0.6m.

On 30 July 2014, Connells Limited acquired 100% of the share capital of the estate agency business Peter Alan Limited for a cash consideration of £16.4m.

There have been no other material post balance sheet events between 30 June 2014 and the approval of this half-yearly financial report by the Board.

16. Other financial commitments and contingent liabilities

a) The Society is obliged under section 22 of the Building Societies Act 1986 to discharge the liabilities of its subsidiary undertakings incurred prior to 11 June 1996 when this section was repealed. Additionally, the Society has given a legal undertaking agreeing to discharge the liabilities of Skipton International Limited insofar as it is unable to discharge them out of its own assets whilst it remains a subsidiary of Skipton Building Society. Furthermore, the Society has confirmed it will provide continuing support to those subsidiary undertakings that have net liabilities at 30 June 2014 or which rely on it for ongoing funding.

b) In common with all regulated UK deposit takers, the Society pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a Management Expenses Levy and a Capital Levy. The Management Expenses Levy covers the costs of running the scheme and the Capital Levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford and Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society and the FSCS is meeting these claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members over this period. In addition to the Management Levies, the FSCS now expects a capital shortfall of approximately £802m, which will be levied against UK retail deposit holders as a Capital Levy over a three year period starting in 2013/2014. Once the Capital Levies have been paid, the remaining principal on the loans made by HM Treasury to the failed institutions above is expected to be repaid from the realisation of the assets of the institutions in question, which may result in a further shortfall, whilst the Management Expenses Levy is also subject to change. As a result, the Society's ultimate FSCS contribution is uncertain, whilst the Society also has a potential exposure to future levies from further capital losses.

c) A recent European Court of Justice ruling has indicated that, under the European Working Time Directive, 'normal pay' for the purposes of calculating statutory holiday pay includes contractual commission, rather than being limited to basic salary. A UK Employment Tribunal is now considering the implications for UK employers, under the Working Time Regulations 1998, and a decision is expected later in 2014. At the same time, an Employment Appeal Tribunal is considering whether overtime payments should be included in the calculation and is expected to conclude in summer or autumn 2014. Should the tribunals determine that 'normal pay' includes elements of pay such as this, there is a possibility that employees may seek compensation for a shortfall in their holiday pay in prior years. This gives rise to a possible obligation for the Group but, given the uncertainty of the outcome, the timing of the UK decisions and the uncertainty around the scope of any compensation arising, the Group is unable to quantify what, if any, liability may arise.

17. Credit risk

The significant credit risks which the Group is exposed to are in relation to Debt securities (note 9), Loans and advances to credit institutions, Derivative financial instruments and Loans and advances to customers (note 12).

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 £114.7m (30 June 2013: £205.3m; 31 December 2013: £159.3m) is included.

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

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 2014 is 96.2% (30 June 2013: 98.9%; 31 December 2013: 99.0%).

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 address the risks associated with these activities by monitoring counterparty credit exposure and requiring additional collateral to be posted or returned as necessary, which ensures that the Group's derivative exposures remain fully collateralised at all times. The only form of collateral accepted by the Group in respect of derivative transactions is cash.

17. Credit risk *(continued)*

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 30.06.14		Unaudited as at 30.06.13		Audited as at 31.12.13	
	£m	**%**	£m	%	£m	%
Total residential mortgages	**11,561.9**	**95.8**	10,394.2	95.2	10,906.8	95.5
Commercial loans	**395.2**	**3.3**	423.5	3.9	409.8	3.6
Other lending:						
Debt factoring loans	**62.2**	**0.5**	53.1	0.5	58.9	0.5
Other loans	**43.6**	**0.4**	39.8	0.4	41.2	0.4
Gross balances	**12,062.9**	**100.0**	10,910.6	100.0	11,416.7	100.0
Impairment provisions (note 8)	**(55.7)**		(57.5)		(59.1)	
Fair value adjustment for hedged risk	**114.7**		205.3		159.3	
	12,121.9		11,058.4		11,516.9	

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 very limited extent in the UK, and the specialist mortgage lending in Amber Homeloans Limited and North Yorkshire Mortgages Limited.

The average indexed loan-to-value percentage of Group residential mortgages is 52.9% (30 June 2013: 54.2%; 31 December 2013: 52.9%).

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

	Unaudited as at 30.06.14		Unaudited as at 30.06.13		Audited as at 31.12.13	
	£m	**%**	£m	%	£m	%
Neither past due nor individually impaired	**11,180.3**	**96.8**	9,923.4	95.5	10,484.9	96.1
Past due but not impaired:						
Up to 3 months	**1.1**	**-**	2.1	-	1.8	-
3 to 6 months	**-**	**-**	0.8	-	0.6	-
	11,181.4	**96.8**	9,926.3	95.5	10,487.3	96.1
Individually impaired:						
Low risk	**70.4**	**0.6**	84.8	0.8	159.9	1.5
High risk	**294.7**	**2.5**	359.1	3.5	240.8	2.2
Possessions	**15.4**	**0.1**	24.0	0.2	18.8	0.2
	11,561.9	**100.0**	10,394.2	100.0	10,906.8	100.0

17. Credit risk *(continued)*

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%.

During the period, the methodology for determining arrears reporting has been revised in order to align arrears reporting with the industry standard. Arrears are now reported by reference to the equivalent number of months' worth of repayments that a customer's repayments are overdue, whereas previously they were reported by reference to arrears balance as a percentage of the total outstanding balance. This change in methodology is a key driver of the movement since 31 December 2013 in the low risk and high risk individually impaired figures in the table above.

b) Commercial loans

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

	Unaudited as at 30.06.14		Unaudited as at 30.06.13		Audited as at 31.12.13	
	£m	**%**	£m	%	£m	%
Neither past due nor individually impaired	**384.8**	**97.4**	409.9	96.8	395.1	96.5
Past due but not impaired	**-**	**-**	-	-	-	-
	384.8	**97.4**	409.9	96.8	395.1	96.5
Individually impaired:						
Low risk	**2.4**	**0.6**	9.4	2.2	10.0	2.4
High risk	**8.0**	**2.0**	3.7	0.9	4.7	1.1
Possessions	**-**	**-**	0.5	0.1	-	-
	395.2	**100.0**	423.5	100.0	409.8	100.0

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%.

During the period, the methodology for determining arrears reporting has been revised, as described under the previous table.

c) Forbearance

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

At 30 June 2014 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 3.0% (30 June 2013: 3.1%; 31 December 2013: 3.3%). For commercial balances the percentage is 9.8% (30 June 2013: 7.6%; 31 December 2013: 8.2%).

18. Financial instruments

a) Classification and measurement

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

	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	12,121.9	-	-	**12,121.9**
Equity share investments	-	39.7	-	**39.7**
Trade receivables	36.4	-	-	**36.4**
Total financial assets	**13,305.2**	**1,338.1**	**120.8**	**14,764.1**
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**
Non-financial liabilities				**255.2**
Total liabilities				**14,142.6**

18. Financial Instruments *(continued)*

	Unaudited as at 30.06.13			
	Amortised cost £m	Held at fair value as available-for-sale assets £m	Fair value through profit or loss £m	Total £m
Cash in hand and balances with the Bank of England	597.1	-	-	597.1
Loans and advances to credit institutions	352.3	-	-	352.3
Debt securities	145.0	1,168.6	-	1,313.6
Derivative financial instruments	-	-	162.4	162.4
Loans and advances to customers	11,058.4	-	-	11,058.4
Equity share investments	-	22.7	-	22.7
Trade receivables	34.2	-	-	34.2
Total financial assets	12,187.0	1,191.3	162.4	13,540.7
Non-financial assets				381.7
Total assets				13,922.4
Shares	9,768.7	-	-	9,768.7
Amounts owed to credit institutions and other customers	1,747.2	-	-	1,747.2
Debt securities in issue	653.2	-	-	653.2
Derivative financial instruments	-	-	330.8	330.8
Trade payables	11.3	-	-	11.3
Fair value of put option obligation	-	-	11.2	11.2
Subordinated liabilities and subscribed capital	312.8	-	-	312.8
Total financial liabilities	12,493.2	-	342.0	12,835.2
Non-financial liabilities				198.9
Total liabilities				13,034.1

18. Financial Instruments *(continued)*

	Audited as at 31.12.13			
	Amortised cost £m	Held at fair value as available-for-sale assets £m	Fair value through profit or loss £m	Total £m
Cash in hand and balances with the Bank of England	859.4	-	-	859.4
Loans and advances to credit institutions	326.2	-	-	326.2
Debt securities	143.0	1,052.5	-	1,195.5
Derivative financial instruments	-	-	148.8	148.8
Loans and advances to customers	11,516.9	-	-	11,516.9
Equity share investments	-	37.1	-	37.1
Trade receivables	32.4	-	-	32.4
Total financial assets	12,877.9	1,089.6	148.8	14,116.3
Non-financial assets				370.4
Total assets				14,486.7
Shares	10,260.1	-	-	10,260.1
Amounts owed to credit institutions and other customers	1,977.1	-	-	1,977.1
Debt securities in issue	554.7	-	-	554.7
Derivative financial instruments	-	-	287.6	287.6
Trade payables	6.0	-	-	6.0
Fair value of put option obligation	-	-	13.5	13.5
Subordinated liabilities and subscribed capital	218.5	-	-	218.5
Total financial liabilities	13,016.4	-	301.1	13,317.5
Non-financial liabilities				234.3
Total liabilities				13,551.8

18. 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 have chosen to use LIBOR rather than Overnight Index Swaps (OIS). This will be reviewed when derivative clearing is introduced. No Credit (CVA) or Debit (DVA) Value Adjustments have been made in respect of credit risk within 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 make 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 net present value and 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, equity index prices and expected price volatilities. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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. This could occur, for example, where a listed company whose share price is used as a basis for fair value measurement becomes de-listed, and so the share prices are no longer shown in a recognised listing and therefore cannot be classified as Level 1 inputs.

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

18. Financial Instruments *(continued)*

	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**
	1,111.7	**323.1**	**24.1**	**1,458.9**
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	**-**	**120.1**	**117.0**	**237.1**
Fair value of put option obligation	**-**	**-**	**19.4**	**19.4**
	-	**120.1**	**136.4**	**256.5**
	1,111.7	**203.0**	**(112.3)**	**1,202.4**

	Unaudited as at 30.06.13			
	Quoted prices in active markets (Level 1) £m	Valuation techniques using observable inputs (Level 2) £m	Valuation techniques using significant unobservable inputs (Level 3) £m	Total £m
Financial assets				
Financial assets held at fair value as available-for-sale:				
Debt securities	1,021.1	147.5	-	1,168.6
Equity share investments	-	-	22.7	22.7
Financial assets at fair value through profit or loss:				
Derivative financial instruments	-	117.5	44.9	162.4
	1,021.1	265.0	67.6	1,353.7
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	-	171.7	159.1	330.8
Fair value of put option obligation	-	-	11.2	11.2
	-	171.7	170.3	342.0
	1,021.1	93.3	(102.7)	1,011.7

Certain index swaps included in derivative financial instruments in the table above, which were originally reported in Level 2 at the 2013 half year, have been reclassified to Level 3 due to the use of estimated redemption rates as inputs, which are considered unobservable. This is consistent with the 2013 Annual Report and Accounts. In addition, the fair value of the put option obligation is now regarded as having significant unobservable inputs and is therefore classified as Level 3, due to these inputs consisting of a level of management judgement around market valuations and estimated exercise dates. Again, this is on a consistent basis with the 2013 Annual Report and Accounts.

18. Financial Instruments *(continued)*

	Audited as at 31.12.13			
	Quoted prices in active markets (Level 1) £m	Valuation techniques using observable inputs (Level 2) £m	Valuation techniques using significant unobservable inputs (Level 3) £m	Total £m
Financial assets				
Financial assets held at fair value as available-for-sale:				
Debt securities	989.9	62.6	-	1,052.5
Equity share investments	-	-	37.1	37.1
Financial assets at fair value through profit or loss:				
Derivative financial instruments	-	110.9	37.9	148.8
	989.9	173.5	75.0	1,238.4
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	-	143.3	144.3	287.6
Fair value of put option obligation	-	-	13.5	13.5
	-	143.3	157.8	301.1
	989.9	30.2	(82.8)	937.3

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

	Unaudited as at 30.06.14			
	Equity share investments £m	**Derivative financial instruments £m**	**Fair value of put option obligation £m**	**Total £m**
At 1 January	**37.1**	**(106.4)**	**(13.5)**	**(82.8)**
Credit recognised in Income Statement	**-**	**11.5**[1]	**1.0**[2]	**12.5**
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)**
Transfers to Level 1 portfolio	**(37.7)**	**-**	**-**	**(37.7)**
At end of period	**2.0**	**(94.9)**	**(19.4)**	**(112.3)**

1 Included in the 'Fair value gains on financial instruments' line in the Income Statement. As noted below, these derivatives are held to hedge the Group's equity release mortgage book, and a corresponding gain is 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 is 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.

18. Financial Instruments *(continued)*

	Unaudited as at 30.06.13			
	Equity share investments £m	Derivative financial instruments £m	Fair value of put option obligation £m	Total £m
At 1 January	3.1	(94.5)	(12.0)	(103.4)
(Loss) / credit recognised in Income Statement	-	(19.7)[1]	0.7[2]	(19.0)
Gain recognised in Other Comprehensive Income	19.6[3]	-	-	19.6
Revaluations of market values	-	-	(0.6)	(0.6)
Dividends paid to non-controlling shareholders	-	-	0.7	0.7
At end of period	22.7	(114.2)	(11.2)	(102.7)

1 Included in the 'Fair value gains on financial instruments' line in the Income Statement. As noted below, the overall impact of the change in fair value of these derivatives on the Income Statement is nil, due to the associated hedged item included within loans and advances to customers.
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.

Certain derivative financial instruments and the fair value of the put option obligation are now regarded as having Level 3 inputs and are classified accordingly in the table above, as described on page 37.

	Audited as at 31.12.13			
	Equity share investments £m	Derivative financial instruments £m	Fair value of put option obligation £m	Total £m
At 1 January	3.1	(94.5)	(12.0)	(103.4)
Loss recognised in Income Statement	-	(11.9)[1]	(0.1)[2]	(12.0)
Gain recognised in Other Comprehensive Income	33.2[3]	-	-	33.2
Revaluation of market values	-	-	(3.3)	(3.3)
Dividends paid to non-controlling shareholders	-	-	1.9	1.9
Additions	0.8	-	-	0.8
At end of period	37.1	(106.4)	(13.5)	(82.8)

1 Included in the 'Fair value gains on financial instruments' line in the Income Statement. As noted below, the overall impact of the change in fair value of these derivatives on the Income Statement is nil, due to the associated hedged item included within loans and advances to customers.
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.

Equity share investments

The Group's equity share investments represent a 3.9% holding in Zoopla Property Group (30 June 2013: 5.6%; 31 December 2013: 4.9%) and a 20.6% holding in Hearthstone Investments Limited (30 June 2013: 22.7%; 31 December 2013: 21.0%).

On 18 June 2014, Zoopla was subject to a flotation and, following flotation, the Group sold a proportion of its shareholding which resulted in the Group's share in Zoopla reducing from 4.9% to 3.9%. This resulted in a gain to the Income Statement of £10.1m (reflected in the 'Profit on disposal of equity share investments' line). This gain had previously been recognised as an unrealised gain (£8.2m of which was recognised in 2013) through the available-for-sale reserve and, following the sale of these shares, has been recycled to the Income Statement. In addition, a further unrealised gain of £10.3m was recognised in respect of the Group's remaining shareholding in Zoopla, based on the quoted share price at 30 June 2014 as the Directors consider that this represented the best assessment of the fair value of the remaining shareholding. The cumulative balance recognised in the available-for-sale reserve as at 30 June 2014 in respect of Zoopla, gross of taxation, is £35.3m (30 June 2013: £19.6m; 31 December 2013: £33.2m).

18. Financial Instruments *(continued)*

As a result of the flotation, the fair value of Zoopla can now be determined by reference to a quoted share price in an active market and this therefore represents a Level 1 fair value measurement. Accordingly the Group has reflected a transfer from Level 3 to Level 1 of the fair value hierarchy in respect of its holding in Zoopla, as shown in the table on the previous page.

The cost of the Group's investment in Hearthstone is £2.0m, which the Directors believe is the best indication of its fair value. In the absence of any other observable inputs, the Directors have taken note of the most recent issues of shares by Hearthstone, in arriving at this conclusion.

In the absence of any other reliable information regarding Hearthstone, the Directors do not consider that any reasonably possible alternative valuation assumptions exist for this investment.

Derivative Financial instruments

The derivative financial instruments included in the previous tables comprise index swaps which are used to hedge the Group's equity release mortgage book. 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 also include estimated redemption profiles that are based on historic 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.

Where there is a value that impacts on the Income Statement in the previous tables with no apparent offsetting value, it should be noted that an offsetting value will exist but the instrument to which it relates is not held at fair value. Index swap derivatives are held at fair value, but the underlying equity release mortgages being hedged are held at amortised cost and therefore are not reflected in the table above.

Any change in the fair value of the index swaps would be offset by a corresponding but offsetting change in the value of the associated hedged item within loans and advances to customers. Therefore, a shortening of the expected redemption profile would result in an increase in the fair value of the hedged item within loans and advances to customers, and an offsetting reduction in the fair value of the index swaps, or vice versa.

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 judgement 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.

18. Financial Instruments *(continued)*

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 presented within the Statement of Financial Position at fair value.

	Unaudited as at 30.06.14		Unaudited as at 30.06.13		Audited as at 31.12.13	
	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	**826.1**	**826.1**	597.1	597.1	859.4	859.4
Loans and advances to credit institutions	**302.9**	**302.9**	352.3	352.3	326.2	326.2
Debt securities	**17.9**	**18.1**	145.0	145.4	143.0	144.6
Loans and advances to customers	**12,121.9**	**12,032.9**	11,058.4	10,911.8	11,516.9	11,470.7
Trade receivables	**36.4**	**36.4**	34.2	34.2	32.4	32.4
	13,305.2	**13,216.4**	12,187.0	12,040.8	12,877.9	12,833.3
Financial liabilities						
Shares	**10,911.9**	**11,012.1**	9,768.7	9,845.1	10,260.1	10,338.6
Amounts owed to credit institutions	**570.8**	**567.5**	788.6	788.5	1,046.3	1,044.6
Amounts owed to other customers	**1,066.0**	**1,068.9**	958.6	958.2	930.8	934.1
Debt securities in issue	**871.8**	**886.1**	653.2	670.0	554.7	564.7
Trade payables	**9.1**	**9.1**	11.3	11.3	6.0	6.0
Subordinated liabilities and subscribed capital	**201.3**	**225.5**	312.8	287.0	218.5	210.1
	13,630.9	**13,769.2**	12,493.2	12,560.1	13,016.4	13,098.1

During 2013, the Group reviewed and enhanced its approach for estimating certain inputs into the fair values of loans and advances to customers disclosed in the table above, in line with IFRS 13. Accordingly, the fair value of loans and advances to customers as at 30 June 2013 has been updated on a basis consistent with the corresponding figure as at 31 December 2013, as presented in the 2013 Annual Report and Accounts.

19. 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 to 30 June 2014 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 survey and valuations, conveyancing, lettings, asset management and mortgage broking carried out through the Connells group.
- Mortgage Services – mortgage administration services, principally Homeloan Management Limited and its subsidiaries.
- Financial Advice – provision of financial advice and broking services through three separate financial advice businesses, Skipton Financial Services Limited, Pearson Jones plc and Torquil Clark Limited.
- Investment Portfolio – includes a number of small trading companies that do not fall within the core operating segments.

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

19. Group segmental reporting *(continued)*

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, £19.0m (six months ended 30 June 2013: £13.2m; year ended 31 December 2013: £55.7m) was generated outside the UK.

Since the end of the reporting period, on 23 July, the Group has announced the sale of its entire shareholding in HML (subject to regulatory approval) as detailed further in note 15 to these financial statements. As HML represents the whole of our Mortgage Services division its results are classified as being derived from discontinued operations at 30 June 2014.

In addition, on 29 July the Group agreed the sale of its entire shareholding in The Private Health Partnership Limited and its subsidiary businesses. As this business is not considered a major line of business for the Group it is not classified as a discontinued operation at 30 June 2014.

Unaudited 6 months to 30.06.14

	Mortgages and Savings £m	Estate Agency £m	Mortgage Services (Discontinued) £m	Financial Advice £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Profit / (loss) before tax	**51.3**	**42.6**	**0.2**	**0.8**	**2.6**	**(7.5)**	**90.0**
Taxation	(11.1)	(8.7)	-	(0.2)	(0.6)	1.1	(19.5)
Profit / (loss) after tax	**40.2**	**33.9**	**0.2**	**0.6**	**2.0**	**(6.4)**	**70.5**
Total assets	**14,892.9**	**227.2**	**28.3**	**26.3**	**131.0**	**(159.4)**	**15,146.3**
Total liabilities	**14,040.8**	**66.2**	**5.6**	**1.8**	**108.5**	**(80.3)**	**14,142.6**
Capital expenditure	**1.4**	**4.9**	**1.6**	**0.4**	**0.8**	**-**	**9.1**

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

	Mortgages and Savings £m	Estate Agency £m	Mortgage Services (Discontinued) £m	Financial Advice £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
External income	**105.6**	**170.0**	**27.8**	**23.8**	**16.6**	**0.6**	**344.4**
Income from other segments	**2.5**	**2.3**	**3.0**	**(3.8)**	**(0.3)**	**(3.7)**	**-**
Total income	**108.1**	**172.3**	**30.8**	**20.0**	**16.3**	**(3.1)**	**344.4**

Included in profit before tax of the Mortgage Services division are fees and commissions receivable of £30.8m (six months ended 30 June 2013: £29.7m; year ended 31 December 2013: £59.3m), administrative expenses of £29.6m (six months ended 30 June 2013: £28.6m; year ended 31 December 2013: £57.2m) and other costs of £1.0m (six months ended 30 June 2013: £0.8m; year ended 31 December 2013: £1.2m).

19. Group segmental reporting *(continued)*

Unaudited 6 months to 30.06.13 (restated*)

	Mortgages and Savings^ £m	Estate Agency £m	Mortgage Services (Discontinued) £m	Financial Advice £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments^ £m	Total £m
Profit / (loss) before tax	12.2	23.0	0.3	0.5	(2.6)	(5.1)	28.3
Taxation	(2.7)	(5.0)	(0.1)	(0.1)	0.4	0.2	(7.3)
Profit / (loss) after tax	9.5	18.0	0.2	0.4	(2.2)	(4.9)	21.0
Total assets	13,696.7	198.5	23.8	29.4	131.1	(157.1)	13,922.4
Total liabilities	12,907.9	72.0	1.8	6.8	96.7	(51.1)	13,034.1
Capital expenditure	1.2	3.5	1.1	0.5	3.0	(0.2)	9.1

* The comparative figures have been restated due to a change in accounting policy relating to the Financial Services Compensation Scheme (FSCS) levy. Further details are provided in note 1b).

^ Subsequent to the 2013 half year but prior to the end of the 2013 financial year, there was a change to the reporting of business segments whereby certain costs were reallocated from the Mortgages and Savings division to sundry or 'central' costs, in line with how management allocate resources and assess performance. The comparative figures in the table above have been restated accordingly.

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

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

Audited 12 months to 31.12.13 (restated*)

	Mortgages and Savings £m	Estate Agency £m	Mortgage Services (Discontinued) £m	Financial Advice £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Profit / (loss) before tax	51.5	50.2	0.9	3.9	20.5	(23.4)	103.6
Taxation	(12.0)	(11.8)	(0.1)	(0.9)	(2.6)	1.0	(26.4)
Profit / (loss) after tax	39.5	38.4	0.8	3.0	17.9	(22.4)	77.2
Total assets	14,238.0	219.0	25.2	31.2	134.4	(161.1)	14,486.7
Total liabilities	13,422.8	91.9	2.6	5.9	105.1	(76.5)	13,551.8
Capital expenditure	2.1	9.3	2.8	1.3	3.7	(0.2)	19.0

* The comparative figures have been restated due to a change in accounting policy relating to the Financial Services Compensation Scheme (FSCS) levy. Further details are provided in note 1b).

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

	Mortgages and Savings £m	Estate Agency £m	Mortgage Services (Discontinued) £m	Financial Advice £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
External income	158.1	280.3	53.3	48.4	56.9	4.1	601.1
Income from other segments	5.7	5.4	5.3	(7.9)	1.2	(9.7)	-
Total income	163.8	285.7	58.6	40.5	58.1	(5.6)	601.1

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

Disclosed below are the new standards and amendments to IFRS which have been adopted during the period, all of which are EU endorsed:

- IFRS 10 *Consolidated Financial Statements*. This new standard is effective from 1 January 2014 and replaces part of IAS 27 *Consolidated and Separate Financial Statements*, as well as SIC-12 *Consolidation - Special Purpose Entities*. The new standard defines the principle of control and establishes control as the basis for determining which entities are consolidated into the consolidated financial statements. The standard also sets out the accounting requirements for the preparation of consolidated financial statements. The new standard has had no impact on these condensed financial statements.
- IFRS 11 *Joint Arrangements*. This new standard is effective from 1 January 2014 and replaces IAS 31 *Interests in Joint Ventures*, and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. The new standard removes the choice to apply the proportionate consolidation method, requiring all joint arrangements to be accounted for under the equity method. The new standard has had no impact on these condensed financial statements.
- IFRS 12 *Disclosure of Interests in Other Entities*. This standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity, and is effective from 1 January 2014. This standard has resulted in an impact on the disclosure requirements of the Group but has had no impact on these condensed financial statements.
- IAS 27 (revised) *Separate Financial Statements*. This revised standard applies to entities that are required to prepare separate financial statements where the entity holds investments in subsidiaries, associates or jointly controlled entities and has had no impact on these condensed financial statements.
- IAS 28 (revised) *Investments in Associates and Joint Ventures*. This standard prescribes the accounting for investments in associates and sets out requirements for the application of the equity method when accounting for investments in associates and joint ventures, including guidance on how such investments should be tested for impairment. The revised standard has had no impact on these condensed financial statements.
- *Investment Entities* (amendments to IFRS 10, IFRS 12 and IAS 27). The amendments to these standards apply to entities whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. The amendments to these standards have had no impact on these condensed financial statements.
- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*. This amendment provides clarification of the rules surrounding offsetting of financial assets and financial liabilities. The revised standard has had no impact on these condensed financial statements.
- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*. This amendment changes the disclosure requirements surrounding recoverable amounts of non-financial assets where the recoverable amount is based on fair value less costs to sell. The revised standard has had no impact on these condensed financial statements.
- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*. This amendment provides an exception to the requirement for hedge accounting to be discontinued when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. The revised standard has had no impact on these condensed financial statements.

In addition, the Directors have adopted IFRIC 21 *Levies*, which was endorsed by the EU during the period, and which provides clarification of the accounting for government imposed levies within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This interpretation changes the date at which the Society's provision for the Financial Services Compensation Scheme (FSCS) levy is recognised. Further details are provided in note 1b).

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 M R Fleet*	
Mr P R Hales	
Mr G E Picken	
Ms H C Stevenson	
Mr P J S Thompson	
Mr R J Twigg*	(Resigned 7 April 2014)

* Executive Directors

Signed on behalf of the Board by

M H Ellis

Chairman

31 July 2014

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 2014 which comprises the condensed consolidated income statement, the condensed consolidated statement of financial position, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in members' interests and the condensed consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Society in accordance with the terms of our engagement to assist the Society in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the Society those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

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

Our responsibility

Our responsibility is to express to the Society a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 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 Audit Plc

Chartered Accountants

Leeds

31 July 2014

For more information

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skipton.co.uk

Skipton Building Society is a member of the Building Societies Association and Financial Ombudsman Service. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority under registration number 153706 for accepting deposits, advising on and arranging mortgages and insurance. Principal Office, The Bailey, Skipton, North Yorkshire BD23 1DN. *To help maintain service and quality, some telephone calls may be recorded and monitored. Stock Code: 10-8417_ 303551NL_04/08/14