



Half Year Results 2006

Review of the Half Year



Results

Once again the Skipton Group, which comprises the building society and its 17 subsidiaries, has delivered excellent financial results. Strong performances are evident in many areas: assets are up 14.3% year-on-year, core Society management expenses continue their downward trend to 55 pence per £100 assets, and the Society's interest rate margin has narrowed once again to 71 pence,

demonstrating the value the Society continues to pass back to its members. The half year Group profit figures include a one-off credit of £15.1 million following the sale of 4% of the equity in the property website Rightmove.co.uk, as part of its flotation in March. (The Group, through Connells, still retains a 20.7% share.)

“Beginning with the first subsidiary in 1988, the Skipton Group has grown year-on-year and 2006 is shaping up to be a most satisfying year. The Board remains confident that these excellent results for the first six months will continue for the remainder of the year.”

Skipton Building Society

A further reduction in the Society's interest rate margin, already one of the lowest in the industry, proves once again the value Skipton delivers to its members – the smaller the margin, the smaller the difference between the rates savers are paid on their investments and borrowers are charged on their mortgages. Market-leading savings products such as the Branch Access account, which has appeared in 138 best buy tables in the national press in the first six months of the year, have played their part in increasing retail balances by 14.8% year-on-year. In addition, products from Skipton's consistently competitive mortgage range, which have appeared in over 50 best buy tables, have led to gross mortgage applications for the first half of 2006 totalling over £1.3 billion – far exceeding business levels for any previous half year lending period. The value of mortgage assets has subsequently seen a year-on-year increase of 14.6%.

Group Companies

Earlier in July, the Group welcomed its latest acquisition, Sterling International Brokers (Sterling), bringing the number of subsidiaries to 17. A money broking service based in London, Sterling continues the strategy of investing in complementary businesses to add value to the core saving and borrowing businesses.

A previous acquisition which is now really delivering results is the Sequence chain of estate agencies, which was purchased by Connells in 2003. Comprising 11 well known high street estate agency brands, Sequence has been re-organised to follow Connells' already successful model, transforming it from a loss-making to a profit-making business in less than three years. This, coupled with Connells' own strong performance (aided by a healthy housing market), has produced excellent first half results.

“The broad spectrum of services offered by the organisations within the Group allows each of them to play its part in delivering these record results. This illustrates the ethos of ‘modern mutuality’ Skipton has long championed and is a crucial tool in creating the maximum value possible for members.”

Homeloan Management Ltd (HML) consistently succeeds and has recently acquired new business resulting in it managing total mortgage assets approaching £40 billion.

Based in Leeds, the Skipton Information Group (comprising Eurodirect, GMAP and Callcredit) continues to grow. In particular, Callcredit has recently announced a strategic agreement with Lloyds TSB to supply consumer credit referencing services, with the bank using a number of Callcredit data solutions in its customer management and acquisition processes.

After a 20 year working relationship, the Group acquired a significant shareholding in Jade Software Corporation, a technology company based in New Zealand, in late 2004. Jade has recently sold its healthcare division, boosting its profit figures and allowing it to concentrate on its core services, primarily in the fields of finance, logistics and education.

Unaudited Results for the Half Year to 30 June 2006

Summary Consolidated Income Statements	Unaudited	Unaudited	Audited
	6 months to 30.06.06	6 months to 30.06.05	12 months to 31.12.05
	£m	£m	£m
Interest receivable and similar income	237.3	217.2	450.5
Interest payable and similar charges	(188.7)	(173.6)	(357.2)
Net interest receivable	48.6	43.6	93.3
Fair value gains and losses on financial instruments	1.4	(1.0)	(0.7)
Fees and commissions income	217.0	175.3	369.2
Fees and commissions expense	(18.4)	(14.7)	(23.9)
Other operating income	2.9	2.7	4.9
Total operating income	251.5	205.9	442.8
Non operating income – part disposal of joint venture	15.1	-	-
Administrative expenses	(189.5)	(165.5)	(345.9)
Impairment losses on loans and advances to customers	(4.0)	(3.1)	(7.9)
Provisions	(0.2)	(0.2)	0.4
Share of profits from joint ventures	0.5	0.9	1.8
Profit before tax	73.4	38.0	91.2
Tax expense	(14.3)	(11.9)	(25.3)
Profit for the period	59.1	26.1	65.9
Attributable to:			
Members of Skipton Building Society	56.9	26.0	62.8
Minority interests	2.2	0.1	3.1
	59.1	26.1	65.9

Basis of preparation

The half-year results are prepared on the basis of the recognition and measurement requirements of IFRSs in issue that are endorsed by the EU and effective. There have been no changes in the accounting policies during the period.

The comparative figures for the financial year ended 31 December 2005 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the auditors, whose report was unqualified.

The results have been prepared on the basis of accounting policies disclosed in the Society's 2005 Annual Report and Accounts.

Unaudited Results for the Half Year to 30 June 2006

Summary Consolidated Balance Sheets	Unaudited as at 30.06.06	Unaudited as at 30.06.05	Audited as at 31.12.05
	£m	£m	£m
Assets			
Liquid assets	2,073.9	1,956.3	1,778.2
Derivative financial instruments	36.4	45.8	62.2
Loans and advances to customers	7,536.8	6,415.6	7,030.3
Investments	2.5	0.6	1.3
Intangible assets	17.9	18.7	22.0
Goodwill	67.8	63.5	66.5
Property, plant and equipment	73.8	75.1	74.0
Investment property	5.8	6.2	5.9
Prepayments, accrued income and other assets	128.6	114.7	115.4
Total Assets	9,943.5	8,696.5	9,155.8
Liabilities			
Shares	5,696.4	4,969.5	5,240.6
Deposits and debt securities	3,347.2	2,909.5	3,036.0
Derivative financial instruments	30.7	46.2	44.3
Other liabilities, accruals and provisions	104.8	105.0	125.6
Retirement benefit obligations	52.7	56.4	68.8
Subordinated liabilities	132.0	131.9	130.9
Subscribed capital	26.3	26.3	26.3
	9,390.1	8,244.8	8,672.5
Capital and reserves			
Reserves attributable to members of Skipton Building Society	541.1	446.9	476.0
Minority interests	12.3	4.8	7.3
Total Liabilities	9,943.5	8,696.5	9,155.8

The restated 1 January 2005 IFRS opening balance sheet is disclosed in the Society's 2005 Annual Report and Accounts.

Unaudited Results for the Half Year to 30 June 2006

Summary Consolidated Cash Flow Statements	Unaudited 6 months to 30.06.06	Unaudited 6 months to 30.06.05	Audited 12 months to 31.12.05
	£m	£m	£m
Cash flows from operating activities			
Profit before taxation	73.4	38.0	91.2
Adjustments for:			
Movement in prepayments and accrued income	(7.2)	0.3	(1.2)
Movement in accruals and deferred income	1.2	(37.5)	30.6
Depreciation and amortisation	9.3	7.7	17.9
Net increase in loans and advances made to customers	(499.8)	(571.0)	(1,153.1)
Net increase in shares	455.8	337.3	536.1
Net movement in amounts owed to credit institutions and other customers	100.9	(8.8)	52.8
Net movement in debt securities in issue	212.0	164.0	229.4
Net movement in other liquid assets	(102.1)	(176.4)	165.0
Other movements	(33.9)	6.6	17.1
Income taxes paid	(16.6)	(19.3)	(24.7)
Net cash flows from operating activities	193.0	(259.1)	(38.9)
Net cash flows from investing activities			
Capital expenditure and financial investment	(25.4)	136.3	(35.6)
Acquisitions and disposals	10.0	125.7	83.6
Net cash flows from financing activities			
Interest paid on subscribed capital	(4.5)	(4.5)	(11.1)
Dividends paid to minorities	-	-	(0.5)
Increase/(decrease) in cash and cash equivalents	173.1	(1.6)	(2.5)
Consolidated Statement of Recognised Income and Expense			
	£m	£m	£m
Change in accounting policy on adoption of IAS 39	-	11.3	11.3
Available for sale investments:			
Valuation gains taken to equity	0.2	1.2	0.3
Cash flow hedges:			
Gains/(losses) taken to equity	2.1	(1.0)	(0.5)
Exchange differences on translation of foreign operations	(1.7)	1.0	0.5
Actuarial gain/(loss) on retirement benefit obligations	11.1	(6.2)	(16.8)
Tax on items taken directly to or transferred from equity	(3.5)	1.7	5.0
Net income recognised directly in equity	8.2	8.0	(0.2)
Profit for the period	59.1	26.1	65.9
Total recognised income and expense for the period	67.3	34.1	65.7
Attributable to:			
Members of Skipton Building Society	65.1	34.0	62.6
Minority interests	2.2	0.1	3.1
	67.3	34.1	65.7

Independent review report to Skipton Building Society

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2006 which comprises the Group Income Statement, the Group Statement of Recognised Income and Expense, the Group Balance Sheet and the Group Cash Flow Statement. We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Skipton Building Society in accordance with the terms of our engagement. 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 year report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors.

Review work performed

We conducted our review having regard to the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Statements on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

KPMG Audit Plc

Chartered Accountants

Leeds

25 July 2006

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