



Half Year Results 2007

Review of the Half Year



Results

Once again the Skipton Group has delivered excellent financial results in the first half of 2007, with the performance of both the parent Society and our subsidiaries driving total reported profit forward to a level 49% higher than at the same time last year and underlying profit before tax 27% higher. Strong performances are evident in many areas, such as both Group and Society assets growing by 13%, Group

and Society mortgage balances increasing by 15% and Society investment balances being 17% higher year-on-year. Another highlight is that, at 0.76%, the Society's interest rate margin remains one of the lowest in the industry, demonstrating the value the Society continues to pass back to its members.

"It is testament to the power of our business that the performance of both the Society and our subsidiaries has driven profit forward to a level 49% higher than at the same time last year."

Lending and housing

The Society has exceeded plan, as mortgage applications in the first half of 2007 totalled nearly 13,500, with a value of over £1.4 billion. Taking into account mortgage origination across the entire Group, this figure increases to a formidable £7.4 billion. For all of these loans, affordability is key and a prudent approach to lending has resulted in one of the best records for arrears in the industry. For example, at 30 June the Society had only 15 properties in possession out of a population of 76,500 loans.

The business of Amber Homeloans in the mortgage market has changed somewhat in recent years, as it builds on its specialist lending expertise through the purchase and sale of mortgage books. So far in 2007, the company has completed five such transactions totalling £715 million of mortgage assets.

Even with the erratic housing market, the Connells estate agency group has used its robust business model to achieve another set of pleasing results. In addition, it recently added £36 million to its profits from the sale of 5% of the shares in Rightmove, the property website it helped set up in 2000. (This amount is included in the Group profit figures.)

Homeloan Management, Europe's largest mortgage servicer, is adding to its sites in Yorkshire, Lancashire and Londonderry with a new office in Glasgow and also to its client list, with four new

contracts signed so far in 2007. As a result, the value of mortgage assets the company services has continued its strong growth and now exceeds £47 billion.

Callcredit, our credit reference agency, continues to increase its market share and has built a strong reputation with key lenders for allowing them to understand new applicants' and existing customers' levels of debt and their ability to meet credit commitments. Callcredit's data also helps lenders to target their consumer counselling and debt recovery processes towards those most likely to benefit from them.

“To see our profits climbing year-on-year is a testament to our business model, the scale of which makes Skipton unique in the industry and an example of modern mutuality in action.”

Retail investments

The general stock market performance during the first half of the year has buoyed business for the Group's financial advisory companies. Additionally, Pearson Jones has expanded outside of its Yorkshire heartland, with the acquisition of Pace Financial Services in Bishop Auckland. One of the leading IFAs in the North East, Pace shares Pearson Jones' aim of developing long-term relationships with clients.

Skipton Financial Services has a major project to enhance its strategy of servicing its clients' long-term planning needs. This has dovetailed with a change to the company's fee structure, to now take lower initial commission plus a small ongoing annual commission, which pre-empted the regulatory changes recently announced in the FSA's Retail Review.

Regarding more traditional investments, the Society continues to deliver competitive products, and these have appeared in 280 national best buy tables in the first half of this year. One of these is our Christmas Saver account, launched in January, which offers a way for savers to make money on the cost of Christmas, by getting a return of 7.55% on the funds they put away each month. Already, nearly 9,000 accounts have been opened with balances approaching the £5 million mark. In addition, record numbers of investment transfers from other institutions into our Branch Access, ISA and Tessa Only ISA accounts have helped customer investment balances to increase by 17% year-on-year.

Investment inflows are expected to increase further with the opening of a number of new branches before the end of the year, as more savers can benefit from our face-to-face service and expertise.

“I expect, despite rising interest rates, that we will continue to progress in the second half of the year and 2007 will prove to be another successful year.”

Unaudited Results for the Half Year to 30 June 2007

Summary Consolidated Income Statements	Unaudited 6 months to 30.06.07	Unaudited 6 months to 30.06.06	Audited 12 months to 31.12.06
	£m	£m	£m
Interest receivable and similar income	303.5	236.7	522.2
Interest payable and similar charges	(250.6)	(189.8)	(424.1)
Net interest receivable	52.9	46.9	98.1
Fair value gains and losses on financial instruments	2.0	1.4	3.0
Fees and commissions income	247.0	217.0	455.9
Fees and commissions expense	(20.9)	(18.4)	(33.2)
Other operating income	4.2	2.9	9.0
Total operating income	285.2	249.8	532.8
Non operating income – part disposal of associate	36.0	15.7	15.7
Administrative expenses	(216.8)	(189.5)	(397.0)
Impairment losses on loans and advances to customers	(0.7)	(4.0)	(5.6)
Provisions	0.8	(0.2)	(1.6)
Share of profits from joint ventures and associates	3.1	0.5	1.4
Profit before tax	107.6	72.3	145.7
Tax expense	(19.0)	(14.3)	(32.6)
Profit for the period	88.6	58.0	113.1
Attributable to:			
Members of Skipton Building Society	87.9	56.8	111.7
Minority interests	0.7	1.2	1.4
	88.6	58.0	113.1

Basis of preparation

This interim financial information, for the six months ended 30 June 2007, has been prepared applying the accounting policies and presentation that were applied in the preparation of the group's published consolidated financial statements for the year ended 31 December 2006, except as noted below.

We have reviewed our accounting for investments in subsidiary undertakings, and in particular the minority shareholders' option to put their stakes in subsidiaries to us, in the light of IAS 32 and emerging accounting practice. We have now accounted for the options as a liability for the purchase of minority shareholdings, where such put options exist, as if we held 100%.

Application of this accounting treatment has resulted in the recognition of additional goodwill totalling £51.4m with an associated liability of £53.6m in the 30 June 2007 balance sheet. Additionally, minority interest has been reduced by £5.9m at the same date. We have also adjusted the 30 June 2006 and 31 December 2006 comparative balance sheets in respect of goodwill (£80.1m, £69.8m), the associated liability (£85.7m, £75.0m) and minority interest (£7.3m, £6.6m) respectively. The impact on the income statement is the recognition of the interest expense, being the accretion of the liability and the recognition of profit previously attributable to the minority interests. This net impact on the income statements was £2.3m credit for the six months to 30 June 2007, £1.4m credit for the year ended 31 December 2006 and £1.6m credit for six months to 30 June 2006.

Unaudited Results for the Half Year to 30 June 2007

Summary Consolidated Balance Sheets	Unaudited as at 30.06.07	Unaudited as at 30.06.06	Audited as at 31.12.06
	£m	£m	£m
Assets			
Liquid assets	2,235.1	2,073.9	2,136.0
Derivative financial instruments	103.7	51.8	87.6
Loans and advances to customers	8,590.2	7,521.4	7,983.6
Investments	8.6	2.5	4.9
Intangible assets	20.1	17.9	20.5
Goodwill	178.8	147.9	163.9
Property, plant and equipment	75.9	73.8	75.2
Investment property	4.9	5.8	5.5
Prepayments, accrued income and other assets	132.8	128.6	102.1
Total Assets	11,350.1	10,023.6	10,579.3
Liabilities			
Shares	6,662.1	5,696.2	6,149.9
Deposits and debt securities	3,547.6	3,346.4	3,339.4
Derivative financial instruments	24.4	31.7	31.9
Other liabilities, accruals and provisions	183.5	190.5	204.7
Retirement benefit obligations	14.9	52.7	43.4
Subordinated liabilities	183.2	132.0	181.0
Subscribed capital	26.3	26.3	26.3
	10,642.0	9,475.8	9,976.6
Capital and reserves			
Reserves attributable to:			
Members of Skipton Building Society	701.6	542.8	597.6
Minority interests	6.5	5.0	5.1
Total Liabilities	11,350.1	10,023.6	10,579.3

Basis of preparation – continued

The comparative figures for the financial year ended 31 December 2006 are condensed and therefore are not the group's statutory accounts for that financial year. Those accounts have been reported on by the group's auditors and the report of the auditors was (i) unqualified, and (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report.

The interim financial statements for the six months ended 30 June 2007 were approved by the Board of Directors on 31 July 2007.

Unaudited Results for the Half Year to 30 June 2007

Summary Consolidated Cash Flow Statements	Unaudited 6 months to 30.06.07 £m	Unaudited 6 months to 30.06.06 £m	Audited 12 months to 31.12.06 £m
Cash flows from operating activities			
Profit before taxation	107.6	72.3	145.7
Adjustments for:			
Movement in prepayments and accrued income	2.4	(7.2)	(1.8)
Movement in accruals and deferred income	(56.6)	2.3	14.9
Depreciation and amortisation	10.1	9.3	25.4
Net increase in loans and advances made to customers	(574.1)	(499.8)	(1,167.1)
Net increase in shares	574.6	455.8	894.8
Net movement in amounts owed to credit institutions and other customers	548.8	100.9	69.8
Net movement in debt securities in issue	(346.6)	212.0	249.3
Net movement in other liquid assets	(142.0)	(102.1)	(29.2)
Other movements	(22.2)	(33.9)	(59.2)
Income taxes paid	(9.8)	(16.6)	(30.2)
Net cash flows from operating activities	92.2	193.0	112.4
Net cash flows from investing activities			
Capital expenditure and financial investment	(87.0)	(32.8)	(117.6)
Acquisitions and disposals	(2.2)	17.4	(11.6)
Net cash flows from financing activities			
Proceeds from issue of subordinated debt	-	-	50.0
Interest paid on subscribed capital	(4.7)	(4.5)	(11.1)
Dividends paid to minorities	-	-	(2.4)
Increase/(decrease) in cash and cash equivalents	(1.7)	173.1	19.7
Consolidated Statement of Recognised Income and Expense	£m	£m	£m
Available for sale investments:			
Valuation gains/(losses) taken to equity	(0.4)	0.2	(1.7)
Cash flow hedges:			
Gains taken to equity	5.7	2.1	4.3
Exchange differences on translation of foreign operations	1.3	(1.7)	0.1
Actuarial gains on retirement benefit obligations	17.2	11.1	14.0
Share of associate's capital re-organisation	-	-	0.7
Tax on items taken directly to or transferred from equity	(6.7)	(3.5)	(3.8)
Net income recognised directly in equity	17.1	8.2	13.6
Profit for the period	88.6	58.0	113.1
Total recognised income and expense for the period	105.7	66.2	126.7
Change in accounting policy	1.4	-	-
	107.1	66.2	126.7
Total recognised income and expense for the period attributable to:			
Members of Skipton Building Society	105.0	65.0	125.3
Minority interests	0.7	1.2	1.4
	105.7	66.2	126.7

Independent review report to Skipton Building Society

Introduction

We have been instructed by the Society to review the financial information for the six months ended 30 June 2007 which comprises the Summary Consolidated Income Statement, the Summary Consolidated Balance Sheet, the Summary Consolidated Statement of Recognised Income and Expense and the Summary Consolidated Cash Flow Statement. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to 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 interim 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 in accordance with guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of the Group 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 Standards 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 2007.

KPMG Audit Plc

Chartered Accountants

Leeds

31 July 2007

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