Half-Yearly Financial Report 2008

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SKIPTON BUILDING SOCIETY

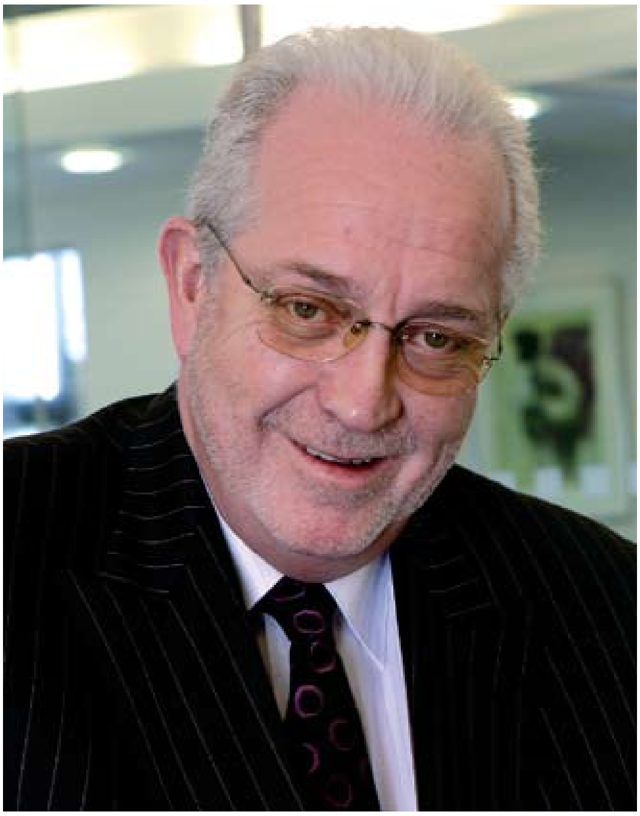
Contents

Forward-looking statements

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

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

Chief Executive's review of the half year



Results

The first half of 2008 has seen a robust performance from the Skipton Group, in very demanding economic times. My announcement in February of our 2007 figures was accompanied by a forewarning of lower profits to come. Hence, my key message at the six-month mark is less about our profitability and more about the quality of our assets because, perhaps more than most, I can report we are in good shape and generating earnings – with no exposure to the US sub-prime market.

This solidity in adverse times sees the Skipton Building Society Group's pre-tax profit standing at £44.1 million, backed by total mortgage balances of £9.4 billion and retail savings balances of £7.8 billion. The Group's assets are £13.4 billion.

Despite the reduction in our profit, when considered in tandem with the present situation, these results show a modern mutual can thrive in even the toughest market conditions. Indications are also that, despite no imminent relief in economic pressures, the Group can expect a challenging second half of the year, as we maintain our prudent liquidity position via both the retail and wholesale markets.

The economy

For each piece of market data that is released, there is a commentator waiting to predict what effect it might have on the economy. Such predictions change daily, as more information appears, so there is little value in adding to these. Suffice to say, our overarching view is that there will be no improvement in economic conditions until the second half of 2009 at the earliest. That said, we also believe the cathartic experience of the current situation will result in a more stable market in the future, which will provide growth opportunities. There are some silver linings to this situation, including:

- Types of lending previously carried out by some organisations simply to gain market share has halted; tighter criteria have also led to more considered lending.
- 'Caution' has replaced 'spending' in many consumers' vocabularies, so savings balances, particularly in ISAs, have risen.
- Investors are realising the value of 'trusted' organisations – particularly building societies.

Retail savings and mortgages

Normally, details of our retail and lending performance would be noted separately; however, the failure of Northern Rock to balance these means the link between them has never been so greatly scrutinised. It is therefore important to note that for the six months ended 30 June 2008, retail savings inflows more than funded the Group's mortgage growth, being 170% of net advances.

Our ability to do this has been aided by the popularity of a number of savings products, particularly our limited edition Easter, Spring and Summer bonds. Between them, these products generated inflows of £400 million through the opening of over 22,000 accounts. Their popularity was due in part to a growing appetite for mid-term savings (the rates were fixed for 18 months) which also contributed to inflows of over £5 million into our Guaranteed Double Asset Bond. This account mixed the benefit of a one-year fixed rate bond with a five and a half year bond where capital is guaranteed and the rate tracks the progress of both the FTSE and House Price Index.

The Society's investment inflows were also boosted as new customers joined us via five new branches in Dorking, Wilmslow, Woking, Newbury and Warrington. With more new branches in the pipeline, even more new members will be able to benefit from our face-to-face service. However, we also offer online accounts, including our newly launched Online ISA, to those who are unable to access a branch. Overall, the half year sees the Society's investment balances at £7.8 billion, an increase of 17% year-on-year.

Chief Executive's review of the half year (continued)

Such strong retail inflows, backed by improvements such as lengthening the duration of our wholesale funding, mean our lending remains sustainable – both now and for the foreseeable future. In the current climate, we are not targeting the levels of mortgage growth seen in recent years. Nevertheless, with Group mortgage assets of £9.4 billion, we have seen growth of 9.5% compared to June 2007. In addition, the quality of these loans has endured, borne out by the fact at a Group level, the number of cases in possession or 12 months or more in arrears was only 0.24% of the book by value.

In contrast to some who have been forced to suspend their lending, our aim is to help not just our current members but their families as well. If our members need a mortgage to buy a home, within reason, we guarantee we won't turn them away – because that's the value of being a member of a mutual.

As well as the borrowers who come to us directly, we continue to receive business through the intermediary channel. These mortgage brokers are important customers and unlike some lenders, we have continued to 'play fair' with them by avoiding dual pricing. Instead, we offer the same rates on our mortgages, regardless of whether they are applied for directly or through an intermediary.

The Skipton Group

One of the Skipton Group's key areas of focus is financial advice and we've spent the first half of 2008 growing the business, with the acquisition of two companies – Torquil Clark and Thomson Shepherd. Torquil Clark was founded in 1989 and now employs 117 staff – including 17 advisers offering advice on financial planning, investments, employee benefits, mortgages and life insurance. It has £660 million of funds under management and is also one of only three IFAs in the UK to currently hold the Gold Standard Award for independent financial advice.

Scottish-based Thomson Shepherd is a high quality financial planning business which employs 35 staff – including 12 advisers – and has £400 million of funds under advice. Operating from offices in Edinburgh, Perth, Aberdeen and Inverness. Thomson Shepherd specialises in investment advice and pensions, trust and estate planning. Our financial advice business now comprises five Group companies, including Skipton Financial Services, Pearson Jones and Parnell Fisher Child, and between them they boast a total annual turnover of £51 million, with 30% recurring income. Our aim is to consolidate and grow this part of our offering even further.

The other four areas of focus for the Group are savings and lending, mortgage servicing, estate agency and data provision. To keep the focus on these, we took a strategic decision to sell both Direct Life & Pension Services and Amber Select during the first half of the year. Whilst both had grown under the Group's ownership, we felt their buyers were better positioned to develop the businesses to their full potential.

A notable success in 2008 has been the Callcredit Information Group (CIG, formerly Skipton Information Group) which is responding to lenders' needs for quality credit data and is now a profitable part of the Group. In addition, one of CIG's subsidiaries, Broadsystem, recently completed the development of the News International data warehouse and won a significant project to develop a large intranet service for the Learning Skills Council.

Another subsidiary which continues to develop is Homeloan Management Limited (HML), as demand for its credit management services increases. The company recently started construction on new offices in Skipton, to house 800 of its 2,000 staff.

One of the existing subsidiaries that has fared remarkably well in the first half of 2008 is the Connells Group; despite a near 40% reduction in housing transactions and the average asking price dropping by 15%, it remains profitable. This has been achieved through increased activity in surveys and valuations (as many homeowners remortgage), lettings, asset management and strong cost control.

The future

Whilst many in the financial industry are ailing, the first half of 2008 has seen the Skipton Group remaining in good health. That said, we are not immune to the current conditions which, as time goes on, become less about issues of liquidity and more about the greater economic environment. There is no escaping the fact the second half of 2008 will be tougher than the first. However, despite profits being down year-on-year, we believe we will remain one of the UK's top performing building societies. The Group continues to benefit from its diverse business model where, even in these difficult times, a number of areas continue to flourish.

Overall, the fairness of mutuality and the inherent strengths of our business model put us in a good position to weather the economic storm and we are confident our full year results will prove this true.

J G Goodfellow

Chief Executive

31 July 2008

Business review

The Skipton Group is pleased to report a satisfactory six months performance, particularly in the current period of market uncertainty. Our business model, based on a traditional and prudent building society supplemented by other income generated through investment in subsidiary businesses has enabled us to maintain a healthy balance sheet together with strong levels of liquidity and capital.

Profitability and growth

The Group's total pre-tax profit for the six months was £44.1m, down from £107.6m in the first half of 2007. Excluding items relating to the profits on disposals of subsidiaries and associates, underlying pre-tax profits were £35.1m compared with £71.6m in June 2007. Profit, after taxation and minority interests, attributable to members was £34.7m (30 June 2007: £87.9m). Total income is down on 2007 primarily as a result of the downturn in the property market impacting the results of our estate agency, Connells; however we are pleased with the profitability of that business during 2008 in these particularly severe market conditions.

During the six month period, the Group has grown its balance sheet further, from £12.5bn at 31 December 2007 to £13.4bn, an increase of 6.6%. However, the majority of this growth is derived from the Group increasing its liquidity balances with loans and advances to customers only increasing by 0.7% during the period. The Group increased its retail shares balances by £632.6m (8.8%) during the half year, enabling an even higher proportion of its loan assets to be funded by retail deposits.

Interest income

The Group's net interest income fell from £52.9m (0.95%) to £48.1m (0.74%). Whilst mortgage margins have begun to widen in the wake of the credit crunch, fierce competition for retail savings has led to an increase in the cost of retail funding which consequently impacts margin. Additionally, whilst our strong retail franchise makes us less vulnerable to the issues in the money markets than certain other organisations, we have chosen to hold a higher level of short dated prudential liquidity, which is funded by higher levels of longer dated wholesale debt. The additional cost of this, together with the consequent increase in the overall size of the balance sheet contributes to the movement in the interest margin percentage.

Nevertheless, our net interest margin is a key indicator of the value we offer our customers through our mutual status; and the level of margin we are able to operate on indicates the value we are able to provide to our borrowing and investing members through our unique Group structure. The Society's own interest margin, the measure which directly benefits our members, fell further to 0.65% and we are confident this margin will remain among the lowest in the industry.

Other income

The Group's other income represents the turnover of our trading subsidiaries together with the insurance commissions, income from the sale of investment products and other non margin income of the Society not included within the interest margin. The ability to maintain our highly competitive interest rates is driven by the income generated within the core business and by our subsidiaries. Total Group other income fell by 8% from £232.3m at 30 June 2007 to £213.7m. Whilst our estate agency businesses have again made a significant contribution to other income, the downturn in the UK housing market which began in late 2007 has impacted other income; nevertheless at the half year stage Connells has reported pre-tax profits of £10.3m despite house sales volumes dropping by 40% year-on-year to unprecedented levels. Our mortgage servicing subsidiary, HML, continues its dominant position in the market. Whilst not immune to the pressures of the current market, HML now manages £50bn of mortgage assets, compared to £47bn a year ago. The Callcredit Information Group has continued to flourish, and has increased its income to £23.1m from £11.8m a year ago. Further details of the Group's other income are set out in note 20 to these accounts.

Administrative expenses

The Group's administrative expenses have increased only marginally, from £216.8m to £222.4m despite the addition of ten further businesses compared with a year ago. Whilst less comparable with our peers, at a Group level, total management expenses amount to 3.44% of mean total assets, compared with 3.95% in the first half of 2007. In light of the continuing market conditions, the Group's business continues to focus heavily on improved efficiency and cost reduction which has favourably impacted our costs ratio.

In the core Society business, the efficiency of our operations, measured as the ratio of our management expenses to our mean total assets, is key in ensuring continued growth in member value. The Society has seen a further improvement in this ratio which fell to 0.48% which we remain confident will remain among the lowest within our peer group.

Impairment provisions

The impact of the worsening housing markets, coupled with pressures on household budgets from higher energy, fuel and food costs has naturally impacted the performance of the Group's loan assets, with the consequent knock on effect to impairment charges. The total impairment charge for the six months was £7.9m (2007 full year: £5.4m), the increase reflecting the economic conditions but also, in terms of its magnitude, a reflection of the continuing underlying good quality of the Group's loan book. The majority of the

Business review (continued)

impairment charge emanates from the higher risk specialist residential mortgage loans held within Amber Homeloans, where management of arrears remains a key focus. In the Society a charge of £0.7m was recognised (2007 full year: £1.7m), which further demonstrates the quality of the Society's core mortgage assets.

The performance of the Society's residential mortgages remains excellent, and at 30 June 2008 the value of the Group's mortgages more than six months in arrears was only 0.46% of the total (Society 0.13%), below the CML average.

The Group recognised no impairment provision on treasury investments (2007: £nil), reflecting the fact that, whilst the market value of these investments has fallen compared with book value, management believe there is no underlying impairment of these assets. The Group continues to have no exposures to structured investment vehicles (SIVs), conduits or to the US sub-prime market.

Performance by business area

The Group operates in five main business areas as follows:

- Mortgage and savings business – principally the Society, Amber Homeloans and lending in Jersey and Guernsey through Skipton Guernsey;
- Financial services – provision of financial advice and broking services;
- Mortgage servicing – mortgage administration services;
- Estate agency – including survey and valuations, conveyancing and mortgage broking; and
- Other services, including data provision.

The results of the five business areas are summarised below:

Business area	**Profit before tax (£m)**		
	Unaudited 6 months to 30.06.08	Unaudited 6 months to 30.06.07	Audited 12 months to 31.12.07
Mortgages and savings	**20.8**	28.3	44.9
Financial services	**(0.6)**	0.6	0.9
Mortgage servicing	**4.1**	8.5	15.8
Estate agency	**10.3**	69.3	98.2
Other related services	**9.6**	2.6	4.6
Intercompany adjustments	**(0.1)**	(1.7)	1.1
	44.1	107.6	165.5

Mortgage and savings business

The Group's residential lending and savings business is now predominantly carried out through the Society with a small amount being generated in the Channel Islands by Skipton Guernsey. In response to the credit crunch and the need to reduce lending to higher risk borrowers, coupled with the continuing closure of the whole loan mortgage sales markets, Amber Homeloans, our specialist lending subsidiary, ceased new lending from March 2008.

Lending

Following record years in 2006 and 2007 in terms of lending volumes, in light of current market conditions 2008 mortgage growth is expected to be much lower. We have, instead, concentrated in attracting high quality prime residential borrowers, and have amended our lending criteria accordingly. Overall, the Group's mortgage balances have grown by 2.2% to £9,361m (31 December 2007: £9,164m).

Total Group residential mortgage lending amounted to £921m in the period (2007 full year: £2,764m), comprising £715m (2007 full year: £1,937m) of completions in the Society, £152m (2007 full year: £731m) by Amber Homeloans and £54m (2007 full year: £96m) by Skipton Guernsey.

The Society's residential lending is driven by a strong range of attractive products, backed up by excellent customer service. Fixed rate products remained the most popular, attracting 56% of all applications, as customers try and protect themselves from uncertainty. Our lending continues to be well diversified by product type and geographical distribution, with 70% of the Society's new lending having an LTV of less than 75% (2007 full year: 62%). This well managed spread of risk ensures that the quality of the Society's mortgage lending remains high.

In light of the current market, commercial lending criteria have been tightened and volumes restricted such that completions in the period were £65m (2007 full year: £161m), and commercial lending balances at 30 June 2008 were £499m (31 December 2007: £465m). The Society continues to have low numbers of cases in arrears due to its stringent underwriting policies; and at the period end had no possessions.

Similarly the growth in buy-to-let lending has remained modest in the year, with new advances of £104m (2007 full year: £259m). The risks attached to buy-to-let lending are managed by prudent consideration of the level of equity in the property, where generally lower LTV ratios are accepted compared to residential lending, and the level of rental cover compared to the mortgage payments. Pursuant to our prudent stance on criteria, we have maintained our strong asset quality, with default levels in buy-to-let lending being below even those seen in the Society's prime residential portfolio.

Following the credit crunch and the virtual closure of the whole loan portfolio trading market there has been minimal portfolio trading within Amber Homeloans; with acquisitions of only £8m (2007 full year: £413m) and no sales (2007 full year: £427m).

The Group continues to take all appropriate action to minimise losses on non-performing accounts and actively monitors the prudence of its lending policies, taking account of economic and other market conditions.

Savings

As a mutual, the Group is required to obtain the majority of its funding through retail member deposits. Against the backdrop of the credit crunch, depositors have demonstrated their trust in the mutual sector, and Skipton in particular. Despite intense competition in this market, particularly since the advent of the credit crunch and the Northern Rock debacle as lenders increasingly turned to the retail markets for funding, we have remained successful in attracting retail deposits. We have seen the Society's share account balances grow by 9% during the period as we continue our strategy of offering members consistently good value on their savings. This growth, from £7,190m to £7,832m, was driven principally by our range of competitively priced fixed rate bonds and the continued success of our Branch Access account and ISA products.

We also accept deposits through our 100% owned subsidiary Skipton Guernsey. We have been successful in growing these deposits by £92m in the period to £570m and we shall seek to grow these balances further during the remainder of 2008.

Distribution

Our branch network remains key to our successful strategy of growing retail savings balances and in addition to our 80th branch, Dorking, which opened in December 2007, we have opened a further four branches, in Wilmslow, Woking, Newbury and Warrington during 2008. We shall continue to seek suitable branch locations as we seek to expand our network. Customer choice remains at the heart of our distribution philosophy and, in addition to our branch network, we deal with postal accounts and offer an internet savings channel.

Treasury

The remainder of the Group's funding comes from the wholesale markets. Wholesale credit markets tightened in August 2007 and, despite a few brief periods of respite, have remained difficult since. Liquidity in the short term money markets remains scarce with most banks only willing to lend wholesale funds for shorter periods and at a higher cost. Whilst this has increased the marginal cost of our wholesale funding, this is offset to some extent by the higher return earned on Treasury investments.

We have strengthened our already sound liquidity position by shortening the duration of and investing in more readily realisable assets during the credit crunch; whilst at the same time lengthening the duration of our wholesale borrowings. Whilst, as a UK based financial institution, we are unable to access the liquidity support provided by European and US central banks, we have used our repo capabilities to provide additional wholesale funding of £485m (31 December 2007: £220m). We are developing a covered bonds capability and expect to be able to use this to enhance our wholesale funding options in the future.

Liquidity portfolio

Despite these challenging conditions, we have increased our liquidity balances from £2,670m at 31 December 2007 to £3,288m at 30 June 2008, expressed as a proportion of our combined shares and deposit liabilities this represents an increase from 23.56% to 27.05%.

As the credit crunch continues, focus remains on the type and valuation of institutions' investments, with SIVs and conduits bearing the brunt of negative comment and valuation downgrades. The Group does not invest in either SIVs or conduits and has no exposure to US sub-prime mortgages. The Group's treasury investments are made to provide prudential liquidity and all are highly rated; 97% of the Group's treasury investments are rated A or better and a full analysis of these by rating grade is set out in note 19.

Under International Accounting Standards, we hold our treasury investments as Available-for-sale (AFS) assets and are required to record mark-to-market movements through the AFS reserve. At 30 June 2008, the balance on the AFS reserve was just 0.91% of the value of our treasury assets. Given the underlying quality of these assets, the mark-to-market adjustments in their price is largely driven by widening credit spreads pursuant to liquidity issues in the wholesale markets rather than the underlying performance of the assets. We review the quality of each of these assets, none of which is impaired, and we expect to obtain full value for them on maturity.

Wholesale funding

As a building society, we benefit from a strong retail savings franchise. The diversity of our total funding, and in particular the proportion of the balance sheet that is funded by retail deposits, reduces our

Business review (continued)

exposure to any reduction in capacity in the wholesale funding markets. At 30 June 2008, wholesale funding balances amounted to £3,748m (31 December 2007: £3,656m), an increase of £92m, which, due to our strong retail savings inflows, represented a fall in our wholesale funding ratio from 33.76% at the end of 2007 to 32.12%. We have taken steps to lengthen the maturity profile of our wholesale funding portfolio and at 30 June 2008 the proportion of our wholesale funding that was over one year to maturity was 26.1% (31 December 2007: 23.1%).

Our credit ratings, provided by Moody's and Fitch, which determine the markets we are able to access, and the pricing of funding, have remained stable during the period.

Capital structure

A measure of the financial strength and stability of the Group is the amount of capital held by the Group. At 30 June 2008, free capital was £639m (31 December 2007: £631m), or 5.3% (31 December 2007: 5.6%) of total share and deposit liabilities (including accrued interest), and gross capital was £952m (31 December 2007: £935m) or 7.9% (31 December 2007: 8.3%). Both of these figures include subscribed capital of £26m (31 December 2007: £26m) and subordinated debt of £183m (31 December 2007: £184m) inclusive of accrued interest.

The Group is regulated by and is required to manage its capital in accordance with the rules and guidance issued by the FSA. The capital requirements of the Group are monitored on a monthly basis and the results of this monitoring are reported to various committees, including the Asset and Liability Committee (ALCO) and the Board. Capital is ultimately held for the protection of retail depositors, and the internal level of capital is set with the aim of ensuring the minimum regulatory objective is met, whilst facilitating the growth aspirations of the business as defined annually as part of the Group's planning. Consequently, the Board limits on capital adequacy are set at a level higher than the regulatory minimum.

The profits for the period, coupled with modest balance sheet growth, have provided sufficient capital to enable the Group to achieve its plans whilst ensuring that the Group has at all times operated comfortably in excess of the minimum levels set by both the Society's regulator and the Board.

Mortgage servicing

A key element of our diversification strategy is the provision of mortgage services to other lenders. This takes the form of mortgage process outsourcing through HML, one of our first subsidiary companies, established in 1987.

Notwithstanding the market conditions impacting a number of HML's specialist lending clients, the company remains well placed to withstand the current and projected conditions due to the efficiency of its operations and the additional income generated from managing arrears in customer mortgages; its total assets under management still exceed £50bn.

Estate agency

The buoyant housing market enjoyed by estate agents in recent years has cooled abruptly in the wake of the credit crunch in late 2007. Consequently, the volume of UK housing transactions has fallen considerably with the first half of 2008 being almost half of those in the same period last year. Connells is not immune to this and has seen its core estate agency income fall from £105m for the first half of 2007 to £66m in 2008.

Nevertheless, Connells benefits from its own diversification and, through The Asset Management Group and Connells Asset Management, is now the UK's leading provider of debt recovery services to lenders, which has proved to be a natural mitigant in these times where core estate agency business is depressed. Further diversification of Connells' income comes from its survey and valuation business, and mortgage and insurance broking operations. Connells also retains approximately 17% of the equity of Rightmove plc, the UK's leading property listings website.

Consequently, whilst total income in Connells has fallen from £131m to £97m year on year, the business has achieved a creditable pre-tax profit of £10.3m (30 June 2007 excluding exceptional items: £33.3m).

Financial services

The Group's financial services operations are conducted through a number of subsidiaries, each operating in a different sector of the market, or using a different delivery channel, enabling us to maximise the potential from the services offered to customers.

Joining existing subsidiaries, Skipton Financial Services, Pearson Jones and Parnell Fisher Child, the Group acquired two further businesses in the period, Thomson Shepherd and Torquil Clark. Thomson Shepherd, based in Scotland, specialises in investment advice and pensions, trust and estate planning whilst Torquil Clark, based in Wolverhampton, offers financial planning, investments, employee benefits, mortgages and life insurance services.

The current depressed equity markets, with falling asset values, coupled with attractive savings rates on offer from banks and building societies have impacted the Group's financial services businesses during the period. However, the income potential in these subsidiaries together with a renewed focus on streamlining processes and improving efficiency mean that they have a solid platform on which to build profitability once confidence returns.

Callcredit Information Group (CIG)

CIG has continued to build on its success in 2007. As the economy, particularly the consumer sector, enters uncertain times, the services Callcredit provides to lenders will become increasingly important and valuable. Of particular note is its innovative Over-Indebtedness initiative, which monitors those customers most at risk of default due to high debt burdens.

In terms of financial results, after a long period of investing in the business infrastructure, CIG made a pre-tax profit of £2.0m for the half year, compared to £2.8m for the full year in 2007.

Disposals

During the period, the Group disposed of its premium finance provider, Amber Select Limited, and also its life insurance broker, Direct Life & Pension Services Limited. Whilst both these businesses had grown as members of the Group, their new owners are better placed to develop them further. The aggregate profit on disposal was £9.0m.

Risks facing the business

Risk management framework

The Group's objective is to appropriately manage all the risks that arise from its activities.

Through its risk management framework, the Group has a formal structure for managing risks throughout the business. This framework is formulated within the parameters of the Board's overall objectives and appetite for risk. Essentially the framework is based upon the best practice 'three lines of defence' model, comprising:

- First line of defence, being the business which, through the implementation of the organisation's risk framework, identifies, assesses, mitigates and manages risk.
- Second line of defence, comprising the Group risk functions (Operational, Credit, Market & Insurance) and related "risk" functions including Compliance, Systems Security, Finance and Legal. These functions challenge, monitor, guide and support the business in managing its risk exposure. The risk committee structure (ALCO, Group Retail Credit Committee (GRCC) and Operational Risk Committee) also sits within the second line, setting policy and framework and monitoring implementation by the business. Group risk functions are represented on each of the risk committees.
- Third line of defence, which covers the independent assurance aspects of the model and includes the Audit Services function, which performs a risk based programme of audits and reports on these and related risk and control matters to the Board through the Audit Committee.

The key risks and uncertainties faced by the Group, which are managed within the framework described above, are set out below.

Business conditions and the economic environment

As a financial services group, our businesses are affected by the external environment within which we operate and the profitability of the Group is likely to be adversely affected by a downturn in the UK economy. Given the nature of our businesses, we are particularly exposed to a downturn in the UK housing market (either a significant decrease in house prices or transaction volumes), both in our core building society business, as well as in the major Group subsidiaries such as Connells and HML. A further worsening in the economic environment would impact on the demand for the Group's products and services, and could adversely impact the credit quality of the Group's assets.

However, through our annual planning process and active management, which includes detailed stress testing, we believe we are well placed to withstand a weakening of market conditions, should that arise.

Credit risk

Credit risk is the risk that a customer or counterparty is unable to honour its obligations to us as they fall due. The Group faces this risk in respect of individual customers (retail mortgages), businesses (commercial lending) and other financial institutions (wholesale lending).

Retail mortgage and commercial lending credit risks are managed within credit policies and limits set by the GRCC by thorough evaluation of the credit risk associated with potential borrowers (with the credit decision being managed separately from the sales force), the taking of security against the loan and close ongoing monitoring of account performance. Loans which show signs of adverse performance are managed by specialist teams who manage the collections and recovery process.

Credit risk within our treasury portfolio assets arises from the investments held by the Group in order to meet our liquidity requirements and for general business purposes. This element of credit risk is managed by the Group through regularly reviewed credit policies and limits set by ALCO.

Business review (continued)

Market risk

Market risk is the risk that the value of, or income from, the Group's assets and liabilities is impacted as a result of changes in market prices. The Group's market risk comprises three types of risk: interest rate risk, currency risk and equity risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The net interest income and market value of the Group is exposed to movements in interest rates. This exposure is managed on a continuous basis, within limits set by the Board, using financial instruments.

The primary interest rate risk metrics employed by the Group to monitor interest rate risk are earnings-at-risk, market value and value-at-risk methodologies, which calculate interest rate risk exposure positions, based on 250 historical data observations. Monthly observation periods are used with equal weight being applied to all observations. All of these approaches employ 95% confidence intervals and are multi-currency. These advanced interest rate risk measurement exposures, which are compared to Board and Operational limits weekly and formally reported to ALCO and the Board monthly, are used to guide interest rate risk management decisions.

In addition, the Group also monitors interest rate risk exposure against limits by determining the effect on the Group's current net notional value of assets and liabilities for a shift in interest rates equivalent to 3% for all maturities.

The levels of Group interest rate risk exposures through the reporting period were as follows:

	As at 30.06.08 £m	Average H1 2008 £m	High H1 2008 £m	Low H1 2008 £m	As at 31.12.07 £m
Static Earnings-at-Risk	5.2	4.4	5.2	3.6	4.8
Historical Value-at-Risk	3.6	3.0	3.6	2.4	3.2
Stateside\Quanto Value-at-Risk	0.5	0.6	0.7	0.5	0.7
3% Parallel interest rate shift	21.2	19.8	25.4	15.0	21.8

Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics – say LIBOR and Bank of England Base Rate) are also monitored closely and regularly reported to ALCO.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Both at 30 June 2008 and during the first six months of the year, the Group had no material direct exposure to foreign currency exchange fluctuations, with the exception of the Group's equity investments in Jade Software Corporation Limited and Northwest Investments NZ Limited which are denominated in New Zealand dollars.

Equity risk

As at 30 June 2008, the Group had a small amount of issued equity savings products outstanding. Derivative contracts to eliminate this exposure are taken out by the Group which exactly match the terms of the savings products and the market risk on such contracts is therefore fully hedged.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due. These obligations include investors' deposits, both on demand and those with contractual maturity dates, as well as repayments of other borrowings and loan capital. The day-to-day management of liquidity is the responsibility of Treasury, which manages our portfolio of liquid assets and our contingency funding plans. Our liquidity risk policy is monitored by ALCO.

The Group's liquidity policy is to maintain sufficient liquid resources to cover imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets, maintaining an appropriate mix between savings and deposit funding balances and through rigorous management control of the growth of the business.

The Board is responsible for setting limits over the level, composition and maturity of liquidity and deposit funding balances. Such limits are reviewed by the Board at least annually. Compliance against these limits is monitored daily by Finance personnel (i.e. independent of Treasury staff). In addition a series of liquidity stress tests are performed weekly by Group Risk Services personnel, and formally reported to ALCO monthly, to ensure the Group maintains adequate liquidity for business purposes even under stressed conditions.

	30.06.08	30.06.07	31.12.07
Liquidity balance (£m)	3,288.3	2,235.1	2,670.1
As % of shares and deposit liabilities	27.05%	21.89%	23.56%

Operational risk

Operational risk is the risk of loss arising from inadequate or failed processes, people or systems, or from external events. For the purposes of managing operational risk, we divide it into a number of discrete areas which include fraud, information security and business continuity planning. Responsibility for managing operational risks lies with individual business areas who identify and assess risks in line with the processes described in the framework above.

Given the nature of the regulated sectors in which we operate, one of our key operational risks is the potential failure to maintain on-going compliance with relevant external regulation across the Group. Each of the regulated businesses has an established Compliance team which both monitors compliance with existing legislation and considers the impact of new requirements. Oversight is provided by a central Group Compliance function which ensures best practice is adhered to and shared across the Group as appropriate. We are confident that this framework will continue to effectively mitigate the risk of compliance failures.

Outlook

The unprecedented events of the last year have led to one of the most difficult and challenging markets of recent times and it is now clear that the UK economy is entering a period of significantly slower growth, coupled with inflationary pressures driven by increases in oil and commodity prices. We expect these conditions to continue for some time and are already seeing lower house prices and lending growth.

In the light of these conditions, and the continuing difficult wholesale funding markets, we will continue to take a cautious approach to lending and continue to adopt a prudent approach to lending criteria in attracting only good quality borrowers. However, with the housing and equity markets subdued, we believe the savings markets will remain strong and building societies, seen as a safe home for consumers' wealth, should be able to succeed in attracting retail funding. Consequently, whilst Group lending growth will be lower than in recent years, we will continue to attract retail savings to fund mortgage growth, thereby reducing our reliance on the wholesale funding markets.

Maintenance of sufficient liquidity to ensure that all cash requirements can be met remains key to all lenders and we will continue to lengthen the duration and increase the sources of wholesale funding available to us, whilst maintaining liquidity in high quality short dated assets. Our detailed stress testing of projected liquidity balances gives us no cause for concern in this regard.

Clearly, the Group is not immune to a downturn in the general economy, and the housing market in particular, but we believe that our well diversified group provides some resilience to the current environment. Nevertheless, whilst these economic conditions persist, we do not envisage achieving the same level of profit as seen in 2007, but we are confident that our results will enable us to maintain our already strong capital position. Whilst the immediate future is likely to see little in the way of further subsidiary acquisition, we are committed to our policy of diversification in acquisitions of related businesses which we believe will bring real value to the Skipton Group.

RJ Twigg

R J Twigg

Group Finance Director

31 July 2008

Condensed consolidated income statement

For the half-year ended 30 June 2008

	Notes	**Unaudited 6 months to 30.06.08 £m**	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Interest receivable and similar income	3, 20	**386.4**	310.4	683.2
Interest payable and similar charges	4, 20	**(338.3)**	(257.5)	(573.5)
Net interest receivable		**48.1**	52.9	109.7
Fees and commissions receivable	20	**210.9**	247.0	496.0
Fees and commissions payable	20	**(15.6)**	(20.9)	(46.5)
Fair value gains and losses on financial instruments		**6.0**	2.0	(3.9)
Other operating income	20	**12.4**	4.2	16.1
Total operating income		**261.8**	285.2	571.4
Administrative expenses	5	**(222.4)**	(216.8)	(442.0)
Impairment losses on loans and advances	10	**(7.9)**	(0.7)	(5.4)
Provisions for liabilities		**0.2**	0.8	0.2
Share of profits from joint ventures and associates	20	**3.4**	3.1	5.3
Profit on part disposal of associate	20	**-**	36.0	36.0
Profit on disposal of subsidiaries	11b, 20	**9.0**	-	-
Profit before tax		**44.1**	107.6	165.5
Tax expense	6	**(9.2)**	(19.0)	(38.9)
Profit for the period		**34.9**	88.6	126.6
Attributable to:				
Members of Skipton Building Society		**34.7**	87.9	125.5
Minority interests		**0.2**	0.7	1.1
		34.9	88.6	126.6

The notes on pages 17 to 32 form an integral part of this condensed consolidated half-yearly financial report.

Condensed consolidated balance sheet

As at 30 June 2008

	Notes	**Unaudited as at 30.06.08 £m**	Unaudited as at 30.06.07 £m	Audited as at 31.12.07 £m
Assets				
Cash in hand and balances with the Bank of England		**153.5**	33.3	136.0
Loans and advances to credit institutions	7	**1,315.1**	447.4	409.3
Debt securities	8	**1,819.7**	1,754.4	2,124.8
Derivative financial instruments		**228.1**	103.7	122.3
Loans and advances to customers	9	**9,358.1**	8,590.2	9,291.9
Deferred tax asset		**18.8**	25.1	18.7
Investments in subsidiaries, joint ventures and associates		**7.3**	8.6	6.1
Intangible assets	12	**252.3**	198.9	230.4
Property, plant and equipment		**76.4**	75.9	79.6
Investment property		**7.5**	4.9	5.1
Other assets		**120.6**	107.7	106.3
Total assets	20	**13,357.4**	11,350.1	12,530.5
Liabilities				
Shares	13	**7,823.7**	6,662.1	7,191.1
Amounts owed to credit institutions	14	**689.3**	505.5	402.8
Amounts owed to other customers	15	**2,331.5**	1,793.0	2,207.8
Debt securities in issue	16	**1,311.2**	1,249.1	1,533.5
Derivative financial instruments		**31.8**	24.4	50.4
Current tax		**1.9**	13.4	9.1
Other liabilities		**122.1**	122.0	117.8
Accruals and deferred income		**46.5**	26.5	51.1
Deferred tax liability		**7.2**	17.5	6.9
Retirement benefit obligations		**33.7**	14.9	22.3
Provisions for liabilities		**2.3**	4.1	2.5
Subordinated liabilities		**183.3**	183.2	183.7
Subscribed capital		**26.3**	26.3	26.3
Total liabilities	20	**12,610.8**	10,642.0	11,805.3
Capital and reserves attributable to members of Skipton Building Society				
General reserve		**757.5**	695.1	731.4
Available-for-sale reserve		**(16.5)**	(1.2)	(5.7)
Cash flow hedging reserve		**1.1**	6.4	(4.9)
Translation reserve		**0.7**	1.3	0.9
		742.8	701.6	721.7
Minority interests		**3.8**	6.5	3.5
Total liabilities and reserves		**13,357.4**	11,350.1	12,530.5

The notes on pages 17 to 32 form an integral part of this condensed consolidated half-yearly financial report.

Condensed consolidated statement of recognised income and expense

For the half-year ended 30 June 2008

	Unaudited 6 months to 30.06.08 £m	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Available-for-sale investments – valuation losses taken to equity	**(15.2)**	(0.4)	(7.2)
Cash flow hedges – gains / (losses) taken to equity	**8.4**	5.7	(10.5)
Exchange differences on translation of foreign operations	**(0.3)**	1.3	0.3
Actuarial (losses) / gains on retirement benefit obligations	**(13.9)**	17.2	8.7
Tax on items taken directly to or transferred from equity	**7.3**	(6.7)	4.3
Net (expense) / income not recognised directly in the income statement	**(13.7)**	17.1	(4.4)
Profit for the period	**34.9**	88.6	126.6
Total recognised income and expense for the period	**21.2**	105.7	122.2
Total income and expense for the period attributable to:			
Members of Skipton Building Society	**21.0**	105.0	121.1
Minority interests	**0.2**	0.7	1.1
	21.2	105.7	122.2

Movements in general reserve note

For the half-year ended 30 June 2008

	Unaudited 6 months to 30.06.08 £m	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
At 1 January	**731.4**	598.1	598.1
Profit for the period	**34.7**	87.9	125.5
Actuarial (losses) / gains on retirement benefit obligations	**(8.6)**	9.1	5.7
Other taxation	**-**	-	2.1
At end of period	**757.5**	695.1	731.4

The notes on pages 17 to 32 form an integral part of this condensed consolidated half-yearly financial report.

Condensed consolidated cash flow statement

For the half-year ended 30 June 2008

	Notes	**Unaudited 6 months to 30.06.08 £m**	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Cash flows from operating activities				
Profit before taxation		**44.1**	107.6	165.5
Movement in prepayments and accrued income		**1.4**	3.0	(7.0)
Movement in accruals and deferred income		**(89.2)**	(54.3)	107.6
Impairment losses on loans and advances	10	**7.9**	0.7	5.4
Loans and advances written off, net of recoveries		**0.1**	1.5	(5.5)
Depreciation and amortisation		**11.0**	10.1	21.7
Interest on capital and subordinated liabilities		**6.9**	6.9	14.0
Profit on sale of property, plant and equipment and investment property		**(0.1)**	(0.6)	(0.4)
Movement in provisions for liabilities and charges		**(0.3)**	0.5	(1.1)
Share of profits from joint ventures and associates		**(3.4)**	(3.1)	(5.3)
Profit on disposal of subsidiaries	11b	**(9.0)**	-	-
Profit on part disposal of associate		**-**	(36.0)	(36.0)
Other non-cash movements		**(133.8)**	(9.9)	(14.4)
Net cash (outflow) / inflow from trading activities		**(164.4)**	26.4	244.5
Net movement in loans and advances to customers		**(66.1)**	(492.9)	(1,322.7)
Net movement in shares		**745.2**	574.6	973.5
Net movement in amounts owed to credit institutions and other customers		**387.4**	548.8	868.6
Net movement in debt securities in issue		**(232.1)**	(346.6)	(99.1)
Net movement in loans and advances to credit institutions		**(897.4)**	(142.0)	(102.9)
Purchase of mortgage portfolios		**(8.1)**	(412.6)	(412.6)
Sale of mortgage portfolios		**-**	296.9	427.1
Net movement in other assets		**2.9**	(28.9)	(5.4)
Net movement in other liabilities		**11.2**	(39.5)	8.7
Income taxes paid		**(16.0)**	(9.8)	(40.5)
Net cash (outflow) / inflow from operating activities		**(237.4)**	(25.6)	539.2

Condensed consolidated cash flow statement (continued)

For the half-year ended 30 June 2008

	Notes	**Unaudited 6 months to 30.06.08 £m**	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Net cash (outflow) / inflow from operating activities		**(237.4)**	(25.6)	539.2
Cash flows from investing activities				
Purchase of debt securities	8	**(2,965.6)**	(1,711.0)	(3,545.7)
Proceeds from disposal of debt securities	8	**3,255.5**	1,751.2	3,208.7
Purchase of intangible assets		**(3.8)**	(1.7)	(10.4)
Purchase of property, plant and equipment and investment property		**(8.4)**	(6.3)	(17.5)
Proceeds from disposal of property, plant and equipment and investment property		**2.7**	0.7	2.2
Purchase of subsidiary undertakings	11a	**(18.2)**	(8.8)	(31.0)
Net cash acquired with subsidiaries	11a	**0.4**	0.8	3.2
Further investment in existing subsidiaries	11a	**(9.7)**	(32.2)	(67.3)
Purchases of other business units		**-**	-	(1.0)
Net cash acquired with other business units		**-**	-	0.3
Cash received from disposal of subsidiaries	11b	**16.4**	-	-
Net cash disposed with subsidiaries		**(3.4)**	-	-
Cash received from part disposal of subsidiaries	11b	**0.1**	-	-
Cash received from part disposal of associate and joint venture		**-**	38.0	38.0
Net cash flows from investing activities		**266.0**	30.7	(420.5)
Cash flows from financing activities				
Interest paid on subordinated liabilities		**(5.3)**	(5.3)	(10.7)
Interest paid on permanent interest bearing shares		**(1.6)**	(1.5)	(3.2)
Dividends paid to minority interests		**-**	-	(2.1)
Net cash flows from financing activities		**(6.9)**	(6.8)	(16.0)
Net increase / (decrease) in cash and cash equivalents		**21.7**	(1.7)	102.7
Cash and cash equivalents at start of period		**154.3**	51.6	51.6
Cash and cash equivalents at end of period		**176.0**	49.9	154.3

Analysis of the cash balances as shown in the balance sheet:

	Unaudited 6 months to 30.06.08 £m	**Cash flows £m**	Audited 12 months to 31.12.07 £m
Cash in hand and balances with the Bank of England	**153.5**	17.5	136.0
Mandatory reserve deposit with the Bank of England	**(8.3)**	0.5	(8.8)
	145.2	18.0	127.2
Loans and advances to credit institutions repayable on demand	**30.8**	3.7	27.1
Included in cash and cash equivalents as at end of period	**176.0**	21.7	154.3

The notes on pages 17 to 32 form an integral part of this condensed consolidated half-yearly financial report.

Notes to the condensed consolidated financial statements

1. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

a) Basis of preparation

This condensed consolidated half-yearly financial report for the six months ended 30 June 2008 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, *Interim Financial Reporting*, as adopted by the European Union. The half-yearly financial report should be read in conjunction with the annual report and accounts for the year ended 31 December 2007, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The accounting policies adopted by the Group in the preparation of its 2008 half-yearly financial report and those which the Group currently expects to adopt in its annual accounts for the year ending 31 December 2008 are consistent with those disclosed in the annual accounts for the year ended 31 December 2007.

In the first half of the financial year, the Group has adopted IFRIC 10, *Interim Financial Reporting and Impairment*. This interpretation addresses the conflict between IAS 34, *Interim Financial Reporting*, and other standards on the recognition and reversal of impairment losses on certain assets.

b) Estimates and assumptions

The Group has to make judgements in applying its accounting policies which affect the amounts recognised in the condensed consolidated financial statements.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There have been no changes in accounting estimates since the 2007 Report and Accounts that have had a material affect on these financial statements.

c) 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 2007 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 included a reference to matters to which the auditors drew attention by way of emphasis without qualifying their report.

A copy of this half-yearly financial report is 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 2007 Report and Accounts and this half-yearly financial report are available at **www.skipton.co.uk/about_us/societyFinancialInformation.aspx.** Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom 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 2008 was approved by the Board of Directors on 31 July 2008.

2. Principal risks and uncertainties

The Disclosure and Transparency Rules (DTR 4.2.7) require that a description of the principal risks and uncertainties are given in the half-yearly financial report for the remaining six months of the financial year.

The principal inherent risks affecting the Group are described in the 'Risks facing the business' section of the Business Review.

The Business Review within this half-yearly financial report sets out the primary uncertainties affecting the Skipton Group for the remaining six months of the year. This includes reference to the economic outlook, including the housing market, interest rates and the ongoing impact of the recent issues within the wholesale banking markets.

3. Interest receivable and similar income	**Unaudited 6 months to 30.06.08 £m**	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
On loans fully secured on residential property	**275.9**	230.9	473.3
On other loans	**5.7**	9.3	46.8
On debt securities	**55.6**	45.3	96.4
On other liquid assets	**33.1**	9.1	22.9
Income on derivative financial instruments	**16.1**	15.8	43.8
	386.4	310.4	683.2

Included within interest and other similar income on debt securities is income from fixed income securities of £2.6m (30 June 2007: £1.7m; 31 December 2007: £3.7m).

Included within interest receivable and similar income is interest accrued on impaired financial assets of £6.3m (30 June 2007: £2.2m; 31 December 2007: £2.9m).

4. Interest payable and similar charges	**Unaudited 6 months to 30.06.08 £m**	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
On shares held by individuals	**197.3**	170.7	360.9
On other shares	**0.1**	-	0.2
On subscribed capital	**1.6**	1.6	3.2
On deposits and other borrowings:			
Subordinated liabilities	**5.3**	5.3	10.7
Wholesale and other funding	**124.5**	79.2	180.3
Expense on derivative financial instruments	**8.3**	-	18.0
Other	**1.2**	0.7	0.2
	338.3	257.5	573.5

5. Administrative expenses

	Unaudited 6 months to 30.06.08 £m	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Staff costs:			
Wages and salaries	**124.1**	119.6	233.1
Social security costs	**9.0**	8.7	21.6
Pension costs:			
Defined contribution arrangements	**2.4**	2.8	5.6
Defined benefit schemes	**1.4**	1.5	2.8
	136.9	132.6	263.1
Other administration expenses	**85.5**	84.2	178.9
	222.4	216.8	442.0

6. Taxation

The tax charge for the year includes a reduction in the corporation tax rate from 30% to 28% which was effective from 1 April 2008. The effective tax rate for the six month period ended 30 June 2008 is 20.9% (30 June 2007: 17.7%; 31 December 2007: 23.5%) and is lower than the standard rate of corporation tax due to the impact of non-taxable gains on disposal of subsidiaries and, in 2007, associated company.

7. Loans and advances to credit institutions

	Unaudited 6 months to 30.06.08 £m	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Loans and advances to credit institutions have remaining maturities from the date of the balance sheet as follows:			
Repayable on demand	**30.8**	28.2	27.1
In not more than three months	**1,283.3**	409.6	376.1
In more than three months but not more than one year	**1.0**	9.6	6.1
	1,315.1	447.4	409.3

8. Debt securities

	Unaudited 6 months to 30.06.08 £m	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Issued by public bodies	**106.5**	40.8	76.0
Issued by other borrowers	**1,713.2**	1,713.6	2,048.8
	1,819.7	1,754.4	2,124.8
Debt securities have remaining maturities from the date of the balance sheet as follows:			
In not more than one year	**1,137.6**	973.5	1,394.5
In more than one year	**682.1**	780.9	730.3
	1,819.7	1,754.4	2,124.8
Transferable debt securities comprise:			
Listed on a recognised investment exchange	**872.7**	886.0	891.6
Unlisted	**947.0**	868.4	1,233.2
	1,819.7	1,754.4	2,124.8

8. Debt securities (continued)

The Directors consider that the primary purpose of holding debt securities is prudential. The debt securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities.

Movements in debt securities during the period may be summarised as follows:

	Unaudited 6 months to 30.06.08 £m	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
At 1 January	**2,124.8**	1,795.0	1,795.0
Additions	**2,965.6**	1,711.0	3,545.7
Disposals	**(3,255.5)**	(1,751.2)	(3,208.7)
Changes in fair value	**(15.2)**	(0.4)	(7.2)
At end of period	**1,819.7**	1,754.4	2,124.8

At 30 June 2008, £536.5m (30 June 2007: £35.7m; 31 December 2007: £230.5m) of investment securities were pledged as collateral under sale and repurchase agreements. All sale and repurchase transactions are conducted in line with market standard terms and conditions as defined in ISMA PSA Global Master Repurchase Agreements.

9. Loans and advances to customers

	Unaudited 6 months to 30.06.08 £m	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Loans fully secured on residential property	**8,840.0**	8,122.8	8,685.0
Other loans:			
Loans fully secured on land	**497.4**	412.3	464.0
Other loans	**80.2**	136.1	134.4
Fair value adjustment for hedged risk	**(59.5)**	(81.0)	8.5
	9,358.1	8,590.2	9,291.9
The remaining contractual maturity of loans and advances to customers from the date of the balance sheet is as follows:			
On call and at short notice	**40.2**	32.1	33.5
In not more than three months	**4.5**	3.5	11.4
In more than three months but not more than one year	**18.8**	79.4	88.5
In more than one year but not more than five years	**241.7**	195.2	213.0
In more than five years	**9,077.9**	8,299.2	8,962.5
	9,383.1	8,609.4	9,308.9
Less: Impairment (note 10)	**(25.0)**	(19.2)	(17.0)
	9,358.1	8,590.2	9,291.9

10. Impairment losses on loans and advances to customers

	Unaudited 6 months to 30.06.08 £m	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Impairment charge / (credit) for the period			
Loans fully secured on residential property	**8.3**	0.3	3.1
Loans fully secured on land	**0.3**	-	0.6
Other loans	**(0.7)**	0.4	1.7
	7.9	0.7	5.4
Impairment provision at the end of the period			
Loans fully secured on residential property	**21.7**	11.4	13.2
Loans fully secured on land	**1.6**	0.7	1.3
Other loans	**1.7**	7.1	2.5
	25.0	19.2	17.0

11. Investments in group undertakings

This note sets out the acquisitions, changes to investments and disposals in the Group since 31 December 2007. Full details of the investments held in the Group as at 31 December 2007 are shown in *Note 15 Investments in group undertakings* in the 2007 Annual Report and Accounts.

a) Acquisitions

During the first six months of the year the Group acquired shareholdings in new subsidiaries as follows:

Name of subsidiary undertaking	Principal business activity	Date of acquisition	Percentage of ownership interest %	Cost £m	Goodwill arising £m
BDS Mortgage Group Limited	Provider of mortgage packaging services	8 February 2008	90.0	4.6	4.0
Torquil Clark Holdings Limited	Independent financial adviser	25 March 2008	85.7	12.0	13.2
Thomson Shepherd Limited	Independent financial adviser	4 April 2008	75.0	5.6	5.9
Medical Care Direct Limited	Medical insurance broker	18 April 2008	80.0	0.7	0.7
				22.9	**23.8**

The majority of the above acquisitions relate to companies within the financial services and related sectors and the consideration paid for these businesses often exceeds the fair value of the net assets acquired. This premium arises as a result of the expected future economic benefit arising from those businesses. Where intangible assets can be separately identified, in accordance with IAS 38, *Intangible Assets*, these are recognised within the fair values of the assets acquired. The residual excess of the consideration over the net assets acquired is recognised as goodwill in the financial statements.

The results of all subsidiaries have been consolidated using the acquisition method of accounting, and the net assets of subsidiaries acquired have been incorporated into the condensed consolidated financial statements at their fair values as outlined below:

11. Investments in group undertakings (continued)

	Book value of assets acquired £m	Fair value adjustments £m	Total £m
Cash consideration			18.2
Fair value of deferred cash consideration			1.3
Fair value of put option to purchase minority shareholdings			3.4
Total consideration			**22.9**
Property, plant and equipment	0.4	-	0.4
Intangible assets	1.1	-	1.1
Debtors	1.6	-	1.6
Cash	0.4	-	0.4
Liabilities	(3.4)	(1.0)	(4.4)
Net assets	0.1	(1.0)	(0.9)
Goodwill			**23.8**

The acquisitions individually are not considered to be material to the Group and therefore the above analysis has not been set out for each subsidiary; instead the aggregate position is provided.

The deferred cash consideration is the fair value of the expected additional consideration to be paid based on individual subsidiary purchase agreements.

From the date of acquisition to 30 June 2008 the aggregate amount that these acquisitions contributed to profit before tax was (£0.4m).

The accounting for acquisitions during the period has been determined on a provisional basis at 30 June 2008, because the fair values assigned to the acquirees' identifiable assets and liabilities have not been determined finally. Any adjustments to these provisional values as a result of completing the work on the fair values of the assets and liabilities acquired will be recognised within a year of the acquisition date and will be recognised as if they had occurred at the date of acquisition.

The Group holds a majority stake in a number of subsidiaries where the minority shareholders have options to require the Group to purchase the remaining shareholding at some future date. Under IAS 32, *Financial instruments: Presentation* and IAS 39, *Financial Instruments: Recognition and Measurement*, these options are designated as "financial instruments". As such, the net present value of the estimated future payments under such put options are shown as a financial liability, with a corresponding entry to goodwill. In subsequent periods, any adjustment to the Group's estimation of the present value of the liability results in a restatement in goodwill. The estimate of liability is principally dependent on the forecast performance of the businesses and the estimated timing of the exercise of the option.

Consequently, in accordance with existing shareholders agreements, during the period the Group increased its shareholdings in Callcredit Information Group Limited, Pearson Jones plc and Sterling International Brokers Limited at a total cost of £9.7m.

The impact of these further investments in existing subsidiaries, together with a reassessment of the expected future payments under the put options across the Group has resulted in goodwill being increased by a further £2.5m during the period (this accounting policy was introduced in 2007).

b) Disposals

During the first six months of the year the Group disposed of its entire shareholdings in the following subsidiaries:

Name of subsidiary undertaking	Principal business activity	Date of disposal	Cash received £m	Profit / (loss) on disposal £m
Direct Life and Pension Services Limited	Life insurance intermediary	18 March 2008	14.3	10.2
Amber Select Limited	Provider of short-term credit facilities	25 March 2008	2.1	(1.2)
			16.4	**9.0**

During the period Direct Life and Pension Services Limited contributed £0.4m (30 June 2007: £0.5m; 31 December 2007: £1.3m) and Amber Select Limited contributed £Nil (30 June 2007: £Nil; 31 December 2007: (£2.1m)) to the Group's profits before tax.

Additionally, in June 2008 Callcredit Information Group Limited sold 2.3% of its shareholding in Broadsystem Limited for £0.1m.

12. Intangible assets	**Unaudited 6 months to 30.06.08 £m**	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Software and databases	**29.1**	20.1	27.8
Goodwill	**223.2**	178.8	202.6
At end of period	**252.3**	198.9	230.4

Goodwill	**Unaudited 6 months to 30.06.08 £m**	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Cost less amortisation			
At 1 January	**209.1**	169.4	169.4
Acquisitions of subsidiaries and business units	**23.8**	16.9	40.9
Reassessment of existing subsidiaries	**2.5**	-	-
Disposals	**(5.2)**	(1.2)	(1.2)
At end of period	**230.2**	185.1	209.1
Impairment losses			
At 1 January	**6.5**	5.6	5.6
Provisions for impairment loss in the year	**0.5**	0.7	0.9
At end of period	**7.0**	6.3	6.5
Net book value			
At 1 January	**202.6**	163.8	163.8
Net book value			
At end of period	**223.2**	178.8	202.6

13. Shares	Unaudited 6 months to 30.06.08 £m	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Held by individuals	**7,828.0**	6,662.8	7,184.5
Other shares	**4.3**	4.7	5.0
Fair value adjustment for hedged risk	**(8.6)**	(5.4)	1.6
	7,823.7	6,662.1	7,191.1
Shares are repayable from the date of the balance sheet in the ordinary course of business as follows:			
On demand	**1,980.6**	1,718.7	1,966.7
In not more than three months	**3,325.8**	3,026.2	3,555.2
In more than three months but not more than one year	**877.9**	298.9	996.1
In more than one year but not more than five years	**1,512.2**	1,490.8	548.8
In more than five years	**127.2**	127.5	124.3
	7,823.7	6,662.1	7,191.1

14. Amounts owed to credit institutions	Unaudited 6 months to 30.06.08 £m	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Amounts owed to credit institutions are repayable from the date of the balance sheet in the ordinary course of business as follows:			
Repayable on demand	**36.4**	8.8	19.7
In not more than three months	**282.8**	488.8	377.0
In more than three months but not more than one year	**17.0**	7.9	6.1
In more than one year	**353.1**	-	-
	689.3	505.5	402.8

Included in amounts owed to credit institutions is £484.8m (30 June 2007: £35.3m; 31 December 2007: £220.0m) relating to securities sold under short-term agreements to repurchase. The carrying and market value of the related securities is £536.5m (30 June 2007: £35.7m; 31 December 2007: £230.5m) and £526.0m (30 June 2007: £35.4m; 31 December 2007: £223.3m) respectively. All sale and repurchase transactions are conducted in line with market standard terms and conditions as defined in ISMA PSA global master repurchase agreements.

15. Amounts owed to other customers	Unaudited 6 months to 30.06.08 £m	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Amounts owed to other customers are repayable from the date of the balance sheet in the ordinary course of business as follows:			
Repayable on demand	**323.5**	317.9	264.4
In not more than three months	**1,126.5**	1,262.6	1,581.2
In more than three months but not more than one year	**785.5**	193.5	292.2
In more than one year but not more than five years	**96.0**	19.0	70.0
	2,331.5	1,793.0	2,207.8

16. Debt securities in issue

	Unaudited 6 months to 30.06.08 £m	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Certificates of deposit	**412.2**	476.8	696.3
Other debt securities	**856.5**	784.4	817.2
Fair value adjustment for hedged risk	**42.5**	(12.1)	20.0
	1,311.2	1,249.1	1,533.5
Debt securities in issue are repayable from the date of the balance sheet in the ordinary course of business as follows:			
Repayable on demand	-	-	-
In not more than one year	**782.0**	474.7	759.6
In more than one year	**529.2**	774.4	773.9
	1,311.2	1,249.1	1,533.5

Included in other debt securities are 45 (30 June 2007: 47; 31 December 2007: 46) Floating Rate Notes issued to the capital markets totalling £768.8m (30 June 2007: £752.4m; 31 December 2007: £755.5m).

17. Related party transactions

A number of transactions are entered into with related parties in the normal course of business. Except for the matter referred to below the Group has had no unusual related party transactions during the half-year to 30 June 2008 and none that have materially affected the financial position or the performance of the Group during that period.

Related party transactions for the half-year to 30 June 2008 are similar in nature to those for the year ended 31 December 2007. Full details of the Group's related party transactions for the year to 31 December 2007 can be found in *Note 8 Related party transactions* in the 2007 Annual Report and Accounts.

During the period the Group purchased a 75% shareholding in Thomson Shepherd Limited, a business in which Mr W H Jack had a 10.8% shareholding in and was Chairman of its board. Mr Jack withdrew from all the Board's deliberations on the acquisition and, on acquisition, sold his shareholding to the Group for £0.2m and resigned from the board of Thomson Shepherd Limited.

18. Subsequent events

There have been no material subsequent events between 30 June 2008 and the approval of this half-yearly financial report by the Board.

19. Credit risk

The most significant credit risk which the Group is exposed to is in relation to loans and advances to customers (note 9), Debt securities (note 8), Loans and advances to credit institutions (note 14) and derivative financial instruments. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, except for loans and advances to customers where a fair value adjustment for hedged risk of (£59.5m) (30 June 2007: (£81.0m); 31 December 2007: £8.5m) is included.

Credit risk – loans and advances to customers

Of the £9,442.6m (30 June 2007: £8,690.4m; 31 December 2007: £9,300.4m) within this class, £8,861.7m (30 June 2007: £8,134.2m; 31 December 2007: £8,698.2m) is fully secured on residential property with a further £499.0m (30 June 2007: £413.0m; 31 December 2007: £465.3m) fully secured on land, with the remaining other loans amounting to £81.9m (30 June 2007: £143.2m; 31 December 2007: £136.9m).

19. Credit risks (continued)

a) Fully secured on residential property

The majority of loans and advances to customers are secured on UK residential properties with no particular geographic concentrations. By their nature, our residential lending books are comprised of a large number of smaller loans, and historically have had a low volatility of credit risk outcomes.

The table below provides further information on residential loans and advances to customers (excluding impairment provisions) by payment due status:

	Unaudited 6 months to 30.06.08		Unaudited 6 months to 30.06.07		Audited 12 months to 31.12.07	
	£m	**%**	£m	%	£m	%
Not individually impaired:						
Neither past due nor individually impaired	**8,503.7**	**96.0**	7,955.5	97.8	8,443.1	97.1
Past due up to 3 months but not individually impaired	**248.1**	**2.8**	134.5	1.7	198.0	2.3
Total	**8,751.8**	**98.8**	8,090.0	99.5	8,641.1	99.4
Impaired:						
Past due 4 to 6 months	**60.1**	**0.7**	26.0	0.4	33.6	0.4
Past due 7 to 12 months	**28.3**	**0.3**	10.9	0.1	11.6	0.1
Past due over 12 months	**3.2**	**-**	1.6	-	2.9	-
Total	**91.6**	**1.0**	38.5	0.5	48.1	0.5
Possessions	**18.3**	**0.2**	5.7	-	9.0	0.1
Total	**8,861.7**	**100.0**	8,134.2	100.0	8,698.2	100.0

£0.2m (30 June 2007: £1.7m; 31 December 2007: £1.2m) of loans would be past due or impaired had their terms not been renegotiated.

19. Credit risks (continued)

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears.

Fair value of collateral held:	**Unaudited 6 months to 30.06.08 £m**	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Not individually impaired	**19,430.1**	18,506.5	19,511.3
Impaired	**140.9**	63.1	76.5
Possessions	**19.7**	6.2	10.9
Total	**19,590.7**	18,575.8	19,598.7
Average indexed loan to value	**45.2**	43.8	44.4

The collateral held predominately consists of residential houses. The use of such collateral is in line with terms that are usual and customary to standard stock borrowing and lending activities.

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

b) Fully secured on land (commercial)

The table below provides further information on commercial loans and advances to customers (excluding impairment provisions) by payment due status:

	Unaudited 6 months to 30.06.08		Unaudited 6 months to 30.06.07		Audited 12 months to 31.12.07	
	£m	**%**	£m	%	£m	%
Not individually impaired:						
Neither past due nor individually impaired	**486.1**	**97.4**	407.3	98.6	458.0	98.5
Past due up to 3 months but not individually impaired	**9.1**	**1.8**	5.2	1.3	4.2	0.9
Total	**495.2**	**99.2**	412.5	99.9	462.2	99.4
Impaired:						
Past due 4 to 6 months	**3.1**	**0.6**	0.3	0.1	1.6	0.3
Past due 7 to 12 months	**0.7**	**0.2**	0.2	-	1.5	0.3
Past due over 12 months	**-**	-	-	-	-	-
Total	**3.8**	**0.8**	0.5	0.1	3.1	0.6
Total	**499.0**	**100.0**	413.0	100.0	465.3	100.0

There were no loans that would be past due or impaired had their terms not been renegotiated (30 June 2007: £Nil; 31 December 2007: £Nil).

Additionally, there were no possessions during the period.

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears.

19. Credit risks (continued)

Fair value of collateral held:	**Unaudited 6 months to 30.06.08 £m**	Unaudited 6 months to 30.06.07 £m	Audited 12 months to 31.12.07 £m
Not individually impaired	**802.0**	784.2	799.1
Impaired	**6.2**	1.3	4.9
Total	**808.2**	785.5	804.0

The collateral held consists of properties held within the above categories. The use of such collateral is in line with terms that are usual and customary to standard stock borrowing and lending activities.

c) Other lending

These loans predominately relate to factored debts secured by way of a floating charge over book debts and other commercial loans.

	Unaudited 6 months to 30.06.08		Unaudited 6 months to 30.06.07		Audited 12 months to 31.12.07	
	Gross £m	**Impairment £m**	Gross £m	Impairment £m	Gross £m	Impairment £m
Short-term premium finance	**-**	**-**	65.5	(0.5)	63.4	(1.0)
Factored debts and invoice discounting	**33.0**	**(0.6)**	29.8	(0.5)	34.4	(0.4)
Other commercial loans	**48.9**	**(1.1)**	47.9	(6.1)	39.1	(1.1)
	81.9	**(1.7)**	143.2	(7.1)	136.9	(2.5)

The majority of these loans have an original maturity of less than one year.

The Group's short-term premium finance lending was held in Amber Select Limited which was sold on 25 March 2008 (for further details refer to note 11b).

Credit risk – debt securities, loans and advances to credit institutions and derivative financial instruments

The Group holds treasury investments in order to meet the liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group.

As at 30 June 2008 none of the Group's treasury portfolio exposure was either past due or impaired. There are no assets that would otherwise be past due or impaired whose terms have been renegotiated.

The Group determines that treasury assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows.

As at 30 June 2008, 97% of the Group's treasury investment assets were rated single A or better. The Group continues to have no exposure to emerging markets and only limited exposure to non investment grade debt.

19. Credit risks (continued)

The table below provides further details of the ratings of the Group's treasury investment portfolio.

Rating	**Unaudited 6 months to 30.06.08**		Unaudited 6 months to 30.06.07		Audited 12 months to 31.12.07	
	£m	**%**	£m	%	£m	%
Aaa	**749.4**	**22.8**	695.2	31.1	653.2	24.5
Aa1	**788.5**	**24.0**	324.9	14.5	442.3	16.6
Aa2	**501.5**	**15.3**	485.6	21.7	488.7	18.3
Aa3	**486.8**	**14.8**	227.9	10.2	520.5	19.5
A1	**309.9**	**9.4**	60.0	2.7	105.5	3.9
A2	**260.4**	**7.9**	270.5	12.1	266.1	9.9
A3	**79.0**	**2.4**	102.0	4.6	64.0	2.4
Unrated:						
Building societies	**94.5**	**2.9**	65.0	2.9	73.1	2.8
Local authorities	**18.3**	**0.5**	4.0	0.2	56.7	2.1
Total	**3,288.3**	**100.0**	2,235.1	100.0	2,670.1	100.0

The Group also monitors exposure concentrations against a variety of criteria including industry sector/asset class and country of risk.

Industry sector / asset class	**Unaudited 6 months to 30.06.08**		Unaudited 6 months to 30.06.07		Audited 12 months to 31.12.07	
	£m	**%**	£m	%	£m	%
Financial institutions	**2,916.0**	**88.7**	1,803.1	80.7	2,217.3	83.0
Local authorities	**18.3**	**0.6**	4.0	0.2	56.7	2.1
Other	**354.0**	**10.7**	428.0	19.1	396.1	14.9
Total	**3,288.3**	**100.0**	2,235.1	100.0	2,670.1	100.0

Geographical exposure	**Unaudited 6 months to 30.06.08**		Unaudited 6 months to 30.06.07		Audited 12 months to 31.12.07	
	£m	**%**	£m	%	£m	%
Europe	**1,707.7**	**51.9**	1,105.6	49.5	1,351.5	50.6
UK	**1,417.3**	**43.1**	981.5	43.9	1,243.5	46.6
North America	**5.0**	**0.2**	38.0	1.7	5.1	0.2
Other	**158.3**	**4.8**	110.0	4.9	70.0	2.6
Total	**3,288.3**	**100.0**	2,235.1	100.0	2,670.1	100.0

The Group does not hold any mortgage backed securities with US institutions as collateral.

Notes to the condensed consolidated financial statements (continued)

20. Segmental reporting

Unaudited 6 months to 30.06.08	Provision of financial services £m	Outsourcing of administration £m	Estate agency £m	Other related activities £m	Inter-segment adjustments £m	Total £m
Income						
Interest receivable and similar income	449.7	0.1	0.4	2.3	(60.1)	**392.4**
Interest payable and similar charges	(392.5)	-	(0.2)	(6.1)	60.5	**(338.3)**
Fees and commissions receivable	23.2	43.8	92.9	58.9	(7.9)	**210.9**
Fees and commissions payable	(2.3)	-	-	(13.3)	-	**(15.6)**
Other income	10.2	-	-	2.2	-	**12.4**
Total operating income	**88.3**	**43.9**	**93.1**	**44.0**	**(7.5)**	**261.8**
Profit from disposal of subsidiaries	-	-	-	9.0	-	**9.0**
Share of profits from associate and joint venture	-	-	3.4	-	-	**3.4**
Wages and salaries	31.3	24.0	56.8	24.8	-	**136.9**
Depreciation and amortisation	2.7	2.6	2.5	3.8	-	**11.6**
Impairment losses / provisions for liabilities	7.6	-	-	0.1	-	**7.7**
Other administrative expenses	26.5	13.2	26.9	14.7	(7.4)	**73.9**
Total expenses	**68.1**	**39.8**	**86.2**	**43.4**	**(7.4)**	**230.1**
Profit before tax	**20.2**	**4.1**	**10.3**	**9.6**	**(0.1)**	**44.1**
Total assets	**14,874.6**	**29.5**	**159.9**	**365.9**	**(2,072.5)**	**13,357.4**
Total liabilities	**13,699.5**	**1.5**	**87.0**	**245.7**	**(1,422.9)**	**12,610.8**
Capital expenditure	**5.2**	**1.5**	**2.0**	**3.5**	**-**	**12.2**

20. Segmental reporting (continued)

Unaudited 6 months to 30.06.07	Provision of financial services £m	Outsourcing of administration £m	Estate agency £m	Other related activities £m	Inter-segment adjustments £m	Total £m
Income						
Interest receivable and similar income	353.8	0.2	1.6	2.1	(45.3)	312.4
Interest payable and similar charges	(298.7)	-	-	(3.4)	44.6	(257.5)
Fees and commissions receivable	29.4	42.8	127.1	54.6	(6.9)	247.0
Fees and commissions payable	(4.8)	-	(1.3)	(14.8)	-	(20.9)
Other income	1.3	0.3	0.4	2.2	-	4.2
Total operating income	81.0	43.3	127.8	40.7	(7.6)	285.2
Profit from part disposal of associate	-	-	36.0	-	-	36.0
Share of profits from associate and joint venture	-	-	3.1	-	-	3.1
Wages and salaries	28.4	21.5	64.5	18.0	(0.9)	131.5
Depreciation and amortisation	2.2	2.4	1.8	3.2	0.5	10.1
Impairment losses / provisions for liabilities	1.5	-	-	(1.6)	-	(0.1)
Other administrative expenses	20.0	10.9	31.3	18.5	(5.5)	75.2
Total expenses	52.1	34.8	97.6	38.1	(5.9)	216.7
Profit before tax	28.9	8.5	69.3	2.6	(1.7)	107.6
Total assets	12,902.8	37.4	185.1	290.9	(2,066.1)	11,350.1
Total liabilities	12,293.5	8.2	57.9	183.2	(1,900.8)	10,642.0
Capital expenditure	2.2	2.3	3.6	2.5	-	10.6

Notes to the condensed consolidated financial statements (continued)

20. Segmental reporting (continued)

Audited 12 months to 31.12.07	Provision of financial services £m	Outsourcing of administration £m	Estate agency £m	Other related activities £m	Inter-segment adjustments £m	Total £m
Income						
Interest receivable and similar income	779.7	0.5	3.8	4.4	(109.1)	679.3
Interest payable and similar charges	(674.6)	-	(0.2)	(7.7)	109.0	(573.5)
Fees and commissions receivable	37.5	86.8	253.4	129.8	(11.5)	496.0
Fees and commissions payable	18.6	-	-	(64.2)	(0.9)	(46.5)
Other income	-	0.7	0.9	8.8	5.7	16.1
Total operating income	161.2	88.0	257.9	71.1	(6.8)	571.4
Profit from part disposal of associate	-	-	36.0	-	-	36.0
Share of profits from associate and joint venture	-	-	5.3	-	-	5.3
Wages and salaries	58.3	37.0	130.2	37.6	-	263.1
Depreciation and amortisation	5.6	4.6	4.4	6.4	-	21.0
Impairment losses / provisions for liabilities	4.6	-	0.6	-	-	5.2
Other administrative expenses	46.9	30.6	65.8	22.5	(7.9)	157.9
Total expenses	115.4	72.2	201.0	66.5	(7.9)	447.2
Profit before tax	45.8	15.8	98.2	4.6	1.1	165.5
Total assets	13,890.6	31.8	153.4	313.9	(1,859.2)	12,530.5
Total liabilities	13,199.0	6.7	87.7	205.3	(1,693.4)	11,805.3
Capital expenditure	6.8	6.5	7.0	7.8	-	28.1

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:

  (a) 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; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Board of Directors represents those individuals responsible for the half-yearly financial report as listed below.

Mr J B Rawlings	(Chairman)
Mr A I Findlay	(Vice-Chairman)
Mr D J Cutter*	
Mr J G Goodfellow*	
Mr S W Haggerty*	(appointed 1 January 2008)
Mr P R Hales	
Ms P M Hay-Plumb	
Mr C N Hutton	
Mr W H Jack	
Ms A B E Kinney	
Mr R J Twigg*	

* Executive Directors

Signed on behalf of the Board by

J B Rawlings

Chairman

31 July 2008

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 2008 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Statement of Recognised Income and Expense and the Condensed Consolidated Cash Flow Statement 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 company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). 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 company 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 FSA.

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 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

KPMG Audit Plc

Chartered Accountants

Leeds

31 July 2008

Stock code 10-8417/05/08/08/APS

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SKIPTON BUILDING SOCIETY