Skipton Building Society

Half-Yearly Financial Report 2009

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SKIPTON BUILDING SOCIETY

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Forward-looking statements

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

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

Results

I am pleased to tell you that our half-year results show another solid performance of the Skipton Group, with pre-tax profits totalling £17.0m. At a Group level the results are satisfactory, although in some parts of the business challenges remain due to the current trading environment.

Our continuing focus on prudence; strong liquidity and funding management; careful cost control and a willingness to seize appropriate new business opportunities emerging from the current recessionary economic climate, leaves me confident that we will report an increase in Group profits at the year-end year-on-year.

We have also continued to significantly reduce our reliance on the wholesale funding markets, which remain constricted, with around 79% of our total funding now coming from retail savings compared with 69% at the end of 2008. In July 2009, after the end of this financial reporting period, this position has been further strengthened by our successful acquisition of £723m of retail balances from Capital One, further increasing our member base by 45,000.

The economy

Our market environment has continued to be characterised by unprecedented developments affecting financial institutions. Steps designed to kick-start the economy, such as the Bank of England's reduction of its Base Rate to a 315-year low of 0.5%, have compressed margins and penalised savers who rely on income from their investments.

Savings

We recognise that many of our members rely on the income they receive from their savings with us. With this in mind, and in line with our mutual ethos, we have continued to offer products that provide consistently good value, as evidenced by the fact our wide variety of savings accounts – from easy access products to ISAs and Fixed Rate Bonds – have made regular appearances in independent newspaper 'Best Buy' tables. We have also maintained the Scarborough Investments Direct channel, through which our investors can transact over the telephone, as well as improving our e-savings capability during the period.

Mortgages

In order to preserve liquidity and capital, we have prudently restricted our lending compared with previous years, by adjusting our lending criteria according to market conditions. We have balanced this with continuing to help our members and their families to meet their home ownership aspirations, within reason, and doing our utmost to help struggling borrowers by working with them to find appropriate, personalised solutions.

The Society will continue to place its members at the heart of all its activities, representing their interests in the unfolding political debate about financial reform through discussions with key policymakers wherever relevant.

Group

Our half-year profitability is testament to our diversified group structure, with its range of divisions operating in complementary disciplines such as mortgage services, estate agency, credit and marketing solutions and financial advice, which continue to support and provide additional value to the Society.

While further bumps are inevitable along the road to recovery, we believe what emerges will be a much stronger and more sustainable financial services industry, characterised by the kind of solid, dependable values building societies like Skipton have demonstrated for many years.

By continuing to do all we can to cater for and support our savers and borrowers, and seizing appropriate business opportunities which will emerge from the current recessionary environment, we will ensure the long term financial strength and success of Skipton.

David Cutter

D J Cutter
Group Chief Executive
28 July 2009

Summary

The trading environment in which the Skipton Group operates continues to be difficult and it is against this background that the Group is pleased to report a solid financial performance with a profit of £17.0m for the first half of 2009.

These financial results are the first since the Group completed its successful merger with the Scarborough Building Society (the Scarborough) on 30 March 2009. On the date of merger, the Group's assets increased by £2,638m.

During the period under review the Group has made progress in ensuring that it emerges from the current economic cycle in a stronger position. In summary, the Group has:

- Managed down the level of new mortgage lending, although it still offers competitive products for higher quality customers. Excluding the merger with Scarborough, net mortgage balances have reduced by 3.2% to £9.1 billion.
- Reduced its reliance on wholesale funding markets by attracting new retail depositors with a range of competitive products. Overall, the level of wholesale funding within the Group has decreased from 31.0% to 21.2%.
- Placed more of its assets in higher liquidity and lower risk investments, including placing more funds on deposit with the Bank of England.
- Continued a process of reviewing its underlying cost base to ensure the business remains efficient.

During the period, the Society, along with many others in the sector, suffered a credit rating downgrade from Moody's. Many wholesale depositors, such as local government authorities, use credit ratings as the main basis on which to place funds. Whilst the Group was actively managing its reliance on wholesale funding, the impact was to accelerate attracting retail customers.

The incremental cost of these retail deposits, at a time when rates charged to customers on variable rate mortgages has reduced, has resulted in the net interest margin of the Group falling from 0.66% (full year 2008) to 0.54%. Our savings products remain amongst the most competitive in the market.

The Group has taken action to actively manage loans which have gone into arrears, supporting the borrower where possible whilst protecting the balance sheet for the benefit of all members. The number of cases in the Society where the arrears balance is greater than 2.5% of total outstanding balances is 0.46% (31 December 2008: 0.41%). Whilst in Amber Homeloans the cases in arrears where balances are greater than 2.5% of total outstanding balances remain higher than the Society at 8.95% (31 December 2008: 6.45%), action taken in 2008 including ceasing new lending, has resulted in a gradual reduction in the level of arrears in recent months. Management are now also focussing on the North Yorkshire Mortgages portfolio which came into the Group with the Scarborough merger, where development of arrears has typically lagged behind Amber Homeloans. The number of cases in North Yorkshire Mortgages where the arrears balance is greater than 2.5% of total outstanding balances is 4.49%.

The capital adequacy of the Group remains strong at the half-year with the regulated capital resources of the Society (Solo) and the Group (UK Group), on a Basel II basis, at 153.2% and 156.6% of their Pillar I requirement respectively and a Group solvency ratio of 11.97%.

The Group's strategy of diversification through divisions that offer counter-cyclical returns has paid benefits in the period, resulting in a net contribution to profits. However, the Group is not complacent and will review the contribution made by each division during the current economic cycle to determine whether they add benefits to the Group as a whole.

Financial performance

The Group reported pre-tax profits of £17.0m for the first half of 2009 (30 June 2008: £43.1m; 31 December 2008: £22.5m). The reported profits include a number of items which we consider to be non-routine and as such the following table seeks to adjust the reported profit to exclude such items to provide a clearer representation of the underlying performance of the Group.

	Unaudited 6 months to 30.06.09 £m	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
Reported profit before tax	**17.0**	43.1	22.5
Adjustments:			
Profit on sale of subsidiary companies	**-**	(9.0)	(9.1)
Profit on sale of investment in associate	**-**	-	(22.3)
Financial Services Compensation Scheme levy	**-**	-	16.3
Impairment of investment securities	**(3.1)**	-	11.5
Curtailment gain on closure of pension schemes	**-**	-	(6.3)
Impairment of goodwill	**-**	0.5	5.9
Net losses / (gains) from fair value volatility	**0.3**	(6.0)	3.3
Merger related expenses	**4.2**	-	0.7
Adjusted profit before tax	**18.4**	28.6	22.5

The current period adjustments highlighted above are as a result of the following:

- Impairment of investment securities includes a credit of £3.1m being the sale proceeds in relation to our £11.0m exposure to Kaupthing Singer & Friedlander Limited which failed in 2008. We had provided for the full £11.0m exposure within our 2008 Accounts since it was unclear whether any of our investment would be realised;
- Net movements in fair value volatility arise from changes in the value of certain financial instruments resulting largely as a result of fluctuations in interest rates; these timing differences reverse over time;
- Merger expenses represent legal and other expenses following the merger with Scarborough Building Society. It is expected that some additional expenses will be incurred in the second half of 2009.

A further analysis of the income statement, excluding the above non-routine items, is as follows:

	Unaudited 6 months to 30.06.09 £m	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
Net interest income	**38.8**	48.1	86.0
Other income	**199.4**	207.7	404.4
Share of profits from joint ventures and associates	**0.1**	2.4	3.9
Total income	**238.3**	258.2	494.3
Administrative expenses	**(197.8)**	(221.9)	(432.7)
Regulatory and other provisions	**-**	0.2	(4.5)
Impairment losses on loans and advances	**(22.1)**	(7.9)	(34.6)
Adjusted profit before tax	**18.4**	28.6	22.5

Net interest income

Since the commencement of the current economic downturn, the Group has sought to reduce its exposure to the availability of wholesale funding by offering competitive retail deposits to its savers. The Group is also holding a higher level of liquid assets with a focus on low risk and highly liquid securities, such as gilts and deposits with the Bank of England. These measures, required to ensure the stability of the business, have come at a cost to the interest margin especially at a time of lower interest charges on our variable rate mortgages. The Group's net interest income reduced by 19.3% during the period to £38.8m (30 June 2008: £48.1m; 31 December 2008: £86.0m), a reduction from 0.74% to 0.54% year-on-year in terms of margin.

Other income

The Group's other income represents the income earned from our divisions together with the insurance commissions, income from the sale of investment products and other non-margin income.

The Group's underlying other income for the first six months of the year was £199.4m, down 4.0% year-on-year (30 June 2008: £207.7m; 31 December 2008: £404.4m). Other income by division is set out below:

	Unaudited 6 months to 30.06.09 £m	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
Mortgages and savings	**8.9**	8.0	15.8
Mortgage services	**43.2**	44.9	88.7
Estate agency	**90.5**	92.9	178.1
Financial advice	**17.1**	17.6	35.1
Credit and marketing solutions	**24.8**	23.8	49.4
Investment portfolio	**19.9**	28.4	49.8
Inter-company adjustments	**(5.0)**	(7.9)	(12.5)
	199.4	207.7	404.4

Administrative expenses

Total adjusted administrative expenses, excluding expenses that specifically relate to the Scarborough merger, fell by 10.8% to £197.8m from £221.9m in June 2008 reflecting the tight cost control across the Group that has been required as transaction levels have decreased and to ensure we reap the benefits of efficiency savings in future years. The £4.2m expense in relation to the merger relates primarily to professional fees and other non-recurring items and is not ongoing expenditure.

The Society has managed, despite its increase in staff numbers following the merger with the Scarborough, to maintain its ratio of administrative expenses to mean assets compared with the year ended 31 December 2008. The ratio has remained static at 0.47% for the first six months of the year (30 June 2008: 0.48%; 31 December 2008: 0.47%), which we are confident will remain one of the lowest in the building society sector.

At a group level, this management expense ratio is less comparable, given the investments we have made in our trading businesses. However the Group-wide cost reductions achieved have resulted in this ratio also falling to 2.80% in 2009 (30 June 2008: 3.44%).

Impairment losses on loans and advances

The Group's impairment charge on loans and advances increased year-on-year to £22.1m (30 June 2008: £7.9m; 31 December 2008: £34.6m) with the majority of the charge emanating from the specialist residential mortgage loans held in Amber Homeloans. In the Society a charge of £2.8m was recognised (30 June 2008: £0.7m; 31 December 2008: £4.2m) against mortgages outstanding of £7,976.2m (30 June 2008: £7,011.0m; 31 December 2008: £7,037.8m) once again demonstrating the high quality of the Society's core mortgage assets.

The performance of the Group's residential mortgages continued to be satisfactory given market conditions, with only 1,666 cases at 30 June 2009 where the arrears balance was greater than 2.5% of total outstanding balances, representing 1.54% of the book.

The Group continues to direct its resources into operational areas which will have the most impact on containing the level of mortgages that go into arrears or possession. This has included ensuring that appropriate resources are allocated to the collections area of the business.

The loan books in our Guernsey based subsidiaries, operating through Skipton Guernsey and Scarborough Channel Islands, and our debt factoring business, Skipton Business Finance, remain of high quality and the charge for impairment losses on these loans remains negligible.

Merger

On 30 March 2009 the Society merged with the Scarborough Building Society. The Board of the Scarborough Building Society independently reached a conclusion that merging with the Skipton was in the best interests of their members, given the current uncertain economic environment and following the identification of financial issues faced by their Society. From our perspective, the merger provided an opportunity to build on our strong position within the financial services sector by adding attractive and complementary customer franchises to our existing operations.

More details on how the merger impacted the Group position are shown in note 25 to these accounts.

Financial position

Loans and advances to customers

The strategy to concentrate on maintaining a strong liquidity base by restricting new mortgage lending growth continued into 2009 and is expected to be continued throughout the rest of year. Excluding balances arising from the Scarborough and its subsidiaries, gross mortgage balances reduced from £9,424.5m to £9,121.4m. The combined Society has kept its lending aspirations low and tightened its lending criteria to attract higher quality borrowers.

An analysis of completions is shown below:

	Unaudited 6 months to 30.06.09 £m	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
Society	**180.6**	715.6	1,253.7
Amber Homeloans	**2.2**	152.2	160.1
North Yorkshire Mortgages	**0.5**	-	-
Skipton Guernsey (including Scarborough Channel Islands)	**34.9**	54.7	88.0
	218.2	922.5	1,501.8

Of approved new mortgage lending, fixed rate products continued to be the most popular products, attracting 78% of all applications, with customers trying to protect themselves from the continued market uncertainty. Our lending continues to be well diversified by product type and geographical distribution, with 66.2% of the Society's new lending having a loan-to-value (LTV) of less than 75% (30 June 2008: 65.9%). This well managed spread of risk ensures that the quality of the Society's mortgage lending remains high.

The growth in the buy-to-let mortgage portfolio is substantially related to the merger with the Scarborough Building Society which had £267.0m of such balances at the date of the merger. Total new advances on buy-to-let products remains modest in the first half of the year at £7.0m (30 June 2008: £104.0m). 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 with residential lending, and the level of rental cover compared with the mortgage payments.

Overall, the Group has increased its loans and advances by 18.9% to £11,203.3m from £9,424.5m at 31 December 2008 as set out in the table below:

	Unaudited 6 months as at 30.06.09 £m	Unaudited 6 months as at 30.06.08 £m	Audited 12 months as at 31.12.08 £m
Total residential mortgages	**10,600.2**	8,861.7	8,815.7
Commercial loans	**525.6**	499.0	527.8
Other lending:			
Debt factoring loans	**29.7**	33.0	30.8
Other loans	**47.8**	48.9	50.2
Gross balances	**11,203.3**	9,442.6	9,424.5
Impairment provisions	**(79.2)**	(25.0)	(44.1)
Fair value adjustments	**192.2**	(59.5)	187.3
	11,316.3	9,358. 1	9,567.7

Excluding Scarborough, gross loans and receivables at 30 June 2009 would have been £9,121.4m.

The performance of the Society's residential mortgages remains good with only a modest increase in arrears during the first six months of the year. At 30 June 2009 there were only 411 cases (0.46%) where the arrears balance was greater than 2.5% of total outstanding balances, compared with 277 cases (0.36%) a year ago. During the first six months of the year the Society took 61 cases (30 June 2008: 27; 31 December 2008: 74) into possession, of which 39 cases (30 June 2008: 24; 31 December 2008: 37) remained in possession as at 30 June 2009.

Amber Homeloans has higher levels of arrears than those in the Society due to the specialist nature of their mortgages and have been affected more than the Society during the economic downturn. Consequently, we have seen a rise in arrears in the Amber portfolio and as at 30 June 2009 there were 966 cases (8.95%) where the arrears balance was greater than 2.5% of total outstanding balances, compared with 733 cases (6.45%) at 31 December 2008. Total new possessions within Amber Homeloans were 149 cases (30 June 2008: 82; 31 December 2008: 238), and 159 cases (30 June 2008: 80; 31 December 2008: 184) remained in possession as at 30 June 2009.

Our newly acquired subsidiary, North Yorkshire Mortgages, is also a specialist lender, however on a smaller scale than Amber Homeloans, and had 289 cases (4.49%) where the arrears balance was greater than 2.5% of total outstanding balances by the end of June 2009. Total new possessions, including those acquired when joining the Group, within North Yorkshire Mortgages were 94 cases and 59 cases remained in possession as at 30 June 2009.

New lending in Amber Homeloans and North Yorkshire Mortgages ceased in March 2008. In addition, the Group stopped offering commercial loans in November 2008.

Funding

Retail

As a mutual, the Group is required to obtain the majority of its funding through retail member deposits. 78.8% (30 June 2008: 67.9%; 31 December 2008: 69.0%) of our funding comes from retail savings. Excluding £1,775.2m of retail deposits that were transferred to the Society at the date of merger with the Scarborough, the Society attracted £463.0m of net new retail inflows in the period (30 June 2008: £942.6m). The inflows represent the competitive pricing that the Society offered in order to increase its retail funds and reduce its reliance on wholesale funding, especially after the Society's credit rating downgrade in April 2009 by Moody's.

In addition to our UK retail funding, the Group also accepts deposits through our Guernsey based operations. We are pleased to report that we saw balances increase at the end of June to £897.4m largely as a result of the merger (30 June 2008: £570.0m; 31 December 2008: £468.3m).

On 27 July 2009, following court approval, the Group acquired £723m of retail savings from Capital One which brought over 45,000 new members.

Wholesale

The remainder of the Group's funding comes from the wholesale markets. At 30 June 2009, wholesale funding balances amounted to £2,688.8m (30 June 2008: £3,748.3m; 31 December 2008: £3,609.5m), a decrease of £920.7m. The increase in retail savings balances allowed us to reduce our reliance on the wholesale funding markets and our wholesale funding ratio fell from 31.02% at 31 December 2008 to 21.20% at the end of June 2009 (30 June 2008: 32.12%).

Wholesale credit markets have remained tight since the economic downturn began in August 2007 and the long-term public issuance markets remain effectively closed. As a result, our focus remains on retaining maturing deposits and lengthening the duration of our wholesale funding in order to protect ourselves against the prospect of the current market conditions continuing in the second half of 2009 and beyond. We have been successful in achieving our goals and have also used our repo (secured borrowing) capabilities to provide additional wholesale funding of £403.2m (30 June 2008: £484.8m; 31 December 2008: £487.1m), split between the Bank of England's Open Market Operations and transactions with a number of market counterparties providing funding for periods of up to three years. These measures have allowed us to increase our proportion of our wholesale funding with a maturity of over one year to 32.1% at 30 June 2009 from 24.3% at the end of 2008.

The following table analyses the change in the composition of our wholesale funding since June 2008.

	Unaudited 6 months as at 30.06.09 £m	Unaudited 6 months as at 30.06.08 £m	Audited 12 months as at 31.12.08 £m
Repo and other secured agreements	**403.2**	484.8	487.1
Deposits	**1,439.6**	2,005.6	1,748.0
Certificates of deposits	**209.6**	412.2	341.1
Medium-term notes	**551.2**	803.2	894.9
Fair value adjustments	**85.2**	42.5	138.4
	2,688.8	3,748.3	3,609.5

During the first half of the year, the rating agencies have been extremely active in reviewing the relative credit worthiness of all financial institutions. The ratings assigned are a key determinant of the funding markets we are able to access and the cost of funding. As at the end of June 2009, our credit ratings, provided by Fitch and Moody's, were as follows:

	Fitch	**Moody's**
Long-term	A-	Baa1
Short-term	F2	P-2
Subordinated	BBB+	A3

The downgrade of our rating, together with many other building societies, by Moody's in April 2009 is a reflection of current market conditions. The decision by Moody's was hugely disappointing given it was based on an extreme scenario of a 60% reduction in house prices. In terms of the building society sector, we will be working together with the Building Societies Association, to ensure Moody's bring more transparency and fairness to the process of rating.

We are pleased to have retained a AAA rating from both agencies on our covered bond programme.

The Group continues to have no exposures to structured investment vehicles (SIVs), conduits or to the US sub-prime market.

Liquidity

We have continued to maintain high levels of liquidity during the period. We have also increased the proportion of liquidity which is accessible within a short period of time. The core 8-day liquidity ratio is managed to a level well in excess of the building society regulatory limit of 3.5% of funding liabilities. An analysis of the liquidity position of the Group is outlined below:

	Unaudited 6 months as at 30.06.09	Unaudited 6 months as at 30.06.08	Audited 12 months as at 31.12.08
Liquidity balance (£m)	**3,085.4**	3,288.3	3,178.3
As % of shares and deposit liabilities	**22.59%**	27.05%	28.84%
Core 8-day ratio	**14.5%**	13.8%	17.6%
Core 8-day ratio as a proportion of total liquidity	**68.8%**	48.4%	65.3%

With the continuing adverse market conditions, the focus remains on the type and valuation of investments held by financial institutions. The Group has increased the level of balances held on deposit with the Bank of England. The Group has no exposure to US mortgages, hedge funds or leveraged loans.

The Group's treasury investments are held to provide prudential liquidity and 98.0% (30 June 2008: 96.6%; 31 December 2008: 96.9%) of the Group's treasury investments are rated A or better (as shown below).

	Unaudited 6 months as at 30.06.09 £m	Unaudited 6 months as at 30.06.08 £m	Audited 12 months as at 31.12.08 £m
Aaa	**1,607.8**	749.4	843.8
Aa1	**215.4**	788.5	766.3
Aa2	**177.3**	501.5	461.0
Aa3	**798.4**	486.8	453.3
A1	**117.0**	309.9	180.0
A2	**78.7**	260.4	270.0
A3	**28.1**	79.0	102.7
Baa1	**2.8**	-	19.0
Baa2	**23.8**	-	25.5
Baa3	**19.7**	-	-
Ba3	**7.2**	-	-
Unrated:			
Building societies	**7.9**	94.5	53.0
Local authorities	**1.3**	18.3	3.7
	3,085.4	3,288.3	3,178.3

The Group employs a rigorous credit assessment process and considers the risks of all assets before they are acquired and throughout the period they are held. Credit approval, along with monitoring the Group's exposure concentrations against a variety of criteria including industry sector and country of risk, is carried out by an independent Treasury Risk function.

	Unaudited 6 months as at 30.06.09 £m	Unaudited 6 months as at 30.06.08 £m	Audited 12 months as at 31.12.08 £m
Cash in hand and balances with the Bank of England	**1,113.5**	153.5	359.4
Cash with banks and building societies	**386.0**	1,296.9	1,064.4
Gilts	**63.5**	106.5	111.0
Certificates of deposit	**645.9**	954.9	946.5
Local authority investments	**1.3**	18.3	3.7
Fixed rate bonds	**103.3**	25.6	1.7
Floating rate notes	**438.2**	393.2	390.0
Residential mortgage backed securities	**266.1**	282.8	243.0
Commercial mortgage backed securities	**62.5**	56.6	58.6
Treasury bills	**5.1**	-	-
	3,085.4	3,288.3	3,178.3

Treasury assets are valued using quoted market prices or prices obtained from counterparties. Where reliable market prices are not available, discounted cash flow models are used.

The adverse fair value adjustments of available-for-sale (AFS) assets have largely been driven by widening credit spreads pursuant to liquidity issues in the wholesale markets rather than deterioration in the underlying performance of the assets. At 30 June 2009 the negative balance on the AFS reserve was £12.0m (30 June 2008: £16.5m; 31 December 2008: £13.2m), representing 0.4% (30 June 2008: 0.5%; 31 December 2008: 0.4%) of the total liquidity portfolio.

During the period we received £3.1m sales proceeds in respect of a senior unsecured exposure to Kaupthing Singer & Friedlander Limited, which went into receivership in October 2008. We had previously provided for our full £11.0m exposure in 2008.

Capital structure

The FSA regulates the Group and it 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 the Asset and Liability Committee (ALCO) and the Board. Capital is ultimately held for the protection of retail depositors; the internal level of capital is set with the aim of ensuring the minimum regulatory objective is exceeded. Throughout 2009, the Group has operated comfortably in excess of the minimum capital levels set by both the Society's regulator and the Board.

When the merger with the Scarborough Building Society took place, the capital position of the Group was reduced by a number of fair value adjustments which were applied to the cessation accounts of the Scarborough Group (see note 25). The majority of these adjustments will be credited back over time, hence improving the capital position of the Group.

The following table shows the composition of the Group's capital at 30 June 2009.

	Unaudited 6 months as at 30.06.09 £m	Unaudited 6 months as at 30.06.08 £m	Audited 12 months as at 31.12.08 £m
Tier 1			
Reserves	**692.6**	742.8	703.6
Permanent Interest Bearing Shares (note 1)	**90.0**	25.0	25.0
Pension fund deficit add back (note 2)	**20.7**	7.5	16.7
Deductions from Tier 1 capital (note 3)	**(243.2)**	(252.3)	(242.5)
Unrealised losses on available-for-sale debt securities	**12.0**	16.5	13.2
Unrealised losses on cash flow hedges	**10.9**	(1.1)	21.2
Total Tier 1 capital	**583.0**	538.4	537.2
Tier 2			
Subordinated debt (note 1)	**209.3**	180.0	180.0
Collective impairment allowance	**28.1**	13.9	14.0
Total Tier 2 capital	**237.4**	193.9	194.0
Total capital	**820.4**	732.3	731.2
Risk weighted assets			
Retail mortgages	**4,553.2**	3,418.0	3,569.0
Commercial loans	**450.6**	436.5	464.7
Treasury	**502.4**	647.6	601.2
Other	**464.3**	297.7	462.3
Operational risk	**875.1**	840.5	846.1
Market risk	**8.0**	6.0	9.0
	6,853.6	5,646.3	5,952.3
Core Tier 1 (%) (note 4)	**7.19%**	9.09%	8.61%
Tier 1 ratio (%) (note 4)	**8.51%**	9.54%	9.03%
Total capital (%) (note 4)	**11.97%**	12.97%	12.28%
Tier 2 to Tier 1 ratio (%)	**40.72%**	36.01%	36.11%

Notes

1. Under FSA rules Permanent Interest Bearing Shares (PIBS) and subordinated debt are included in the solvency calculation in accordance with UK GAAP rather than IFRS. The PIBS and subordinated debt are disclosed at par value therefore the associated merger fair value adjustments are recognised in the general reserve.

2. The regulatory capital rules allow the pension fund deficit to be added back to regulatory capital and a deduction taken instead for an estimate of the additional contributions to be made in the next five years, less associated deferred tax.

3. Intangible assets must be deducted from regulatory capital.

4. Calculated as relevant capital divided by risk weighted assets. Core Tier 1 relates to Tier 1 capital excluding PIBS.

For statutory purposes, under Basel II, we are required to calculate our capital ratios for both the Solo consolidation group and the UK consolidation group. The Solo consolidation group comprises the Group's UK based mortgage lending bodies whilst the UK consolidation group consists of the entire Group except a small number of entities whose activities are not deemed to be closely aligned with the core business.

The table below sets out the capital resources of the Solo and the UK consolidation groups, together with the associated capital resource requirements as at 30 June 2009. Both ratios are comfortably above the regulatory threshold.

	UK consolidation group			**Solo consolidation group**		
	Unaudited 6 months as at 30.06.09	Unaudited 6 months as at 30.06.08	Audited 12 months as at 31.12.08	**Unaudited 6 months as at 30.06.09**	Unaudited 6 months as at 30.06.08	Audited 12 months as at 31.12.08
Capital resources (£m)	**795.8**	708.9	707.1	**722.1**	654.0	660.0
Capital resource requirement (£m)	**508.0**	417.5	436.3	**471.4**	375.2	400.0
Capital ratio (%)	**156.6%**	169.8%	162.1%	**153.2%**	174.3%	165.0%

Performance by business area

The Group operates six main divisions as follows:

- Mortgages and savings – principally the Society, but also includes specialist mortgage lending in Amber Homeloans and North Yorkshire Mortgages together with lending in Jersey and Guernsey through Skipton Guernsey and Scarborough Channel Islands;
- Estate agency – including survey and valuations, conveyancing, asset management and mortgage broking carried out through Connells;
- Mortgage services – mortgage administration services, principally Homeloan Management and Specialist Mortgage Services;
- Credit and marketing solutions – provision of credit reference agency and database services by Callcredit Information Group;
- Financial advice – provision of financial advice and broking services through five separate financial adviser companies;
- Investment portfolio – including Pink Homeloans, Skipton Business Finance and our international IT subsidiaries Jade and Northwest Investments.

Whilst inevitably the results of many of the Group's divisions were impacted by the deteriorating economic conditions during the first six months of the year, we are pleased that the strength of our business model has allowed the Group to achieve profitable results.

	Profit / (loss) before tax		
	Unaudited 6 months to 30.06.09 £m	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
Profit before non-routine items			
Mortgages and savings	**(8.0)**	14.6	3.6
Mortgage services	**4.7**	4.1	8.3
Estate agency	**20.8**	9.3	10.4
Financial advice	**(0.1)**	(0.3)	(1.0)
Credit and marketing solutions	**2.3**	2.0	4.7
Investment portfolio	**(1.6)**	(1.0)	(1.4)
Inter-company adjustments	**0.3**	(0.1)	(2.1)
Sub-total	**18.4**	28.6	22.5
Non-routine items, net	**(1.4)**	14.5	-
Reported profits	**17.0**	43.1	22.5

Mortgages and savings

The Group's mortgages and savings businesses comprise the Society, Amber Homeloans, Skipton Guernsey, Skipton Covered Bonds LLP, Skipton Trustees and following the merger, North Yorkshire Mortgages and Scarborough Channel Islands.

The mortgages and savings division made a loss of £8.0m (30 June 2008: profit £14.6m) principally as a result of the falling interest margin and mortgages, and the recognition of impairment charges on its lending portfolio.

The Society's management expenses ratio remained static at 0.47% compared with the end of 2008. The Society's focus was on maintaining a prudent asset base post the merger with the Scarborough Building Society.

As expected, Amber Homeloans results were impacted by its impairment losses as noted earlier, with its higher risk borrowers faring less well in the onset of the recession. The impairment charge in Amber during the first six months was £19.0m, up from £9.0m in 2008 as both arrears and possessions volumes grew. Amber continues pro-actively to manage its arrears in order to contain the emergence of losses. Following the decision to stop lending in March of last year, Amber's mortgage balances have continued to fall and now stand at £1,393.4m from £1,519.0m in June 2008 and will continue to decrease during the remainder of 2009.

North Yorkshire Mortgages, which came into the Group with the Scarborough, wrote similar business to Amber Homeloans. Expected losses arising on this portfolio had already been taken into account upon accounting for the merger and do not materially impact reported profits in the period. Similar to Amber Homeloans, North Yorkshire Mortgages ceased lending last year and as such its mortgage balances will continue to decrease during the second half of the year.

Our Channel Island operations within Skipton Guernsey and more recently Scarborough Channel Islands, made a combined profit of £0.2m in 2009 compared with £2.3m in the first half of 2008. Mortgage lending was constrained in line with the policy set by the Society in order to preserve liquidity. As a result the mortgage book grew by only £15.2m in the first six months of the year to £356.3m, but the quality remains good with no loans being identified as impaired.

Mortgage services

Mortgage services provides outsourcing to a number of specialist and high street financial services companies. The business is the largest third party mortgage administrator in the UK with total assets under management of £48.0bn and generated underlying profits of £4.7m compared with £4.1m in 2008.

The dislocation in the mortgage market has had mixed blessings. While its traditional areas of growth have virtually disappeared, new opportunities have also emerged. Many lenders are now looking at outsourcing 'closed' books which reside on old legacy systems. The division is ideally placed to help these companies convert fixed costs into variable costs and to make the necessary cost savings vital to their future. A number of these opportunities have developed in the first half of the year and we are well placed to take on new clients in the second half of the year.

Good progress has been made with the implementation of numerous processes that have been redesigned for the benefit of the customer, client and the business. Strong progress

has also been made around improving quality within the business – a key element of our strategy. Coupled with the implementation of a new risk management framework significant business benefits are emerging. Investment in technology continues and the implementation of a business process workflow for pre-litigation credit management is also delivering expected benefits. The division has a strong platform to grow its Special Servicing offering and there is a strong pipeline of new business which is expected to mature in the second half of the year.

Estate agency

In 2008, the housing market tailed away markedly from April onwards. The picture for the first six months of 2009 has been very different, with a significant increase in second hand sales volumes, up by over 50% compared with the latter months of 2008 and 23% year-on-year. As a result of these volume increases core estate agency turnover was £62.6m to June 2009 compared with £53.2m in the last six months of 2008.

The Connells division is now benefiting from the significant cost reduction programme that was instigated in 2007, and became an ongoing feature of management activities throughout 2008 and into 2009. During this period, over £40m worth of annual cost savings were made. These actions, together with the improvement in volumes, has driven an operating profit of £20.8m for the Group in the first six months of 2009 which compares very favourably with the £10.4m generated in the full year of 2008.

Financial advice

The financial advice division comprises five different businesses, each with their own brand, customer proposition and investment philosophy, differentiated either geographically or by sector.

Trading conditions have remained very difficult with most asset classes delivering subdued performances, leading to continued low investor confidence. However, the 'Mass Market' has seen a growth in opportunity as many customers have moved from poor performing cash deposits into other asset classes. Pearson Jones continued to perform well through a combination of disciplined cost control and active trading but the other four IFAs in the Group found conditions more challenging during the period.

A loss before tax of £0.1m was recorded for the first six months of the year, compared with an underlying £0.3m loss for the period ended 30 June 2008. Revenues remain behind plan although trail income has become a greater proportion. An emphasis has been placed on managing costs which are ahead of plan.

Credit and marketing solutions

The credit and marketing solutions division primarily consists of Callcredit Information Group (CIG). CIG supplies a wide range of credit referencing, marketing information and network planning services.

CIG has continued throughout the first six months of the year to build on its success of the previous couple of years. As the economy, particularly the consumer sector, enters uncertain times, the services Callcredit provides to lenders will become increasingly important and valuable. It has been successful in responding to the requirement for counter-cyclical products centred on debt collection and customer management.

In terms of financial results the Callcredit Information Group made an underlying profit of £2.3m, compared with £2.0m for the same period last year.

Investment portfolio

The Group's other subsidiary businesses are lesser in size and therefore result in lower financial contribution. The largest of these businesses are Pink Homeloans, a mortgage packaging intermediary; Skipton Business Finance, a debt factoring and invoice discounting business; Sterling International Brokers, a money broker; and The Private Health Partnership, a medical insurance intermediary.

Principal risks and uncertainties

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 and Insurance) and related risk functions including Compliance and Finance. These functions challenge, monitor, guide and support the business in managing its risk exposure.
- 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 Audit Committee.

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

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 has been affected by the 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 our other divisions. 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.

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 (through historical commercial lending) and other financial institutions (wholesale lending). The Society ceased new commercial lending in November 2008 to protect it from any prolonged downturn in that market thereby protecting the high quality of the existing book.

Credit risk within our retail and existing commercial mortgage portfolios is driven by general UK economic pressures, including rising unemployment, deterioration in household finances due to inflation or other pressures, and further contraction in the UK housing market leading to falling property values. The extent of further economic slowdown and the extent of further falls in house prices will affect the level of impairment losses. In our residential mortgage business we monitor closely applicant quality, affordability and LTV multiples. The credit decision is always managed separately from the sales force. Retail mortgage and commercial lending credit risks are managed within credit policies and limits set by the Group Retail Credit Committee and 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. The wholesale credit markets remain volatile and dislocated and a further deterioration could lead to further fair value adjustments in the Group's portfolio of AFS assets coupled with further impairment of our treasury investments portfolio. This element of credit risk is managed by the Group through regularly reviewed credit policies and limits set by ALCO.

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's assets are 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 with 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 2% for all maturities.

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

	As at 30.06.09 £m	Average H1 2009 £m	High H1 2009 £m	Low H1 2009 £m	As at 31.12.08 £m
Static Earnings-at-Risk	0.5	1.2	1.7	0.5	1.5
Historical Value-at-Risk	4.0	2.2	4.1	0.6	0.4
Stateside / Quanto Value-at-Risk	0.9	0.9	0.9	0.8	0.8
2% Parallel interest rate shift	18.1	12.1	21.7	1.9	6.6

Currency risk

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

Both at 30 June 2009 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 and Northwest Investments which are denominated in New Zealand dollars.

Equity risk

As at 30 June 2009, the Group had a small amount of issued equity-linked 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 wholesale markets remain extremely tight and opportunities for Skipton to raise longer-term unsecured funding in public debt markets remain closed. Whilst we have access to government schemes and to other sources of secured funding through repo agreements and Covered Bonds, these remain limited and expensive.

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. We will continue to maintain a close watching brief on the money markets, but until such times as we believe the markets are returning to more normal conditions we will continue to hold high levels of liquidity.

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 (ie independent of Treasury personnel). In addition a series of liquidity stress tests are performed weekly by Group Risk personnel, and formally reported to ALCO monthly, to ensure the Group maintains adequate liquidity for business purposes even under stressed conditions.

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 that identify and assesses risks in line with the processes described in the framework above. An independent operational risk function reports to the Group Operational Risk Committee and the Board on the key operational risks facing the business.

Given the nature of the regulated sectors in which we operate, one of our key operational risks is the potential failure to maintain ongoing compliance with relevant external regulation across the Group. 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.

Additional information on risk is also provided in the Basel II Pillar 3 disclosure available on our website.

Outlook

The worldwide recession that began in 2008 following the liquidity crisis in late 2007 has heavily impacted the UK and has continued into 2009. We still expect these market conditions to continue well into next year, and have planned for a sustained period of lower house prices and lending growth. Additionally, the business is faced with the Bank of England Base Rate at its lowest level ever recorded, having seen it fall from an already low position of 2.0% at the 2008 year-end to its current 0.5%. This has inevitably added to the pressure on maintaining our interest margins.

With ongoing difficult funding markets, increased unemployment and business failures we continue to take a cautious approach to lending volumes and continue to adopt a prudent approach to lending criteria in attracting only good quality borrowers.

Since the end of 2008 the main growth in our asset base has been related to the merger with the Scarborough and as the year progresses there is no desire or need to grow substantially, as we have done previously. Our main focus remains, as outlined earlier, to continue to focus on attracting retail savings and by doing so, reducing our reliance on the wholesale funding markets.

Maintenance of sufficient liquidity, to ensure that all cash requirements can be met, is key to all companies and mortgage lenders are no exception. To this end, we are continuing with our policy to lengthen the duration, increase and maintain the sources of wholesale funding available to us, whilst ensuring our liquidity is maintained in high quality short dated assets.

Our recent merger demonstrates our commitment to the mutual model as we believe the mutual sector has ridden the current recession better than our listed mortgage lender counter-parts. It is inevitable though that any further deteriorations in the general economy will put pressure on organisations, however we will continue to manage your Society prudently and ensure our risks are kept at acceptable levels.

Condensed consolidated income statement

For the half-year ended 30 June 2009

	Notes	**Unaudited 6 months to 30.06.09 £m**	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
Interest receivable and similar income	3	**232.8**	386.4	770.0
Interest payable and similar charges	4	**(194.0)**	(338.3)	(684.0)
Net interest receivable		**38.8**	48.1	86.0
Fees and commissions receivable	5	**192.6**	210.9	420.9
Fees and commissions payable	6	**(7.8)**	(15.6)	(27.0)
Fair value (losses) / gains on financial instruments		**(0.3)**	6.0	(3.3)
Profit on disposal of subsidiaries		**-**	9.0	9.1
Share of profits from joint ventures and associates		**0.1**	2.4	3.9
Profit on disposal of associate		**-**	-	22.3
Other operating income		**14.6**	12.4	10.5
Total income		**238.0**	273.2	522.4
Administrative expenses	7	**(202.0)**	(222.4)	(433.0)
Impairment losses on loans and advances	12	**(22.1)**	(7.9)	(34.6)
Impairment recoveries / (losses) on debt securities		**3.1**	-	(11.5)
Provisions for liabilities		**-**	0.2	(20.8)
Profit before tax		**17.0**	43.1	22.5
Tax (expense) / income	8	**(5.8)**	(8.2)	1.3
Profit for the period		**11.2**	34.9	23.8
Attributable to:				
Members of Skipton Building Society		**10.9**	34.7	22.8
Non-controlling interests		**0.3**	0.2	1.0
		11.2	34.9	23.8

Segmental performance of the Group is shown in note 23.

The profit for the half-year was derived wholly from continuing operations.

The notes on pages 20 to 40 form an integral part of this condensed consolidated half-yearly financial report.

For the half-year ended 30 June 2009

	Notes	**Unaudited 6 months to 30.06.09 £m**	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
Profit for the period		**11.2**	34.9	23.8
Other comprehensive income:				
Available-for-sale investments: valuation gains / (losses) taken to equity		**1.8**	(15.2)	(10.5)
Cash flow hedges: gains / (losses) taken to equity		**14.1**	8.4	(22.6)
Actuarial losses on defined benefit pension plans		**(29.9)**	(13.9)	(24.1)
Exchange differences on translation of foreign operations		**0.1**	(0.3)	0.1
Income tax relating to components of other comprehensive income	21	**4.0**	7.4	16.2
Other comprehensive income for the period, net of tax		**(9.9)**	(13.6)	(40.9)
Total comprehensive income for the period		**1.3**	21.3	(17.1)
Total comprehensive income attributable to:				
Members of Skipton Building Society		**1.0**	21.1	(18.1)
Non-controlling interests		**0.3**	0.2	1.0
		1.3	21.3	(17.1)

The notes on pages 20 to 40 form an integral part of this condensed consolidated half-yearly financial report.

Condensed consolidated statement of financial position

As at 30 June 2009

	Notes	**Unaudited as at 30.06.09 £m**	Unaudited as at 30.06.08 £m	Audited as at 31.12.08 £m
Assets				
Cash in hand and balances with the Bank of England		**1,113.5**	153.5	359.4
Loans and advances to credit institutions	9	**387.5**	1,315.1	1,084.3
Debt securities	10	**1,584.4**	1,819.7	1,734.6
Derivative financial instruments		**272.6**	228.1	429.9
Loans and advances to customers	11	**11,316.3**	9,358.1	9,567.7
Corporation tax asset		**-**	-	12.5
Deferred tax asset		**49.8**	18.8	28.1
Investments in group undertakings		**1.6**	7.3	1.5
Intangible assets	14	**243.2**	252.3	242.5
Property, plant and equipment		**81.5**	76.4	74.3
Investment property		**12.4**	7.5	9.1
Other assets		**121.4**	120.6	103.1
Total assets	23	**15,184.2**	13,357.4	13,647.0
Members' interests and liabilities				
Liabilities				
Shares	15	**10,075.3**	7,823.7	8,158.2
Amounts owed to credit institutions	16	**1,031.8**	689.3	690.0
Amounts owed to other customers	17	**1,708.3**	2,331.5	2,012.8
Debt securities in issue	18	**846.1**	1,311.2	1,375.0
Derivative financial instruments		**256.2**	31.8	280.3
Corporation tax liability		**1.6**	1.9	-
Other liabilities		**95.2**	122.1	97.8
Accruals and deferred income		**54.9**	46.5	46.4
Deferred tax liability		**12.3**	7.2	7.1
Provisions for liabilities		**27.0**	2.3	24.0
Retirement benefit obligations		**72.6**	33.7	37.9
Subordinated liabilities		**211.0**	183.3	183.7
Subscribed capital		**83.0**	26.3	26.3
Total liabilities	23	**14,475.3**	12,610.8	12,939.5
Reserves attributable to members of Skipton Building Society				
General reserve		**726.4**	757.5	737.0
Available-for-sale reserve		**(12.0)**	(16.5)	(13.2)
Cash flow hedging reserve		**(10.9)**	1.1	(21.2)
Translation reserve		**1.1**	0.7	1.0
		704.6	742.8	703.6
Non-controlling interests		**4.3**	3.8	3.9
Total members' interests		**708.9**	746.6	707.5
Total members' interests and liabilities		**15,184.2**	13,357.4	13,647.0

The notes on pages 20 to 40 form an integral part of this condensed consolidated half-yearly financial report.

Condensed consolidated statement of changes in members' interests

For the half-year ended 30 June 2009

Unaudited 6 months as at 30 June 2009

	General reserve £m	Available-for-sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Sub total £m	Non-controlling interests £m	Total £m
Balance at 1 January 2009	**737.0**	**(13.2)**	**(21.2)**	**1.0**	**703.6**	**3.9**	**707.5**
Comprehensive income for the period	**(10.6)**	**1.2**	**10.3**	**0.1**	**1.0**	**0.3**	**1.3**
Movement in reserves attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**0.1**	**0.1**
Balance at 30 June 2009	**726.4**	**(12.0)**	**(10.9)**	**1.1**	**704.6**	**4.3**	**708.9**

Unaudited 6 months as at 30 June 2008

	General reserve £m	Available-for-sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Sub total £m	Non-controlling interests £m	Total £m
Balance at 1 January 2008	731.4	(5.7)	(4.9)	0.9	721.7	3.5	725.2
Comprehensive income for the period	26.1	(10.8)	6.0	(0.2)	21.1	0.2	21.3
Movement in reserves attributable to non-controlling interests	-	-	-	-	-	0.1	0.1
Balance at 30 June 2008	757.5	(16.5)	1.1	0.7	742.8	3.8	746.6

Audited 12 months as at 31 December 2008

	General reserve £m	Available-for-sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Sub total £m	Non-controlling interests £m	Total £m
Balance at 1 January 2008	731.4	(5.7)	(4.9)	0.9	721.7	3.5	725.2
Comprehensive income for the period	5.6	(7.5)	(16.3)	0.1	(18.1)	1.0	(17. 1)
Subsidiary share restructure	-	-	-	-	-	(0.6)	(0.6)
Balance at 31 December 2008	737.0	(13.2)	(21.2)	1.0	703.6	3.9	707.5

The notes on pages 20 to 40 form an integral part of this condensed consolidated half-yearly financial report.

Condensed consolidated statement of cash flows

For the half-year ended 30 June 2009

	Notes	**Unaudited 6 months to 30.06.09 £m**	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
Cash flows from operating activities				
Profit before taxation		**17.0**	43.1	22.5
Movement in prepayments and accrued income		**5.3**	1.4	4.6
Movement in accruals and deferred income		**(154.1)**	(89.2)	10.9
Impairment losses on loans and advances	12	**22.1**	7.9	34.6
Impairment (recoveries) / losses on debt securities		**(3.1)**	-	11.5
Loans and advances written off, net of recoveries		**(14.2)**	0.1	(6.5)
Goodwill impairment	14	**-**	0.5	5.9
Depreciation and amortisation		**11.5**	10.5	22.8
Interest on capital and subordinated liabilities		**10.5**	6.9	14.2
Loss / (profit) on sale of property, plant and equipment and investment property		**0.1**	(0.1)	0.3
Movement in provisions for liabilities		**(0.6)**	(0.3)	20.5
Share of profits from joint ventures and associates		**(0.1)**	(2.4)	(3.9)
Profit on disposal of subsidiaries		**-**	(9.0)	(9.1)
Profit on sale of associate		**-**	-	(22.3)
Other non-cash movements		**6.6**	(133.8)	(145.2)
Net cash flows from trading activities		**(99.0)**	(164.4)	(39.2)
Movement in loans and advances to customers		**53.4**	(347.7)	(680.0)
Interest received from loans and advances to customers		**245.2**	281.6	564.0
Movement in shares		**463.0**	942.6	1,340.8
Interest paid on shares		**(140.3)**	(197.4)	(404.9)
Net movement in amounts owed to credit institutions and other customers		**(581.2)**	387.4	71.6
Net movement in debt securities in issue		**(500.8)**	(232.1)	(277.0)
Net movement in loans and advances to credit institutions		**836.9**	(897.4)	(657.9)
Purchase of mortgage portfolios		**-**	(8.1)	(8.1)
Net movement in other assets		**(10.6)**	2.9	(4.5)
Net movement in other liabilities		**28.7**	7.4	3.5
Income taxes paid		**8.4**	(16.0)	(20.6)
Net cash flows from operating activities		**303.7**	(241.2)	(112.3)

Condensed consolidated statement of cash flows (continued)

For the half-year ended 30 June 2009

	Notes	**Unaudited 6 months to 30.06.09 £m**	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
Net cash flows from operating activities		**303.7**	(241.2)	(112.3)
Cash flows from investing activities				
Purchase of debt securities	10	**(3,355.4)**	(2,965.6)	(6,648.4)
Proceeds from disposal of debt securities	10	**3,837.4**	3,255.5	7,016.6
Purchase of intangible assets		**(5.7)**	(3.8)	(12.5)
Purchase of property, plant and equipment and investment property		**(9.9)**	(8.4)	(15.9)
Proceeds from disposal of property, plant and equipment and investment property		**0.5**	2.7	4.0
Dividends paid to non-controlling interests		**-**	-	(0.5)
Purchase of subsidiary undertakings		**-**	(14.4)	(16.5)
Net cash acquired with subsidiaries		**-**	0.4	1.3
Cash acquired on transfer of engagements		**17.9**	-	-
Further investment in subsidiaries	13	**(6.5)**	(9.7)	(13.0)
Cash received from sale of subsidiaries		**-**	13.1	13.4
Cash received from sale of associate		**-**	-	35.0
Net cash flows from investing activities		**478.3**	269.8	363.5
Cash flows from financing activities				
Proceeds from issue of subordinated liabilities		**-**	-	75.0
Redemption of subordinated liabilities		**-**	-	(75.0)
Interest paid on subordinated liabilities		**(7.7)**	(5.3)	(10.9)
Interest paid on Permanent Interest Bearing Shares		**(2.8)**	(1.6)	(3.2)
Net cash flows from financing activities		**(10.5)**	(6.9)	(14.1)
Net increase in cash and cash equivalents		**771.5**	21.7	237.1
Cash and cash equivalents at 1 January		**391.4**	154.3	154.3
Cash and cash equivalents at end of period		**1,162.9**	176.0	391.4

Analysis of the cash balances as shown in the statement of financial position:

	Unaudited 6 months to 30.06.09 £m	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
Cash in hand and balances with the Bank of England	**1,113.5**	153.5	359.4
Mandatory reserve deposit with the Bank of England	**(10.8)**	(8.3)	(8.3)
	1,102.7	145.2	351.1
Loans and advances to credit institutions repayable on demand	**60.2**	30.8	40.3
Included in cash and cash equivalents at end of period	**1,162.9**	176.0	391.4

The notes on pages 20 to 40 form an integral part of this condensed consolidated half-yearly financial report.

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 2009 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 (EU). The half-yearly financial report should be read in conjunction with the Annual Report & Accounts for the year ended 31 December 2008, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The accounting policies adopted by the Group in the preparation of its 2009 half-yearly financial report and those which the Group currently expects to adopt in its Annual Accounts for the year ending 31 December 2009 are consistent with those disclosed in the Annual Accounts for the year ended 31 December 2008.

The Directors have adopted IAS 1, *Presentation of Financial Statements (2007)*; IAS 23, *Borrowing Costs (Revised)* and IFRS 8, *Operating Segments* (see note 24).

Transfer of engagements

The combination of two mutual entities is excluded from IFRS 3, *Business Combinations*. Therefore, for the transfer of engagements of the Scarborough Building Society, in the absence of an IFRS that specifically applies to the transaction, the Group has used the principles and methodology of the EU endorsed IFRS 3, *Business Combinations (2008 Revised)*. We believe the revised IFRS 3 best reflects the economic substance of the transfer of engagements and has been applied in accordance with the principles applicable to the selection of accounting policies laid out in IAS 8. The revised standard extends its scope to mutual organisations and applies the acquisition method to business combinations which has resulted in some significant prospective changes to the Group's accounting policies. For example, all assets and liabilities acquired, including intangible assets which may not have been recognised by the acquiree, have been measured at fair value at the acquisition date. For more details regarding the transfer of engagements refer to note 25.

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 to the basis of accounting estimates since the 2008 Report & Accounts that have had a material effect 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 2008 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 2008 Report & 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 2009 was approved by the Board of Directors on 28 July 2009.

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 'Principal risks and uncertainties' 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 markets.

3. Interest receivable and similar income

	Unaudited 6 months to 30.06.09 £m	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
On loans fully secured on residential property	**233.6**	275.9	524.4
On other loans	**12.0**	5.7	39.7
On debt securities	**25.0**	55.6	106.8
On other liquid assets	**6.8**	33.1	75.2
Net (expense) / income on derivative financial instruments	**(44.6)**	16.1	23.9
	232.8	386.4	770.0

Included within interest receivable and similar income on debt securities is income from fixed income securities of £4.3m (30 June 2008: £2.6m; 31 December 2008: £5.9m).

Included within interest receivable and similar income is interest accrued on impaired financial assets of £13.2m (30 June 2008: £6.3m; 31 December 2008: £10.1m).

4. Interest payable and similar charges

	Unaudited 6 months to 30.06.09 £m	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
On shares held by individuals	**134.1**	197.3	404.8
On other shares	**-**	0.1	0.1
On subscribed capital	**2.9**	1.6	3.2
On deposits and other borrowings:			
Subordinated liabilities	**7.4**	5.3	10.9
Wholesale and other funding	**56.8**	124.5	239.9
Net (income) / expense on derivative financial instruments	**(7.0)**	8.3	23.1
Other	**(0.2)**	1.2	2.0
	194.0	338.3	684.0

5. Fees and commissions receivable

	Unaudited 6 months to 30.06.09 £m	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
Mortgage related fees	**55.3**	66.6	138.9
General insurance fees	**10.9**	7.6	25.1
Commissions earned on property sales	**51.2**	81.8	97.5
Other fees and commissions	**75.2**	54.9	159.4
	192.6	210.9	420.9

6. Fees and commissions payable

	Unaudited 6 months to 30.06.09 £m	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
Mortgage related fees	**6.3**	13.0	20.7
Other fees and commissions	**1.5**	2.6	6.3
	7.8	15.6	27.0

7. Administrative expenses

	Unaudited 6 months to 30.06.09 £m	Unaudited 6 months to 30.06.08 £m	Audited 12 months to 31.12.08 £m
Employee costs:			
Wages and salaries	**106.1**	124.1	231.8
Social security costs	**10.4**	9.0	21.0
Pension costs:			
Defined contribution arrangements	**4.2**	2.4	6.8
Defined benefit schemes service costs	**0.4**	1.4	2.3
Defined benefit schemes curtailments	**-**	-	(6.3)
	121.1	136.9	255.6
Other administrative expenses	**80.9**	85.5	177.4
	202.0	222.4	433.0

8. Taxation expense / (income)

The effective tax rate for the six month period ending 30 June 2009 is 34.1% (30 June 2008: 19.0%; 31 December 2008: negative 5.8%) and is higher than the standard rate of corporation tax due to the impact of expenditure disallowable for tax purposes in relation to the costs associated with the merger of the Scarborough Building Society.

9. Loans and advances to credit institutions

Loans and advances to credit institutions have remaining maturities as follows:	**Unaudited as at 30.06.09 £m**	Unaudited as at 30.06.08 £m	Audited as at 31.12.08 £m
Repayable on demand	**60.2**	30.8	40.3
In not more than three months	**302.3**	1,283.3	1,044.0
In more than three months but not more than one year	**0.1**	1.0	-
In more than one year	**24.9**	-	-
	387.5	1,315.1	1,084.3

10. Debt securities

	Unaudited as at 30.06.09 £m	Unaudited as at 30.06.08 £m	Audited as at 31.12.08 £m
Issued by public bodies	**68.5**	106.5	116.0
Issued by other borrowers	**1,515.9**	1,713.2	1,618.6
	1,584.4	1,819.7	1,734.6
Debt securities have remaining maturities as follows:			
In not more than one year	**929.9**	1,137.6	1,209.5
In more than one year	**654.5**	682.1	525.1
	1,584.4	1,819.7	1,734.6
Transferable debt securities comprise:			
Listed on a recognised investment exchange	**950.6**	872.7	777.6
Unlisted	**633.8**	947.0	957.0
	1,584.4	1,819.7	1,734.6
Market value of listed transferable debt securities	**950.7**	881.8	777.6

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 year may be summarised as follows:

	Unaudited 30.06.09 £m	Unaudited 30.06.08 £m	Audited 31.12.08 £m
At 1 January	**1,734.6**	2,124.8	2,124.8
Acquired on transfer of engagements	**325.2**	-	-
Additions	**3,355.4**	2,965.6	6,648.4
Disposals	**(3,837.4)**	(3,255.5)	(7,016.6)
Impairment recoveries / (losses)	**3.1**	-	(11.5)
Changes in fair value	**(0.5)**	(15.2)	(13.2)
Amortisation of fair value adjustment	**4.0**	-	2.7
At end of period	**1,584.4**	1,819.7	1,734.6

At 30 June 2009, £502.0m (30 June 2008: £536.5m; 31 December 2008: £590.5m) 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.

Pursuant to the amendments to IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 7, *Financial Instruments: Disclosures*, the Group reclassified certain available-for-sale investment securities to the loans and receivable category. The Group identified financial assets that would have met the definition of loans and receivables (if they had not been designated as available-for-sale) for which at 1 July 2008 it had the intention and the ability to hold them for the foreseeable future or until maturity. The average effective interest rate of those investment securities that have transferred is 1.60% (31 December 2008: 5.10%).

10. Debt securities (continued)

Under IAS 39, *Financial Instruments: Recognition and Measurement*, as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date. The table below sets out the financial assets reclassified and their carrying and fair values:

	Unaudited as at 30.06.09 £m	Audited as at 01.07.08 £m	Audited as at 31.12.08 £m
Carrying value of reclassified assets	**374.5**	339.4	303.4
Fair value of reclassified assets	**328.7**	339.4	288.9

Included within the June 2009 carrying value of reclassified assets is £72.5m of assets in relation to the transfer of engagements from the Scarborough Building Society.

11. Loans and advances to customers

	Unaudited as at 30.06.09 £m	Unaudited as at 30.06.08 £m	Audited as at 31.12.08 £m
Loans fully secured on residential property	**10,525.4**	8,840.0	8,774.8
Other loans:			
Loans fully secured on land	**523.3**	497.4	526.3
Other loans	**75.4**	80.2	79.3
Fair value adjustment for hedged risk	**192.2**	(59.5)	187.3
	11,316.3	9,358.1	9,567.7
The remaining maturity of loans and advances to customers from the date of the statement of financial position is as follows:			
On call and at short notice	**40.0**	40.2	42.6
In not more than three months	**7.1**	4.5	3.5
In more than three months but not more than one year	**39.8**	18.8	20.8
In more than one year but not more than five years	**380.6**	241.7	262.2
In more than five years	**10,928.0**	9,077.9	9,282.7
	11,395.5	9,383.1	9,611.8
Less: Impairment (note 12)	**(79.2)**	(25.0)	(44.1)
	11,316.3	9,358.1	9,567.7

The maturity analysis above is based on contractual maturity not actual redemption levels experienced by the Group or Society.

Covered Bonds

Loans and advances to customers include £1,032.9m (30 June 2008: £Nil; 31 December 2008: £968.9m) of loans which have been transferred from the Society to Skipton Covered Bonds LLP, a Limited Liability Partnership which is consolidated into the Group Accounts. The loans secure £750.0m (30 June 2008: £Nil; 31 December 2008: £750.0m) of covered bonds issued by the Society. The loans are retained on the Society's statement of financial position as the Society substantially retains the risks and rewards relating to the loans.

12. Impairment losses on loans and advances

	Unaudited 30.06.09 £m	Unaudited 30.06.08 £m	Audited 31.12.08 £m
Impairment charge for the period:			
Loans fully secured on residential property	**20.9**	8.3	33.2
Loans fully secured on land	**0.8**	0.3	0.6
Other loans	**0.4**	(0.7)	0.8
	22.1	7.9	34.6
Impairment provision at the end of the period:			
Loans fully secured on residential property	**74.8**	21.7	40.9
Loans fully secured on land	**2.3**	1.6	1.5
Other loans	**2.1**	1.7	1.7
	79.2	25.0	44.1

13. Investments in group undertakings

This note sets out the changes to the Group's shareholdings in a number of existing subsidiaries since 31 December 2008. Full details of the investments held in the Group as at 31 December 2008 are shown in *note 17 Investments in group undertakings* in the 2008 Annual Report & Accounts.

The Group holds a majority stake in a number of subsidiaries, and the non-controlling 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 will result 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. The change in fair value of the financial liability due to the accretion of the discount on the liability is expensed in the income statement.

At 30 June 2009 this financial liability was £19.5m (30 June 2008: £34.2m; 31 December 2008: £28.7m).

During the period the Group increased its shareholdings in a number of existing subsidiaries at a total cost of £6.5m. Together with the reassessment of the expected future payments under the put options, this resulted in a reduction of £2.1m (30 June 2008: £Nil; 31 December 2008: £0.7m) in goodwill being recognised.

14. Intangible assets

	Unaudited as at 30.06.09 £m	Unaudited as at 30.06.08 £m	Audited as at 31.12.08 £m
Software, databases and customer contracts	**34.1**	29.4	31.6
Goodwill	**209.1**	222.9	210.9
	243.2	252.3	242.5

Goodwill	**Unaudited as at 30.06.09 £m**	Unaudited as at 30.06.08 £m	Audited as at 31.12.08 £m
Cost less amortisation to 1 January 2004			
At 1 January	**222.4**	208.8	208.8
Transfer of engagements	**0.3**	-	-
Acquisitions of subsidiaries net of market value revaluations	**(2.1)**	26.3	24.0
Disposals	**-**	(5.2)	(10.4)
At end of period	**220.6**	229.9	222.4
Impairment losses			
At 1 January	**11.5**	6.5	6.5
Provisions for impairment loss in the year	**-**	0.5	5.9
Disposals	**-**	-	(0.9)
At end of period	**11.5**	7.0	11.5
Net book value			
At 1 January	**210.9**	202.3	202.3
Net book value			
At end of period	**209.1**	222.9	210.9

15. Shares

	Unaudited as at 30.06.09 £m	Unaudited as at 30.06.08 £m	Audited as at 31.12.08 £m
Held by individuals	**10,058.2**	7,828.0	8,117.2
Other shares	**4.2**	4.3	2.7
Fair value adjustment for hedged risk	**12.9**	(8.6)	38.3
	10,075.3	7,823.7	8,158.2
Shares are repayable from the date of the statement of financial position in the ordinary course of business as follows:			
On demand	**3,186.0**	1,980.6	2,257.1
In not more than three months	**3,569.6**	3,325.8	3,472.7
In more than three months but not more than one year	**1,490.6**	877.9	1,568.2
In more than one year but not more than five years	**1,587.3**	1,512.2	719.4
In more than five years	**241.8**	127.2	140.8
	10,075.3	7,823.7	8,158.2

16. Amounts owed to credit institutions

	Unaudited as at 30.06.09 £m	Unaudited as at 30.06.08 £m	Audited as at 31.12.08 £m
Amounts owed to credit institutions are repayable from the date of the statement of financial position in the ordinary course of business as follows:			
Repayable on demand	**32.0**	36.4	28.3
In not more than three months	**273.0**	282.8	252.1
In more than three months but not more than one year	**35.1**	17.0	159.0
In more than one year but not more than five years	**691.7**	353.1	250.6
	1,031.8	689.3	690.0

Included in amounts owed to credit institutions is £403.2m (30 June 2008: £484.8m; 31 December 2008: £487.1m) relating to securities sold under agreements to repurchase. The carrying and market value of the related securities is £502.0m (30 June 2008: £536.5m; 31 December 2008: £590.5m) and £462.5m (30 June 2008: £526.0m; 31 December 2008: £477.5m) 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.

17. Amounts owed to other customers

	Unaudited as at 30.06.09 £m	Unaudited as at 30.06.08 £m	Audited as at 31.12.08 £m
Amounts owed to other customers are repayable from the date of the statement of financial position in the ordinary course of business as follows:			
Repayable on demand	**374.5**	323.5	232.4
In not more than three months	**993.0**	1,126.5	1,282.4
In more than three months but not more than one year	**284.4**	785.5	426.7
In more than one year but not more than five years	**56.4**	96.0	71.3
	1,708.3	2,331.5	2,012.8

18. Debt securities in issue

	Unaudited as at 30.06.09 £m	Unaudited as at 30.06.08 £m	Audited as at 31.12.08 £m
Certificates of deposit	**209.6**	412.2	341.1
Other debt securities	**551.3**	856.5	895.5
Fair value adjustment for hedged risk	**85.2**	42.5	138.4
	846.1	1,311.2	1,375.0
Debt securities in issue are repayable from the date of the statement of financial position in the ordinary course of business as follows:			
In not more than one year	**730.8**	782.0	818.8
In more than one year	**115.3**	529.2	556.2
	846.1	1,311.2	1,375.0

Included in other debt securities are 26 (30 June 2008: 45; 31 December 2008: 33) floating rate notes issued to the capital markets totalling £445.2m (30 June 2008: £768.8m; 31 December 2008: £732.4m).

19. Related party transactions

A number of transactions are entered into with related parties in the normal course of business. The Group has had no unusual related party transactions during the half-year to 30 June 2009 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 2009 are similar in nature to those for the year ended 31 December 2008. Full details of the Group's related party transactions for the year to 31 December 2008 can be found in *Note 10 Related party transactions* in the 2008 Annual Report & Accounts.

20. Subsequent events

On 27 July 2009, following court approval, the Group acquired £723m of retail savings from Capital One.

21. Tax effects relating to each component of other comprehensive income

	Unaudited 6 months to 30 June 2009		
	Before tax amount £m	**Tax benefit/ (expense) £m**	**Net of tax amount £m**
Available-for-sale reserve	**1.8**	**(0.6)**	**1.2**
Cash flow hedging reserve	**14.1**	**(3.8)**	**10.3**
Actuarial losses on defined benefit pension plans	**(29.9)**	**8.4**	**(21.5)**
Translation reserve	**0.1**	**-**	**0.1**
Other comprehensive income	**(13.9)**	**4.0**	**(9.9)**

	Unaudited 6 months to 30 June 2008		
	Before tax amount £m	Tax benefit/ (expense) £m	Net of tax amount £m
Available-for-sale reserve	(15.2)	4.6	(10.6)
Cash flow hedging reserve	8.4	(2.5)	5.9
Actuarial losses on defined benefit pension plans	(13.9)	5.2	(8.7)
Translation reserve	(0.3)	0.1	(0.2)
Other comprehensive income	(21.0)	7.4	(13.6)

	Audited 12 months to 31 December 2008		
	Before tax amount £m	Tax benefit/ (expense) £m	Net of tax amount £m
Available-for-sale reserve	(10.5)	3.0	(7.5)
Cash flow hedging reserve	(22.6)	6.3	(16.3)
Actuarial losses on defined benefit pension plans	(24.1)	6.9	(17.2)
Translation reserve	0.1	-	0.1
Other comprehensive income	(57.1)	16.2	(40.9)

22. Credit risk

The most significant credit risk which the Group is exposed to is in relation to 'Loans and advances to credit institutions' (note 9), 'Debt securities' (note 10), 'Loans and advances to customers' (note 11) 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 £192.2m (30 June 2008: £(59.5)m; 31 December 2008: £187.3m) is included.

Credit risk - loans and advances to customers

The table below shows an analysis of the Group's loans and advances to customers.

	Unaudited as at 30.06.09		Unaudited as at 30.06.08		Audited as at 31.12.08	
	£m	**%**	£m	%	£m	%
Total residential mortgages	**10,600.2**	**94.6**	8,861.7	93.8	8,815.7	93.6
Commercial loans	**525.6**	**4.7**	499.0	5.3	527.8	5.6
Other lending:						
Debt factoring loans	**29.7**	**0.3**	33.0	0.4	30.8	0.3
Other loans	**47.8**	**0.4**	48.9	0.5	50.2	0.5
Gross balances	**11,203.3**	**100.0**	9,442.6	100.0	9,424.5	100.0
Impairment provisions (note 12)	**(79.2)**		(25.0)		(44.1)	
Fair value adjustment	**192.2**		(59.5)		187.3	
	11,316.3		9,358.1		9,567.7	

a) Residential mortgages

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 had a low volatility of credit risk outcomes.

The Group's portfolio of loans fully secured on residential property includes the specialist mortgage lender Amber Homeloans which ceased new lending in March 2008. Amber Homeloans balances outstanding at the period end were £1,393.4m (30 June 2008: £1,519.0m; 31 December 2008: £1,442.0m) of which £154.0m (30 June 2008: £169.0m; 31 December 2008: £161.0m) were in respect of buy-to-let. Following the merger in March 2009, the residential mortgages balance also include North Yorkshire Mortgages which has also ceased new lending. North Yorkshire Mortgage balances at the end of the period were £880.2m, with £224.0m in respect of buy-to-let.

Loan-to-value information on the Group's residential loan portfolio is set out as follows:

Indexed loan-to-value analysis	**Unaudited as at 30.06.09**	Unaudited as at 30.06.08	Audited as at 31.12.08
	%	%	%
Total book:			
<70%	**41.3**	57.9	49.2
70% - 80%	**11.6**	16.5	14.3
80% - 90%	**12.8**	14.8	14.3
>90%	**34.2**	10.8	22.2
Average indexed loan-to-value	**59.2**	45.2	50.6

The indexed loan-to-value is updated on a quarterly basis to reflect changes in the house price index.

22. Credit risk (continued)

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

	Unaudited as at 30.06.09		Unaudited as at 30.06.08		Audited as at 31.12.08	
	£m	**%**	£m	%	£m	%
Neither past due nor individually impaired	**9,937.1**	**93.8**	8,504.8	95.9	8,342.5	94.6
Past due but not individually impaired:						
Up to 3 months	**184.5**	**1.7**	148.5	1.7	156.8	1.8
3 to 6 months	**72.6**	**0.7**	16.7	0.2	22.1	0.3
6 to 9 months	**28.2**	**0.3**	5.6	0.1	8.9	0.1
9 to 12 months	**15.0**	**0.1**	1.0	-	2.4	-
Over 12 months	**20.4**	**0.2**	1.8	-	2.2	-
	10,257.8	**96.8**	8,678.4	97.9	8,534.9	96.8
Individually impaired	**299.5**	**2.8**	165.0	1.9	242.7	2.8
Possessions	**42.9**	**0.4**	18.3	0.2	38.1	0.4
	10,600.2	**100.0**	8,861.7	100.0	8,815.7	100.0

Loans in the analysis above which are less than one month 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 as at 30.06.09 £m**	Unaudited as at 30.06.08 £m	Audited as at 31.12.08 £m
Not individually impaired	**17,562.6**	19,378.3	17,133.4
Impaired	**289.3**	192.7	256.8
Possessions	**38.8**	19.7	39.9
	17,890.7	19,590.7	17,430.1

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.

22. Credit risk (continued)

b) Commercial loans

Loans secured on commercial property are well diversified by industry type and an analysis is provided below:

	Unaudited as at 30.06.09		Unaudited as at 30.06.08		Audited as at 31.12.08	
	£m	**%**	£m	%	£m	%
Leisure and hotel	**52.6**	**10.0**	53.6	10.7	53.5	10.1
Retail	**19.1**	**3.6**	19.8	4.0	19.8	3.7
Nursing / residential homes	**39.5**	**7.5**	43.7	8.8	42.3	8.0
Offices	**16.6**	**3.2**	17.0	3.4	17.4	3.3
Commercial investment and industrial units	**329.1**	**62.7**	293.8	58.9	313.4	59.5
Residential investment	**51.1**	**9.7**	48.5	9.7	58.6	11.1
Miscellaneous	**17.6**	**3.3**	22.6	4.5	22.8	4.3
	525.6	**100.0**	499.0	100.0	527.8	100.0

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

	Unaudited as at 30.06.09		Unaudited as at 30.06.08		Audited as at 31.12.08	
	£m	**%**	£m	%	£m	%
Neither past due nor individually impaired	**502.6**	**95.6**	486.1	97.5	511.5	96.9
Past due but not individually impaired:						
Up to 3 months	**13.8**	**2.6**	9.1	1.8	10.6	2.0
3 to 6 months	**2.8**	**0.5**	3.1	0.6	1.8	0.4
6 to 9 months	**1.0**	**0.2**	0.7	0.1	0.1	-
9 to 12 months	**-**	**-**	-	-	0.1	-
Over 12 months	**0.2**	**0.1**	-	-	-	-
	520.4	**99.0**	499.0	100.0	524.1	99.3
Individually impaired	**5.2**	**1.0**	-	-	3.7	0.7
	525.6	**100.0**	499.0	100.0	527.8	100.0

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 as at 30.06.09 £m**	Unaudited as at 30.06.08 £m	Audited as at 31.12.08 £m
Not individually impaired	**839.3**	808.2	883.5
Impaired	**4.4**	-	4.1
	843.7	808.2	887.6

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.

22. Credit risk (continued)

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 as at 30.06.09		Unaudited as at 30.06.08		Audited as at 31.12.08	
	Gross £m	**Impairment £m**	Gross £m	Impairment £m	Gross £m	Impairment £m
Factored debt and invoice discounting	**29.7**	**(0.5)**	33.0	(0.6)	30.8	(0.4)
Other loans	**47.8**	**(1.6)**	48.9	(1.1)	50.2	(1.3)
	77.5	**(2.1)**	81.9	(1.7)	81.0	(1.7)

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

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 2009 £3.9m (30 June 2008: £Nil; 31 December 2008: £14.7m) 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 2009 98.0% (30 June 2008: 96.6%; 31 December 2008: 96.8%) 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.

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

Rating	**Unaudited as at 30.06.09**		Unaudited as at 30.06.08		Audited as at 31.12.08	
	£m	**%**	£m	%	£m	%
Aaa	**1,607.8**	**52.1**	749.4	22.8	843.8	26.5
Aa1	**215.4**	**7.0**	788.5	24.0	766.3	24.1
Aa2	**177.3**	**5.7**	501.5	15.3	461.0	14.5
Aa3	**798.4**	**25.9**	486.8	14.8	453.3	14.3
A1	**117.0**	**3.8**	309.9	9.4	180.0	5.7
A2	**78.7**	**2.6**	260.4	7.9	270.0	8.5
A3	**28.1**	**0.9**	79.0	2.4	102.7	3.2
Baa1	**2.8**	**0.1**	-	-	19.0	0.6
Baa2	**23.8**	**0.8**	-	-	25.5	0.8
Baa3	**19.7**	**0.6**	-	-	-	-
Ba3	**7.2**	**0.2**	-	-	-	-
Unrated:						
Building societies	**7.9**	**0.3**	94.5	2.9	53.0	1.7
Local authorities	**1.3**	**-**	18.3	0.5	3.7	0.1
	3,085.4	**100.0**	3,288.3	100.0	3,178.3	100.0

22. Credit risk (continued)

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 as at 30.06.09**		Unaudited as at 30.06.08		Audited as at 31.12.08	
	£m	**%**	£m	%	£m	%
Cash in hand and balances with the Bank of England	**1,113.5**	**36.1**	153.5	4.7	359.4	11.3
Cash with banks and building societies	**386.0**	**12.5**	1,296.9	39.4	1,064.4	33.5
Gilts	**63.5**	**2.1**	106.5	3.2	111.0	3.5
Certificates of deposit	**645.9**	**20.9**	954.9	29.0	946.5	29.8
Local authority investments	**1.3**	**-**	18.3	0.6	3.7	0.1
Fixed rate bonds	**103.3**	**3.4**	25.6	0.8	1.7	0.1
Floating rate notes	**438.2**	**14.2**	393.2	12.0	390.0	12.3
Residential mortgage backed securities	**266.1**	**8.6**	282.8	8.6	243.0	7.6
Commercial mortgage backed securities	**62.5**	**2.0**	56.6	1.7	58.6	1.8
Treasury bills	**5.1**	**0.2**	-	-	-	-
	3,085.4	**100.0**	3,288.3	100.0	3,178.3	100.0

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

Geographical exposure	**Unaudited as at 30.06.09**		Unaudited as at 30.06.08		Audited as at 31.12.08	
	£m	**%**	£m	%	£m	%
UK	**2,238.1**	**72.5**	1,417.3	43.1	1,724.5	54.3
Rest of Europe	**606.3**	**19.7**	1,707.7	51.9	1,043.4	32.8
Far East	**49.2**	**1.6**	49.2	1.5	90.0	2.9
North America	**89.5**	**2.9**	5.0	0.2	106.3	3.3
Australasia	**102.3**	**3.3**	109.1	3.3	214.1	6.7
	3,085.4	**100.0**	3,288.3	100.0	3,178.3	100.0

23. Group segmental reporting

Unaudited 6 months to 30.06.09

	Mortgages and savings £m	Mortgage services £m	Estate agency £m	Financial advice £m	Credit and marketing solutions £m	Investment portfolio £m	Inter-company adjustments £m	Total £m
Income								
Interest receivable and similar income	301.4	0.1	0.3	0.1	-	1.3	(70.4)	232.8
Interest payable and similar charges	(262.6)	-	-	(0.2)	(0.2)	(1.6)	70.6	(194.0)
Fair value losses on financial instruments	(0.3)	-	-	-	-	-	-	(0.3)
Fees and commissions receivable	6.7	42.0	90.8	19.3	24.8	12.2	(3.2)	192.6
Fees and commissions payable	(1.0)	-	-	(2.2)	-	(6.6)	2.0	(7.8)
Profit on disposal of subsidiaries	-	-	-	-	-	-	-	-
Share of profits from joint ventures	-	-	0.1	-	-	-	-	0.1
Profit on disposal of associate	-	-	-	-	-	-	-	-
Other income	3.2	1.2	(0.3)	-	-	14.3	(3.8)	14.6
Total income	47.4	43.3	90.9	17.0	24.6	19.6	(4.8)	238.0
Employee and pension costs	19.8	24.5	39.9	11.9	11.9	13.1	-	121.1
Depreciation and amortisation	2.0	2.6	2.0	0.7	2.2	2.5	-	12.0
Impairment losses / provisions for liabilities	18.7	-	0.1	-	-	0.2	-	19.0
Other admin expenses	16.0	11.8	28.1	4.5	8.2	5.4	(5.1)	68.9
Total expenses	56.5	38.9	70.1	17.1	22.3	21.2	(5.1)	221.0
Profit before tax	(9.1)	4.4	20.8	(0.1)	2.3	(1.6)	0.3	17.0
Total assets	18,346.0	35.0	161.8	25.1	61.2	306.8	(3,751.7)	15,184.2
Total liabilities	17,626.0	3.7	77.4	1.1	31.7	216.2	(3,480.8)	14,475.3
Capital expenditure	6.9	3.0	1.0	0.6	1.9	2.2	-	15.6

23. Group segmental reporting (continued)

Unaudited 6 months to 30.06.08

	Mortgages and savings £m	Mortgage services £m	Estate agency £m	Financial advice £m	Credit and marketing solutions £m	Investment portfolio £m	Inter-company adjustments £m	Total £m
Income								
Interest receivable and similar income	440.8	0.1	0.4	0.4	-	4.8	(60.1)	386.4
Interest payable and similar charges	(391.6)	(0.1)	(0.2)	(0.3)	(0.7)	(5.9)	60.5	(338.3)
Fair value losses on financial instruments	6.0	-	-	-	-	-	-	6.0
Fees and commissions receivable	7.7	43.8	92.9	18.8	23.8	31.8	(7.9)	210.9
Fees and commissions payable	(1.1)	-	-	(1.2)	-	(13.3)	-	(15.6)
Profit on disposal of subsidiaries	-	-	-	-	-	9.0	-	9.0
Share of profits from joint ventures	-	-	2.4	-	-	-	-	2.4
Profit on disposal of associate	-	-	-	-	-	-	-	-
Other income	1.4	1.1	-	-	-	9.9	-	12.4
Total income	63.2	44.9	95.5	17.7	23.1	36.3	(7.5)	273.2
Employee and pension costs	18.4	24.6	56.8	12.2	11.1	13.8	-	136.9
Depreciation and amortisation	1.5	2.8	2.5	0.5	1.7	2.6	-	11.6
Impairment losses / provisions for liabilities	9.4	-	-	0.5	-	(2.2)	-	7.7
Other admin expenses	13.3	13.4	26.9	5.3	8.3	14.1	(7.4)	73.9
Total expenses	42.6	40.8	86.2	18.5	21.1	28.3	(7.4)	230.1
Profit before tax	20.6	4.1	9.3	(0.8)	2.0	8.0	(0.1)	43.1
Total assets	14,849.0	30.2	159.9	25.6	63.2	302.0	(2,072.5)	13,357.4
Total liabilities	13,698.2	4.4	87.0	1.4	37.0	205.7	(1,422.9)	12,610.8
Capital expenditure	4.9	1.5	2.0	0.4	2.9	0.5	-	12.2

23. Group segmental reporting (continued)

Audited 12 months to 31.12.08

	Mortgages and savings £m	Mortgage services £m	Estate agency £m	Financial advice £m	Credit and marketing solutions £m	Investment portfolio £m	Inter-company adjustments £m	Total £m
Income								
Interest receivable and similar income	891.2	0.3	1.9	0.9	-	6.9	(131.2)	770.0
Interest payable and similar charges	(801.9)	(0.2)	(1.3)	(0.5)	(1.5)	(10.3)	131.7	(684.0)
Fair value losses on financial instruments	(3.3)	-	-	-	-	-	-	(3.3)
Fees and commissions receivable	14.6	85.9	178.0	40.4	49.3	59.0	(6.3)	420.9
Fees and commissions payable	(2.1)	-	(1.6)	(5.3)	-	(21.1)	3.1	(27.0)
Profit on disposal of subsidiaries	-	-	-	-	-	9.1	-	9.1
Share of profits from joint ventures	-	-	3.9	-	-	-	-	3.9
Profit on disposal of associate	-	-	22.3	-	-	-	-	22.3
Other income	3.3	2.8	1.7	-	0.1	11.9	(9.3)	10.5
Total income	101.8	88.8	204.9	35.5	47.9	55.5	(12.0)	522.4
Employee and pension costs	38.3	47.3	96.4	25.0	21.4	27.2	-	255.6
Depreciation and amortisation	3.2	5.3	5.0	1.9	3.9	3.6	(0.1)	22.8
Impairment losses / provisions for liabilities	61.0	-	5.5	-	-	0.4	-	66.9
Other admin expenses	27.5	27.9	61.8	9.6	18.0	19.6	(9.8)	154.6
Total expenses	130.0	80.5	168.7	36.5	43.3	50.8	(9.9)	499.9
Profit before tax	(28.2)	8.3	36.2	(1.0)	4.6	4.7	(2.1)	22.5
Total assets	15,913.7	30.4	154.7	25.9	62.5	299.9	(2,840.1)	13,647.0
Total liabilities	15,264.7	5.4	71.1	1.9	34.6	211.4	(2,649.6)	12,939.5
Capital expenditure	9.4	5.1	3.4	1.9	5.4	3.2	-	28.4

No geographical analysis is presented because substantially all of the Group's activities are conducted within the United Kingdom.

A more detailed breakdown of the profits of each segmental area is given within the unaudited Business review on pages 4 to 13.

24. Adoption of new and revised International Financial Reporting Standards

Disclosed below are new standards and interpretations which have been adopted during the period.

- IAS 1, *Presentation of Financial Statements (2007)*. This standard replaces the current IAS 1, *Presentation of Financial Statements* and is effective from 1 January 2009. In summary, IAS 1 sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. This standard has impacted the presentation of the financial performance of the Group, in line with other financial institutions. However, it has not changed the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs.

- IAS 23, *Borrowing Costs (Revised)*. This revised standard relates to interest costs on assets that take a substantial time to get ready for intended use or sale. The option to recognise all borrowing costs immediately as an expense is eliminated, such costs must be capitalised. All other borrowing costs should be expensed as incurred. There has been no impact on the Group results.

- IFRS 8, *Operating Segments*. This new standard was issued on 30 November 2006 and replaces IAS 14, *Segment Reporting*. In summary, this standard requires entities to report segmental information on the same basis it is reported internally to the Chief Operating Decision Maker which for the Skipton Group is the Board, this is reflected in note 23.

25. Transfer of engagements

On 30 March 2009 the Society merged with the Scarborough Building Society (the Scarborough) under section 42B(3)(b) of the Building Societies Act on the basis of a board resolution of the Scarborough as permitted by a direction given by the Financial Services Authority.

The Board of the Scarborough independently reached a conclusion that merging with the Skipton was in the best interests of their members, given the current uncertain economic environment and following the identification of financial issues faced by their Society. From the Skipton's perspective, the merger provided an opportunity to build on our strong position within the financial services sector by adding attractive customer franchises to our existing operations.

The assets and liabilities acquired and the associated accounting adjustments are set out below:

	Notes	Cessation accounts Audited £m	Fair value adjustments £m	**Take-on balances £m**
Assets				
Cash in hand and balances with the Bank of England		1.8	-	**1.8**
Loans and advances to credit institutions		143.4	-	**143.4**
Debt securities	e	356.5	(31.3)	**325.2**
Derivative financial instruments		29.2	-	**29.2**
Loans and advances to customers	f	2,104.4	3.8	**2,108.2**
Corporation tax asset		0.9	-	**0.9**
Deferred tax asset	g	7.4	9.6	**17.0**
Intangible assets	h	23.6	(20.4)	**3.2**
Property, plant and equipment	i	12.5	(6.5)	**6.0**
Investment property		1.1	-	**1.1**
Other assets		1.9	-	**1.9**
Total assets		2,682.7	(44.8)	**2,637.9**
Liabilities				
Shares	j	1,771.9	3.3	**1,775.2**
Amounts owed to credit institutions		51.3	-	**51.3**
Amounts owed to other customers	k	593.2	1. 1	**594.3**
Debt securities in issue		42.7	-	**42.7**
Derivative financial instruments		60.7	-	**60.7**
Other liabilities		6.5	-	**6.5**
Deferred tax liability		5.1	-	**5.1**
Provisions for liabilities	l	1.5	2.0	**3.5**
Retirement benefit obligations		5.8	-	**5.8**
Subordinated liabilities	m	31.0	(1.7)	**29.3**
Subscribed capital	m	72.5	(9.0)	**63.5**
Total liabilities		2,642.2	(4.3)	**2,637.9**
Reserves		40.5	(40.5)	**-**
Total members' interests and liabilities		2,682.7	(44.8)	**2,637.9**
Goodwill				
Fair value of net assets				**-**
Purchase consideration	n			**-**
Goodwill				**-**

25. Transfer of engagements (continued)

Notes and adjustments

a. The income and expenditure account for the Scarborough for the period to 29 March 2009 is reported in the table overleaf for information only and is not included in these financial statements.

b. The cessation accounts of the Scarborough have been prepared in accordance with International Financial Reporting Standards as endorsed by the EU. Balances have been adjusted in accordance with IFRS 3, *Business Combinations (Revised)*.

c. The assets and liabilities of the Scarborough Building Society have been included within the accounts of the Skipton Building Society at fair value. Financial assets and liabilities which, following the Group's accounting policies, would be carried at amortised cost, are brought on to the balance sheet at their fair value at acquisition and are subsequently carried at amortised cost using the effective interest rate method.

d. The policies used in drawing up the cessation accounts of the Scarborough have been reclassified in line with the Skipton Group accounting policies in arriving at the fair value adjustments.

e. The debt securities fair value adjustment has been calculated by applying the latest mark-to-market valuation. The methodology used is fully consistent with that used by the Group.

f. The entry method of mortgage valuation has been used. This method considers the rates at which new lending would be made in the market by comparison to the rates applied at the origination of the mortgage book. The acquisition fair value adjustment reflects both the credit and interest rate risk associated with these assets.

g. Deferred tax has been provided where subsequent tax benefits or charges will arise from the fair value adjustments.

h. The write-down of intangible assets comprise a £14.1m write-down of goodwill relating to an historical acquisition by the Scarborough and £9.1m of software intangibles which were written-down. A £2.8m core deposit intangible has been recognised representing the intrinsic value of the retail savings book.

i. The fair value of property, plant and equipment has been valued down by £6.5m based on an independent valuation, assessing current market value rather than value in use.

j. The fair value adjustments for shares and deposits reflect the interest rate risk associated with these liabilities. Under IFRS these liabilities were previously carried at amortised cost.

k. The £1.1m write-off relates to an historical core deposit intangible.

l. The fair value adjustment within provisions for liabilities includes £1.2m for the Financial Services Compensation Scheme charge relating to the Scarborough savings balances transferred to the Group. In addition, a £800k dead rent provision has been provided for vacant properties.

m. The fair value adjustment for subscribed capital and subordinated liabilities reflect both credit and interest rate risk associated with these liabilities.

n. Imputed consideration represents the fair value of members' interests transferred. The combination of the two societies did not involve the transfer of any cash consideration. The value of the consideration has been calculated by measuring the fair value of the business of the Scarborough. The calculation was made with reference to publicly available valuations of quoted financial services organisations, adjusted to reflect the financial status, unquoted nature, relative size and economic diversification of the business. This resulted in a value of £Nil attributed to the imputed consideration.

25. Transfer of engagements (continued)

Income and expenditure account of the Scarborough Building Society
For the period 1 May 2008 to 29 March 2009

	£m
Net interest receivable	11.3
Other income and charges	7.7
Fair value losses	(4.3)
Administrative expenses	(20.2)
Impairment losses	(10.8)
Loss for the period before taxation	(16.3)
Taxation	2.8
Loss for the period	(13.5)

The above income and expenditure relates to the cessation accounts of the Scarborough and these amounts have not been included in the income statements of the Society or the Group. They are reported here for information only.

If we had transferred the engagements of the Scarborough Building Society from the start of the year up until the end of March, the Scarborough would have contributed £1.9m to income and a loss before tax of £9.1m.

Following the merger, the Scarborough ceased to exist, being subsumed by Skipton Building Society. It is therefore not possible to separate its results post the transfer of engagements.

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 P R Hales
Ms P M Hay-Plumb
Mr C N Hutton
Ms A B E Kinney
Mr J Spence
Mr P J S Thompson
Mr R J Twigg*
Mr W R Worsley

* Executive Directors

Signed on behalf of the Board by

J B Rawlings
Chairman
28 July 2009

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 2009 which comprises the condensed consolidated income statement, the condensed consolidated statement of financial position, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in members' interests and the condensed consolidated statement of cash flow 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 Society for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK 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 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

John Ellacott
For and on behalf of KPMG Audit Plc
Chartered Accountants
Leeds
28 July 2009

Stock code 10-8417/31/07/09/APS

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A member of the Building Societies Association.
Authorised and regulated by the Financial Services Authority under registration number 153706.
*To help maintain service and quality, some telephone calls may be recorded and monitored.