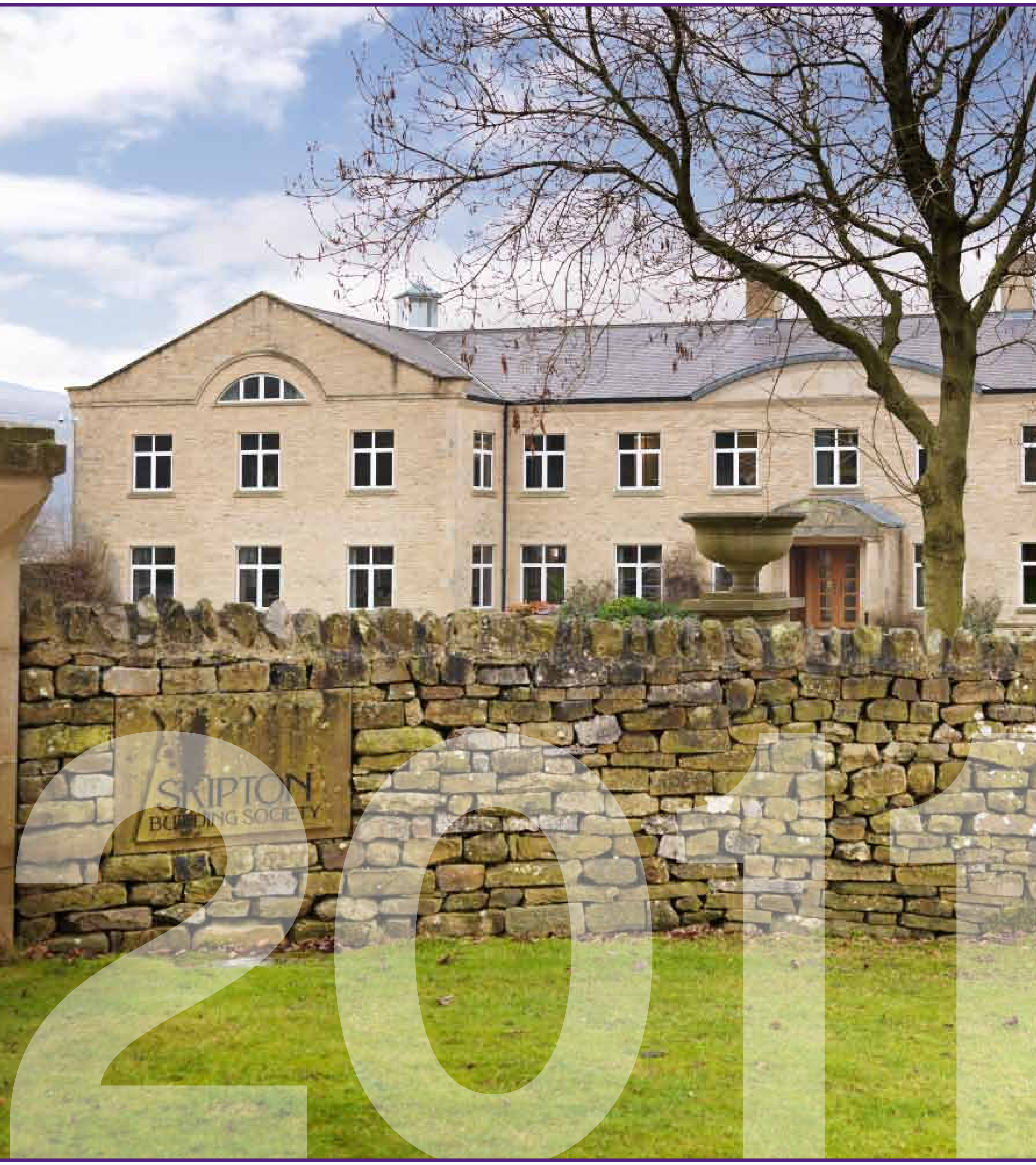
Skipton Building Society

Half-Yearly Financial Report 2011



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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.

Introduction

I am pleased to say that the first half of 2011 has seen Skipton Building Society maintaining an unwavering focus on members, increasing our new lending year-on-year fivefold as a mark of our confidence in the future. With the Society at the heart of our diversified Group, we have sought to strike an appropriate balance between maintaining financial strength and continuing to offer our members good value, and varied financial solutions which meet their evolving needs.

This commitment has been supported by the continued financial success of the Group. Remaining profitable throughout the financial crisis has enabled us to stay true to our mutual heritage, bringing product competition and choice to the financial services marketplace and investing in the communities where our members live and work.

Member focus

Recognising the impact of the continued credit squeeze on people's ability to purchase their first or next home, we have increased our gross mortgage lending fivefold to £717m during the six months ended 30 June 2011 (30 June 2010: £141m). This represented 1.1% of the UK mortgage market – which is 40% more than our market share. Our residential mortgage assets increased by £83m in the period, a significant step forward compared to the decline of £616m for the first six months of 2010.

Our contribution to kick-starting the market and enabling homeownership has also seen us offering a market leading 95% loan-to-value mortgage for first and next-time buyers.

On the savings side, we have continued to promote financial responsibility and wellbeing, in line with our mutual ethos, by launching innovative new savings accounts encouraging people to put away money towards their short and long-term aspirations. These included a Super ISA Feeder account helping members to plan for next year's ISA subscription, and ensuring they don't miss out on the benefits of tax-free savings. As a result of such steps, we grew our ISA balances by 7.25% to £2.57bn in the period.

Our success in offering dependable, good value mortgages and savings for evolving needs was reflected in 388 independent media best buy table mentions in the first six months of 2011. Our average savings rate increased from 2.44% at 31 December 2010 to 2.56% at 30 June 2011, despite Bank Base Rate remaining at 0.5%. At the same time, the Society continued to serve the full range of members' needs, with an extensive selection of complementary products ranging from will writing to over-50's life insurance.

We continue to maintain excellent, personal service through our Skipton Direct contact centre and extended branch presence in communities around the UK. Having opened 13 branches in 2010, at 30 June 2011 we now have more than 100 branches serving members in their communities.

Financially strong

The Group pre-tax profits were £6.3m for the first half of 2011 (six months ended 30 June 2010: £21.7m; year ended 31 December 2010: £35.0m). In arriving at the profit before tax, the Group maintained its prudent provisioning policy and has recognised impairment provisions of £17.2m (six months ended 30 June 2010: £3.2m; year ended 31 December 2010: £14.8m), primarily against specialist and commercial loans advanced prior to the onset of the credit crunch. However, the quality of the Group's prime loan book has been maintained. Our operating profit, before impairment losses and provisions, of £25.7m in the first half of the year is up 26% on the same period last year.

The operating profit before impairment losses and provisions of the Mortgages and Savings division has increased from a loss of £5.1m in the first half of 2010 to a profit of £12.4m. This reflects the underlying improvement in the Group's net interest margin, from 0.35% to 0.50% year on year, improvements in other income and tight cost control.

The number of loans in the Group where the arrears balance was greater than 2.5% of the total outstanding balance was 1.48% (31 December 2010: 1.42%), in line with the latest published CML industry figure (at 31 March 2011) of 1.47%.

The Estate Agency Division contributed strongly once again, reporting operating profits of £16.9m (six months ended 30 June 2010: £29.6m; year ended 31 December 2010: £44.4m), whilst down on last year, it was a better-than-expected performance given the subdued market conditions and there are good indications from recent trading activity that these encouraging results will continue.

The Mortgage Services division recorded an operating loss of £1.4m (six months ended 30 June 2010: £0.8m profit) before restructuring costs of £2.5m (six months ended 30 June 2010: £0.6m). HML continues to develop its business to adapt from its traditional market of specialist mortgage servicing into a number of new areas.

We safeguarded our capital strength, with a Core Tier 1 ratio of 10.5% at 30 June 2011, compared to 9.9% at 30 June 2010 (31 December 2010: 11.1%). We have also optimised liquidity by balancing the retention of a sufficient liquidity 'buffer' to manage the business prudently, with cost effectiveness for the Group. 95% of our mortgages continue to be funded by retail balances, although we have reduced our retail funding ratio to 78% of total funding (30 June 2010: 83%), following the inaugural issue from our securitisation programme that raised £800m of wholesale funds. We view our ability to complete this transaction as an indication of market confidence in the strength of the Skipton Group. We remain on track to repay our obligations under the Special Liquidity Scheme ('SLS') and Credit Guarantee Scheme ('CGS') on time.

Market-leading financial advice

The Financial Advice division which now comprises Skipton Financial Services, Pearson Jones and Torquil Clark had a successful first half of the year recording an operating profit of £2.5m compared to £1.7m for the six months ended 30 June 2010.

Funds under management for the division are in excess of £5bn with growth largely driven by Skipton Financial Services which continues to provide customers with outstanding support via a market leading investment offering, Monitored Informed Investing ('*MII*'), which now has over £1bn of funds invested.

It is also pleasing that for the first time Skipton Financial Services has been included in *The Times* top 100 companies to work for.

Enriching communities

Making a strong contribution to the communities in which our members live and work is another way in which we actively demonstrate our mutual ethos and we continued to play our part, through both giving and direct involvement, in the first six months of this year.

We have supported 47 grassroots community projects with funding from our branch Community Contribution Award fund, and £72,000 has been awarded to 38 charities up and down the UK by the Skipton Building Society Charitable Foundation. We also gave £89,000 to key partners, mainly in our North Yorkshire heartland, to fund community, cultural and sporting events. Our people have added further value to this contribution by engaging in a range of fundraising initiatives – from gruelling bike rides in aid of Macmillan Cancer Care to Head Office 'dress down days' to raise cash for the Campaign for Rural England's vital conservation work in North Yorkshire.

Outlook

Considerable challenges remain in the wider economy, coupled with uncertainty over the impact of regulatory developments such as the Independent Commission's review of the banking sector. However, despite this, our confidence in the underlying performance of our business is reflected in our plans to continue to prudently grow the business during the remainder of the year.

At Skipton, we continue to manage our business carefully, with one eye always over the horizon to prepare us for what may come. For this reason, and thanks to the added security provided by our subsidiaries, we and our members can look forward to continued success throughout the rest of 2011.

D J Cutter
Group Chief Executive
26 July 2011

Group structure

Skipton Building Society is the UK's fourth largest building society, with approximately 772,000 members, £14.3bn of assets and a national presence of over 100 branches. It heads up the Skipton Group, which has significant interests in estate agency and related businesses (through Connells); third party mortgage servicing (Homeloan Management); independent financial and related advisory businesses; and support services to the mutual sector.

The Group's operating results are regularly reviewed by the Board (the chief operating decision maker) in the following reportable segments. Each segment offers different products and services and is managed on a divisional basis in line with the Group's management and internal reporting structure.

- Mortgages and Savings – principally the Society, but also includes specialist mortgage businesses Amber Homeloans ('Amber') and North Yorkshire Mortgages ('NYM'), and deposit taking and lending in Jersey and Guernsey through Skipton International ('SIL').
- Mortgage Services – mortgage administration services, principally Homeloan Management ('HML').
- Estate Agency – including survey and valuations, conveyancing, lettings, asset management and mortgage broking carried out through the Connells Group.
- Financial Advice – provision of financial advice and related services through three separate financial advice companies.
- Investment Portfolio – includes holding companies and a number of other small trading companies that do not fall within the core operating segments.

Key Performance Indicators

The Group has continued to maintain its focus on Key Performance Indicators which ensure the Group maintains its financial strength and delivers products and services that match our members' and customers' needs:

Key Performance indicator	Why?	Unaudited 6 months to 30.06.11	Unaudited 6 months to 30.06.10	Unaudited 12 months to 31.12.10
Group pre-tax profit (£m)	Delivering year-on-year Group profits provides the foundation for sustainable growth.	**6.3**	21.7	35.0
Group interest margin (% of mean assets)	Assists in determining the 'right' balance between the rates for our savers and borrowers.	**0.50**	0.35	0.37
Management expense (% of mean assets)	Managing costs is essential to ensure that our business remains efficient so we can deliver real value to our customers.	**2.70**	2.60	2.70
Impairment charge (£m)	Effective management of credit quality ensures the business remains protected for all our members and customers.	**17.2**	3.2	14.8
Gross mortgage advances (£m)	Prudent controlled growth ensures the long-term security of the business for our members and customers.	**716.7**	141.2	492.8
Capital adequacy measures:	Maintaining a strong capital base ensures the Group remains financially strong.			
Core Tier 1 ratio (%)		**10.53**	9.91	11.06
Tier 1 ratio (%)		**12.05**	11.38	12.64
Tier 1 capital (before deductions) (£m)		**909.8**	887.6	909.9
Tier 1 capital (after deductions) (£m)		**715.3**	693.9	719.0
Liquidity adequacy measures:	Maintaining appropriate levels of liquidity to ensure we can meet our financial obligations as they fall due under a variety of scenarios.			
Liquidity as % of shares, deposits and liabilities (%)		**30.16**	28.73	27.75
Core liquidity buffer (£m)		**1,838.8**	1,887.4	1,902.4

Note: All Key Performance Indicators above include non-routine items.

Further details are included on pages 6 to 13 of the Business review.

Overview

During the first six months of 2011 the Skipton Group has continued to demonstrate the strength of its diversified business model. Since the onset of the credit crisis three years ago and the resultant impacts on the financial markets and wider economy, the Group has traded profitably. For the six months ended 30 June 2011, the Group achieved pre-tax profits of £6.3m (six months ended 30 June 2010: £21.7m).

Financial performance

The Group achieved pre-tax profits of £6.3m for the first half of 2011 (six months ended 30 June 2010: £21.7m; year ended 31 December 2010: £35.0m). The Group's operating profits before impairment losses and provisions were £25.7m (six months ended 30 June 2010: £20.4m; year ended 31 December 2010: £47.9m).

	Unaudited 6 months to 30.06.11 £m	Unaudited 6 months to 30.06.10 £m	Unaudited 12 months to 31.12.10 £m
Net interest income	**34.6**	26.5	54.9
Other income	**180.2**	189.8	388.2
Share of profits from joint ventures and associates	**0.2**	0.2	0.3
Total income	**215.0**	216.5	443.4
Administrative expenses	**(189.3)**	(196.1)	(395.5)
Operating profit before impairment losses and provisions	**25.7**	20.4	47.9
Regulatory and other provisions	**(2.2)**	1.4	(1.1)
Impairment losses on loans and advances	**(17.2)**	(3.2)	(14.8)
Impairment losses on debt securities	**-**	-	(0.1)
Negative goodwill on merger	**-**	3.1	3.1
Group reported profit before tax	**6.3**	21.7	35.0

Operating profit / (loss) before impairment losses and provisions by division	**Unaudited 6 months to 30.06.11 £m**	Unaudited 6 months to 30.06.10 £m	Unaudited 12 months to 31.12.10 £m
Mortgages and Savings	**12.4**	(5.1)	7.8
Mortgage Services	**(3.9)**	(0.2)	0.2
Estate Agency	**16.9**	29.6	44.4
Financial Advice	**2.5**	1.7	4.4
Investment Portfolio	**(2.2)**	(5.3)	(3.1)
Inter-division adjustments	**-**	(0.3)	(5.8)
	25.7	20.4	47.9

In arriving at the profit before tax of £6.3m, the Group maintained its prudent provisioning policy and has recognised impairment provisions of £17.2m (six months ended 30 June 2010: £3.2m; year ended 31 December 2010: £14.8m), primarily against specialist, commercial and other loans advanced prior to the onset of the credit crunch.

The operating profit before impairment losses and provisions of £25.7m in the first half of the year is up 26% on the same period last year. This is primarily driven by the operating profit of the Mortgages and Savings division which has increased from an operating loss of £5.1m to an operating profit of £12.4m. This reflects the underlying improvement in the Society's net interest margin, improvements in other income and tight cost control. At a Group level this has been offset by a slowdown in house sale activity resulting in a reduction in the operating profits of the Estate Agency division from £29.6m to £16.9m.

Profit before tax includes a number of items which we consider to be non-routine. The following table seeks to adjust the profit before tax to exclude such items and provide a clearer representation of the underlying performance of the Group.

	Unaudited 6 months to 30.06.11 £m	Unaudited 6 months to 30.06.10 £m	Unaudited 12 months to 31.12.10 £m
Group profit before tax	**6.3**	21.7	35.0
Non-routine items:			
Profit on sale of subsidiary companies	**-**	-	(1.2)
Financial Services Compensation Scheme levy	**0.2**	-	0.9
Impairment of investment securities	**-**	-	0.1
Impairment of goodwill	**-**	4.8	7.5
Net gains from fair value volatility	**(2.0)**	(0.2)	(2.0)
Merger expenses	**-**	0.8	2.9
Negative goodwill arising on merger	**-**	(3.1)	(3.1)
Restructuring costs	**4.3**	4.1	6.7
Profits from sale and leaseback	**(1.1)**	-	(5.7)
Profit before tax after adjusting for non-routine items	**7.7**	28.1	41.1

Note: 2010 underlying profits have been re-presented for restructuring costs which were not previously disclosed as a non-routine item.

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

- The £0.2m Financial Services Compensation Scheme levy represents the Financial Advice division's share of the costs arising principally from the demise of Keydata, and the subsequent nil value rating of investments placed in its Lifemark counterparty.
- Net movements in fair value volatility arise from changes in the value of certain financial instruments largely as a result of fluctuations in interest rates; these timing differences reverse over time.
- Predominantly as a result of the Mortgage Services division's restructuring programme, the Group incurred costs of £4.3m.

- During the period, the Group recognised a profit of £1.1m on the sale and leaseback of two properties.

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

	Unaudited 6 months to 30.06.11 £m	Unaudited 6 months to 30.06.10 £m	Unaudited 12 months to 31.12.10 £m
Net interest income	**34.6**	26.5	54.9
Other income	**177.1**	189.6	379.3
Share of profits from joint ventures and associates	**0.2**	0.2	0.3
Total income	**211.9**	216.3	434.5
Administrative expenses	**(185.0)**	(186.4)	(378.4)
Operating profit before impairment losses and provisions	**26.9**	29.9	56.1
Regulatory and other provisions	**(2.0)**	1.4	(0.2)
Impairment losses on loans and advances	**(17.2)**	(3.2)	(14.8)
Profit before tax after adjusting for non-routine items	**7.7**	28.1	41.1

The following Income Statement analyses exclude non-routine items.

Net interest income

The Group's net interest margin for the period was 0.50%, up from 0.35% for the same period last year. This is a result of several management actions taken over the last 18 months to stabilise and improve the Group's net interest margin including:

- Reducing the levels of expensive retail funding that were required following the sector-wide credit rating downgrade in 2009, by offering savings products which were attractive to our customers but also affordable for the Society over the medium to long-term.
- The Society's return to controlled lending growth in late 2010.
- The decision to remove the Standard Variable Rate ('SVR') cap from 1 March 2010 and increase the Society's SVR rate from 3.50% to 4.95%.

Other income

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

The Group's other income for the first six months of the year was £177.1m (six months ended 30 June 2010: £189.6m; year ended 31 December 2010: £379.3m).

Other income by division is set out below:

	Unaudited 6 months to 30.06.11 £m	Unaudited 6 months to 30.06.10 £m	Unaudited 12 months to 31.12.10 £m
Mortgages and Savings	**11.3**	6.3	17.2
Mortgage Services	**32.6**	39.5	76.9
Estate Agency	**95.5**	103.8	206.7
Financial Advice	**22.2**	21.7	42.8
Investment Portfolio	**18.5**	20.4	40.3
Inter-division adjustments	**(3.0)**	(2.1)	(4.6)
	177.1	189.6	379.3

Improvements in business volumes in the Mortgages and Savings and Financial Advice divisions have partially offset the fall in revenue driven by reduced year-on-year activity within the Estate Agency division. Housing market activity slowed during the second half of 2010, but volumes have increased slowly during the first half of 2011. Whilst transaction levels remain at historically low levels, they currently remain significantly higher than those experienced in 2008 at the height of the recession.

Administrative expenses

Group administrative expenses fell year-on-year by 1% to £185.0m for the six months to 30 June 2011 (six months ended 30 June 2010: £186.4m; year ended 31 December 2010: £378.4m).

The Society's ratio of administrative expenses to mean assets was 0.42% for the first six months of the year (six months ended 30 June 2010: 0.38%; year ended 31 December 2010: 0.44%).

At a Group level, this management expense ratio is less comparable, given the investments we have made in our trading businesses. However, despite the increase in VAT earlier this year, rising energy prices and high inflation, tight cost control across the Group has limited the increase in the management expense ratio, after adjusting for non-routine items, to 2.64% (six months ended 30 June 2010: 2.47%; year ended 31 December 2010: 2.58%).

Impairment losses on loans and advances

The Group's impairment charge on loans and advances for the period was £17.2m (six months ended 30 June 2010: £3.2m; year ended 31 December 2010: £14.8m). The majority of the charge arises from the specialist residential mortgage loans held in Amber and NYM together with a provision of £8.5m (six months ended 30 June 2010: £nil; year ended 31 December 2010: £10.0m) against other loans.

Financial position

Loans and advances to customers

After significantly scaling back its lending over the previous 18 months in order to manage the size of the Balance Sheet and maintain a strong capital position, the Society has now returned to controlled lending growth in 2011. Group mortgage advances totalled £716.7m, an increase of £575.5m on the same period in 2010.

An analysis of gross residential mortgage advances is shown below:

	Unaudited 6 months to 30.06.11 £m	Unaudited 6 months to 30.06.10 £m	Unaudited 12 months to 31.12.10 £m
Society	**653.3**	58.9	353.6
Amber Homeloans*	**0.6**	0.4	1.1
North Yorkshire Mortgages*	**-**	-	0.3
Skipton International	**62.8**	81.9	137.8
	716.7	141.2	492.8

*Following the decision to cease new lending in 2008, these advances represent further advances to existing borrowers.

Our new lending continues to be prudent and well diversified by product type and geographical distribution. As at 30 June 2011 the Group's average indexed loan-to-value for the residential mortgage book was 55.0% (30 June 2010: 52.5%; 31 December 2010: 55.5%).

An analysis of the Group's loans and advances is set out in the table below:

	Unaudited 6 months as at 30.06.11 £m	Unaudited 6 months as at 30.06.10 £m	Audited 12 months as at 31.12.10 £m
Total residential mortgages	**9,175.4**	9,495.7	9,092.7
Commercial loans	**485.0**	516.4	501.2
Other lending:			
Debt factoring loans	**39.1**	35.7	39.5
Other loans	**53.2**	48.7	54.7
Gross balances	**9,752.7**	10,096.5	9,688.1
Impairment provisions	**(87.3)**	(76.1)	(79.4)
Fair value adjustments for hedged risk	**201.1**	260.8	206.0
	9,866.5	10,281.2	9,814.7

The arrears performance of the Group's residential mortgages has remained stable, with 1,400 cases at 30 June 2011 where the arrears balance was greater than 2.5% of total outstanding balances (30 June 2010: 1,490; 31 December 2010: 1,349), representing 1.48% of the book (30 June 2010: 1.50%; 31 December 2010: 1.42%), in line with the latest CML industry figure (as at 31 March 2011) of 1.47%. An analysis of the Group's residential arrears performance is shown below:

Cases where arrears balance was greater than 2.5% of the total outstanding balance	**Unaudited 6 months as at 30.06.11**	Unaudited 6 months as at 30.06.10	Unaudited 12 months as at 31.12.10
Society			
Number of cases	**502**	514	513
% of total book	**0.65**	0.63	0.66
Amber Homeloans			
Number of cases	**627**	739	602
% of total book	**6.87**	7.56	6.39
North Yorkshire Mortgages			
Number of cases	**267**	236	231
% of total book	**4.93**	4.04	4.11
Skipton International			
Number of cases	**4**	1	3
% of total book	**0.15**	0.04	0.11
Total			
Number of cases	**1,400**	1,490	1,349
% of total book	**1.48**	1.50	1.42

The specialist nature of Amber and NYM mortgages means these subsidiary businesses typically have higher levels of arrears than those in the Society. However, action has been taken over the last few years to manage arrears in these portfolios. These actions include ceasing new lending in Amber and NYM in March 2008 and implementing proactive collections and forebearance processes for the closed portfolios.

SIL continued to grow its Channel Islands mortgage book during the year, and mortgage balances stood at £517.3m at the half year (30 June 2010: £458.7m; 31 December 2010: £482.7m); the credit quality of this book remains excellent with few arrears cases.

The Society's commercial book remains strong with only 16 (30 June 2010: 12; 31 December 2010: 9) cases where the arrears balance was greater than 2.5% of the total outstanding balance. Whilst this represents an increase since December 2010, the capital value associated with these loans is just 0.8% of the commercial portfolio. Loss provisions have also been raised where appropriate. The Group stopped offering commercial loans in November 2008 and the book continues to run off.

The Group applies a policy of offering capitalisation for residential and commercial arrears, with the customer's consent, once the customer has made at least six consecutive contractual monthly mortgage repayments following the instance of non-payment. However, capitalisation is only offered to customers where the arrears cannot be cleared by making an additional payment over a reasonable period of time and other forbearance options have been considered. The effect of capitalisation is to bring the loan account up to date and it is therefore no longer past due or individually impaired but a provision is still held against the account for 12 months following capitalisation. If a customer's arrears have previously been capitalised, the customer is required to have made at least 12 consecutive contractual monthly repayments in order to qualify for further capitalisation.

The following table shows the balance of those loans that would have been past due or impaired if their terms had not been renegotiated in the period:

	Unaudited 6 months as at 30.06.11 £m	Unaudited 6 months as at 30.06.10 £m	Audited 12 months as at 31.12.10 £m
Society (residential and commercial)	**16.2**	16.8	47.4
Amber Homeloans	**15.1**	33.5	52.2
North Yorkshire Mortgages	**4.3**	25.1	20.4
Skipton International	**0.2**	0.3	1.1
	35.8	75.7	121.1

The number of mortgage accounts where interest has been capitalised has fallen in the period, as the Group has revised its approach to capitalisation. Where an account qualifies for capitalisation we undertake a detailed review of the customers' circumstances and the outstanding mortgage balance to ensure capitalisation is the most appropriate forbearance option.

Funding

Retail

As a mutual, the Group is required to obtain the majority of its funding through retail member deposits. 77.9% (30 June 2010: 83.2%; 31 December 2010: 82.4%) of our funding comes from retail savings. The Group saw a net outflow of £72m in the period (six months ended 30 June 2010: £557m outflow; year ended 31 December 2010: £1,268m outflow). This small outflow was more than outweighed by the receipt of the funds raised through the securitisation issue.

In addition to UK retail funding, the Group also accepts deposits through its Guernsey based operations. The benefits of offshore funding have reduced under the new liquidity regime, so the Group has allowed some of the funding within SIL to gradually run off over the last 18 months in order to improve margin. These balances fell to £703.6m at 30 June 2011 (30 June 2010: £819.7m; 31 December 2010: £750.0m).

Wholesale

The remainder of the Group's funding comes from the wholesale markets. At 30 June 2011 wholesale funding balances amounted to £2,632.7m (30 June 2010: £1,977.5m; 31 December 2010: £2,002.2m), an increase of £630.5m since the year end.

On 31 March 2011, the Group completed a securitisation transaction raising £800m of funds, some of which was secured through subsequent repo transactions. This increased capability allows the Group access to a hitherto untapped source of funding and provides further options for wholesale funding in the future as the unsecured medium-term wholesale markets remain effectively closed to Skipton. In addition to boosting liquidity, this exercise means that the Group is well positioned to repay the Government supported funding mechanisms as they unwind in the second half of 2011 and early 2012. Primarily as a result of the securitisation, the Group's wholesale funding ratio increased to 22.1% at the half year (30 June 2010: 16.8%; 31 December 2010: 17.6%).

The following table analyses the change in the composition of our wholesale funding since June 2010:

	Unaudited 6 months as at 30.06.11 £m	Unaudited 6 months as at 30.06.10 £m	Unaudited 12 months as at 31.12.10 £m
Repo and other secured agreements*	**874.1**	212.3	306.0
Deposits	**589.4**	940.3	887.1
Certificates of deposits	**39.0**	81.1	71.1
Medium-term notes	**727.8**	743.8	738.0
Securitisation	**402.4**	-	-
	2,632.7	1,977.5	2,002.2

* Included in repos and other secured agreements is £400.0m of funds raised through the securitisation.

The Society is assigned credit ratings by two major credit rating agencies, Fitch and Moody's. These credit ratings influence the Society's cost and ability to access the wholesale funding markets. Whilst, disappointingly, Moody's have recently announced their intention to review the implied Government support included within their ratings rationale for 14 banks and building societies, including Skipton, the Society's current credit ratings were maintained during the period. Should Moody's downgrade Skipton following their review, the Group's strong liquidity position will ensure that it remains adequately funded thereafter. The Group's current ratings are as follows:

	Fitch	**Moody's**
Long-term	A-	Baa1
Short-term	F2	P-2
Subordinated	BBB	Ba2

In addition, our covered bond programme and securitisation through Darrowby No1 plc, retained their AAA rating from both agencies.

Liquidity

The Group has continued to hold high levels of liquidity as uncertainty remains in the economy and to allow the Society to grow its mortgage book and address forthcoming wholesale maturities.

An analysis of the Group's liquidity position is shown below:

	Unaudited 6 months as at 30.06.11	Unaudited 6 months as at 30.06.10	Unaudited 12 months as at 31.12.10
Liquidity balance (£m)	**3,825.7**	3,718.5	3,379.7
As % of shares, deposits and liabilities (%)	**30.16**	28.73	27.75
Core liquidity buffer* – eligible assets (£m)	**1,838.8**	1,887.4	1,902.4
Core liquidity buffer* as % of liquidity balance (%)	**48.06**	50.76	56.29

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

With difficult and uncertain market conditions persisting, the focus remains on conservative and prudent liquidity management.

The Group's treasury investments are held to provide liquidity and 98% (30 June 2010: 99%; 31 December 2010: 98%) of the Group's treasury investments are rated A3 or better (as shown below).

Rating	Unaudited 6 months as at 30.06.11 £m	Unaudited 6 months as at 30.06.10 £m	Audited 12 months as at 31.12.10 £m
Aaa	**2,459.5**	2,663.1	2,572.6
Aa1	**103.6**	84.8	82.6
Aa2	**218.4**	165.7	171.5
Aa3	**665.7**	530.3	307.3
A1	**140.4**	146.5	153.5
A2	**135.9**	41.5	9.3
A3	**43.9**	37.8	25.1
Baa1	**2.2**	4.1	6.3
Baa2	**6.7**	16.6	6.7
Baa3	**2.6**	2.2	34.7
Ba2	**15.0**	-	-
Ba3	**7.1**	7.4	-
Caa1	**6.6**	-	6.6
Caa2	**14.1**	-	-
Unrated:			
Building societies	**4.0**	8.2	3.0
Local authorities	**-**	10.3	0.5
	3,825.7	3,718.5	3,379.7

The Group's policy is that initial investments in treasury assets must be investment grade or above (issuer has a credit rating greater than BBB (S&P rating)). However, the adverse market conditions have resulted in a small proportion of investments falling below this rating. All treasury investments are monitored on a regular basis for impairment.

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 country risk, is carried out by an independent Market Risk function.

	Unaudited 6 months as at 30.06.11 £m	Unaudited 6 months as at 30.06.10 £m	Audited 12 months as at 31.12.10 £m
Cash in hand and balances with the Bank of England	**527.0**	1,565.7	664.6
Cash with banks and building societies	**438.6**	344.6	294.6
Gilts	**293.1**	64.6	200.8
Treasury bills	**545.2**	-	749.4
Certificates of deposit	**719.8**	363.2	205.4
Local authority investments	**-**	10.3	0.5
Fixed rate bonds	**471.0**	435.9	452.6
Floating rate notes	**530.0**	628.2	530.8
Residential mortgage backed securities	**256.7**	250.8	233.3
Commercial mortgage backed securities	**44.3**	55.2	47.7
	3,825.7	3,718.5	3,379.7

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.

Within the treasury investment portfolio, the Group continues to have no direct sovereign exposure to Greece, Ireland, Italy, Portugal, Spain or the Middle East as at 30 June 2011. The Group does have £38m of senior debt exposure to financial institutions based in Ireland. However, despite the continued uncertainty in Ireland, we do not currently expect any impairment provision to be recognised against these investments.

Capital structure

The Group is required to manage its capital adequacy in accordance with the rules and guidance issued by the Financial Services Authority ('FSA') which is the Group's regulator. The capital requirements of the Group are monitored on a monthly basis and the results of this monitoring are reported to the Capital Committee 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 that the business has sufficient levels of capital for current and projected future activities, to withstand downturn stresses, and to ensure that the minimum regulatory requirement is always met.

The following table shows the composition of the Group's capital at 30 June 2011:

	Unaudited 6 months as at 30.06.11 £m	Unaudited 6 months as at 30.06.10 £m	Unaudited 12 months as at 31.12.10 £m
Tier 1			
Reserves	**820.6**	792.7	809.6
Permanent Interest Bearing Shares (note 1)	**90.0**	90.0	90.0
Pension fund deficit add back (note 2)	**0.3**	8.9	3.7
Deductions from Tier 1 capital (note 3)	**(194.5)**	(193.7)	(190.9)
Unrealised (gains) / losses on available-for-sale debt securities	**(1.5)**	0.2	6.9
Unrealised losses / (gains) on cash flow hedges	**0.4**	(4.2)	(0.3)
Total Tier 1 capital	**715.3**	693.9	719.0
Tier 2			
Subordinated debt (note 1)	**200.9**	206.3	204.4
Collective impairment allowance	**17.2**	21.3	21.2
Total Tier 2 capital	**218.1**	227.6	225.6
Total capital	**933.4**	921.5	944.6
Risk weighted assets			
Retail mortgages	**3,804.3**	3,989.4	3,756.1
Commercial loans	**485.0**	445.8	432.7
Treasury	**518.7**	366.1	362.5
Other	**460.2**	560.2	469.8
Operational risk	**662.6**	728.2	662.6
Market risk	**5.3**	5.9	5.7
	5,936.1	6,095.6	5,689.4
Core Tier 1 (%) (note 4)	**10.53**	9.91	11.06
Tier 1 ratio (%) (note 4)	**12.05**	11.38	12.64
Total capital (%) (note 4)	**15.72**	15.12	16.60
Tier 2 to Tier 1 ratio (%)	**30.49**	32.80	31.38

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 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 2011:

	UK consolidation group			**Solo consolidation group**		
	Unaudited 6 months as at 30.06.11	Unaudited 6 months as at 30.06.10	Unaudited 12 months as at 31.12.10	**Unaudited 6 months as at 30.06.11**	Unaudited 6 months as at 30.06.10	Unaudited 12 months as at 31.12.10
Capital resources (£m)	**913.0**	891.7	928.2	**829.4**	800.6	848.2
Pillar 1 capital resource requirement (£m)	**438.8**	449.9	419.2	**406.8**	414.5	388.6
Capital ratio (%)	**208.1**	198.2	221.4	**203.8**	193.1	218.3

Performance by business area

The Group operates in five main divisions (as described on page 5); the results by business area are as follows:

Business area	Unaudited 6 months to 30.06.11 £m	Unaudited 6 months to 30.06.10 £m	Unaudited 12 months to 31.12.10 £m
Operating profit / (loss) before impairment losses, provisions and non-routine items:			
Mortgages and Savings	**11.1**	(1.4)	2.3
Mortgage Services	**(1.4)**	0.8	5.7
Estate Agency	**16.9**	29.6	44.5
Financial Advice	**2.5**	2.2	6.3
Investment Portfolio	**(2.2)**	(5.3)	(4.2)
Inter-division adjustments	**-**	4.0	1.5
Sub total	**26.9**	29.9	56.1
Non-routine items	**(1.2)**	(9.5)	(8.2)
Group operating profit before impairment losses and provisions	**25.7**	20.4	47.9

The following divisional analysis excludes non-routine items and references to operating profits or losses refer to operating profits before impairment losses, provisions and non-routine items.

Mortgages and Savings

The Mortgages and Savings division comprises the Society, Amber, NYM, SIL, Skipton Covered Bonds LLP, Darrowby No 1 plc (note 11), Bailey Computer Services and Skipton Trustees. The Mortgages and Savings division made an operating profit before impairment losses, provisions and non-routine items of £11.1m compared to a loss of £1.4m for the same period in 2010.

The Society has continued to focus on improving interest margin, while ensuring long-term funding requirements are met, and improving other income streams. The Society's interest margin to 30 June 2011 was 0.32%, compared to 0.13% in the first half of 2010. The interest margin reflects good value to our members whilst allowing the business to operate in a prudent manner. The interest margin was adversely impacted during the first half of 2011 due to high levels of liquidity held following the successful securitisation issue prior to the maturity of certain wholesale funding issues. Tight cost control continues to be a key driver to ensure efficient operations to counter rising prices fuelled by the increase in VAT and high inflation. Administrative expenses in the period, excluding non-routine items, amounted to £31.0m (six months ended 30 June 2010: £29.5m).

The focus for both Amber and NYM has been to manage the level of arrears through proactive collections processes. Together with the impact of the current economic environment, this has resulted in possession levels continuing their downward trend during the first half of the year. The aggregate size of these two portfolios has reduced to £1.93bn from £2.00bn at the end of 2010.

Our Channel Islands operation, SIL, made an operating profit of £2.8m in the first six months (six months ended 30 June 2010: £1.3m). SIL has continued to grow its mortgage book with mortgage assets in Guernsey and Jersey up £34m since the year end to £517m (30 June 2010: £459m; 31 December 2010: £483m) and the quality remains good.

Mortgage Services

The division provides outsourcing to a number of specialist and high street financial services companies. The business is the largest third party mortgage servicer in the UK with total assets under management of £42.4bn.

The Mortgage Services division recorded an operating loss of £1.4m (six months ended 30 June 2010: £0.8m profit) before restructuring costs of £2.5m (six months ended 30 June 2010: £0.6m).

HML has continued to develop its business to adapt from its traditional market of specialist mortgage servicing into other new areas of business.

As part of a restructuring programme, HML has taken steps during the first half of 2011 to improve efficiency by announcing the intention to close the Padiham site. This decision has been made as the company continues to realise benefits from its investment in automation and continuous improvement programmes as well as reflecting the fact that wider market conditions are still challenging in terms of short-term business growth.

Estate Agency

The operating profit for the Connells group for the first six months of 2011 was £16.9m compared to £29.6m in 2010. Following the slowdown in house sale activity in the second half of 2010, the sales pipeline when entering 2011 was significantly lower compared to a year earlier. After a slow start to the year, with second hand house sales around 10% down on January 2010, activity started to pick up with sales at the half year only 2% down year-on-year and sales in June up 11% on June 2010, and the sales pipeline at 30 June 2011 is up 13% on June 2010 and growing.

Income in our Estate Agency division was £95.5m for the six months ended 30 June 2011 compared with £103.8m in 2010. The Connells group continues to focus on improving revenues and maintaining tight control of costs.

Financial Advice

The Financial Advice division, now comprising three separate companies, has achieved good results in the first half of 2011 generating an operating profit of £2.5m (six months ended 30 June 2010: £2.2m). This performance has resulted from additional new business revenues due to increased investor confidence and good cost control. Particularly pleasing is the progress towards Retail Distribution Review requirements across the division. Skipton Financial Services is making very good progress with the implementation of its market leading Monitored Informed Investing (‘MII’) proposition.

On 30 May 2011, the Group sold the trade and assets of Thomson Shepherd Limited to its management team.

Investment Portfolio

The Investment Portfolio includes a range of other businesses and the current economic environment has been more challenging for some of these than others. Skipton Business Finance (provider of invoice discounting) and The Private Health Partnership (specialising in private medical insurance and medical support) have both performed well during 2011. However, the performance of Sterling International Brokers (money markets broker) continues to be depressed as a result of the reduction in the wholesale cash market.

Principal risks and uncertainties

Risk management framework

Through its risk management framework, the Group has a formal structure for managing risks throughout the business. This framework is designed to deliver the corporate plan in line with the Board’s overall risk appetite and is based upon the best practice ‘three lines of defence’ model, comprising:

- First line of defence, being line management within the business which, through the implementation of the organisation’s risk framework, identifies, assesses and manages risk.
- Second line of defence comprises independent Group Risk functions (Operational, Credit and Market) and related risk functions including Compliance, Systems Security, Finance and Insurance. These functions challenge, monitor, guide and support the business in managing its risk exposure. The Risk framework includes a number of risk committees (Asset and Liability Committee (‘ALCO’), Retail Credit Committee (‘RCC’), Capital Committee (‘CC’) and Group Operational Risk Committee (‘GORC’)) responsible for setting policy and framework and monitoring implementation by the business. The independent Group risk functions are represented on each of these risk committees. A Board Risk Committee, headed by a Non-Executive Chairman, is responsible for oversight of the risk management framework and monitoring of the business risk profile against Board approved risk appetite.
- Third line of defence, provided by Group Audit Services, is designed to provide independent assurance to the Board (via the Audit Committee) of the adequacy and effectiveness of control systems operating within the first and second lines in identifying and managing risk.

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

Business conditions and the economic environment

The Skipton Group is almost solely focused in the UK market and the main divisions are in large part exposed to the UK property market. Therefore the general UK macro-economic environment is a key determinant of the success of the Group. The main drivers that impact the Group include:

- interest rates (Bank Base Rate and LIBOR);
- inflation;
- unemployment; and
- the housing market (volume of transactions and house price inflation).

The Mortgages and Savings division continues to face challenges from the low interest rate environment, with ongoing pressure on its net interest margin. However, actions taken during the year to improve interest margins has assisted in alleviating this pressure.

Subdued wholesale markets and fierce competition for retail funds, as the Government and the Bank of England unwind the various liquidity support schemes in place, and new regulatory requirements on liquidity, will result in savings rates remaining high in relation to Bank Base Rate and create ongoing margin pressure.

The Government’s austerity measures and general fragility of the economy could also impact the Mortgages and Savings division through an increase in impairment driven by rising unemployment creating higher levels of arrears and possessions, particularly in the Group’s non-prime mortgage portfolios - Amber and NYM.

The results of the Estate Agency division are principally driven by the volume of UK property transactions, particularly second hand property sales. This market is heavily influenced by consumer confidence, driven to some extent by the overall level of unemployment and interest rates. A slowdown in the housing market puts pressure on income levels. However, the Estate Agency division is partially protected against the performance of its core business through its asset management businesses that assist lenders in their management of non-performing loans.

The general subdued nature of the mortgage and housing market within the UK continues to impact the business performance of the Mortgage Services division as established lenders are unable to grow their mortgage portfolios due to liquidity and capital constraints; and new prospects to the lending market are encountering difficulty securing FSA approval. In addition, a low interest rate environment can result in falling arrears levels which puts pressure on the division's income from arrears management.

The Financial Advice division is also exposed to the wider UK economy. The main influence on its performance is consumer confidence and the willingness of customers to invest in longer-term products, which is inevitably influenced by the FTSE 100.

The ability of the Group to maintain profitability and boost capital, in what continues to be the toughest external environment faced for at least a generation, provides confidence that the Group is capable of withstanding the current challenging environment and the issues that would be faced should the current recovery lose momentum.

Credit risk

Credit risk is defined as the current or prospective loss to earnings and impact on capital arising from lending as a result of counterparties defaulting on their obligations due to the Group.

The Group faces this risk in respect of:

- individual customers (retail mortgages);
- businesses (through historic commercial lending). The Society ceased new commercial lending in November 2008 when we concluded that the outlook for commercial property was poor; and
- other financial institutions (wholesale lending). Credit risk within our treasury portfolio assets arises from the investments held by the Group in order to meet liquidity requirements and for general business purposes.

Changes in the credit quality and the recoverability of loans and amounts due from counterparties influence the Group's exposure to credit risk. Adverse changes in the credit quality of counterparties, collateral values or deterioration in the wider economy, including rising unemployment, deterioration in household finances and further contraction in the UK property market leading to falling property values, could affect the recoverability and value of the Group's assets and influence its financial performance. A reversal of the economic recovery and continuation of the falls in house prices and commercial property values could affect the level of impairment losses.

The Group has embedded a comprehensive and robust risk management framework with clear lines of accountability and oversight as part of its overall governance framework. The Group has effective processes and policies to monitor, control, mitigate and manage credit risk within the Group's risk appetite.

Retail mortgage lending to customers

The Group actively lends in the prime residential (inclusive of buy-to-let) UK mortgage market through the Society and via SIL in the Channel Islands.

Retail credit risk is managed in accordance with Board approved lending policies which define the Board's approach to credit granting and risk appetite. The risk appetite defines a series of Board approved limits regarding customer and collateral credit quality to which all lending activity must adhere. Lending policies and risk appetite are subject to regular review and annual Board approval.

The credit decision process is achieved by automated credit scoring and policy rules with lending policy criteria supporting manual underwriting. All aspects of the credit decision process are subject to regular independent review and development ensuring they support decisions in line with Board expectations.

The Group also has credit exposures through Amber and NYM which comprises residential (inclusive of buy-to-let) UK mortgages across prime and sub-prime markets. These portfolios are closed to new lending and are subject to ongoing monitoring of credit performance supporting effective management of customer interests and creation of maximum value for the Group.

Commercial lending to customers and businesses

The Society retains a commercial mortgage portfolio which is UK based and is closed to new lending. This portfolio is subject to ongoing monitoring of credit performance supporting the effective management of counterparty interests and creation of maximum value for the Group.

Other loans

These loans include a number of loans made by our factored debt and invoice discounting business, Skipton Business Finance, together with a number of other loans.

The RCC provides oversight to the effectiveness of all credit management across the Group and the controls in place ensure lending is within Board approved credit risk appetite.

Wholesale lending to other financial institutions

The wholesale credit markets remain volatile, particularly in the Eurozone, and a further deterioration could lead to additional fair value adjustments in the Group's portfolio of available-for-sale assets coupled with further impairment of our treasury investments portfolio. The Group has £38m exposure to the senior debt of financial institutions based in Ireland. Although political and economic uncertainty continues in Ireland, we still expect these loans to be fully repaid on maturity.

Wholesale credit risk is managed in line with Board approved risk appetite and wholesale credit policies. Wholesale credit policies and risk appetite are subject to regular review and annual Board approval.

ALCO provides oversight to the effectiveness of wholesale credit risk management.

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 risk factors. The Group's market risk factors comprise three types of risk: interest rate risk, currency risk and equity risk. The other standard risk factor is commodity prices, which do not impact the Group directly.

ALCO provides oversight of the effectiveness of the control framework in place to manage Market risk.

Interest rate risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises from the mortgage, savings and other financial products that we offer. This risk is managed through the use of appropriate financial instruments, including derivatives, with established risk limits, reporting lines, mandates and other control procedures.

Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics, for example, LIBOR and Bank of England Base Rate) are also monitored closely and regularly reported to ALCO. This risk is managed through the use of appropriate derivatives, with established risk limits and other control procedures.

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.

The Group has no material direct exposure to foreign currency exchange fluctuations. The currency risk appetite of the Group is low and any issuance denominated in foreign currency is immediately swapped into GBP. The exception to this is the Group's equity investments in Jade Software Corporation Limited and Northwest Investments NZ Limited which are denominated in New Zealand Dollars. The foreign currency fluctuations in relation to these equity investments are not material and are not hedged, but are recognised in the Group's translation reserve.

The Group has Euro debt issuances, however due to the effect of cross currency swaps the net exposure is immaterial.

Equity risk

As at 30 June 2011, the Group had a small amount of issued equity-linked savings products. Derivative contracts to reduce this exposure have been transacted which match the terms of the savings products and the market risk on such contracts is, therefore, fully hedged.

Liquidity risk

This 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 as well as repayments of other borrowings and loan capital.

The Board sets limits over the level, composition and maturity of liquidity and deposit funding balances, reviewing these at least annually. Compliance with these limits is monitored daily by Finance personnel (i.e. independent of Treasury). In addition, a series of liquidity stress tests are performed weekly by Market Risk and formally reported to ALCO monthly, to ensure the Group maintains adequate liquidity for business purposes even under stressed conditions. If at any time the test results forecast that the Group may be approaching the limits set by ALCO, action can be taken in line with the documented Contingency Funding Plan. These tests include idiosyncratic stresses, a market wide stress and combinations of both.

The wholesale markets remain constrained and opportunities for the Group to raise longer-term unsecured funding in public debt markets remain limited. However, on 31 March 2011, the Group completed a securitisation transaction raising £800m of funds which gives the Society access to a hitherto untapped source of funding.

The majority of our funding comes from retail sources and we have been successful in attracting such balances in recent years. As savers continue to demand a safe haven for their deposits we will continue to offer good value products to attract further balances.

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

The FSA introduced new requirements (PS09/16 Strengthening Liquidity Standards) for liquidity management and reporting applicable from June 2010. The Society has made significant investment in its infrastructure to comply with this and is compliant with the new regulatory requirements. The Board operates an Internal Liquidity Adequacy Assessment ('ILAA') process which analyses the Society's current and future liquidity requirements. The Board has defined its liquidity risk appetite which is monitored daily. Since the introduction of the new liquidity regime regulations, the Society has exceeded all its liquidity risk appetite tests at all times.

Operational risk

The Group has adopted the standardised approach to operational risk, compliant with the requirements of BIPRU 6, and has defined operational risk as 'the risk of loss arising from inadequate or failed internal processes, people or systems or from external events'. This definition includes legal, financial (the risk of loss arising from poor financial control) and reputational risk.

Operational risk management is overseen by an executive Group Operational Risk Committee ('GORC') that reviews the Group's operational risk management framework and standards, monitors the Group's exposure to operational risks and reviews the framework for measuring and controlling these risks. GORC also makes recommendations in relation to control improvements and is responsible for making recommendations to the Board Risk Committee on what the operational risk appetite should be, which is defined at a divisional level.

Through the Operational Risk Management Framework, the Board ensures the management and oversight of the key risk exposures facing the Group in the following risk categories:

- Business Continuity
- Change
- Customer / Client Experience
- Financial Management and Management Information
- Fraud
- Information Security
- Information Technology
- Legal and Regulatory
- People
- Premises
- Process
- Third Party Relationships

Each business entity within the Group has nominated 'Risk Champions' who are supported by a central Operational Risk function to ensure consistency across the Group, consolidating, analysing and challenging line management in its assessment of risk, proposed actions and timelines. This independent function reports on the key operational risks facing the business to GORC bi-monthly, and the Board Risk Committee quarterly.

At an operational level, the Group manages its operational risk exposures through a framework of internal controls and risk mitigation techniques such as insurance and business continuity planning. Risks are monitored through a risk and control self-assessment process and analysis of actual loss and 'near miss' data. Operational risk self-assessment is undertaken by each business unit quarterly, specifying the likelihood and financial impact of specific operational risk events (analysed by each operational risk sub-category). Consolidated outputs of the self-assessment process are reviewed by the Divisional or Operational Board of each Group entity at least annually.

Given the nature of the regulated sectors in which the Group operates one of the key operational risks is the potential failure to maintain ongoing compliance with relevant external regulation across the Group. Each of the regulated businesses has an established Compliance team which both monitors compliance with existing legislation and considers the impact of new requirements. Oversight is provided by a central Compliance function which ensures best practice is adhered to and shared across the Group as appropriate. This will become increasingly important as transition to the new Financial Services regulatory regime occurs.

The Group has an open dialogue with the regulatory authorities and regularly engages with the FSA to manage this risk.

The FSA initiated a market-wide review of the sale of Mortgage Payment Protection and Payment Protection policies during 2010. Six businesses within the Group have sold such policies and our initial review suggests that appropriate sales practices have been employed, and any required compensation payments are not expected to materially impact the Group's performance.

Reputational risk

Reputational risk arises from a deterioration in the perception of the Society's or Group's standing in the eyes of either the wholesale markets or the general public. Management has considered how this might arise and what the impact could be. An event threatening the Society's or Group's reputation may result in an increase in retail deposit outflows and / or counterparties withdrawing funding lines to the Group. This is modelled and controlled under the Group's liquidity risk management framework described earlier.

Pension obligation risk

Pension obligation risk is the risk that the Group's obligations to its pension schemes may lead to the Group not being able to pay its other liabilities as they fall due; and the risk that an increase in the funding requirements results in a significant reduction in the Group's capital resources. The Group's exposure to pension risk emanates from its five defined benefit pension schemes, all of which have been closed to new members for a number of years and are all now closed to future accrual of benefit.

The following controls are in place to limit the Group's exposure to pension obligation risk:

- Senior management and the scheme trustees receive professional advice, from separate actuarial advisers, regarding the management of the pension scheme obligations on a regular basis.

- The pension trustees meet every quarter to monitor and make, in consultation with the principal employer, investment decisions with regard to the plan assets within the five schemes.
- The pension obligation position is updated every quarter and reported to the Board and the pension scheme trustees.

The Group also performs stress testing on the pension scheme liabilities and assets as part of its capital planning methodologies, articulated in the ICAAP. See note 7 for details of the steps management have undertaken to actively manage the Group's pension risk exposure.

Additional information on risk is also set out in the Group's Pillar 3 disclosures available on our website.

Related party transactions

As detailed in note 19 to this Half-Yearly Financial Report, there have been no material changes in the related party transactions described in the 2010 Annual Report and Accounts.

Going concern

The Group's business activities together with its financial position, capital resources and the factors likely to affect its future development and performance are set out in the Business review on pages 5 to 17.

In common with many financial institutions, the Group meets its day-to-day liquidity requirements through managing both its retail and wholesale funding sources, and is required to maintain sufficient buffers over regulatory liquidity and capital requirements in order to continue to be authorised to carry on its business. The Group's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Group should be able to operate at adequate levels of both liquidity and capital, for the foreseeable future.

Consequently, after reviewing the Group's forecasts and the key risks it faces, the Directors are satisfied that there are no material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, the Group continues to adopt the going concern basis in preparing the Half-Yearly Financial Report.

Outlook

The UK economy has continued its slow recovery during the first half of 2011, but recovery still remains fragile and the pace of economic recovery is expected to be subdued in the near term. As a result it is expected that the Bank of England is likely to keep official interest rates low well into next year, despite inflation remaining above the Government's target of 2%, in order to offset the dampening impact of spending cuts and fiscal tightening.

Competition within the savings and lending sector is expected to continue unabated as new banks enter the market and existing banks and building societies fight for retail funds, as Government funding mechanisms unwind. The Society remains committed to offering long-term good value to members whilst also keeping the cost of retail funding at a sensible level.

Volumes of sales in the housing market have shown signs of gradual improvement in the first half of 2011 following the fall in activity in the second half of 2010.

The regulatory landscape also continues to evolve at pace, especially in relation to liquidity, capital, and mortgage and investment market reforms. However, our continued focus on proactively identifying and managing the risks the business faces will be instrumental in ensuring we remain well placed to meet the challenges of both the external and regulatory environment.

The Group has continued to trade profitably during the first half of 2011, and the steps taken to restructure the business, improve margin and our return to lending mean we are confident that we will continue to generate sustained value for our members and customers.

RJ Twigg

R J Twigg
Group Finance Director
26 July 2011

Condensed Consolidated Income Statement

For the half year ended 30 June 2011

	Notes	**Unaudited 6 months to 30.06.11 £m**	Unaudited 6 months to 30.06.10 £m	Audited 12 months to 31.12.10 £m
Interest receivable and similar income	3	**181.8**	186.8	363.6
Interest payable and similar charges	4	**(147.2)**	(160.3)	(308.7)
Net interest receivable		**34.6**	26.5	54.9
Fees and commissions receivable	5	**173.9**	191.3	381.7
Fees and commissions payable	6	**(4.1)**	(8.9)	(20.8)
Fair value gains on financial instruments		**2.0**	0.2	2.0
Profit on disposal of subsidiary undertakings		**-**	-	1.2
Share of profits from joint ventures and associates		**0.2**	0.2	0.3
Other income		**8.4**	7.2	24.1
Total income		**215.0**	216.5	443.4
Administrative expenses	7	**(189.3)**	(196.1)	(395.5)
Operating profit before impairment losses and provisions		**25.7**	20.4	47.9
Negative goodwill arising on merger		**-**	3.1	3.1
Impairment losses on loans and advances	12	**(17.2)**	(3.2)	(14.8)
Impairment losses on debt securities		**-**	-	(0.1)
Provisions for liabilities		**(2.2)**	1.4	(1.1)
Profit before tax		**6.3**	21.7	35.0
Tax expense	8	**(2.4)**	(5.8)	(9.8)
Profit for the period		**3.9**	15.9	25.2
Profit for the period attributable to:				
Members of Skipton Building Society		**4.0**	16.0	25.5
Non-controlling interests		**(0.1)**	(0.1)	(0.3)
		3.9	15.9	25.2

Segmental performance of the Group is shown in note 22.

The notes on pages 25 to 47 form an integral part of this condensed consolidated half-yearly financial report.

For the half year ended 30 June 2011

	Unaudited 6 months to 30.06.11 £m	Unaudited 6 months to 30.06.10 £m	Audited 12 months to 31.12.10 £m
Profit for the period	**3.9**	15.9	25.2
Other comprehensive income:			
Available-for-sale investments: valuation gains / (losses) taken to equity	**11.1**	8.2	(0.5)
Cash flow hedges: (losses) / gains taken to equity	**(1.0)**	28.0	22.6
Exchange differences on translation of foreign operations	**(0.3)**	0.5	1.4
Movement in reserves attributable to non-controlling interests	**(0.2)**	(0.3)	(0.1)
Actuarial (loss) / gain on retirement benefit obligations	**(1.5)**	(13.3)	9.7
Income tax relating to components of other comprehensive income	**(2.0)**	(6.3)	(9.7)
Other comprehensive income for the period, net of tax	**6.1**	16.8	23.4
Total comprehensive income for the period	**10.0**	32.7	48.6
Total comprehensive income attributable to:			
Members of Skipton Building Society	**10.1**	32.8	48.9
Non-controlling interests	**(0.1)**	(0.1)	(0.3)
	10.0	32.7	48.6

The notes on pages 25 to 47 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	**Unaudited as at 30.06.11 £m**	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
Assets				
Cash in hand and balances with the Bank of England		**527.0**	1,565.7	664.6
Loans and advances to credit institutions	9	**437.0**	354.0	293.9
Debt securities	10	**2,861.7**	1,798.8	2,421.2
Derivative financial instruments		**186.6**	163.7	140.6
Loans and advances to customers	11	**9,866.5**	10,281.2	9,814.7
Corporation tax asset		**-**	-	1.9
Deferred tax asset		**24.9**	43.4	26.2
Investments in group undertakings		**1.4**	1.5	1.5
Intangible assets	14	**194.5**	193.7	190.9
Property, plant and equipment		**87.4**	95.9	89.4
Investment property		**7.1**	5.7	6.8
Other assets		**100.7**	105.7	87.8
Total assets		**14,294.8**	14,609.3	13,739.5
Liabilities				
Shares	15	**9,312.4**	10,099.3	9,388.5
Amounts owed to credit institutions	16	**1,122.9**	813.2	853.6
Amounts owed to other customers	17	**1,044.4**	1,159.9	1,088.8
Debt securities in issue	18	**1,206.8**	869.8	846.2
Derivative financial instruments		**291.7**	338.1	260.8
Other liabilities		**81.6**	98.5	69.6
Accruals and deferred income		**34.4**	36.5	39.0
Provisions for liabilities		**30.2**	17.9	31.3
Corporation tax liability		**4.2**	3.4	-
Deferred tax liability		**9.4**	15.3	9.9
Retirement benefit obligations		**28.3**	56.3	31.8
Subordinated liabilities		**212.1**	211.8	214.2
Subscribed capital		**85.3**	84.1	84.7
Total liabilities		**13,463.7**	13,804.1	12,918.4
Members' interests				
General reserve		**822.5**	794.0	819.6
Available-for-sale reserve		**1.5**	(0.2)	(6.9)
Cash flow hedging reserve		**(0.4)**	4.2	0.3
Translation reserve		**4.7**	4.1	5.0
Attributable to Members of Skipton Building Society		**828.3**	802.1	818.0
Non-controlling interests		**2.8**	3.1	3.1
Total members' interests		**831.1**	805.2	821.1
Total members' interests and liabilities		**14,294.8**	14,609.3	13,739.5

The notes on pages 25 to 47 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Changes in Members' Interests

Unaudited 6 months as at 30 June 2011

	General reserve £m	Available-for-sale financial assets £m	Cash flow hedges £m	Translation of foreign operations £m	Sub total £m	Non-controlling interests £m	Total £m
Balance at 1 January 2011	**819.6**	**(6.9)**	**0.3**	**5.0**	**818.0**	**3.1**	**821.1**
Profit / (loss) for the period	4.0	-	-	-	**4.0**	(0.1)	**3.9**
Other comprehensive income:							
Actuarial loss on retirement benefit obligations	(1.1)	-	-	-	**(1.1)**	-	**(1.1)**
Net gains / (losses) from changes in fair value	-	8.4	(0.7)	-	**7.7**	-	**7.7**
Exchange differences on translation of foreign operations	-	-	-	(0.3)	**(0.3)**	-	**(0.3)**
Movement in reserves attributable to non-controlling interests	-	-	-	-	**-**	(0.2)	**(0.2)**
Total other comprehensive income	**(1.1)**	**8.4**	**(0.7)**	**(0.3)**	**6.3**	**(0.2)**	**6.1**
Total comprehensive income for the period	**2.9**	**8.4**	**(0.7)**	**(0.3)**	**10.3**	**(0.3)**	**10.0**
Balance at 30 June 2011	**822.5**	**1.5**	**(0.4)**	**4.7**	**828.3**	**2.8**	**831.1**

Unaudited 6 months as at 30 June 2010

	General reserve £m	Available-for-sale financial assets £m	Cash flow hedges £m	Translation of foreign operations £m	Sub total £m	Non-controlling interests £m	Total £m
Balance at 1 January 2010	781.5	(6.2)	(16.0)	3.6	762.9	3.5	766.4
Profit / (loss) for the period	16.0	-	-	-	16.0	(0.1)	15.9
Other comprehensive income:							
Actuarial loss on retirement benefit obligations	(9.6)	-	-	-	(9.6)	-	(9.6)
Net gains from changes in fair value	-	6.0	20.2	-	26.2	-	26.2
Exchange differences on translation of foreign operations	-	-	-	0.5	0.5	-	0.5
Movement in reserves attributable to non-controlling interests	-	-	-	-	-	(0.3)	(0.3)
Total other comprehensive income	(9.6)	6.0	20.2	0.5	17.1	(0.3)	16.8
Total comprehensive income for the period	6.4	6.0	20.2	0.5	33.1	(0.4)	32.7
Transfer of engagements	6.1	-	-	-	6.1	-	6.1
Balance at 30 June 2010	794.0	(0.2)	4.2	4.1	802.1	3.1	805.2

Audited 12 months as at 31 December 2010

	General reserve £m	Available-for-sale financial assets £m	Cash flow hedges £m	Translation of foreign operations £m	Sub total £m	Non-controlling interests £m	Total £m
Balance at 1 January 2010	781.5	(6.2)	(16.0)	3.6	762.9	3.5	766.4
Profit / (loss) for the financial year	25.5	-	-	-	25.5	(0.3)	25.2
Other comprehensive income:							
Actuarial gain on retirement benefit obligations	6.5	-	-	-	6.5	-	6.5
Net (losses) / gains from changes in fair value	-	(0.7)	16.3	-	15.6	-	15.6
Exchange differences on translation of foreign operations	-	-	-	1.4	1.4	-	1.4
Movement in reserves attributable to non-controlling interests	-	-	-	-	-	(0.1)	(0.1)
Total other comprehensive income	6.5	(0.7)	16.3	1.4	23.5	(0.1)	23.4
Total comprehensive income for the year	32.0	(0.7)	16.3	1.4	49.0	(0.4)	48.6
Transfer of engagements	6.1	-	-	-	6.1	-	6.1
Balance at 31 December 2010	819.6	(6.9)	0.3	5.0	818.0	3.1	821.1

The notes on pages 25 to 47 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 2011

	Notes	**Unaudited 6 months to 30.06.11 £m**	Unaudited 6 months to 30.06.10 £m	Audited 12 months to 31.12.10 £m
Cash flows from operating activities				
Profit before taxation		**6.3**	21.7	35.0
Adjustments for:				
Impairment losses on loans and advances	12	**17.2**	3.2	14.8
Impairment losses on debt securities		**-**	-	0.1
Loans and advances written off, net of recoveries		**(9.3)**	(12.8)	(21.1)
Goodwill impairment	14	**-**	4.8	7.5
Depreciation and amortisation		**9.9**	9.6	19.9
Impairment of investment property		**0.1**	-	1.4
Interest on capital and subordinated liabilities		**12.0**	12.3	25.1
Profit on sale of property, plant and equipment and investment property		**(1.0)**	-	(6.7)
Negative goodwill arising on merger		**-**	(3.1)	(3.1)
Share of profits from joint ventures and associates		**(0.2)**	(0.2)	(0.3)
Profit on disposal of subsidiary undertakings		**-**	-	(1.2)
Dividends received from joint venture		**0.3**	0.5	0.5
Other non-cash movements		**1.9**	41.7	71.3
		37.2	77.7	143.2
Changes in operating assets and liabilities:				
Movement in prepayments and accrued income		**(16.5)**	(13.8)	2.3
Movement in accruals and deferred income		**(21.1)**	(28.5)	(10.6)
Movement in provisions for liabilities		**(1.0)**	(1.6)	11.8
Movement in loans and advances to customers		**(59.3)**	796.1	1,192.8
Movement in shares		**(71.9)**	(556.7)	(1,268.4)
Net movement in amounts owed to credit institutions and other customers		**224.3**	(178.6)	(225.3)
Net movement in debt securities in issue		**360.0**	(478.7)	(502.5)
Net movement in loans and advances to credit institutions		**8.0**	127.2	157.5
Net movement in other assets		**(6.3)**	5.1	17.6
Net movement in other liabilities		**5.7**	25.0	(28.2)
Income taxes received / (paid)		**3.8**	1.0	(4.9)
Net cash flows from operating activities		**462.9**	(225.8)	(514.7)

Condensed Consolidated Statement of Cash Flows (continued)

For the half year ended 30 June 2011

	Notes	**Unaudited 6 months to 30.06.11 £m**	Unaudited 6 months to 30.06.10 £m	Audited 12 months to 31.12.10 £m
Net cash flows from operating activities		**462.9**	(225.8)	(514.7)
Cash flows from investing activities				
Purchase of debt securities	10	**(2,544.8)**	(1,368.4)	(3,623.8)
Proceeds from disposal of debt securities	10	**2,115.9**	1,930.8	3,555.4
Purchase of intangible assets		**(3.2)**	(4.2)	(8.9)
Purchase of property, plant and equipment and investment property		**(5.1)**	(6.8)	(11.2)
Proceeds from disposal of property, plant and equipment and investment property		**2.1**	0.2	9.8
Dividends paid to non-controlling interests		**(0.6)**	(2.5)	(3.3)
Cash acquired on transfer of engagements		**-**	-	0.1
Purchase of subsidiary undertakings in the year	13	**(1.4)**	-	-
Net cash acquired with subsidiaries		**0.1**	-	-
Further investment in subsidiary undertakings	13	**(0.3)**	(20.9)	(20.9)
Purchase of other business units		**(0.4)**	-	-
Cash received from sale of subsidiary undertakings		**0.3**	-	1.6
Net cash flows from investing activities		**(437.4)**	528.2	(101.2)
Cash flows from financing activities				
Interest paid on subordinated liabilities		**(7.9)**	(8.3)	(16.9)
Interest paid on Permanent Interest Bearing Shares		**(4.1)**	(4.1)	(8.2)
Net cash flows from financing activities		**(12.0)**	(12.4)	(25.1)
Net increase / (decrease) in cash and cash equivalents		**13.5**	290.0	(641.0)
Cash and cash equivalents at 1 January		**755.3**	1,396.3	1,396.3
Cash and cash equivalents at end of period		**768.8**	1,686.3	755.3

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

	Notes	**Unaudited 6 months to 30.06.11 £m**	Unaudited 6 months to 30.06.10 £m	Audited 12 months to 31.12.10 £m
Cash in hand and balances with the Bank of England		**527.0**	1,565.7	664.6
Mandatory reserve deposit with the Bank of England		**(10.8)**	(11.6)	(11.2)
		516.2	1,554.1	653.4
Loans and advances to credit institutions repayable on demand	9	**252.6**	132.2	101.9
Included in cash and cash equivalents at end of period		**768.8**	1,686.3	755.3

The notes on pages 25 to 47 form an integral part of this condensed consolidated half-yearly financial report.

1. Accounting policies

a) Basis of preparation

This condensed consolidated half-yearly financial report for the six months ended 30 June 2011 has been prepared in accordance with the Disclosure and Transparency Rules of the FSA and with IAS 34, *Interim Financial Reporting*, as adopted by the European Union. The half-yearly financial report should be read in conjunction with the Annual Report & Accounts for the year ended 31 December 2010, which have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, and the Building Societies Act 1986 applicable to societies reporting under IFRS.

The accounting policies adopted by the Group in the preparation of its 2011 half-yearly financial report and those which the Group currently expects to adopt in its Annual Accounts for the year ending 31 December 2011 are consistent with those disclosed in the Annual Accounts for the year ended 31 December 2010.

The Directors have adopted the following in the period (see note 23 for details):

- IAS 24, *Related Parties (revised 2009)*; and
- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.*

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 material changes to the basis of accounting estimates since the 2010 Annual Report & Accounts. The key accounting estimates are as follows:

Effective interest rate

The valuation of assets or liabilities measured at amortised cost is calculated using the effective interest method. The effective interest method imputes an interest rate which discounts the future forecast cash flows of an asset over its expected life back to its carrying value. The most critical factor in calculating the amortised cost of assets and liabilities held by the Group is the expected lives of these assets and liabilities which are determined on the basis of historical data and management judgement.

The impact of a one month increase in the anticipated life of mortgage assets would increase Group interest income by £1.9m (30 June 2010: £2.8m; 31 December 2010: £2.7m).

During the period a credit of £2.9m (six months ended 30 June 2010: £6.5m; year ended 31 December 2010: £6.5m) was recognised through interest income following a reassessment of the expected lives of mortgage assets.

Impairment of mortgage loans and advances

The Group regularly reviews its loan portfolios to assess the level of impairment. In determining whether an impairment loss should be recorded in the Income Statement, management makes judgements as to whether there is any objective data indicating that there is a measurable impairment loss. Specifically, management regularly assesses the key assumptions such as the probability of an account going into possession, the time period over which an account will exhibit objective evidence of impairment loss (the 'emergence period') and the eventual loss incurred in the event of forced sale or write-off.

A critical estimate in calculating the eventual loss incurred in the event of sale is the future level of house prices. Based upon the loss provisioning model used by the Group, a 10% fall in house prices would increase the half year residential impairment provision by £7.4m. Other sensitivities include the emergence period, where an increase of three months would increase the loan impairment provision by £4.0m, and the loss given default rate, where a 10% increase equates to a £5.6m increase in the loan impairment provision.

In respect of commercial loan exposures, these are individually reviewed on a monthly basis and expert knowledge is applied by suitably qualified commercial underwriters to objectively assess whether an impairment provision is required.

1. Accounting policies (continued)

Goodwill

The carrying value of goodwill is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding cashflows, discount rates and growth rates. These assumptions are reviewed on a regular basis by senior management.

The future cashflows of the cash generating units are based on the latest detailed three year forecasts available and are sensitive to assumptions regarding the long-term growth pattern thereafter. The cashflows reflect management's view of future business prospects at the time of the assessment.

The discount rate used to discount the future expected cashflows is based on the cost of capital assigned to each cash generating unit (see note 14) and can have a significant effect on the valuation of a cash generating unit. The cost of capital is derived from a weighted average cost of capital calculation which incorporates a number of inputs including the risk-free interest rate and a premium to reflect the inherent risk of the business being evaluated. These variables are subject to fluctuations in external markets and economic conditions which are out of management's control and therefore are established on the basis of management judgement.

At 30 June 2011, to the extent that discount rates were to increase by 10%, the impairment charge would increase by £1.0m. In addition, a reduction in the long-term growth rate assumption from 2.5% to 0% would increase the impairment charge by £2.6m.

2. Other information

The half-yearly financial report information set out in this announcement is unaudited and does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The comparative figures for the year ended 31 December 2010 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditors and the report of the auditors was (i) unqualified and (ii) did not include a reference to matters to which the auditors drew attention by way of emphasis without qualifying their report.

A copy of this half-yearly financial report has been placed on the website of Skipton Building Society. The Directors are responsible for the maintenance and integrity of information on the Society's website. Copies of the 2010 Annual Report & Accounts and this half-yearly financial report are available at **www.skipton.co.uk/performance**.

Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The half-yearly financial report for the six months ended 30 June 2011 was approved by the Board of Directors on 26 July 2011.

3. Interest receivable and similar income

	Unaudited 6 months to 30.06.11 £m	Unaudited 6 months to 30.06.10 £m	Audited 12 months to 31.12.10 £m
On loans fully secured on residential property	**200.2**	217.7	421.4
On other loans	**9.2**	9.6	19.4
On debt securities	**19.6**	19.7	35.8
On other liquid assets	**3.8**	4.7	9.0
Net expense on derivative financial instruments	**(51.0)**	(64.9)	(122.0)
	181.8	186.8	363.6

Included within interest and other similar income on debt securities is income from fixed income securities of £13.7m (six months ended 30 June 2010: £10.0m; year ended 31 December 2010: £22.4m).

Included within interest receivable and similar income is interest accrued on impaired financial assets of £7.0m (six months ended 30 June 2010: £8.2m; year ended 31 December 2010: £11.8m).

4. Interest payable and similar charges

	Unaudited 6 months to 30.06.11 £m	Unaudited 6 months to 30.06.10 £m	Audited 12 months to 31.12.10 £m
On shares held by individuals	**116.5**	137.7	257.2
On subscribed capital	**4.1**	4.1	8.2
On deposits and other borrowings:			
Subordinated liabilities	**7.9**	8.3	16.9
Wholesale and other funding	**26.4**	24.7	47.9
Net income on derivative financial instruments	**(7.2)**	(13.9)	(22.2)
Other	**(0.5)**	(0.6)	0.7
	147.2	160.3	308.7

5. Fees and commissions receivable

	Unaudited 6 months to 30.06.11 £m	Unaudited 6 months to 30.06.10 £m	Audited 12 months to 31.12.10 £m
Mortgage related fees	**39.0**	50.4	104.6
General insurance fees	**6.5**	5.8	24.3
Commissions earned on property sales	**63.9**	71.2	128.8
Other fees and commissions	**64.5**	63.9	124.0
	173.9	191.3	381.7

6. Fees and commissions payable

	Unaudited 6 months to 30.06.11 £m	Unaudited 6 months to 30.06.10 £m	Audited 12 months to 31.12.10 £m
Mortgage related fees	**0.2**	6.2	13.1
Other fees and commissions	**3.9**	2.7	7.7
	4.1	8.9	20.8

7. Administrative expenses

	Unaudited 6 months to 30.06.11 £m	Unaudited 6 months to 30.06.10 £m	Audited 12 months to 31.12.10 £m
Employee costs:			
Wages and salaries	**108.0**	111.6	223.1
Social security costs	**9.6**	9.7	19.9
Pension costs:			
Defined contribution arrangements	**3.6**	3.4	7.1
Defined benefit schemes service costs	**1.8**	0.1	-
Settlement gain (see below)	**(4.5)**	-	-
	118.5	124.8	250.1
Other administrative expenses	**70.8**	71.3	145.4
	189.3	196.1	395.5

Towards the end of 2010 an enhanced pension transfer programme was offered to certain deferred members of the defined benefit pension schemes. The offer to members closed in 2011 with payment and transfers for those who accepted the offer being made in the first half of 2011. Transfer values totalling £14.5m were paid out of the schemes and the liability extinguished was £19.0m resulting in the £4.5m settlement gain disclosed above. The cost of providing these enhancements was £4.7m, including National Insurance, and is included in Employee costs above.

8. Taxation expense

	Unaudited 6 months to 30.06.11 £m	Unaudited 6 months to 30.06.10 £m	Audited 12 months to 31.12.10 £m
Profit before tax	**6.3**	21.6	35.0
Less share of profits of joint venture and associate (net of tax)	**(0.2)**	(0.2)	(0.3)
	6.1	21.4	34.7
Tax calculated at UK standard rate of 26.5% (30 June 2010: 28%; 31 December 2010: 28%)	**1.6**	6.0	9.7
Effects of:			
Expenses not deductible for tax purposes	**0.4**	1.4	3.9
Adjustment to tax expense in respect of prior periods	**-**	(1.8)	(0.1)
Non-taxable income	**(0.4)**	-	(3.7)
Rate changes	**0.6**	-	0.4
Other	**0.2**	0.2	(0.4)
Tax expense	**2.4**	5.8	9.8

The effective tax rate for the six month period ending 30 June 2011 was 39.3% (30 June 2010: 27.0%; 31 December 2010: 28.2%). This differs from the standard rate of corporation tax due to the impact of disallowable expenditure and the effect of the reduction in corporation tax rate from 27% to 26% announced in the March budget on the Group's net deferred tax asset.

The reduction in the corporation tax rate to 26% from 1 April 2011 resulted in a £0.6m charge to the Income Statement in respect of the Group's net deferred tax asset. No account has been taken of future planned reductions in corporation tax rates as these have not yet been substantively enacted and it is not possible to quantify the effects of the proposed reductions at this time.

9. Loans and advances to credit institutions

	Unaudited as at 30.06.11 £m	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
Loans and advances to credit institutions have remaining maturities as follows:			
Repayable on demand	**252.6**	132.2	101.9
In not more than three months	**165.2**	217.6	184.9
In more than three months but not more than one year	**2.7**	-	-
In more than one year	**16.5**	4.2	7.1
	437.0	354.0	293.9

10. Debt securities

	Unaudited as at 30.06.11 £m	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
Issued by public bodies	**853.5**	119.1	978.4
Issued by other borrowers	**2,008.2**	1,679.7	1,442.8
	2,861.7	1,798.8	2,421.2
Debt securities have remaining maturities as follows:			
In not more than one year	**1,879.7**	606.6	1,100.6
In more than one year	**982.0**	1,192.2	1,320.6
	2,861.7	1,798.8	2,421.2
Transferable debt securities comprise:			
Listed on a recognised investment exchange	**2,141.9**	1,435.6	2,215.8
Unlisted	**719.8**	363.2	205.4
	2,861.7	1,798.8	2,421.2
Market value of listed transferable debt securities	**2,122.2**	1,435.6	2,207.9

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 as at 30.06.11 £m	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
At 1 January	**2,421.2**	2,339.3	2,339.3
Acquired on transfer of engagements	**-**	13.0	13.0
Additions	**2,544.8**	1,368.4	3,623.8
Disposals	**(2,115.9)**	(1,930.8)	(3,555.4)
Impairment losses	**-**	-	(0.1)
Changes in fair value	**11.6**	8.9	0.6
At end of period	**2,861.7**	1,798.8	2,421.2

At 30 June 2011, £874.1m (30 June 2010: £283.8m; 31 December 2010: £328.8m) 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. In 2008 the Group identified £339.4m of 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 0.90% (30 June 2010: 0.90%; 31 December 2010: 0.90%).

The table below sets out the financial assets reclassified and their carrying and fair values:

	Unaudited as at 30.06.11 £m	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
Carrying value of reclassified assets	**268.3**	306.8	281.8
Fair value of reclassified assets	**265.7**	290.7	277.7

If these assets had not been reclassified, the fair value gain arising in the Statement of Comprehensive Income would have been £6.7m (six months ended 30 June 2010: £18.4m; year ended 31 December 2010: £28.3m).

11. Loans and advances to customers

	Unaudited as at 30.06.11 £m	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
Loans fully secured on residential property	**9,113.6**	9,430.0	9,030.4
Other loans:			
Loans fully secured on land	**480.7**	509.2	497.0
Other loans	**71.1**	81.2	81.3
Fair value adjustment for hedged risk	**201.1**	260.8	206.0
	9,866.5	10,281.2	9,814.7
The remaining maturity of loans and advances to customers from the reporting date is as follows:			
On call and at short notice	**51.2**	42.5	52.3
In not more than three months	**32.3**	11.1	8.7
In more than three months but not more than one year	**51.6**	57.5	67.4
In more than one year but not more than five years	**445.7**	423.1	433.3
In more than five years	**9,373.0**	9,823.1	9,332.4
	9,953.8	10,357.3	9,894.1
Less: Impairment (note 12)	**(87.3)**	(76.1)	(79.4)
	9,866.5	10,281.2	9,814.7

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

Covered bonds

Loans and advances to customers include £987.7m (30 June 2010: £1,136.7m; 31 December 2010: £1,031.3m) which has 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 2010: £750.0m; 31 December 2010: £750.0m) of covered bonds issued by the Society to Skipton Covered Bonds LLP.

Securitisation

Loans and advances to customers include £1,114.0m (30 June 2010: £nil; 31 December 2010: £nil) which have been securitised under the Society's securitisation programme and have been transferred to Darrowby No 1 plc, a special purpose entity which is consolidated into the Group Accounts. The loans secure £800.0m (30 June 2010: £nil; 31 December 2010: £nil) of debt securities externally issued by the Group or pledged as collateral by the Group under sale and repurchase agreements.

12. Impairment losses on loans and advances

	Unaudited 30.06.11 £m	Unaudited 30.06.10 £m	Audited 31.12.10 £m
Impairment charge for the period:			
Loans fully secured on residential property	**8.0**	2.9	7.1
Loans fully secured on land	**0.5**	0.1	(2.5)
Other loans	**8.7**	0.2	10.2
	17.2	3.2	14.8
Impairment provision at the end of the period:			
Loans fully secured on residential property	**61.8**	65.7	62.3
Loans fully secured on land	**4.3**	7.2	4.2
Other loans	**21.2**	3.2	12.9
	87.3	76.1	79.4

13. Investments in group undertakings

Full details of the investments held in the Group as at 31 December 2010 are shown in note 17 *Investments in group undertakings* in the 2010 Annual Report & Accounts.

During the first six months of the year Connells Limited set up a new holding company, WSAPC Limited, which acquired shareholdings in several small will writing companies for a total cost of £1.4m. The fair value of net assets acquired amounted to £1.2m resulting in £0.2m of goodwill.

On 30 May 2011, the Group sold the trade and assets of Thomson Shepherd Limited to Carbon Financial Holdings Limited at a price equivalent to its carrying value.

The Group holds a majority stake in a number of subsidiary undertakings, and the non-controlling shareholders have options to require the Group to purchase the remaining shareholding at some future date. At 30 June 2011 this financial liability was £10.6m (30 June 2010: £9.2m; 31 December 2010: £9.3m).

During the period the Group increased its shareholdings in one existing subsidiary at a total cost of £0.3m. Together with the reassessment of the expected future payments under the put option agreements and adjustments to contingent consideration, this resulted in a net increase of £2.7m (30 June 2010: £15.9m; 31 December 2010: £15.7m) in goodwill being recognised.

Between the 30 June 2011 and the approval of the half-yearly financial report by the Board the following transactions took place:

- On 5 July 2011 Connells Limited acquired a 100% holding in Allguard Legal Services Limited for £1.8m.
- On 15 July 2011 Connells Limited entered into a joint venture with LSL Property Services plc and Legal Marketing Services Limited ('LMS') by acquiring a 33% holding in LMS for £0.7m.

14. Intangible assets

	Unaudited as at 30.06.11 £m	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
Software, databases and customer contracts	**23.1**	22.8	22.4
Goodwill	**171.4**	170.9	168.5
	194.5	193.7	190.9

Goodwill	**Unaudited as at 30.06.11 £m**	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
Cost less amortisation to 1 January 2004			
At 1 January	**190.2**	181.0	181.0
Acquisitions of subsidiary undertakings and business units	**0.2**	-	0.7
Additions and reallocations	**2.7**	15.9	15.7
Disposals	**(5.8)**	-	(7.2)
At end of period	**187.3**	196.9	190.2
Impairment losses			
At 1 January	**21.7**	21.2	21.2
Provisions for impairment loss in the period	**-**	4.8	7.5
Disposals	**(5.8)**	-	(7.0)
At end of period	**15.9**	26.0	21.7
Net book value at 1 January	**168.5**	159.8	159.8
Net book value at end of period	**171.4**	170.9	168.5

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit (operating segment) that is expected to benefit from that business combination. Before recognition of impairment losses, the cost of goodwill before impairment had been allocated as follows:

Operating segment	**Unaudited as at 30.06.11 £m**	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
Mortgage Services	**2.9**	2.9	2.9
Estate Agency	**123.4**	119.8	120.5
Financial Advice	**31.0**	37.3	36.9
Investment Portfolio	**30.0**	36.9	29.9
Cost of goodwill	**187.3**	196.9	190.2

The recoverable amounts of the operating segments are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the cash flows, discount rates and growth rates.

The Group prepares cash flow forecasts on the assumption that the subsidiary undertakings within each operating segment are held for long-term investment. The cash flows are derived from the most recent financial budgets for the next three years, which take into account the risks inherent in the businesses, and extrapolates cash flows for subsequent years (up to an additional 12 years) based on a long-term growth rate of 2.5% (31 December 2010: 2.5%).

14. Intangible assets (continued)

The Group estimates discount rates based upon the weighted average cost of capital which takes into account the risks inherent in each cash generating unit. The pre-tax discount rates are as follows:

Operating segment	**Unaudited as at 30.06.11 %**	Unaudited as at 30.06.10 %	Audited as at 31.12.10 %
Mortgage Services	**12**	13	12
Estate Agency	**16**	19	15
Financial Advice	**13-15**	13-14	12-14
Investment Portfolio	**13-20**	12-21	12-19

The Investment Portfolio includes holding companies and a number of other small trading companies which operate in different markets.

At 30 June 2011, to the extent that discount rates were to increase by 10%, the impairment charge would increase by £1.0m (30 June 2010: £3.8m; 31 December 2010: £1.0m).

At 30 June 2011 impairment of £15.9m (30 June 2010: £26.0m; 31 December 2010: £21.7m) was allocated to cash generating units as follows to reduce the goodwill to its estimated recoverable amount, based upon current revised forecasts:

Operating segment	**Unaudited as at 30.06.11 £m**	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
Estate Agency	**3.4**	3.3	3.4
Financial Advice	**2.2**	5.7	8.0
Investment Portfolio	**10.3**	17.0	10.3
Impairment of goodwill	**15.9**	26.0	21.7

15. Shares	**Unaudited as at 30.06.11 £m**	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
Held by individuals	**9,276.8**	10,085.3	9,363.7
Other shares	**2.2**	2.3	2.2
Fair value adjustment for hedged risk	**33.4**	11.7	22.6
	9,312.4	10,099.3	9,388.5
Shares are repayable from the reporting date in the ordinary course of business as follows:			
On demand	**2,261.7**	3,067.0	2,871.1
In not more than three months	**1,841.6**	3,290.3	2,983.2
In more than three months but not more than one year	**1,508.1**	819.3	202.9
In more than one year but not more than five years	**2,992.5**	2,068.1	2,461.2
In more than five years	**708.5**	854.6	870.1
	9,312.4	10,099.3	9,388.5

16. Amounts owed to credit institutions	**Unaudited as at 30.06.11 £m**	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
Amounts owed to credit institutions are repayable from the reporting date in the ordinary course of business as follows:			
Repayable on demand	**70.9**	48.3	18.7
In not more than three months	**423.6**	131.0	138.9
In more than three months but not more than one year	**225.8**	196.3	598.9
In more than one year but not more than five years	**402.6**	437.0	97.1
In more than five years	**-**	0.6	-
	1,122.9	813.2	853.6

Included in amounts owed to credit institutions is £768.1m (30 June 2010: £212.3m; 31 December 2010: £306.0m) relating to securities sold under agreements to repurchase. The carrying and market value of the related securities is £874.1m (30 June 2010: £283.8m; 31 December 2010: £328.8m) and £875.6m (30 June 2010: £272.3m; 31 December 2010: £323.8m) 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 30.06.11 £m**	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
Amounts owed to other customers are repayable from the reporting date in the ordinary course of business as follows:			
Repayable on demand	**268.6**	419.3	306.6
In not more than three months	**533.6**	271.3	511.7
In more than three months but not more than one year	**159.6**	352.4	173.0
In more than one year but not more than five years	**82.6**	115.5	97.5
In more than five years	**-**	1.4	-
	1,044.4	1,159.9	1,088.8

18. Debt securities in issue

	Unaudited as at 30.06.11 £m	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
Certificates of deposit	**39.0**	81.1	71.1
Other debt securities	**1,130.2**	743.9	738.0
Fair value adjustment for hedged risk	**37.6**	44.8	37.1
	1,206.8	869.8	846.2
Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:			
In not more than one year	**707.8**	114.0	96.7
In more than one year	**499.0**	755.8	749.5
	1,206.8	869.8	846.2

Included in other debt securities are 3 (30 June 2010: 12; 31 December 2010: 6) floating rate notes issued to the capital markets totalling £50.8m (30 June 2010: £85.5m; 31 December 2010: £69.2m).

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 2011 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 2011 are similar in nature to those for the year ended 31 December 2010. Full details of the Group's related party transactions for the year to 31 December 2010 can be found in note 10 *Related party transactions* in the 2010 Annual Report & Accounts.

20. Subsequent events

There have been no material post balance sheet events between 30 June 2011 and the approval of this half-yearly financial report by the Board.

21. Credit risk

The significant credit risks which the Group is exposed to are 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 £201.1m (30 June 2010: £260.8m; 31 December 2010: £206.0m) 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 30.06.11		Unaudited as at 30.06.10		Audited as at 31.12.10	
	£m	**%**	£m	%	£m	%
Total residential mortgages	**9,175.4**	**94.1**	9,495.7	94.0	9,092.7	93.9
Commercial loans	**485.0**	**5.0**	516.4	5.1	501.2	5.2
Other lending:						
Debt factoring loans	**39.1**	**0.4**	35.7	0.4	39.5	0.4
Other loans	**53.2**	**0.5**	48.7	0.5	54.7	0.5
Gross balances	**9,752.7**	**100.0**	10,096.5	100.0	9,688.1	100.0
Impairment provisions (note 12)	**(87.3)**		(76.1)		(79.4)	
Fair value adjustment for hedged risk	**201.1**		260.8		206.0	
	9,866.5		10,281.2		9,814.7	

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 lending in Amber and NYM. Amber balances outstanding at the period end were £1,202.2m (30 June 2010: £1,279.3m; 31 December 2010: £1,235.7m) of which £137.8m (30 June 2010: £137.6m; 31 December 2010: £142.3m) were in respect of buy-to-let. NYM balances at the end of the period were £731.4m (30 June 2010: £792.9m; 31 December 2010: £760.4m), with £197.0m (30 June 2010: £211.7m; 31 December 2010: £203.9m) in respect of buy-to-let.

The Group's portfolio also includes mortgage lending across the Channel Islands through SIL. SIL balances outstanding at the period end were £517.3m (30 June 2010: £458.7m; 31 December 2010: £482.7m).

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

Indexed loan-to-value analysis	**Unaudited as at 30.06.11 %**	Unaudited as at 30.06.10 %	Audited as at 31.12.10 %
Total book:			
<70%	**41.0**	45.6	44.1
70% - 80%	**13.8**	13.5	13.8
80% - 90%	**15.5**	14.0	14.9
>90%	**29.7**	26.9	27.2
Average indexed loan-to-value	**55.0**	52.5	55.5

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

21. Credit risk (continued)

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

	Unaudited as at 30.06.11		Unaudited as at 30.06.10		Audited as at 31.12.10	
	£m	**%**	£m	%	£m	%
Neither past due nor individually impaired	**8,607.8**	**93.8**	8,924.4	93.9	8,542.2	93.9
Past due but not individually impaired:						
Up to 3 months	**97.1**	**1.1**	92.8	1.0	91.1	1.0
3 to 6 months	**26.0**	**0.3**	17.4	0.2	15.1	0.2
6 to 9 months	**11.4**	**0.1**	6.8	0.1	4.8	0.1
9 to 12 months	**7.8**	**0.1**	3.3	-	3.3	-
Over 12 months	**5.4**	**-**	4.8	0.1	4.3	-
Total	**8,755.5**	**95.4**	9,049.5	95.3	8,660.8	95.2
Individually impaired	**393.2**	**4.3**	421.9	4.4	406.6	4.5
Possessions	**26.7**	**0.3**	24.3	0.3	25.3	0.3
	9,175.4	**100.0**	9,495.7	100.0	9,092.7	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 30.06.11 £m**	Unaudited as at 30.06.10 £m	Audited as at 31.12.10 £m
Not individually impaired	**16,267.8**	17,645.6	15,946.5
Impaired	**380.7**	429.2	413.4
Possessions	**22.7**	21.7	22.1
	16,671.2	18,096.5	16,382.0

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 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 indices of similar assets.

Renegotiated loans

Loans are classed as renegotiated when their terms have changed during the year. Those renegotiated loans that would have been past due or impaired had their terms not been renegotiated in the period are as follows:

	Unaudited to 30.06.11 £m	Unaudited to 30.06.10 £m	Audited to 31.12.10 £m
Society	**16.0**	15.0	41.2
Amber Homeloans	**15.1**	33.5	52.2
North Yorkshire Mortgages	**4.3**	25.1	20.4
Skipton International	**0.2**	0.3	1.1
	35.6	73.9	114.9

21. 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 30.06.11 £m	**%**	Unaudited as at 30.06.10 £m	%	Audited as at 31.12.10 £m	%
Leisure and hotel	**46.3**	**9.6**	50.1	9.7	47.7	9.5
Retail	**17.1**	**3.5**	18.1	3.5	17.6	3.5
Nursing / residential homes	**31.2**	**6.4**	34.0	6.6	32.7	6.5
Offices	**16.0**	**3.3**	18.0	3.5	17.5	3.5
Commercial investment and industrial units	**349.8**	**72.1**	376.0	72.8	358.9	71.6
Miscellaneous	**24.6**	**5.1**	20.2	3.9	26.8	5.4
	485.0	**100.0**	516.4	100.0	501.2	100.0

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

	Unaudited as at 30.06.11 £m	**%**	Unaudited as at 30.06.10 £m	%	Audited as at 31.12.10 £m	%
Neither past due nor individually impaired	**467.1**	**96.4**	497.3	96.3	475.1	94.9
Past due but not individually impaired:						
Up to 3 months	**2.3**	**0.5**	9.9	1.9	5.4	1.1
3 to 6 months	**0.6**	**0.1**	2.2	0.4	1.7	0.3
6 to 9 months	**0.7**	**0.1**	-	-	1.6	0.3
9 to 12 months	**0.7**	**0.1**	0.1	-	-	-
Over 12 months	**1.1**	**0.2**	-	-	-	-
Total	**472.5**	**97.4**	509.5	98.6	483.8	96.6
Individually impaired	**12.5**	**2.6**	6.9	1.4	17.2	3.4
Possessions	**-**	**-**	-	-	0.2	-
	485.0	**100.0**	516.4	100.0	501.2	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 30.06.11 £m**	Unaudited as at 30.06.10* £m	Audited as at 31.12.10 £m
Not individually impaired	**642.1**	666.3	650.4
Impaired	**10.4**	8.7	14.6
Possessions	**-**	-	0.1
	652.5	675.0	665.1

* Prior half year comparatives have been re-presented.

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 lending activities.

21. Credit risk (continued)

Renegotiated loans

£0.2m (30 June 2010: £1.8m; 31 December 2010: £6.2m) of loans would be past due or impaired had their terms not been renegotiated in the period.

c) Other lending

	Unaudited as at 30.06.11		Unaudited as at 30.06.10		Audited as at 31.12.10	
	Gross £m	**Impairment £m**	Gross £m	Impairment £m	Gross £m	Impairment £m
Factored debt and invoice discounting	**39.1**	**(0.5)**	35.7	(0.6)	39.5	(0.7)
Other loans	**53.2**	**(20.7)**	48.7	(2.6)	54.7	(12.2)
	92.3	**(21.2)**	84.4	(3.2)	94.2	(12.9)

There are no loans which are past due but not individually impaired.

The balances of those assets within our factored debt and invoice discounting business which are considered to be individually impaired amount to £1.9m (30 June 2010: £1.3m; 31 December 2010: £2.2m). The factors considered in determining whether these assets are impaired include the existence of objective evidence to doubt the ultimate recoverability of the company's net exposure, due to client insolvency. The majority of these loans have an original maturity of less than one year.

The balances of those assets within other loans which are considered to be individually impaired amount to £23.0m (30 June 2010: £2.3m; 31 December 2010: £22.6m). The factors considered in determining whether these assets are impaired include the existence of objective evidence that the customer is unable to honour their obligations as they fall due.

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

The Group holds treasury investments in order to meet 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 2011 £7.4m (30 June 2010: £7.4m; 31 December 2010: £7.4m) 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. In assessing the potential impairment of its treasury assets, the Group, among other factors, considers objective evidence of deterioration in the financial health of the investee, the normal volatility in valuation, and industry and sectorial performance.

As at 30 June 2011 98% (30 June 2010: 99%; 31 December 2010: 98%) of the Group's treasury investment assets were rated A3 or better. The Group policy is that initial investments in treasury assets must be investment grade or above. The Group continues to have no exposure to emerging markets and only limited exposure to non-investment grade debt.

21. Credit risk (continued)

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

Rating	**Unaudited as at 30.06.11** £m	**%**	Unaudited as at 30.06.10 £m	%	Audited as at 31.12.10 £m	%
Aaa	**2,459.5**	**64.3**	2,663.1	71.6	2,572.6	76.2
Aa1	**103.6**	**2.7**	84.8	2.3	82.6	2.4
Aa2	**218.4**	**5.7**	165.7	4.5	171.5	5.1
Aa3	**665.7**	**17.4**	530.3	14.3	307.3	9.1
A1	**140.4**	**3.7**	146.5	3.9	153.5	4.5
A2	**135.9**	**3.6**	41.5	1.1	9.3	0.3
A3	**43.9**	**1.1**	37.8	1.0	25.1	0.7
Baa1	**2.2**	**-**	4.1	0.1	6.3	0.2
Baa2	**6.7**	**0.2**	16.6	0.4	6.7	0.2
Baa3	**2.6**	**-**	2.2	0.1	34.7	1.0
Ba2	**15.0**	**0.4**	-	-	-	-
Ba3	**7.1**	**0.2**	7.4	0.2	-	-
Caa1	**6.6**	**0.2**	-	-	6.6	0.2
Caa2	**14.1**	**0.4**	-	-	-	-
Unrated:						
Building societies	**4.0**	**0.1**	8.2	0.2	3.0	0.1
Local authorities	**-**	**-**	10.3	0.3	0.5	-
	3,825.7	**100.0**	3,718.5	100.0	3,379.7	100.0

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

Industry sector / asset class	**Unaudited as at 30.06.11** £m	**%**	Unaudited as at 30.06.10 £m	%	Audited as at 31.12.10 £m	%
Cash in hand and balances with the Bank of England	**527.0**	**13.8**	1,565.7	42.1	664.6	19.7
Cash with banks and building societies	**438.6**	**11.5**	344.6	9.3	294.6	8.7
Gilts	**293.1**	**7.7**	64.6	1.7	200.8	5.9
Treasury bills	**545.2**	**14.2**	-	-	749.4	22.2
Certificates of deposit	**719.8**	**18.7**	363.2	9.8	205.4	6.1
Local authority investments	**-**	**-**	10.3	0.3	0.5	-
Fixed rate bonds	**471.0**	**12.3**	435.9	11.7	452.6	13.4
Floating rate notes	**530.0**	**13.9**	628.2	16.9	530.8	15.7
Residential mortgage backed securities	**256.7**	**6.7**	250.8	6.7	233.3	6.9
Commercial mortgage backed securities	**44.3**	**1.2**	55.2	1.5	47.7	1.4
	3,825.7	**100.0**	3,718.5	100.0	3,379.7	100.0

21. Credit risk (continued)

Geographical exposure	Unaudited as at 30.06.11		Unaudited as at 30.06.10		Audited as at 31.12.10	
	£m	**%**	£m	%	£m	%
UK	**2,658.1**	**69.4**	2,872.7	77.2	2,631.0	77.9
Rest of Europe*	**989.6**	**25.9**	656.8	17.7	622.4	18.4
North America	**149.2**	**3.9**	108.3	2.9	81.2	2.4
Australasia	**25.7**	**0.7**	70.7	1.9	42.2	1.2
Far East	**3.1**	**0.1**	10.0	0.3	2.9	0.1
	3,825.7	**100.0**	3,718.5	100.0	3,379.7	100.0

*There are no direct soverign exposures to Greece, Portugal, Italy or Spain.

22. Group segmental reporting

The Group's operating results are regularly reviewed by the chief operating decision maker in the following reportable segments. Each segment offers different products and services and is managed separately based on the Group's management and internal reporting structure.

- Mortgages and Savings – principally the Society, but also includes specialist mortgage businesses Amber and NYM, and deposit taking and lending in Jersey and Guernsey through SIL.
- Mortgage Services – mortgage administration services, principally Homeloan Management.
- Estate Agency – including survey and valuations, conveyancing, lettings, asset management and mortgage broking carried out through the Connells group.
- Financial Advice – provision of financial advice and broking services through three separate financial advice companies.
- Investment Portfolio – includes holding companies and a number of other small trading companies that do not fall within the core operating segments.

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

Transactions between the segments are on normal commercial terms and conditions. The accounting policies of the reportable segments are consistent with the Group's accounting policies.

No geographical analysis is presented because substantially all of the Group's activities are conducted within the UK. Of the total external income, £12.6m (six month ended 30 June 2010: £8.4m; year ended 31 December 2010: £21.2m) was generated outside of the UK.

A description of the performance of each segmental area is given within the unaudited Business review on pages 12 to 13.

22. Group segmental reporting (continued)

Unaudited 6 months to 30.06.11

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Inter-company adjustments £m	Total £m
Income							
Interest receivable and similar income	281.5	-	0.2	0.1	1.1	(101.1)	181.8
Interest payable and similar charges	(247.4)	-	0.3	(0.1)	(1.1)	101.1	(147.2)
Fair value gains on financial instruments	2.0	-	-	-	-	-	2.0
Fees and commissions receivable	10.9	33.4	95.9	27.5	16.0	(9.8)	173.9
Fees and commissions payable	(4.0)	(0.9)	(1.6)	(5.3)	(0.4)	8.1	(4.1)
Share of profits from joint ventures	-	-	0.2	-	-	-	0.2
Other income	5.5	0.1	1.2	-	2.9	(1.3)	8.4
Total income	48.5	32.6	96.2	22.2	18.5	(3.0)	215.0
Employee and pension costs	18.7	19.0	51.9	14.0	14.9	-	118.5
Depreciation and amortisation	3.4	2.3	1.8	0.5	1.8	-	9.8
Other admin expenses	14.0	15.2	25.6	5.2	4.0	(3.0)	61.0
Operating profit before impairment losses and provisions	12.4	(3.9)	16.9	2.5	(2.2)	-	25.7
Impairment losses / provisions for liabilities	17.6	(0.7)	2.0	0.3	0.1	0.1	19.4
Profit before tax	(5.2)	(3.2)	14.9	2.2	(2.3)	(0.1)	6.3
Taxation	2.1	0.8	(3.9)	(0.6)	0.9	(1.7)	(2.4)
Profit after tax	(3.1)	(2.4)	11.0	1.6	(1.4)	(1.8)	3.9
Total assets	17,897.5	26.2	151.9	24.6	250.1	(4,055.5)	14,294.8
Total liabilities	17,080.2	5.2	53.9	0.5	160.4	(3,836.5)	13,463.7
Capital expenditure	0.8	2.0	3.4	0.7	1.4	-	8.3

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Inter-company adjustments £m	Total £m
Income from other segments	4.0	1.7	1.8	(3.9)	(0.1)	(3.5)	-
External income	44.5	30.9	94.4	26.1	18.6	0.5	215.0
Total income	48.5	32.6	96.2	22.2	18.5	(3.0)	215.0

22. Group segmental reporting (continued)

Performance by segment is reported to the chief operating decision maker based on the Group's interpretation of items which are routine and non-routine as follows:

Unaudited 6 months to 30.06.11

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Inter-company adjustments £m	Total £m
Reported profit before tax	(5.2)	(3.2)	14.9	2.2	(2.3)	(0.1)	6.3
Non-routine items:							
Financial Services Compensation Scheme levy	-	-	-	0.2	-	-	0.2
Net gains from fair value volatility	(2.0)	-	-	-	-	-	(2.0)
Profit on sale and leaseback	(1.1)	-	-	-	-	-	(1.1)
Restructuring costs	1.8	2.5	-	-	-	-	4.3
Profit before tax before non-routine items	(6.5)	(0.7)	14.9	2.4	(2.3)	(0.1)	7.7

22. Group segmental reporting (continued)

Unaudited 6 months to 30.06.10

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Inter-company adjustments £m	Total £m
Interest receivable and similar income	258.6	-	0.2	0.1	1.1	(73.2)	186.8
Interest payable and similar charges	(233.2)	-	1.5	(0.1)	(1.7)	73.2	(160.3)
Fair value gains on financial instruments	0.2	-	-	-	-	-	0.2
Fees and commissions receivable	6.0	39.9	103.9	25.7	23.0	(7.2)	191.3
Fees and commissions payable	(4.3)	(1.1)	-	(4.0)	(6.5)	7.0	(8.9)
Share of profits from joint ventures	-	-	0.2	-	-	-	0.2
Other income	4.6	0.7	(0.1)	-	3.9	(1.9)	7.2
Total income	31.9	39.5	105.7	21.7	19.8	(2.1)	216.5
Employee and pension costs	20.3	25.7	50.8	14.0	14.0	-	124.8
Depreciation and amortisation	2.5	2.3	2.0	0.6	2.2	-	9.6
Other admin expenses	14.2	11.7	23.3	5.4	8.9	(1.8)	61.7
Operating profit before impairment losses and provisions	(5.1)	(0.2)	29.6	1.7	(5.3)	(0.3)	20.4
Impairment losses / provisions for liabilities	3.7	-	(2.1)	-	0.2	-	1.8
Negative goodwill arising on merger	(3.1)	-	-	-	-	-	(3.1)
Profit before tax	(5.7)	(0.2)	31.7	1.7	(5.5)	(0.3)	21.7
Taxation	2.6	-	(8.6)	(0.6)	1.6	(0.8)	(5.8)
Profit after tax	(3.1)	(0.2)	23.1	1.1	(3.9)	(1.1)	15.9
Total assets	17,672.9	31.5	158.8	26.2	263.3	(3,543.4)	14,609.3
Total liabilities	16,883.6	8.3	63.7	0.1	166.5	(3,318.1)	13,804.1
Capital expenditure	2.6	3.7	2.5	0.5	1.7	-	11.0

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Inter-company adjustments £m	Total £m
Income from other segments	0.8	2.2	0.7	(2.2)	1.4	(2.9)	-
External income	31.1	37.3	105.0	23.9	18.4	0.8	216.5
Total income	31.9	39.5	105.7	21.7	19.8	(2.1)	216.5

22. Group segmental reporting (continued)

Performance by segment is reported to the chief operating decision maker based on the Group's interpretation of items which are routine and non-routine as follows:

Unaudited 6 months to 30.06.10

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Inter-company adjustments £m	Total £m
Reported profit before tax	(5.7)	(0.2)	31.7	1.7	(5.5)	(0.3)	21.7
Non-routine items:							
Provisions against loans and investments in subsidiary undertakings	-	-	-	-	3.1	(3.1)	-
Impairment of goodwill	-	-	-	0.5	-	4.3	4.8
Net gains from fair value volatility	(0.2)	-	-	-	-	-	(0.2)
Merger expenses	0.4	0.4	-	-	-	-	0.8
Negative goodwill on merger	(3.1)	-	-	-	-	-	(3.1)
Restructuring costs	3.5	0.6	-	-	-	-	4.1
Profit before tax before non-routine items	(5.1)	0.8	31.7	2.2	(2.4)	0.9	28.1

22. Group segmental reporting (continued)

Audited 12 months to 31.12.10

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Inter-company adjustments £m	Total £m
Interest receivable and similar income	522.9	-	0.7	0.1	2.9	(163.0)	363.6
Interest payable and similar charges	(468.2)	-	0.3	(0.2)	(3.1)	162.5	(308.7)
Fair value gains on financial instruments	2.0	-	-	-	-	-	2.0
Fees and commissions receivable	14.3	78.2	208.1	51.6	44.9	(15.4)	381.7
Fees and commissions payable	(8.6)	(1.9)	(3.1)	(8.9)	(12.3)	14.0	(20.8)
Profit on disposal of subsidiary undertakings	1.9	-	-	-	1.1	(1.8)	1.2
Share of profits from joint ventures	-	-	0.3	-	-	-	0.3
Other income	17.2	0.6	1.7	0.1	7.7	(3.2)	24.1
Total income	81.5	76.9	208.0	42.7	41.2	(6.9)	443.4
Employee and pension costs	38.5	47.7	105.5	27.6	30.8	-	250.1
Depreciation and amortisation	6.4	4.6	4.2	1.8	4.3	-	21.3
Other admin expenses	28.8	24.4	53.9	8.9	9.2	(1.1)	124.1
Operating profit before impairment losses and provisions	7.8	0.2	44.4	4.4	(3.1)	(5.8)	47.9
Impairment losses / provisions for liabilities	17.5	0.1	(3.7)	3.4	5.5	(6.8)	16.0
Negative goodwill arising on merger	(3.1)	-	-	-	-	-	(3.1)
Profit before tax	(6.6)	0.1	48.1	1.0	(8.6)	1.0	35.0
Taxation	5.0	(0.1)	(13.8)	(0.8)	2.2	(2.3)	(9.8)
Profit after tax	(1.6)	-	34.3	0.2	(6.4)	(1.3)	25.2
Total assets	16,624.7	27.5	137.5	23.8	246.2	(3,320.2)	13,739.5
Total liabilities	15,812.4	4.2	50.2	2.1	155.2	(3,105.7)	12,918.4
Capital expenditure	22.3	5.4	5.4	1.0	5.7	(19.7)	20.1

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Inter-company adjustments £m	Total £m
Income from other segments	3.0	4.5	1.9	(4.8)	2.7	(7.3)	-
External income	78.5	72.4	206.1	47.5	38.5	0.4	443.4
Total income	81.5	76.9	208.0	42.7	41.2	(6.9)	443.4

22. Group segmental reporting (continued)

Performance by segment is reported to the chief operating decision maker based on the Group's interpretation of items which are routine and non-routine as follows:

Audited 12 months to 31.12.10

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Inter-company adjustments £m	Total £m
Reported profit before tax	(6.6)	0.1	48.1	1.0	(8.6)	1.0	35.0
Non-routine items:							
Profit on sale of subsidiary companies	(1.9)	-	-	-	(1.1)	1.8	(1.2)
Financial Services Compensation Scheme levy	-	-	-	0.9	-	-	0.9
Loss on sale of investment securities	0.1	-	-	-	-	-	0.1
Provisions against loans and investments in subsidiary undertakings	2.6	-	-	-	4.3	(6.9)	-
Impairment of goodwill	-	-	0.1	1.9	-	5.5	7.5
Net gains from fair value volatility	(2.0)	-	-	-	-	-	(2.0)
Merger expenses	0.4	2.5	-	-	-	-	2.9
Negative goodwill on merger	(3.1)	-	-	-	-	-	(3.1)
Profit on sale and leaseback	(5.7)	-	-	-	-	-	(5.7)
Restructuring costs	3.7	3.0	-	-	-	-	6.7
Profit before tax before non-routine items	(12.5)	5.6	48.2	3.8	(5.4)	1.4	41.1

23. Adoption of new and revised International Financial Reporting Standards

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

- IAS 24, *Related Parties (Revised 2009)*. The revised standard must be applied for annual periods beginning on or after 1 January 2011 and amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard has had no impact on these financial statements.
- Amendments to IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.* These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. These amendments have had no impact on these financial statements.

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

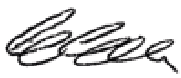
  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related 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 M H Ellis	(Chairman)
Mr C N Hutton	(Vice Chairman)
Mr D J Cutter*	
Mr P R Hales	
Ms A B E Kinney	
Mr P J S Thompson	
Mr R J Twigg*	

* Executive Directors

Signed on behalf of the Board by



M H Ellis
Chairman
26 July 2011

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 2011 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 relevant explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Society in accordance with the terms of our engagement to assist the Society in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial 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 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

J L Ellacott
for and on behalf of KPMG Audit Plc
Chartered Accountants
Leeds
26 July 2011

Glossary

Set out below are the definitions of the terms used within the half-yearly financial report to assist the reader and to facilitate comparison with other financial institutions:

Arrears	A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is overdue.
Asset backed securities ('ABS')	An asset backed security is a security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. Typically these assets are pools of residential or commercial mortgages.
Basel II	Basel II is the second of the Basel Accords, issued by the Basel Committee on Banking supervision, which defines the methods by which firms should calculate their regulatory capital requirements to retain enough capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive, and was implemented in the UK via the FSA Handbook.
Commercial lending	Loans secured on commercial property.
Commercial mortgage backed securities ('CMBS')	Securities that represent interests in a pool of commercial mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and / or principal).
Contractual maturity	The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be paid.
Core Tier 1 capital	Defined by the FSA as Tier 1 capital less hybrid capital instruments (innovative Tier 1 securities and Permanent Interest Bearing Shares for building societies) and certain regulatory adjustments.
Covered bonds	Debt securities backed by a portfolio of mortgages that is segregated from the issuer's other on-balance sheet assets solely for the benefit of the holders of the covered bonds. The Group issues covered bonds as part of its funding activities.
Credit risk	This is the risk that a customer or counterparty is unable to honour their obligations as they fall due.
Debt securities	Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.
Debt securities in issue	Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit.
Delinquency	A debt or financial obligation is considered to be in a state of delinquency when payments are overdue.
Derivative financial instruments	A derivative financial instrument is a type of financial instrument (or an agreement between two parties) that has a value based on the underlying asset, index or reference rate it is linked to. The Group uses derivative financial instruments to hedge its exposures to market risks such as interest rate, equity and currency risk.
Effective interest rate method ('EIR')	The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense over the relevant period.
Fair value	Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Financial Services Compensation Scheme ('FSCS')	The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the FSA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.
Free capital	The aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment, investment properties and intangible assets.

Funding limit	Measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals.
Gross capital	The aggregate of general reserve, translation reserve, available for sale reserve, cash flow reserve, subscribed capital, subordinated liabilities and non-controlling interests.
Goodwill	Goodwill arises on the acquisition of subsidiary undertakings, joint ventures, associates or businesses and represents the excess of the fair value of consideration over the fair value of identifiable net assets and contingent liabilities acquired at the date of acquisition.
Impaired loans	Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.
Individually / collectively assessed	Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession. A collective impairment provision is made against the remaining group of loans and advances where objective evidence indicates that it is likely that losses may be realised.
Internal capital adequacy assessment process ('ICAAP')	The Group's own assessment, as part of Basel II requirements, of the levels of capital that it needs to hold in respect of the risks it faces under a business as usual scenario and a variety of stress scenarios.
International Swaps and Derivatives Association ('ISDA') Master Agreement	A standardised contract developed by ISDA and used to enter into bilateral derivatives transactions.
Investment grade	Investment grade instruments are those whose issuers have a credit rating (with at least one of the large rating agencies) greater than BBB (S&P rating). The Society classify the highest level (AAA) as being the targeted level of investment grade. There are certain instruments that have issuers who do not need a credit rating such as UK central Government; these investments are known as first-class investments.
Lending limit	Measures the proportion of business assets not in the form of loans fully secured on residential property.
Liquid assets	Total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.
Liquidity risk	The risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash inflows and outflows.
Loan-to-value ratio ('LTV')	A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Group calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in the house price index (HPI)).
Loans past due / past due loans	Loans on which payments are overdue including those on which partial payments are being made.
Management expenses	Management expenses represent administrative expenses. The management expense ratio is management expenses expressed as a percentage of mean total assets.
Market risk	The risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and customer-driven factors will reduce income or portfolio values.
Mean total assets	Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
Medium-term notes ('MTN')	Corporate notes continuously offered by a company to investors through a dealer.
Member	A person who has a share investment or a mortgage loan with the Society.
Mortgage backed securities ('MBS')	Assets which are referenced to underlying mortgages.

Net interest income	The difference between interest received on assets and interest paid on liabilities.
Organisation for Economic Co-operation and Development ('OECD')	Used to refer to member countries of the OECD. The OECD is an international organisation of countries with highly developed economies and democratic governments. The OECD has 31 member countries including (but not limited to) key European countries, the United States, Canada and Japan.
Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.
Permanent Interest Bearing Shares ('PIBS')	Unsecured, deferred shares that are a form of Tier 1 capital. PIBS rank behind the claims of all subordinated debt holders, depositors, payables and investing members of Skipton Building Society.
Prime	Prime mortgages are those granted to the most credit worthy category of borrower.
Put option	Where the Group acquires a majority shareholding in a subsidiary undertaking, but grants the non-controlling shareholders an option to sell their shares to the Group at some future date, a put option obligation exists.
Renegotiated loans	Loans are classed as renegotiated with the customer's consent, when their terms have changed during the year. Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower.
Repo / reverse repo	Short to medium-term funding agreements which allow a borrower to sell a financial asset, such as ABS or Government bonds as security for cash. As part of the agreement the borrower agrees to repurchase the security at some later date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.
Residential mortgage backed securities ('RMBS')	A category of ABS that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and / or principal).
Risk appetite	The articulation of the level of risk that the Group is willing to take (or not take) in order to safeguard the interests of the Society's members whilst achieving business objectives.
Risk-weighted asset ('RWA')	The value of assets, after adjustment, under Basel II rules to reflect the degree of risk they represent.
Residential loans	Money loaned to individuals rather than institutions. Residential mortgage lending is secured against residential property.
Shares	Money deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.
Shares and borrowings	The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest and fair value adjustments for hedged risk.
Subordinated debt / liabilities	A form of Tier 2 capital that is unsecured and ranks behind the claims of all depositors, creditors, and investing members (other than holders of PIBS).
Sub-prime	Loans to borrowers typically having weakened credit histories that include payment delinquencies and in some cases potentially more severe problems such as court judgements and discharged bankruptcies.
Tier 1 capital	A measure of financial strength. Tier 1 capital is divided into core Tier 1 and other Tier 1 capital. Core tier 1 capital comprises general reserves from retained profits. The book values of goodwill and intangible assets are deducted from core Tier 1 capital and other regulatory adjustments may be made for the purposes of capital adequacy. Qualifying capital instruments such as PIBS are included in other Tier 1 capital (i.e. not core Tier 1).

Tier 2 capital	Comprises the Group's qualifying subordinated debt and collective impairment allowance (for exposures treated on a Basel II standardised basis). Certain regulatory deductions may be made for the purposes of assessing capital adequacy.
Wholesale funding	The total of amounts owed to credit institutions, amounts owed to other customers and debt securities in issue less balances deposited by offshore customers.

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SKIPTON BUILDING SOCIETY