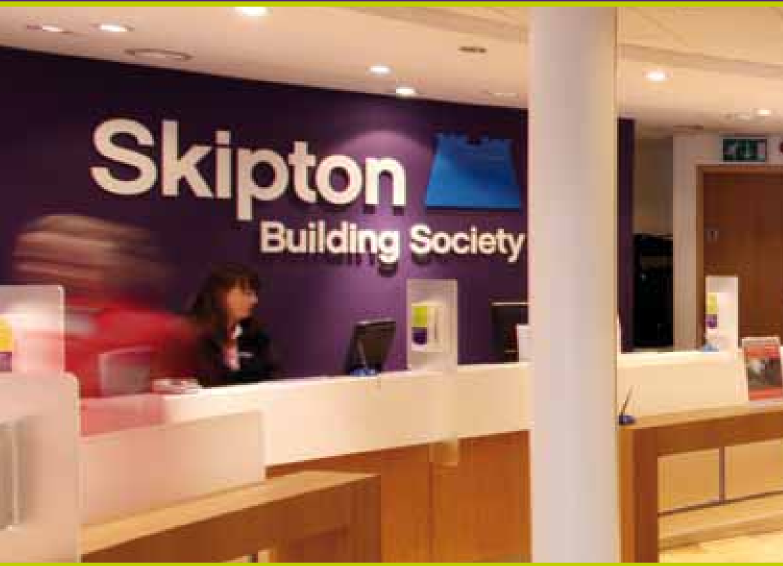

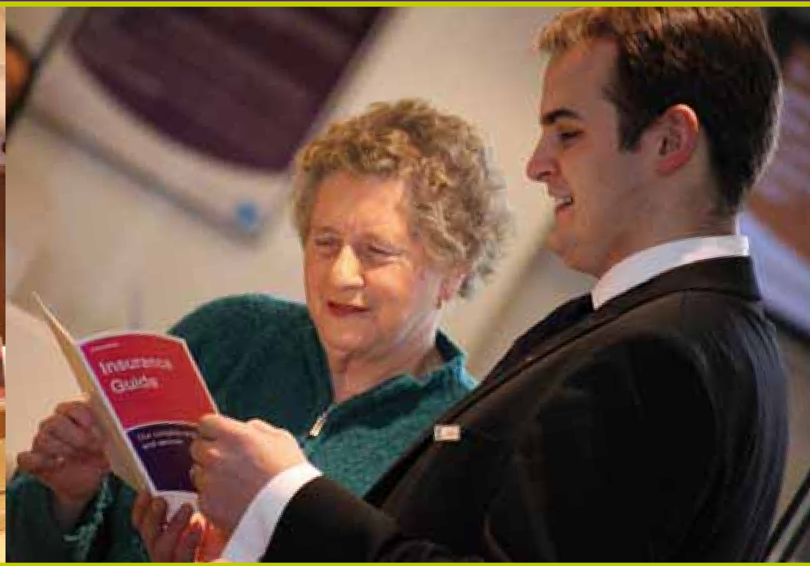

Skipton Building Society
Half-Yearly Financial Report 2010

2010

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SKIPTON BUILDING SOCIETY

Contents

Forward-looking statements

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

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

Introduction

I am pleased to report that our half-year results demonstrate our continued success in enhancing Skipton's financial strength, while underlining our commitment to meeting our members' life-long financial needs. Pre-tax profits from continuing operations amounted to £21.7m compared to £14.7m in the first six months of 2009, and our capital position has further strengthened since the year-end.

Our diversified business model has continued to play a significant part in ensuring a solid performance in a market environment that remains challenging, as has our focus on the prudent and efficient management of the Skipton Group.

This has seen us continuing to pursue a clear plan centred around improving profitability; strengthening capital; managing the size of our Balance Sheet effectively; maintaining a strong retail savings franchise; managing our wholesale / retail funding mix; and maintaining appropriate levels of high quality liquidity.

To this end, our Tier One capital ratio has increased to 11.4%, from 8.5% in June 2009 and 10.8% in December 2009.

Group Financial Performance

The Group reported pre-tax profits of £21.7m for the first half of 2010 (six months ended 30 June 2009: £14.7m), an improvement of 48%, and continues our record of remaining profitable throughout the credit crunch. These reported profits include a number of items which we consider to be non-routine and are outlined in the Business Review. After adjusting for non-routine items, profits for the last six months amounted to £24.0m compared to £16.1m for the six months ended 30 June 2009.

Our unique Group structure, with its range of complementary subsidiary businesses spanning estate agency, mortgage services and financial advice, continues to underpin and add value to the building society business at its core.

The Mortgages and Savings division reported a loss of £5.7m, compared to a loss of £9.1m for the six months ended 30 June 2009.

The Group's net interest margin, which is predominantly earned by this division, amounted to £26.5m, a reduction of £12.3m compared to the £38.8m earned during the six months ended 30 June 2009. Historically low interest rates placed a strain on the margin and action has been taken to address this.

It is particularly pleasing to report that the charge for mortgage losses amounted to only £3.2m, a reduction of £18.9m compared to the £22.1m incurred in the six months ended 30 June 2009.

Our Estate Agency division continued to perform strongly, with revenues and profits well up against the first half of 2009. This performance has been driven by a year-on-year increase in transaction activity with a 23% increase in new instructions and a 13% increase in the level of exchanges. Profits for the period amounted to £31.7m (six months ended 30 June 2009: £20.8m), a 52% increase on the comparative period.

The Financial Advice division continued to enhance its performance, reporting a profit of £1.7m compared to a loss of £0.1m for the comparative period, helped by product innovation, business restructuring and an uplift in investor confidence.

The Mortgage Services division was impacted by restructuring costs of £0.6m, recording a loss of £0.2m (six months ended 30 June 2009: profit of £4.4m). During the period, Homeloan Management ('HML') moved into purpose built new headquarters in Skipton and continued its major investment strategy to improve its IT infrastructure, risk framework and operational processes which has enabled the business to adapt from its traditional market of specialist mortgage servicing into parallel markets.

The Investment Portfolio division includes holding companies and a number of other smaller trading companies that do not fall within the core operating segments. The division reported a loss of £5.5m (six month ended 30 June 2009: loss of £1.6m), mainly due to the impairment of some of the investments held by the holding companies within this division.

Savings and Mortgages

With the Bank of England base rate remaining at 0.5% since March 2009, and likely to stay low for some time to come, we are acutely aware of the impact on savers, who have also suffered from inflationary pressures.

We have concentrated on offering products with longer-term value, from tax efficient ISAs to structured products offering low risk stock market exposure.

Our retail savings balances now represent 100% of mortgage balances and 83% of our total funding.

Looking back to the 2009/10 annual reporting season, it is pleasing to note that Skipton again topped the table of the largest 20 building societies for paying the highest average interest rate per mean retail balance, as published in the KPMG Database, demonstrating we are continuing to provide value to our savers in this low interest rate environment.

Our appetite for new mortgage lending during the period remained very low compared to historical standards, and for the six months ended 30 June 2010 we lent £133m (to 30 June 2009: £218m). However, we continue to fulfil one of our principal purposes of helping borrowers meet their home ownership aspirations, first time buyers in particular, and recently launched a suite of limited edition mortgage products requiring deposits as low as 5% or 10%, sold through our branches or subsidiary companies respectively.

Since the year-end, our mortgage balances and other loans to customers have reduced by 6% (or £617m) from £10.7bn to £10.1bn, and our retail balances have reduced by 4% (or £374m) from £10.5bn to £10.1bn. These figures are after transferring £158m of mortgages and £188m of retail balances following the successful merger with Chesham Building Society on 1 June 2010, and which increased our network by three branches.

Other products

We have also continued to diversify our product range over the past six months, adding funeral planning and over-50s life insurance to our portfolio, as well as changing our insurance providers to ensure best value and service for our members.

Community

For 157 years, we have demonstrated our commitment to the communities in which our members live and work through a programme of sponsorship and fundraising activities. Focusing on the Arts, sport, education, money advice and general community support, we have continued, over the past six months, to make a difference where it matters through donations and direct involvement, both from the Skipton Building Society and Group staff. Organisations the Society has helped range from grassroots sporting initiatives to cultural events such as the Grassington Festival.

The economy

While there have been encouraging signs of a modest but gradual pick up in the economy, there is no room for complacency. Uncertainty stemming from fears over the financial stability of certain European nations and the necessary Government measures to reduce Britain's financial deficit could negatively impact upon employment and fragile public confidence, which has highlighted the need for continued vigilance.

Summary

Although the operating environment remains challenging, it is pleasing to report the recent significant improvement in performance. After adjusting for non-routine items, profits for the last six months amounted to £24.0m compared to £16.1m for the six months ended 30 June 2009.

This significant improvement in the underlying performance of the Group, coupled with the material strengthening of its capital ratios, and our unique business model, gives me confidence in our future.

These latest results once again demonstrate Skipton's ability to prosper despite adverse market conditions while, at the same time, remaining true to our ethos of offering consistent good value and service to our members.

David Cutter

D J Cutter
Group Chief Executive
27 July 2010

Group structure

Skipton Building Society is the UK's fourth largest building society, with approximately 860,000 members, £14.6bn of assets and a national presence represented by its 92 branches. It heads up the Skipton Group, whose divisions have 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 (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'), also includes Specialist Mortgage Services and Baseline Capital.
- Estate Agency – including survey and valuations, conveyancing, lettings, asset management and mortgage broking carried out through Connells.
- Financial Advice – provision of financial advice and broking services through five 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 companies are not of a material size to the Group.

The Credit & Marketing Solutions division provided credit reference agency and database services through the Callcredit Information Group. This division became a discontinued operation from 7 December 2009 on disposal.

Overview

The Skipton Group has continued to demonstrate the strength of its diversified business model in the first six months of 2010. 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.

It is pleasing to report that, for June 2010 Group profits from continuing operations totalled £21.7m before tax which compares to £14.7m in June 2009, an increase of 48%. These financial results are the first since the Group completed its merger with Chesham Building Society ('Chesham') on 1 June 2010.

The Group has maintained its focus in the face of the ongoing external economic challenges on a number of key imperatives:

- Ensuring the Group continues to trade profitably
- Increasing capital ratios
- Maintaining a strong and diversified funding base
- Holding high levels of quality liquid instruments
- The effective management of impaired assets
- Increasing efficiency across the business

The increase in profitability demonstrates the Group has continued to successfully deliver against these priorities, building on the progress made in 2009. In the first half of 2010, key management actions included:

- A programme of activity to improve the performance of the Mortgages and Savings division, which includes the core Society, across a number of performance metrics to restore the division to a position of long-term sustainable profitability;
- Significant focus on the delivery of enhanced financial and risk management capabilities to ensure that the Group remains compliant with the evolving regulatory environment;
- Maintenance of a prudent, high quality liquidity position;
- Improved capital ratios through the maintenance of profitable Group trading and the ongoing effective management of the Balance Sheet;
- A reduction in headcount in a number of business areas.

Profitability – Group profitability from continuing operations has improved year-on-year, with an improving quality of earnings. Profit before tax has increased to £21.7m from £14.7m, an increase of 48%.

Capital – The regulatory capital position of the Society (Solo) and Group (UK Group) remains strong with a capital adequacy, on a Basel II basis, of 193% (30 June 2009: 153%; December 2009: 186%) and 198% (30 June 2009: 157%; 31 December 2009: 192%) respectively and a Group solvency ratio of 15.1% (30 June 2009: 12.0%; 31 December 2009: 14.5%). The Group's Tier One and Core Tier One capital position is set out below:

	Unaudited 6 months to 30.06.10	Unaudited 6 months to 30.06.09	Unaudited 12 months to 31.12.09
Core Tier 1 ratio (%)	**9.91**	7.19	9.37
Tier 1 ratio (%)	**11.38**	8.51	10.77
Tier 1 capital (before deductions*) (£m)	**887.6**	826.2	873.1
Tier 1 capital (after deductions*) (£m)	**693.9**	583.0	690.9

*Intangible assets

Funding – The Group has maintained a diversified funding base. 83% of our funding comes from retail deposits, compared to the full year 2009 position of 79%, reflecting the continued rebalancing of the wholesale funding ratio during the course of 2010.

Liquidity – The composition of the Group liquidity pool has been appropriately structured to meet the recently announced future regulatory requirements.

Impairment – The Group has continued to proactively manage loans which have gone into arrears, supporting the borrower where possible whilst protecting the Balance Sheet for the benefit of all members. This together with a general improvement in the wider economy has resulted in an improvement in the number of cases in arrears with 1,460 cases at 30 June 2010 where the arrears balance was greater than 2.5% of total outstanding balance (30 June 2009: 1,666; 31 December 2009: 1,522), representing 1.52% of the book (30 June 2009: 1.54%; 31 December 2009: 1.57%). The bulk of the arrears cases emanate from our specialist portfolios Amber and NYM which were closed to new business in 2008.

Efficiency – Despite the increasing investment in a number of business areas, the increasing business volumes driving marginal costs, excluding the restructuring costs that have been incurred in a number of business areas, the Group's cost position has remained broadly stable.

The Group's strategy of diversification through the holding of subsidiary companies that offer counter-cyclical returns has continued to demonstrate its resilience, resulting in a net contribution to profits. However, the Group will maintain its focus on its key priorities, and will review the contribution made by each subsidiary during the current economic cycle to determine whether they add sustainable benefits to the Group as a whole.

Financial performance

The Group reported pre-tax profits of £21.7m for the first half of 2010 (30 June 2009: £14.7m; 31 December 2009: £18.0m). This is a 48% increase in profits year-on-year excluding the profits from the Credit & Marketing Solutions division which was disposed of in December 2009.

	Unaudited 6 months to 30.06.10 £m	Unaudited 6 months to 30.06.09 £m	Unaudited 12 months to 31.12.09 £m
Profit before tax from continuing operations	**21.7**	14.7	18.0
Profit before tax from discontinued operations	**-**	2.3	5.8
Profit on sale of discontinued operations	**-**	-	39.7
Group profit before tax	**21.7**	17.0	63.5

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

	Unaudited 6 months to 30.06.10 £m	Unaudited* 6 months to 30.06.09 £m	Unaudited* 12 months to 31.12.09 £m
Group profit before tax	**21.7**	17.0	63.5
Non-routine items:			
Profit on sale of subsidiary companies	**-**	-	(39.7)
Financial Services Compensation Scheme levy	**-**	-	(4.3)
Recoveries of investment securities	**-**	(3.1)	(1.3)
Curtailment gain on closure of pension schemes	**-**	-	(10.4)
Impairment of goodwill	**4.8**	-	12.0
Net (gains) / losses from fair value volatility	**(0.2)**	0.3	(3.9)
Merger expenses	**0.8**	4.2	4.8
Negative goodwill arising on merger	**(3.1)**	-	-
Profit before tax after adjusting for non-routine items	**24.0**	18.4	20.7

*Includes the Credit & Marketing Solutions division.

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

- Due to the downturn in the economy and reductions in business volumes the Group recognised £4.8m of goodwill impairment. See note 14 for details.
- Net movements in fair value volatility arise from changes in the value of certain financial instruments resulting largely as a result of fluctuations in interest rates; these timing differences reverse over time.
- Merger expenses represent legal and other expenses following the merger with Chesham.
- The merger with Chesham Building Society did not involve the transfer of any cash consideration. Instead, in line with IFRS 3, *Business Combinations (2008 Revised)*, an imputed consideration was calculated which represented the fair value of the Chesham business. This resulted in a value of £6.1m attributed to the imputed consideration whilst the fair value of the net assets amounted to £9.2m. The £3.1m difference is negative goodwill and must be credited to the Income Statement.

A further analysis of the Income Statement, excluding the above non-routine items but including the Credit & Marketing Solutions division in prior periods, is as follows:

	Unaudited 6 months to 30.06.10 £m	Unaudited 6 months to 30.06.09 £m	Unaudited 12 months to 31.12.09 £m
Net interest income	**26.5**	38.8	53.0
Other income	**189.6**	199.6	431.3
Share of profits from joint ventures and associates	**0.2**	0.1	0.2
Total income	**216.3**	238.5	484.5
Administrative expenses	**(190.5)**	(198.0)	(419.9)
Regulatory and other provisions	**1.4**	-	(0.3)
Impairment losses on loans and advances	**(3.2)**	(22.1)	(43.6)
Profit before tax after adjusting for non-routine items	**24.0**	18.4	20.7

Net interest income

The Group's net interest margin for the period was 0.35%, a reduction from 0.54% year-on-year, but an improvement from 0.18% achieved in the second half of 2009. The Society took decisive action in January 2010, to remove the Standard Variable Rate ('SVR') cap from 1 March 2010. This enabled the Society to increase its SVR from 3.50% to 4.95%. This decision was taken to address the exceptional circumstances within the economy which have persisted over the past 18 months; however, at 4.95% our SVR still remains below the average of the top 10 other building societies. These actions should ensure that the margin reported for the six month period to 30 June 2010 is the low point in the cycle.

The margin compression that has arisen as a result of the exceptional low interest rate environment has been exacerbated by the dislocation in the retail savings market as all financial institutions attempt to reduce their reliance on wholesale funding. We anticipate margin pressure to remain in the medium-term as financial institutions seek to refinance short-term obligations and their Government backed support during 2011/12.

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 £189.6m, down 5% (30 June 2009: £199.6m). The six months to 30 June 2009 included £24.8m of income from the Credit & Marketing Solutions division which became a discontinued operation when it was sold in December 2009. Adjusting for this shows a year-on-year improvement of 8%. Other income by division is set out below:

	Unaudited 6 months to 30.06.10 £m	Unaudited 6 months to 30.06.09 £m	Unaudited 12 months to 31.12.09 £m
Mortgages and Savings	**6.3**	8.9	18.1
Mortgage Services	**39.5**	43.2	86.4
Estate Agency	**103.8**	90.5	213.0
Financial Advice	**21.7**	17.1	37.8
Credit & Marketing Solutions	**-**	24.8	48.7
Investment Portfolio	**20.4**	19.9	38.8
Inter-division adjustments	**(2.1)**	(4.8)	(11.5)
	189.6	199.6	431.3

The increase in other income has in the main been driven by increased year-on-year activity within the Estate Agency division which has seen a 23% increase in instructions and a 13% increase in the level of exchanges. Other areas that have seen increasing business volumes are the Financial Advice division whilst the Mortgage Services division has seen a reduction in income as the financial outsourcing market within which it operates evolves following the impact of the credit crisis.

Administrative expenses

Administrative expenses fell year-on-year by 4% to £190.5m from £198.0m in June 2009. The six months to June 2009 included £22.3m of costs in relation to the Credit & Marketing Solutions division, stripping these out, costs have increased by £14.8m. £9.0m of the increase corresponds to an increase in income of £19.5m generated from the Estate Agency and Financial Advice divisions. The bulk of the remaining cost increase of £5.8m relates to restructuring costs incurred in a number of business areas (predominantly in the core Society and Mortgage Services division) which took place earlier this year. Additionally, significant investment has been made across the Group to ensure that it is has the capability and capacity to meet future challenges and the opportunities expected to emerge in an economic recovery.

Within the Society a ratio of administrative expenses to mean assets of 0.43% for the first six months of the year has been achieved despite the shrinkage in its Balance Sheet and the impact of the business restructuring programme (30 June 2009: 0.47%; 31 December 2009: 0.40%).

At a Group level, this management expense ratio is less comparable, given the investments we have made in our trading businesses. However further Group wide cost reductions in the period have resulted in this ratio also falling to 2.53% (30 June 2009: 2.75%; 31 December 2009: 2.87%).

Impairment losses on loans and advances

The Group's impairment charge on loans and advances reduced year-on-year to £3.2m (30 June 2009: £22.1m; 31 December 2009: £43.6m). The reduction is partly due to the Group's action to proactively manage loans which have gone into arrears and partly due to £3.5m of Amber and NYM impairment provisions released during the period reflecting the improvement in their arrears rates. The Society incurred a net impairment charge of £6.6m (30 June 2009: £2.8m; 31 December 2009: £10.4m) mainly due to the implementation of improvements to our impairment methodologies. However, this charge is against Society mortgages outstanding of £7,530.1m (30 June 2009: £8,529.1m; 31 December 2009: £8,121.6m) which demonstrates the continuing quality of the Society's core mortgage assets.

The arrears performance of the Group's residential mortgages has improved, with 1,460 cases at 30 June 2010 where the arrears balance was greater than 2.5% of total outstanding balance (30 June 2009: 1,666; 31 December 2009: 1,522), representing 1.52% of the book (30 June 2009: 1.54%; 31 December 2009: 1.57%). Further analysis by portfolio is set out in the 'Loans and advances to customers' section below.

The loan books in our Guernsey based subsidiary, SIL, and our debt factoring business, Skipton Business Finance, remain of high quality and the charge for impairment losses on these loans remains negligible at £0.2m (30 June 2009: £0.2m, 31 December 2009: £0.4m).

The Society's commercial book remains strong with 36 (30 June 2009: 34, 31 December 2009: 32) cases greater than 0.833% in arrears. Although arrears levels have slightly increased since the year-end, the closed book continues to run-off.

Merger

On 1 June 2010 the Society merged with Chesham Building Society.

The merger increases the Society's total membership by approximately 2.5% and provides opportunity for cost reduction. The merger also provides an additional three branches to the Skipton branch network.

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

Financial position

Loans and advances to customers

Since the economic downturn began, the Society prudently scaled back its lending, in order to maintain high liquidity and strong capital. Our financial strength and signs that the housing market and economy are stabilising led to a new suite of products being launched in May 2010, as the Society seeks to achieve controlled lending growth.

An analysis of new mortgage advances is shown below:

	Unaudited 6 months to 30.06.10 £m	Unaudited 6 months to 30.06.09 £m	Unaudited 12 months to 31.12.09 £m
Society	**50.6**	180.6	298.9
Amber Homeloans*	**0.4**	2.2	3.5
North Yorkshire Mortgages*	**-**	0.5	0.5
Skipton International	**81.9**	34.9	104.1
	132.9	218.2	407.0

*Following the decision to cease new lending in 2008, these advances represent further loans to existing borrowers and stage payments on self-build loans.

Our lending continues to be well diversified by product type and geographical distribution and this well managed spread of risk ensures that the quality of the Society's mortgage lending remains high.

Total new advances on buy-to-let products remains modest in the first half of the year at £11m (30 June 2009: £7m; 31 December 2009: £15m). The risks attached to buy-to-let lending are managed by prudent consideration of the level of equity in the property, where generally lower loan-to-value ('LTV') ratios are accepted compared with residential lending, and the level of rental cover compared with the mortgage payments.

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

	Unaudited 6 months to 30.06.10 £m	Unaudited 6 months to 30.06.09 £m	Audited 12 months to 31.12.09 £m
Total residential mortgages	**9,495.7**	10,600.2	10,112.0
Commercial loans	**516.4**	525.6	523.9
Other lending:			
Debt factoring loans	**35.7**	29.7	32.7
Other loans	**48.7**	47.8	44.5
Gross balances	**10,096.5**	11,203.3	10,713.1
Impairment provisions	**(76.1)**	(79.2)	(85.1)
Hedge fair value adjustments	**260.8**	192.2	185.3
	10,281.2	11,316.3	10,813.3

The performance of the Society's residential mortgages remains good with only a modest increase in arrears during the first six months of the year. At 30 June 2010 there were 484 cases (0.62%) where the arrears balance was greater than 2.5% of total outstanding balances, compared with 411 cases (0.46%) a year ago. During the first six months of the year the Society took 39 cases (30 June 2009: 61; 31 December 2009: 126) into possession, of which 28 cases (30 June 2009: 39; 31 December 2009: 43) remained in possession as at 30 June 2010.

The specialist nature of Amber mortgages, means this subsidiary business has typically higher levels of arrears than those in the Society. However, action taken in 2009 through to 2010 to manage down arrears through proactive collections processes has resulted in a fall in arrears in the Amber portfolio and as at 30 June 2010 there were 739 cases (7.56%) where the arrears balance was greater than 2.5% of total outstanding balances, compared with 868 cases (8.48%) at 31 December 2009, and 966 cases (8.95%) a year ago. Total new possessions within Amber were 79 cases (30 June 2009: 149; 31 December 2009: 313), and 84 cases (30 June 2009: 159; 31 December 2009: 137) remained in possession as at 30 June 2010.

NYM is also a specialist lender, however on a smaller scale than Amber, and had 236 cases (4.04%) where the arrears balance was greater than 2.5% of total outstanding balances as at 30 June 2010. This compares to 243 cases (4.00%) at 31 December 2009 and 289 cases (4.49%) a year ago. Total new possessions within NYM were 47 cases (30 June 2009: 94; 31 December 2009: 111) and 44 (30 June 2009: 59; 31 December 2009: 63) cases remained in possession as at 30 June 2010.

New lending in Amber and NYM ceased in March 2008 and the Group stopped offering commercial loans in November 2008.

SIL continued to grow its Channel Islands mortgage book during the year, and mortgage balances stood at £459m at the half-year (30 June 2009: £356m; 31 December 2009: £401m); the quality of this book remains excellent with negligible arrears.

As demonstrated by the falling arrears rates in Amber the Group has managed down the level of arrears through proactive collections processes. However, these processes have been applied responsibly and as part of our strategy to support customers in arrears we have capitalised arrears in a number of cases.

The Group applies a policy of capitalising residential 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. The effect is to bring the loan account up to date and it is therefore no longer past due or individually impaired. 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 Society applies a similar policy for its commercial loan book as for its residential book, whereby customer arrears can be capitalised following six consecutive contractual monthly repayments following the instance of non-payment, or 12 such repayments if the account has previously had arrears capitalised.

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

	Unaudited as at 30.06.10 £m	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Society (residential and commercial)	**16.8**	15.4	45.8
Amber Homeloans	**33.5**	14.4	43.8
North Yorkshire Mortgages	**25.1**	1.2	10.2
Skipton International	**0.3**	4.4	5.6
	75.7	35.4	105.4

Funding

Retail

As a mutual, the Group is required to obtain the majority of its funding through retail member deposits. 83% (30 June 2009: 79%; 31 December 2009: 79%) of our funding comes from retail savings. Excluding £187.9m of retail deposits that were transferred to the Society at the date of merger with Chesham, the Society saw a net outflow of £419m in the period (30 June 2009: inflow of £463m). The reduction in net inflows, compared to last year, reflects the rebalancing of the Balance Sheet to further strengthen our capital position.

In addition to our 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 SIL repaid expensive funding during the first half of the year in order to boost margin, but is nevertheless committed to retaining a significant presence on the island. Retail balances decreased to the end of June to £820m (30 June 2009: £897m; 31 December 2009: £855m).

Wholesale

The remainder of the Group's funding comes from the wholesale markets. At 30 June 2010 wholesale funding balances amounted to £2,022m (30 June 2009: £2,689m; 31 December 2009: £2,697m), a decrease of £675m. The shrinkage of the Group's Balance Sheet to further bolster capital ratios also allowed the Society to reduce its reliance on the wholesale funding markets and as a result the wholesale funding ratio fell from 20.6% at 31 December 2009 to 16.8% at the end of June 2010 (30 June 2009: 21.2%).

Despite showing some encouraging signs of improvement in the early part of the year, wholesale credit markets have remained weak in 2010. In the second quarter of 2010 concerns regarding the ability of certain European sovereign countries to continue to meet their debt obligations started to take hold and risk aversion returned to the markets. However, as the Society had undertaken its

£650m Government guaranteed bond issue in the fourth quarter of 2009, it was well positioned regarding its level of wholesale funding going into 2010. Therefore, despite repaying its €400m medium term note maturity in March, the Society did not need to raise any additional long-term wholesale funding from the markets in first half of this year.

The following table analyses the change in the composition of our wholesale funding since June 2009:

	Unaudited 6 months as at 30.06.10 £m	Unaudited 6 months as at 30.06.09 £m	Unaudited 12 months as at 31.12.09 £m
Repo and other secured agreements	**212.3**	403.2	285.2
Deposits	**940.3**	1,439.6	1,005.8
Certificates of deposits	**81.1**	209.6	135.7
Medium-term notes	**743.8**	551.2	1,168.5
Fair value adjustments	**44.8**	85.2	101.4
	2,022.3	2,688.8	2,696.6

The Society is assigned credit ratings by two major credit rating agencies, Fitch and Moody's. These credit ratings are important as they are key influences on the wholesale funding markets that the Society is able to access and the associated cost of funding. The Society's current credit ratings were maintained during the period:

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

In addition, our covered bond programme retained its AAA rating from both agencies.

Liquidity

We have continued to hold high levels of liquidity throughout the economic downturn. In the run up to new liquidity rules that took effect from 1 June, the Society increased its holding of very high quality 'buffer'* liquidity primarily by increasing balances held on the Bank of England Reserve Account. An analysis of the Group's liquidity position is shown below:

	Unaudited 6 months as at 30.06.10	Unaudited 6 months as at 30.06.09	Unaudited 12 months as at 31.12.09
Liquidity balance (£m)	**3,718.5**	3,085.4	4,058.9
As % of shares, deposits and liabilities (%)	**28.73**	22.59	28.95
Core Liquidity Buffer* – eligible assets (£m)	**1,887.4**	1,159.5	1,501.1
Core Liquidity Buffer* as % of Liquidity Balance (%)	**50.76**	37.58	36.98

*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 continues to have no exposures to structured investment vehicles (SIVs), hedge funds or to the US sub-prime market.

The Group's treasury investments are held to provide actual liquidity and 99% (30 June 2009: 98%; 31 December 2009: 98%) of the Group's treasury investments are rated A or better (as shown below).

Rating	**Unaudited 6 months as at 30.06.10 £m**	Unaudited 6 months as at 30.06.09 £m	Audited 12 months as at 31.12.09 £m
Aaa	**2,663.1**	1,607.8	2,277.1
Aa1	**84.8**	215.4	205.9
Aa2	**165.7**	177.3	276.4
Aa3	**530.3**	798.4	881.0
A1	**146.5**	117.0	188.1
A2	**41.5**	78.7	93.0
A3	**37.8**	28.1	54.3
Baa1	**4.1**	2.8	37.5
Baa2	**16.6**	23.8	6.7
Baa3	**2.2**	19.7	3.5
Ba3	**7.4**	7.2	3.5
Caa2	**-**	-	3.9
Unrated:			
Building societies	**8.2**	7.9	17.6
Local authorities	**10.3**	1.3	10.4
	3,718.5	3,085.4	4,058.9

The Group policy is that initial investments in treasury assets must be investment grade or above. However, the adverse market conditions have resulted in a small proportion of investments falling below this rating. These 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 of risk, is carried out by an independent Group Market Risk function.

	Unaudited 6 months as at 30.06.10 £m	Unaudited 6 months as at 30.06.09 £m	Audited 12 months as at 31.12.09 £m
Cash in hand and balances with the Bank of England	**1,565.7**	1,113.5	1,272. 1
Cash with banks and building societies	**344.6**	386.0	437.4
Treasury bills	**-**	5.1	-
Gilts	**64.6**	63.5	152.7
Certificates of deposit	**363.2**	645.9	903.6
Local authority investments	**10.3**	1.3	10.4
Fixed rate bonds	**435.9**	103.3	283.8
Floating rate notes	**628.2**	438.2	684.8
Residential mortgage backed securities	**250.8**	266.1	255.9
Commercial mortgage backed securities	**55.2**	62.5	58.2
	3,718.5	3,085.4	4,058.9

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.

Capital structure

The Financial Services Authority ('FSA') regulates the Group which is required to manage its capital in accordance with the rules and guidance issued by the FSA. The capital requirements of the Group are monitored on a monthly basis and the results of this monitoring are reported to the Group 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 the minimum regulatory objective is exceeded. Throughout 2010, the Group has operated comfortably in excess of the minimum capital levels set by both the Society's regulator and the Board.

The following table shows the composition of the Group's capital at 30 June 2010.

	Unaudited 6 months as at 30.06.10 £m	Unaudited 6 months as at 30.06.09 £m	Unaudited 12 months as at 31.12.09 £m
Tier 1			
Reserves	**792.7**	692.6	752.2
Permanent Interest Bearing Shares (note 1)	**90.0**	90.0	90.0
Pension fund deficit add back (note 2)	**8.9**	20.7	8.7
Deductions from Tier 1 capital (note 3)	**(193.7)**	(243.2)	(182.2)
Unrealised losses on available-for-sale debt securities	**0.2**	12.0	6.2
Unrealised (gains) / losses on cash flow hedges	**(4.2)**	10.9	16.0
Total Tier 1 capital	**693.9**	583.0	690.9
Tier 2			
Subordinated debt (note 1)	**206.3**	209.3	207.8
Collective impairment allowance	**21.3**	28.1	29.6
Total Tier 2 capital	**227.6**	237.4	237.4
Total capital	**921.5**	820.4	928.3
Risk weighted assets			
Retail mortgages	**3,989.4**	4,553.2	4,250.8
Commercial loans	**445.8**	450.6	449.4
Treasury	**366.1**	502.4	505.2
Other	**560.2**	464.3	476.8
Operational risk	**728.2**	875.1	722.5
Market risk	**5.9**	8.0	8.1
	6,095.6	6,853.6	6,412.8
Core Tier 1 (%) (note 4)	**9.91**	7.19	9.37
Tier 1 ratio (%) (note 4)	**11.38**	8.51	10.77
Total capital (%) (note 4)	**15.12**	11.97	14.48
Tier 2 to Tier 1 ratio (%)	**32.80**	40.72	34.36

Notes

1. Under FSA rules Permanent Interest Bearing Shares (PIBS) and subordinated debt are included in the solvency calculation in accordance with UK GAAP rather than IFRS. The PIBS and subordinated debt are disclosed at par value therefore the associated merger fair value adjustments are recognised in the general reserve.
2. The regulatory capital rules allow the pension fund deficit to be added back to regulatory capital and a deduction taken instead for an estimate of the additional contributions to be made in the next five years, less associated deferred tax.
3. Intangible assets must be deducted from regulatory capital.
4. Calculated as relevant capital divided by risk weighted assets. Core Tier 1 relates to Tier 1 capital excluding PIBS.

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

The table below sets out the capital resources of the Solo and the UK consolidation groups, together with the associated capital resource requirements as at 30 June 2010. Both ratios are comfortably above the regulatory threshold.

	UK consolidation group			Solo consolidation group		
	Unaudited 6 months as at 30.06.10	Unaudited 6 months as at 30.06.09	Unaudited 12 months as at 31.12.09	**Unaudited 6 months as at 30.06.10**	Unaudited 6 months as at 30.06.09	Unaudited 12 months as at 31.12.09
Capital resources (£m)	**891.7**	795.8	912.5	**800.6**	722.1	822.0
Capital resource requirement (£m)	**449.9**	508.0	475.3	**414.5**	471.4	441.5
Capital ratio (%)	**198.2**	156.6	192.0	**193.1**	153.2	186.2

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	Profit / (loss) before tax (£m)		
	Unaudited 6 months to 30.06.10 £m	Unaudited 6 months to 30.06.09 £m	Unaudited 12 months to 31.12.09 £m
Profit before non-routine items:			
Mortgages and Savings	**(8.6)**	(8.0)	(44.0)
Mortgage Services	**0.2**	4.7	4.7
Estate Agency	**31.7**	20.8	54.1
Financial Advice	**2.2**	(0.1)	1.9
Credit & Marketing Solutions	**-**	2.3	5.8
Investment Portfolio	**(2.4)**	(1.6)	(2.9)
Inter-division adjustments	**0.9**	0.3	1.1
Sub-total	**24.0**	18.4	20.7
Non-routine items	**(2.3)**	(1.4)	42.8
Group profit before tax	**21.7**	17.0	63.5

The following divisional analysis excludes non-routine items.

Mortgages and Savings

The Society has remained focused on maintaining a prudent asset base post the merger with Chesham Building Society. Tight cost control has been the key driver throughout 2010 to ensure the business is operating as efficiently and tightly as possible. Administrative expenses in the period amounted to £33.0m, which included £3.5m of restructuring costs (30 June 2009: £33.6m, 31 December 2009: £59.6m).

Both Amber and NYM have performed well in the first half of 2010. Their combined arrears have reduced by £44.3m and possessions stock by 72 cases. Average losses per case have been maintained at approximately £50,000.

The improving performance has continued from 2009 due to the increased focus on performance management and servicing oversight. If the low interest rate environment continues to prevail we expect the improved performance to continue for the remainder of 2010. Oversight continues to be managed at a granular level both in terms of our regulatory obligations and our expected performance targets.

Our Channel Islands operation, SIL, made a pre-tax profit of £1.3m in the first six months, compared to a full year profit of £0.4m in 2009. Mortgage lending in Guernsey and Jersey has increased by £57.6m to £458.7m and the quality remains good, with no loans being identified as impaired. SIL was the winner of the Best Offshore Business Account at the 2010 Moneyfacts awards.

Mortgage Services

HML recorded a trading profit of £0.2m (30 June 2009: £4.7m), excluding merger costs of £0.4m. During the year HML has continued its significant ongoing investment in the business signified by its move into purpose built new headquarters in Skipton which should improve the future efficiency of the division. HML has also continued its major investment strategy to improve its IT infrastructure, risk framework and operational processes which has enabled the business to adapt from its traditional market of specialist mortgage servicing into parallel markets. This has seen further restructuring of the resources profile at a cost of £0.6m. Successes include the take-on of legacy mortgages, the development of a savings proposition and a partnership with an unsecured loan servicer.

Estate Agency

The first half of 2010 has seen volumes of agreed second hand house sales consistent with the levels achieved in the same period of 2009. Early indications are that the

abolition of Home Information Packs has increased the number of houses coming to market compared to the levels experienced during 2009. Our core estate agency turnover was £80.1m for the six months ended 30 June 2010 compared with £62.6m in 2009, this increase being a reflection of a much stronger sales pipeline when entering 2010 compared to a year earlier.

Connells continues to focus on improving revenues and maintaining a tight control of costs throughout the group. The operating profit for the Connells Group for the first six months of 2010 was £31.7m, which compares favourably with the levels achieved in 2009 of £20.8m.

Financial Advice

The Financial Advice division, comprising five separate companies, has made good progress in the first half year of 2010. Against a trading loss of £0.1m to the half year in 2009, profits have grown to £2.2m, excluding a write down of goodwill of £0.5m, in 2010. This performance has resulted from additional new business revenues due to increased investor confidence, the upward revision of fees following the launch of revised customer service propositions, and good cost control. The division has maintained its high standard of compliance and treating customers fairly culture, evidenced by internal and external reviews.

The FSA has released its final rules in relation to the Retail Distribution Review. Whilst ambiguity exists around some of the key tenets of the new regulations with the FSA promising clarification during the summer, the division remains very well placed to comply with and capitalise on the regulation emerging from it.

Investment Portfolio

The Investment Portfolio includes a range of businesses and the current economic environment has created some interesting opportunities but, equally, some businesses have been more challenged by the current trading environment. Skipton Business Finance (provider of invoice discounting) and The Private Health Partnership (specialising in private medical insurance and medical support) have both started 2010 well and report profits in the first half despite a tough trading environment. In contrast, the performances of both Pink (mortgage network) and Sterling International Brokers (money markets broker) have been disappointing, where Pink has suffered from low levels of mortgage completions and Sterling has seen a reduction in the wholesale cash market. Both businesses have turnaround plans in place and their recent performance is more encouraging.

Principal risks and uncertainties

Risk management framework

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

Through its risk management framework, the Group has a formal structure for managing risks throughout the business. This framework is designed to deliver the Board's overall risk objectives 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 comprising independent 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'), Group Retail Credit Committee and Group Operational Risk Committee) responsible for setting policy and framework and monitoring implementation by the business. The independent Group risk functions are represented on each of the risk committees.
- Third line of defence, provided by Group Audit Services, is designed to provide independent assurance to the Board (via the Board Audit Committee) of the adequacy and effectiveness of control systems within the first and second lines in managing and controlling 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 (Base and LIBOR);
- Inflation;
- Unemployment; and
- The housing market (volume of transactions and house price inflation).

The Mortgages and Savings division faces challenges from the low interest rate environment, with an overall reduction in its net interest margin. The margin compression is exacerbated by the dislocation in the retail savings market following the credit crunch and the need for all banks to reduce their reliance on wholesale funding. Subdued wholesale markets and increased competition for retail funds as the government and the Bank of England unwind the various liquidity support schemes in place will most likely see savings rates remain high in relation to base rate and ongoing margin pressure.

A reduction in our overall level of lending (new business and remortgages) would also adversely impact non-interest income in the division. The weak economy also impacts the division through the increase in the impairment charge driven by rising arrears prompted by increasing unemployment and the reduction in re-financing opportunities which is compounded by weaker asset prices.

The main risk to the core business is the continuation of the exceptionally low base and LIBOR rates which has resulted in continued margin pressure in the core business. The Society's mortgage SVR was capped at 3% above bank base; however, given the continuation of these exceptional circumstances in the economy, the Society exercised its contractual right to remove this cap in exceptional circumstances, and increased its SVR from 3.5% to 4.95% from 1 March 2010 to mitigate this risk.

The Mortgage Services division is impacted by the changing dynamic in the lending landscape as the impact of the credit crunch changes the dynamic of competition in the UK mortgage market, with a reduction in the overall level of mortgage lending, seeing a fall in the value of assets it manages. The changing environment will present both opportunities and challenges as existing lenders exit and new players come to the market.

The results of the Estate Agency division are principally driven by the volume of property transactions, particularly second hand property sales. This market is heavily influenced by consumer confidence, much of which is borne out of the overall level of unemployment and interest rates. The Estate Agency division has a partial counter-cyclical hedge against the performance of its core business through its Asset Management businesses that assist lenders in their management of non-performing loans.

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.

The ability of the Group to maintain profitability and boost capital in 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

This is the risk that a customer or counterparty is unable to honour their obligations as they fall due. 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 retail and existing commercial mortgage portfolios is driven by general UK economic pressures, including rising unemployment, deterioration in household finances and further contraction in the UK property market leading to falling property values. A reversal of the economic recovery and the return of falls in house prices and commercial property values would affect the level of impairment losses.

In our residential mortgage business we closely monitor applicant quality, affordability and LTV multiples. The credit decision is always managed separately from the sales force originating the business. Retail mortgage credit risks are managed within credit policies and limits set by the Group Retail Credit Committee and loans which show signs of adverse performance are managed by specialist teams who manage the collections and recovery process.

Credit risk within our treasury portfolio assets arises from the investments held by the Group in order to meet liquidity requirements and for general business purposes. The wholesale credit markets remain volatile and dislocated 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. This element of credit risk is managed by the Treasury team within strict limits set by ALCO with a regular review of credit policies and performance through the Group Wholesale Credit Committee.

Market risk

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

Interest rate risk

This is the risk that the fair value or 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.

Currency risk

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

Both at 30 June 2010 and during the first six months of the year, the Group had no material direct exposure to foreign currency exchange fluctuations, with the main exposure relating to 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 the Group's equity investments are not material, and are recognised in the Group's translation reserve. Alongside this, HML has a number of contracts with customers in the Eurozone, but this is not significant, with options in place to manage exchange rate volatility.

Equity risk

As at 30 June 2010, the Group had a small amount of issued equity-linked savings products. Derivative contracts to eliminate this exposure are in place which exactly 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 Group Market Risk, and formally reported to ALCO monthly, to ensure the Group maintains adequate liquidity for business purposes even under stressed conditions.

The wholesale markets remain extremely tight and opportunities for Skipton to raise longer-term unsecured funding in public debt markets remain limited. While we have access to Government schemes and to other sources of secured funding through repo agreements and covered bonds, these remain limited and expensive.

83% of our funding comes from retail sources and we have been successful in increasing our 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 close watching brief on the money markets, but until such times as we believe the markets are returning to more normal conditions we will continue to hold an historically high level of liquidity and fund growth in lending from retail balances.

The FSA has 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 deliver this and is compliant with the new regulatory requirements.

Operational risk

Operational risk relates to the risk of loss arising from inadequate or failed processes, people, systems, or from external events. For the purposes of managing operational risk, we divide it into a number of discrete themes which include fraud, information security and business continuity planning. Responsibility for managing operational risks lies with individual business areas that identify and assess risks in line with the processes described in the framework earlier. An independent Group operational risk function reports to the Group Operational Risk Committee and the Board on the key operational risks facing the business.

As a business providing a service based on processing customer data we are very alert to the threats arising from computer hacking, theft or failed processes allowing unauthorised data disclosure. As would be expected of a leading financial services provider appropriate organisational and technological controls are implemented. To ensure a robust framework is in place the Group Operational Risk Committee has established Information Security standards which all Group businesses must adhere to. Compliance with these standards is monitored by Group Risk and Group Audit Services.

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

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 towards 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. The 'Pension funds' section on page 25 of the 2009 Annual Report & Accounts sets out the steps management have undertaken to actively manage the current deficit.

Additional information on risk is also set out in the Group's Basel II 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 2009 Annual Report & 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 a sufficient buffer over regulatory 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 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 first half of the year has been relatively stable from a macro-economic perspective, for example interest rates and unemployment levels have not significantly changed. As a consequence of this stable macro-economic back drop and the proactive actions the Group have undertaken there has been some improvement in the Group's profitability and key trends such as the level of loans arrears are showing continuing signs of improvement.

The new Government has now outlined their plans to start to reduce the structural deficit. However, the details of how their proposals will impact specific Government departments are unlikely to be fully fleshed out until the autumn, when the impact of these plans on the UK economy will become clearer. There is now widespread recognition that the actions taken in the midst of the credit crunch have transferred risk to the Government Balance Sheet. This sovereign risk will remain a challenge for the main western economies for the foreseeable future and will present challenges to financial institutions in the short / medium-term.

We remain cautious with respect to managing the risks faced by the business over the coming 12 months, however, we are optimistic that the Group is well placed to take advantage of opportunities as they present themselves.

T F Wood
Group Finance Director
27 July 2010

Condensed Consolidated Income Statement

For the half-year ended 30 June 2010

	Notes	**Unaudited 6 months to 30.06.10 £m**	Unaudited 6 months to 30.06.09* £m	Audited 12 months to 31.12.09 £m
Continuing operations				
Interest receivable and similar income	3	**186.8**	233.0	421.8
Interest payable and similar charges	4	**(160.3)**	(194.0)	(368.5)
Net interest receivable		**26.5**	39.0	53.3
Fees and commissions receivable	5	**191.3**	167.8	389.0
Fees and commissions payable	6	**(8.9)**	(7.8)	(19.4)
Fair value gains / (losses) on financial instruments		**0.2**	(0.3)	3.9
Share of profits from joint ventures and associates		**0.2**	0.1	0.2
Other operating income		**7.2**	14.8	13.0
Total income		**216.5**	213.6	440.0
Administrative expenses	7	**(196.1)**	(179.9)	(383.7)
Negative goodwill arriving on merger	25	**3.1**	-	-
Impairment losses on loans and advances	12	**(3.2)**	(22.1)	(43.6)
Impairment recoveries on debt securities		**-**	3.1	1.3
Provisions for liabilities		**1.4**	-	4.0
Profit before tax		**21.7**	14.7	18.0
Tax expense	8	**(5.8)**	(5.2)	(4.3)
Profit for the period from continuing operations		**15.9**	9.5	13.7
Discontinued operation				
Profit from discontinued operation	23	**-**	1.7	43.9
Profit for the period		**15.9**	11.2	57.6
Profit for the period attributable to:				
Members of Skipton Building Society				
Profit for the period from continuing operations		**16.0**	9.2	13.5
Profit for the period from discontinued operations		**-**	1.7	43.9
		16.0	10.9	57.4
Non-controlling interests				
Profit for the period from continuing operations		**(0.1)**	0.3	0.2
		15.9	11.2	57.6

Segmental performance of the Group is shown in note 23.

* The June 2009 comparatives have been re-presented to provide comparatives for operations which were discontinued in December 2009. The profit for the half-year to June 2010 was derived wholly from continuing operations.

The notes on pages 25 to 51 form an integral part of this condensed consolidated Half-Yearly Financial Report.

Condensed Consolidated Statement of Comprehensive Income

For the half-year ended 30 June 2010

	Notes	**Unaudited 6 months to 30.06.10 £m**	Unaudited 6 months to 30.06.09 £m	Audited 12 months to 31.12.09 £m
Profit for the period		**15.9**	11.2	57.6
Other comprehensive income:				
Available-for-sale investments: valuation gains taken to equity		**8.2**	1.8	9.4
Cash flow hedges: gains taken to equity		**28.0**	14.1	7.1
Exchange differences on translation of foreign operations		**0.5**	0.1	2.6
Movement in reserves attributable to non-controlling interests		**(0.3)**	0.1	(1.1)
Non-controlling interest share restructure		**-**	-	0.5
Actuarial losses on defined benefit pension plans		**(13.3)**	(29.9)	(17.9)
Income tax relating to components of other comprehensive income	21	**(6.3)**	4.0	0.7
Other comprehensive income for the period, net of tax	21	**16.8**	(9.8)	1.3
Total comprehensive income for the period		**32.7**	1.4	58.9
Total comprehensive income attributable to:				
Members of Skipton Building Society		**32.8**	1.1	58.7
Non-controlling interests		**(0.1)**	0.3	0.2
		32.7	1.4	58.9

The notes on pages 25 to 51 form an integral part of this condensed consolidated Half-Yearly Financial Report.

Condensed Consolidated Statement of Financial Position

As at 30 June 2010

	Notes	**Unaudited as at 30.06.10 £m**	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Assets				
Cash in hand and balances with the Bank of England		**1,565.7**	1,113.5	1,272.1
Loans and advances to credit institutions	9	**354.0**	387.5	447.5
Debt securities	10	**1,798.8**	1,584.4	2,339.3
Derivative financial instruments		**163.7**	272.6	265.5
Loans and advances to customers	11	**10,281.2**	11,316.3	10,813.3
Corporation tax asset		**-**	-	5.6
Investments in group undertakings		**1.5**	1.6	1.7
Intangible assets	14	**193.7**	243.2	182.2
Property, plant and equipment		**95.9**	81.5	88.7
Investment property		**5.7**	12.4	10.3
Deferred tax asset		**43.4**	49.8	45.0
Other assets		**105.7**	121.4	97.6
Total assets	23	**14,609.3**	15,184.2	15,568.8
Liabilities				
Shares	15	**10,099.3**	10,075.3	10,470.2
Amounts owed to credit institutions	16	**813.2**	1,031.8	942.2
Amounts owed to other customers	17	**1,159.9**	1,708.3	1,203.9
Debt securities in issue	18	**869.8**	846.1	1,405.6
Derivative financial instruments		**338.1**	256.2	263.7
Corporation tax liability		**3.4**	1.6	-
Other liabilities		**98.5**	95.2	89.7
Accruals and deferred income		**36.5**	54.9	50.0
Deferred tax liability		**15.3**	12.3	13.8
Provisions for liabilities		**17.9**	27.0	19.3
Retirement benefit obligations		**56.3**	72.6	47.4
Subordinated liabilities		**211.8**	211.0	213.0
Subscribed capital		**84.1**	83.0	83.6
Total liabilities	23	**13,804.1**	14,475.3	14,802.4
Members' interests				
General reserve		**794.0**	726.4	781.5
Available-for-sale reserve		**(0.2)**	(12.0)	(6.2)
Cash flow hedging reserve		**4.2**	(10.9)	(16.0)
Translation reserve		**4.1**	1.1	3.6
Attributable to Members of Skipton Building Society		**802.1**	704.6	762.9
Non-controlling interests		**3.1**	4.3	3.5
Total members' interests		**805.2**	708.9	766.4
Total members' interests and liabilities		**14,609.3**	15,184.2	15,568.8

The notes on pages 25 to 51 form an integral part of this condensed consolidated Half-Yearly Financial Report.

For the half-year ended 30 June 2010

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 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 (note 21)	**(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 (note 25)	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**

Unaudited 6 months as at 30 June 2009

	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 2009	737.0	(13.2)	(21.2)	1.0	703.6	3.9	707.5
Profit for the period	10.9	-	-	-	10.9	0.3	11.2
Other comprehensive income							
Actuarial loss on retirement benefit obligations	(21.5)	-	-	-	(21.5)	-	(21.5)
Net gains / (losses) from changes in fair value	-	(0.2)	10.3	-	10.1	-	10.1
Exchange differences on translation of foreign operations	-	-	-	0.1	0.1	-	0.1
Movement in reserves attributable to non-controlling interests	-	-	-	-	-	0.1	0.1
Transfer of engagements	-	1.4	-	-	1.4	-	1.4
Total other comprehensive income (note 21)	(21.5)	1.2	10.3	0.1	(9.9)	0.1	(9.8)
Total comprehensive income for the period	(10.6)	1.2	10.3	0.1	1.0	0.4	1.4
Balance at 30 June 2009	726.4	(12.0)	(10.9)	1.1	704.6	4.3	708.9

Audited 12 months as at 31 December 2009

	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 2009	737.0	(13.2)	(21.2)	1.0	703.6	3.9	707.5
Profit for the financial year	57.4	-	-	-	57.4	0.2	57.6
Other comprehensive income							
Actuarial loss on retirement benefit obligations	(12.9)	-	-	-	(12.9)	-	(12.9)
Net gains from changes in fair value	-	5.6	5.2	-	10.8	-	10.8
Exchange differences on translation of foreign operations	-	-	-	2.6	2.6	-	2.6
Movement in reserves attributable to non-controlling interests	-	-	-	-	-	(1.1)	(1.1)
Non-controlling interest share restructure	-	-	-	-	-	0.5	0.5
Transfer of engagements	-	1.4	-	-	1.4	-	1.4
Total other comprehensive income (note 21)	(12.9)	7.0	5.2	2.6	1.9	(0.6)	1.3
Total comprehensive income for the period	44.5	7.0	5.2	2.6	59.3	(0.4)	58.9
Balance at 31 December 2009	781.5	(6.2)	(16.0)	3.6	762.9	3.5	766.4

The notes on pages 25 to 51 form an integral part of this condensed consolidated Half-Yearly Financial Report.

For the half-year ended 30 June 2010

	Notes	**Unaudited 6 months to 30.06.10 £m**	Unaudited 6 months to 30.06.09 £m	Audited 12 months to 31.12.09 £m
Cash flows from operating activities				
Profit before taxation from continuing operations		**21.7**	14.7	18.0
Profit before taxation from discontinued operations		**-**	2.3	45.5
Adjustments for:				
Impairment losses on loans and advances	12	**3.2**	22.1	43.6
Impairment losses on debt securities		**-**	(3.1)	(1.3)
Loans and advances written off, net of recoveries		**(12.8)**	(14.2)	(29.9)
Goodwill impairment	14	**4.8**	-	12.0
Depreciation and amortisation		**9.6**	11.5	23.2
Interest on capital and subordinated liabilities		**12.3**	10.5	23.3
Loss on sale of property, plant and equipment and investment property		**-**	0.1	0.2
Negative goodwill arising on merger		**(3.1)**	-	-
Share of profits from joint ventures and associates		**(0.2)**	(0.1)	(0.2)
Profit on disposal of subsidiary undertakings		**-**	-	(39.7)
Dividends received from joint venture		**0.5**	-	-
Other non-cash movements		**41.7**	6.6	54.2
		77.7	50.4	148.9
Changes in operating assets and liabilities:				
Movement in prepayments and accrued income		**(13.8)**	5.3	7.9
Movement in accruals and deferred income		**(28.5)**	(154.1)	(197.8)
Movement in provisions for liabilities		**(1.6)**	(0.6)	(8.3)
Movement in loans and advances to customers		**568.8**	53.4	329.2
Interest received from loans and advances to customers		**227.3**	245.2	997.2
Movement in shares		**(419.3)**	463.0	482.4
Interest paid on shares		**(137.4)**	(140.3)	(283.3)
Net movement in amounts owed to credit institutions and other customers		**(178.6)**	(581.2)	(1,152.8)
Net movement in debt securities in issue		**(478.7)**	(500.8)	47.7
Net movement in loans and advances to credit institutions		**127.2**	836.9	851.7
Net movement in other assets		**5.1**	(10.6)	3.2
Net movement in other liabilities		**25.0**	28.7	16.1
Income taxes paid		**1.0**	8.4	(0.3)
Net cash flows from operating activities		**(225.8)**	303.7	1,241.8

For the half-year ended 30 June 2010

	Notes	**Unaudited 6 months to 30.06.10 £m**	Unaudited 6 months to 30.06.09 £m	Audited 12 months to 31.12.09 £m
Net cash flows from operating activities		**(225.8)**	303.7	1,241.8
Cash flows from investing activities				
Purchase of debt securities	10	**(1,368.4)**	(3,355.4)	(6,036.0)
Proceeds from disposal of debt securities	10	**1,930.8**	3,837.4	5,771.8
Purchase of intangible assets		**(4.2)**	(5.7)	(11.7)
Purchase of property, plant and equipment and investment property		**(6.8)**	(9.9)	(23.9)
Proceeds from disposal of property, plant and equipment and investment property		**0.2**	0.5	0.9
Dividends paid to non-controlling interests		**(2.5)**	-	(3.8)
Cash acquired on transfer of engagements		**-**	17.9	17.9
Further investment in subsidiary undertakings	13	**(20.9)**	(6.5)	(6.9)
Cash received from sale of subsidiary undertakings		**-**	-	97.8
Debt repaid on sale of subsidiary undertaking		**-**	-	(19.7)
Net cash flows from investing activities		**528.2**	478.3	(213.6)
Cash flows from financing activities				
Interest paid on subordinated liabilities		**(8.3)**	(7.7)	(16.2)
Interest paid on Permanent Interest Bearing Shares		**(4.1)**	(2.8)	(7.1)
Net cash flows from financing activities		**(12.4)**	(10.5)	(23.3)
Net increase in cash and cash equivalents		**290.0**	771.5	1,004.9
Cash and cash equivalents at 1 January		**1,396.3**	391.4	391.4
Cash and cash equivalents at end of period		**1,686.3**	1,162.9	1,396.3

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

	Unaudited 6 months to 30.06.10 £m	Unaudited 6 months to 30.06.09 £m	Audited 12 months to 31.12.09 £m
Cash in hand and balances with the Bank of England	**1,565.7**	1,113.5	1,272.1
Mandatory reserve deposit with the Bank of England	**(11.6)**	(10.8)	(11.7)
	1,554.1	1,102.7	1,260.4
Loans and advances to credit institutions repayable on demand	**132.2**	60.2	135.9
Included in cash and cash equivalents at end of period	**1,686.3**	1,162.9	1,396.3

The notes on pages 25 to 51 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 2010 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 2009, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The accounting policies adopted by the Group in the preparation of its 2010 Half-Yearly Financial Report and those which the Group currently expects to adopt in its Annual Accounts for the year-ending 31 December 2010 are consistent with those disclosed in the Annual Accounts for the year-ended 31 December 2009.

The Directors have adopted IAS 27, *Consolidated and Separate Financial Statements (2008)*; IFRS 3, *Business Combinations (2008 Revised)* and Eligible Hedged Items (Amendment to IAS 39, Financial Instruments: Recognition and Measurement). (see note 24).

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 2009 Report & Accounts. Four of 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 implies 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 £2.8m.

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. Whether an impairment loss is recorded in the Income Statement depends upon 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.

Based upon the loss model used by the Group a 10% fall in house prices would increase the half year residential impairment provision by £12.1m.

Put option obligation

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, on acquisition the Group estimates the fair value of the total consideration payable in calculating the goodwill arising.

The fair value of both the put option obligation and the associated goodwill recognised are dependent on the following assumptions: an estimate of when the put option will be exercised by the non-controlling shareholders, the market value growth of the obligation and the discount rate used at the reporting date. These assumptions are reviewed on a regular basis by senior management.

Extending the estimated exercise date of all put options by one year would result in the reduction of the aggregate put option obligation by £2.0m, a credit to the Income Statement of £2.9m and an increase in goodwill of £0.9m. A 10% increase in the aggregate market value of these businesses would increase the put option liability by £1.4m and goodwill by £1.4m.

Impairment of goodwill

The recoverable amounts of the operating segments are determined from value in use calculations. The value in use calculation compares the carrying value to the present value of future cashflows. Where the carrying value exceeds the present value of future cashflows, this indicates impairment.

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 2.0%.The discount rate used can materially impact the present value of these cashflows. Increasing the discount rate by 1% would increase the level of goodwill impairment by £2.8m.

c) Other information

The Half-Yearly Financial Report information set out in this announcement is unaudited and does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The comparative figures for the year ended 31 December 2009 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditors and the report of the auditors was (i) unqualified and (ii) did not included a reference to matters to which the auditors drew attention by way of emphasis without qualifying their report.

A copy of this Half-Yearly Financial Report 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 2009 Report & Accounts and this Half-Yearly Financial Report are available at **www.skipton.co.uk/about_us/societyFinancialInformation.aspx.**

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

The Half-Yearly Financial Report for the six months ended 30 June 2010 was approved by the Board of Directors on 27 July 2010.

2. Principal risks and uncertainties

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

The principal inherent risks affecting the Group are described in the 'Principal risks and uncertainties' section of the Business Review.

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

3. Interest receivable and similar income	**Unaudited 6 months to 30.06.10 £m**	Unaudited 6 months to 30.06.09 £m	Audited 12 months to 31.12.09 £m
On loans fully secured on residential property	**217.7**	233.6	460.1
On other loans	**9.6**	12.2	22.6
On debt securities	**19.7**	25.0	41.1
On other liquid assets	**4.7**	6.8	10.3
Net expense on derivative financial instruments	**(64.9)**	(44.6)	(112.3)
	186.8	233.0	421.8

Included within interest and other similar income on debt securities is income from fixed income securities of £10.0m (30 June 2009: £4.3m; 31 December 2009: £9.2m).

Included within interest receivable and similar income is interest accrued on impaired financial assets of £8.2m (30 June 2009: £13.2m; 31 December 2009: £13.3m).

4. Interest payable and similar charges	**Unaudited 6 months to 30.06.10 £m**	Unaudited 6 months to 30.06.09 £m	Audited 12 months to 31.12.09 £m
On shares held by individuals	**137.7**	134.1	281.8
On other shares	**-**	-	-
On subscribed capital	**4.1**	2.9	7.1
On deposits and other borrowings:			
Subordinated liabilities	**8.3**	7.4	16.2
Wholesale and other funding	**24.7**	56.7	80.9
Net income on derivative financial instruments	**(13.9)**	(7.0)	(17.7)
Other	**(0.6)**	(0.1)	0.2
	160.3	194.0	368.5

5. Fees and commissions receivable	**Unaudited 6 months to 30.06.10 £m**	Unaudited 6 months to 30.06.09 £m	Audited 12 months to 31.12.09 £m
Mortgage related fees	**50.4**	55.3	113.3
General insurance fees	**5.8**	10.9	17.3
Commissions earned on property sales	**71.2**	51.2	128.5
Other fees and commissions	**63.9**	50.4	129.9
	191.3	167.8	389.0

6. Fees and commissions payable

	Unaudited 6 months to 30.06.10 £m	Unaudited 6 months to 30.06.09 £m	Audited 12 months to 31.12.09 £m
Mortgage related fees	**6.2**	6.3	13.4
Other fees and commissions	**2.7**	1.5	6.0
	8.9	7.8	19.4

7. Administrative expenses

	Unaudited 6 months to 30.06.10 £m	Unaudited 6 months to 30.06.09 £m	Audited 12 months to 31.12.09 £m
Employee costs:			
Wages and salaries	**111.6**	96.0	214.2
Social security costs	**9.7**	9.2	19.5
Pension costs:			
Defined contribution arrangements	**3.4**	3.6	6.5
Defined benefit schemes service costs	**0.1**	0.4	0.8
Defined benefit schemes curtailments	**-**	-	(10.4)
	124.8	109.2	230.6
Other administrative expenses	**71.3**	70.7	153.1
	196.1	179.9	383.7

8. Taxation (income) / expense

The effective tax rate for the six month period ending 30 June 2010 is 27.0% (30 June 2009: 34.1%; 31 December 2009: 24.2%). This is lower than the standard rate of corporation tax due to the impact of disallowable expenditure and a prior year adjustment of £1.8m.

The proposed reduction in the main corporation tax rate to 27%, announced in the emergency budget on 22 June 2010, would have reduced the Group's net deferred tax asset by £1m.

9. Loans and advances to credit institutions

	Unaudited as at 30.06.10 £m	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Loans and advances to credit institutions have remaining maturities as follows:			
Repayable on demand	**132.2**	60.2	135.9
In not more than three months	**217.6**	302.3	307.7
In more than three months but not more than one year	**-**	0.1	-
In more than one year	**4.2**	24.9	3.9
	354.0	387.5	447.5

10. Debt securities

	Unaudited as at 30.06.10 £m	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Issued by public bodies	**119.1**	68.5	223.0
Issued by other borrowers	**1,679.7**	1,515.9	2,116.3
	1,798.8	1,584.4	2,339.3
Debt securities have remaining maturities as follows:			
In not more than one year	**606.6**	929.9	1,203.8
In more than one year	**1,192.2**	654.5	1,135.5
	1,798.8	1,584.4	2,339.3
Transferable debt securities comprise:			
Listed on a recognised investment exchange	**1,435.6**	950.6	1,435.7
Unlisted	**363.2**	633.8	903.6
	1,798.8	1,584.4	2,339.3
Market value of listed transferable debt securities	**1,435.6**	950.7	1,435.7

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

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

	Unaudited 30.06.10 £m	Unaudited 30.06.09 £m	Audited 31.12.09 £m
At 1 January	**2,339.3**	1,734.6	1,734.6
Acquired on transfer of engagements	**13.0**	325.2	325.2
Additions	**1,368.4**	3,355.4	6,036.0
Disposals	**(1,930.8)**	(3,837.4)	(5,771.8)
Impairment recoveries	**-**	3.1	1.3
Changes in fair value	**8.9**	3.5	14.0
At end of period	**1,798.8**	1,584.4	2,339.3

At 30 June 2010, £283.8m (30 June 2009: £502.0m; 31 December 2009: £392.2m) 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 2009: 1.60%; 31 December 2009: 0.78%).

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

	Unaudited 30.06.10 £m	Unaudited 30.06.09 £m	Audited 31.12.09 £m
Carrying value of reclassified assets	**306.8**	374.5	314.1
Fair value of reclassified assets	**290.7**	328.7	283.6

If these assets had not been reclassified, the fair value gain / (loss) arising in the Statement of Comprehensive Income would have been £18.4m (30 June 2009: (£51.0m); 31 December 2009: £4.1m).

11. Loans and advances to customers

	Unaudited as at 30.06.10 £m	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Loans fully secured on residential property	**9,430.0**	10,525.4	10,036.9
Other loans:			
Loans fully secured on land	**509.2**	523.3	516.8
Other loans	**81.2**	75.4	74.3
Fair value adjustment for hedged risk	**260.8**	192.2	185.3
	10,281.2	11,316.3	10,813.3
The remaining maturity of loans and advances to customers from the reporting date is as follows:			
On call and at short notice	**42.5**	40.0	40.7
In not more than three months	**11.1**	7.1	5.5
In more than three months but not more than one year	**57.5**	39.8	30.0
In more than one year but not more than five years	**423.1**	380.6	371.1
In more than five years	**9,823.1**	10,928.0	10,451.1
	10,357.3	11,395.5	10,898.4
Less: Impairment (note 12)	**(76.1)**	(79.2)	(85.1)
	10,281.2	11,316.3	10,813.3

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

Covered bonds

Loans and advances to customers include £1,136.7m (30 June 2009: £1,032.9m; 31 December 2009: £992.9m) for both the Group and Society which have been transferred from the Society to Skipton Covered Bonds LLP, a Limited Liability Partnership which is consolidated into the Group Accounts. The loans secure £750.0m (30 June 2009: £750.0m; 31 December 2009: £750.0m) of covered bonds issued by the Society. The loans are retained on the Society's Statement of Financial Position as the Society substantially retains the risks and rewards relating to the loans.

12. Impairment losses on loans and advances

	Unaudited 30.06.10 £m	Unaudited 30.06.09 £m	Audited 31.12.09 £m
Impairment charge for the period:			
Loans fully secured on residential property	**2.9**	20.9	36.4
Loans fully secured on land	**0.1**	0.8	5.6
Other loans	**0.2**	0.4	1.6
	3.2	22.1	43.6
Impairment provision at the end of the period:			
Loans fully secured on residential property	**65.7**	74.8	75.1
Loans fully secured on land	**7.2**	2.3	7.1
Other loans	**3.2**	2.1	2.9
	76.1	79.2	85.1

13. Investments in group undertakings

This note sets out the changes to the Group's shareholdings in a number of existing subsidiaries since 31 December 2009. Full details of the investments held in the Group as at 31 December 2009 are shown in note 17 *Investments in group undertakings* in the 2009 Annual Report & Accounts.

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. Under IAS 32, *Financial instruments: presentation* and IAS 39, *Financial Instruments: Recognition and Measurement*, these options are designated as 'financial instruments'. As such, the net present value of the estimated future payments under such put options, are shown as a financial liability. In subsequent periods, any adjustment to the Group's estimation of the present value of the liability will result in an adjustment to goodwill for existing put options or a profit or loss in the Income Statement for new put options from 1 January 2010, in accordance with IFRS 3 revised (see note 24). The estimate of the liability is principally dependent on the forecast performance of the businesses and the estimated timing of the exercise of the option. The change in fair value of the financial liability due to the accretion of the discount on the liability is expensed in the Income Statement.

At 30 June 2010 this financial liability was £9.2m (30 June 2009: £19.5m; 31 December 2009: £17.3m).

During the period the Group increased its shareholdings in a number of existing subsidiaries at a total cost of £20.9m. Together with the reassessment of the expected future payments under the put options, this resulted in a net increase of £15.9m (30 June 2009: reduction of £2.1m; 31 December 2009: reduction of £0.2m) in goodwill being recognised.

14. Intangible assets

	Unaudited as at 30.06.10 £m	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Software, databases and customer contracts	**22.8**	34.1	22.4
Goodwill	**170.9**	209.1	159.8
	193.7	243.2	182.2

Goodwill	**Unaudited as at 30.06.10 £m**	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Cost less amortisation to 1 January 2004			
At 1 January	**181.0**	222.4	222.4
Acquisitions of subsidiary undertakings and business units	**-**	-	0.2
Acquired on transfer of engagements	**-**	0.3	0.3
Additions and reallocations	**15.9**	(2.1)	(0.2)
Disposals	**-**	-	(41.7)
At end of period	**196.9**	220.6	181.0
Impairment losses			
At 1 January	**21.2**	11.5	11.5
Provisions for impairment loss in the year	**4.8**	-	12.0
Disposals	**-**	-	(2.3)
At end of period	**26.0**	11.5	21.2
Net book value at 1 January	**159.8**	210.9	210.9
Net book value at end of period	**170.9**	209.1	159.8

14. Intangible assets (continued)

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 30.06.10 £m**	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Mortgage Services	**2.9**	2.9	2.9
Estate Agency	**119.8**	100.0	104.3
Financial Advice	**37.3**	39.1	36.9
Credit & Marketing Solutions	**-**	41.8	-
Investment Portfolio	**36.9**	36.8	36.9
Cost of goodwill	**196.9**	220.6	181.0

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 2.0% (2009 2.0%).

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 within a range of 12% and 22%.

At 30 June 2010 an impairment of £26.0m (30 June 2009: £11.5m; 31 December 2009: £21.2m) 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 30.06.10 £m**	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Estate Agency	**3.3**	3.3	3.3
Financial Advice	**5.7**	0.2	3.8
Credit & Marketing Solutions	**-**	2.3	-
Investment Portfolio	**17.0**	5.7	14.1
Impairment of goodwill	**26.0**	11.5	21.2

At 30 June 2010, before this year's impairment testing, goodwill of £33.5m was allocated to the Financial Advice segment. Business volumes for certain businesses within this segment have fallen and has resulted in goodwill relating to these businesses being impaired by £1.9m.

At 30 June 2010, before this year's impairment testing, goodwill of £22.8m was allocated to a number of subsidiary undertakings within the Investment Portfolio operating segment. Due to a reduction in business volumes the Group has revised its cash flows for some of these subsidiary undertakings. As a result, an impairment of £2.9m has been recognised.

On 1 June 2010 the Society merged with the Chesham Building Society and £3.1m of negative goodwill was created which was immediately written off to the Income Statement (see note 25).

15. Shares

	Unaudited as at 30.06.10 £m	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Held by individuals	**10,085.3**	10,058.2	10,457.6
Other shares	**2.3**	4.2	3.9
Fair value adjustment for hedged risk	**11.7**	12.9	8.7
	10,099.3	10,075.3	10,470.2
Shares are repayable from the reporting date in the ordinary course of business as follows:			
On demand	**3,067.0**	3,186.0	3,042.0
In not more than three months	**3,290.3**	3,569.6	3,508.8
In more than three months but not more than one year	**819.3**	1,490.6	1,354.9
In more than one year but not more than five years	**2,068.1**	1,587.3	1,880.0
In more than five years	**854.6**	241.8	684.5
	10,099.3	10,075.3	10,470.2

16. Amounts owed to credit institutions

	Unaudited as at 30.06.10 £m	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Amounts owed to credit institutions are repayable from the reporting date in the ordinary course of business as follows:			
Repayable on demand	**48.3**	32.0	23.5
In not more than three months	**131.0**	273.0	231.2
In more than three months but not more than one year	**196.3**	35.1	1.0
In more than one year but not more than five years	**437.0**	691.7	686.5
In more than five years	**0.6**	-	-
	813.2	1,031.8	942.2

Included in amounts owed to credit institutions is £212.3m (30 June 2009: £403.2m; 31 December 2009: £285.2m) relating to securities sold under agreements to repurchase. The carrying and market value of the related securities is £283.8m (30 June 2009: £502.0m; 31 December 2009: £392.2m) and £272.3m (30 June 2009: £462.5m; 31 December 2009: £375.4m) 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 30.06.10 £m	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Amounts owed to other customers are repayable from the reporting date in the ordinary course of business as follows:			
Repayable on demand	**419.3**	374.5	453.0
In not more than three months	**271.3**	993.0	575.6
In more than three months but not more than one year	**352.4**	284.4	100.1
In more than one year but not more than five years	**115.5**	56.4	75.2
In more than five years	**1.4**	-	-
	1,159.9	1,708.3	1,203.9

18. Debt securities in issue

	Unaudited as at 30.06.10 £m	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Certificates of deposit	**81.1**	209.6	135.7
Other debt securities	**743.9**	551.3	1,168.5
Fair value adjustment for hedged risk	**44.8**	85.2	101.4
	869.8	846.1	1,405.6
Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:			
In not more than one year	**114.0**	730.8	605.1
In more than one year	**755.8**	115.3	800.5
	869.8	846.1	1,405.6

Included in other debt securities are 12 (30 June 2009: 26; 31 December 2009: 19) floating rate notes issued to the capital markets totalling £85.5m (30 June 2009: £445.2m; 31 December 2009: £395.5m).

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 2010 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 2010 are similar in nature to those for the year ended 31 December 2009. Full details of the Group's related party transactions for the year to 31 December 2009 can be found in note 10 *Related party transactions* in the 2009 Annual Report & Accounts.

20. Subsequent events

There were no material post Balance Sheet events.

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

	Unaudited 6 months to 30 June 2010		
	Before tax amount £m	Tax benefit / (expense) £m	Net of tax amount £m
Available-for-sale financial assets	**8.2**	**(2.2)**	**6.0**
Cash flow hedges	**28.0**	**(7.8)**	**20.2**
Actuarial (loss) / gains on retirement benefit obligations	**(13.3)**	**3.7**	**(9.6)**
Translation of foreign operations	**0.5**	**-**	**0.5**
Movement in reserves attributable to non-controlling interests	**(0.3)**	**-**	**(0.3)**
Other comprehensive income	**23.1**	**(6.3)**	**16.8**

	Unaudited 6 months to 30 June 2009		
	Before tax amount £m	Tax benefit / (expense) £m	Net of tax amount £m
Available-for-sale investments	1.8	(0.6)	1.2
Cash flow hedges	14.1	(3.8)	10.3
Actuarial (losses) / gains on defined benefit pension plans	(29.9)	8.4	(21.5)
Exchange differences on translation of foreign operations	0.1	-	0.1
Movement in reserves attributable to non-controlling interests	0.1	-	0.1
Other comprehensive income	(13.8)	4.0	(9.8)

	Audited 12 months to 31 December 2009		
	Before tax amount £m	Tax benefit / (expense) £m	Net of tax amount £m
Available-for-sale financial assets	9.4	(2.4)	7.0
Cash flow hedges	7.1	(1.9)	5.2
Actuarial (loss) / gains on retirement benefit obligations	(17.9)	5.0	(12.9)
Translation of foreign operations	2.6	-	2.6
Movement in reserves attributable to non-controlling interests	(1.1)	-	(1.1)
Non-controlling interest share restructure	0.5	-	0.5
Other comprehensive income	0.6	0.7	1.3

22. Credit risk

The significant credit risks which the Group is exposed to is in relation to ‘Loans and advances to credit institutions’ (note 9), ‘Debt securities’ (note 10) and ‘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 £260.8m (30 June 2009: £192.2m; 31 December 2009: £185.3m) is included.

22. Credit risk (continued)

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 30.06.10		Unaudited as at 30.06.09		Audited as at 31.12.09	
	£m	**%**	£m	%	£m	%
Total residential mortgages	**9,495.7**	**94.0**	10,600.2	94.6	10,112.0	94.4
Commercial loans	**516.4**	**5.1**	525.6	4.7	523.9	4.9
Other lending:						
Debt factoring loans	**35.7**	**0.4**	29.7	0.3	32.7	0.3
Other loans	**48.7**	**0.5**	47.8	0.4	44.5	0.4
Gross balances	**10,096.5**	**100.0**	11,203.3	100.0	10,713.1	100.0
Impairment provisions (note 12)	**(76.1)**		(79.2)		(85.1)	
Fair value adjustment	**260.8**		192.2		185.3	
	10,281.2		11,316.3		10,813.3	

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 Homeloans and North Yorkshire Mortgages. Amber Homeloans balances outstanding at the period end were £1,279.3m (30 June 2009: £1,393.4m; 31 December 2009: £1,330.6m) of which £137.6m (30 June 2009: £154.0m; 31 December 2009: £148.5m) were in respect of buy-to-let. North Yorkshire Mortgage balances at the end of the period were £792.9m (30 June 2009: £880.2m; 31 December 2009: £828.9m), with £211.7m (30 June 2009: £224.0m; 31 December 2009: £219.3m) in respect of buy-to-let.

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

Indexed loan-to-value analysis	**Unaudited as at 30.06.10 %**	Unaudited as at 30.06.09 %	Audited as at 31.12.09 %
Total book:			
<70%	**45.6**	41.3	43.9
70% - 80%	**13.5**	11.6	12.7
80% - 90%	**14.0**	12.8	13.8
>90%	**26.9**	34.2	29.6
Average indexed loan-to-value	**52.5**	59.2	54.4

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

22. Credit risk (continued)

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

	Unaudited as at 30.06.10		Unaudited as at 30.06.09		Audited as at 31.12.09	
	£m	**%**	£m	%	£m	%
Neither past due nor individually impaired	**8,924.4**	**93.9**	9,937.1	93.8	9,502.1	94.0
Past due but not individually impaired:						
Up to 3 months	**92.8**	**1.0**	184.5	1.7	82.3	0.8
3 to 6 months	**17.4**	**0.2**	72.6	0.7	12.8	0.1
6 to 9 months	**6.8**	**0.1**	28.2	0.3	5.8	0.1
9 to 12 months	**3.3**	**-**	15.0	0.1	1.4	-
Over 12 months	**4.8**	**0.1**	20.4	0.2	4.9	-
Total	**9,049.5**	**95.3**	10,257.8	96.8	9,609.3	95.0
Individually impaired	**421.9**	**4.4**	299.5	2.8	463.4	4.6
Possessions	**24.3**	**0.3**	42.9	0.4	39.3	0.4
	9,495.7	**100.0**	10,600.2	100.0	10,112.0	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.

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 30.06.10 £m	Unaudited to 30.06.09 £m	Audited to 31.12.09 £m
Society	**15.0**	11.3	34.7
Amber Homeloans	**33.5**	14.4	43.8
North Yorkshire Mortgages	**25.1**	1.2	10.2
Skipton International	**0.3**	4.4	5.6
	73.9	31.3	94.3

The *cumulative balance* of loans that would have been past due or impaired had their terms not been renegotiated are as follows:

	Unaudited as at 30.06.10 £m	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Society	**51.5**	21.6	41.5
Amber Homeloans	**78.2**	22.6	51.3
North Yorkshire Mortgages	**33.9**	1.2	10.2
Skipton International	**10.8**	10.4	11.0
	174.4	55.8	114.0

22. Credit risk (continued)

Fair value of collateral held:	**Unaudited as at 30.06.10 £m**	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Not individually impaired	**17,645.6**	17,562.6	18,098.9
Impaired	**429.2**	289.3	465.7
Possessions	**21.7**	38.8	36.2
	18,096.5	17,890.7	18,600.8

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.

b) Commercial loans

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

	Unaudited as at 30.06.10		Unaudited as at 30.06.09		Audited as at 31.12.09	
	£m	**%**	£m	%	£m	%
Leisure and hotel	**50.1**	**9.7**	52.6	10.0	51.3	9.8
Retail	**18.1**	**3.5**	19.1	3.6	18.0	3.4
Nursing / residential homes	**34.0**	**6.6**	39.5	7.5	35.0	6.7
Offices	**18.0**	**3.5**	16.6	3.2	16.4	3.1
Commercial investment and industrial units	**376.0**	**72.8**	380.2	72.4	373.9	71.4
Miscellaneous	**20.2**	**3.9**	17.6	3.3	29.3	5.6
	516.4	**100.0**	525.6	100.0	523.9	100.0

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

	Unaudited as at 30.06.10		Unaudited as at 30.06.09		Audited as at 31.12.09	
	£m	**%**	£m	%	£m	%
Neither past due nor individually impaired	**497.3**	**96.3**	502.6	95.6	504.9	96.4
Past due but not individually impaired:						
Up to 3 months	**9.9**	**1.9**	13.8	2.6	11.6	2.2
3 to 6 months	**2.2**	**0.4**	2.8	0.5	0.4	0.1
6 to 9 months	**-**	**-**	1.0	0.2	0.2	-
9 to 12 months	**0.1**	**-**	-	-	-	-
Over 12 months	**-**	**-**	0.2	0.1	0.2	-
Total	**509.5**	**98.6**	520.4	99.0	517.3	98.7
Individually impaired	**6.9**	**1.4**	5.2	1.0	6.6	1.3
	516.4	**100.0**	525.6	100.0	523.9	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.

£1.8m (30 June 2009: £4.1m; 31 December 2009: £11.1m) of loans would be past due or impaired had their terms not been renegotiated in the period.

The cumulative balance of loans that would be past due or impaired had their terms not been renegotiated is £14.8m (30 June 2009: £7.2m; 31 December 2009: £14.0m).

22. Credit risk (continued)

Fair value of collateral held:	**Unaudited as at 30.06.10 £m**	Unaudited as at 30.06.09 £m	Audited as at 31.12.09 £m
Not individually impaired	**890.0**	839.3	890.9
Impaired	**6.8**	4.4	5.6
	896.8	843.7	896.5

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.

c) Other lending

	Unaudited as at 30.06.10		Unaudited as at 30.06.09		Audited as at 31.12.09	
	Gross £m	**Impairment £m**	Gross £m	Impairment £m	Gross £m	Impairment £m
Factored debt and invoice discounting	**35.7**	**(0.6)**	29.7	(0.5)	32.7	(0.4)
Other loans	**48.7**	**(2.6)**	47.8	(1.6)	44.5	(2.5)
	84.4	**(3.2)**	77.5	(2.1)	77.2	(2.9)

The majority of these loans have an original maturity of less than one year. There are no loans which are past due.

The balances of those assets within our factored debt and invoice discounting business which are deemed to be individually impaired amount to £1.3m (30 June 2009: £0.5m; 31 December 2009: £0.6m). 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 balances of those assets within other loans which are deemed to be individually impaired amount to £2.3m (30 June 2009: £2.5m; 31 December 2009: £2.6m) in both Group and Society. 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.

The loans in the 'Other lending' category are predominantly secured by way of a floating charge over book debts or other securities.

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

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

As at 30 June 2010 £6.6m (30 June 2009: £3.9m; 31 December 2009: £6.7m) of the Group's treasury portfolio exposure was either past due or impaired. There are no assets that would otherwise be past due or impaired whose terms have been renegotiated. 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 2010 99% (30 June 2009: 98%; 31 December 2009: 98%) of the Group's treasury investment assets were rated single A 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.

22. Credit risk (continued)

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

Rating	**Unaudited as at 30.06.10**		Unaudited as at 30.06.09		Audited as at 31.12.09	
	£m	**%**	£m	%	£m	%
Aaa	**2,663.1**	**71.6**	1,607.8	52.1	2,277.1	56.1
Aa1	**84.8**	**2.3**	215.4	7.0	205.9	5.1
Aa2	**165.7**	**4.5**	177.3	5.7	276.4	6.8
Aa3	**530.3**	**14.3**	798.4	25.9	881.0	21.7
A1	**146.5**	**3.9**	117.0	3.8	188.1	4.6
A2	**41.5**	**1.1**	78.7	2.6	93.0	2.3
A3	**37.8**	**1.0**	28.1	0.9	54.3	1.3
Baa1	**4.1**	**0.1**	2.8	0.1	37.5	0.9
Baa2	**16.6**	**0.4**	23.8	0.8	6.7	0.2
Baa3	**2.2**	**0.1**	19.7	0.6	3.5	0.1
Ba3	**7.4**	**0.2**	7.2	0.2	3.5	0.1
Caa2	**-**	**-**	-	-	3.9	0.1
Unrated:						
Building societies	**8.2**	**0.2**	7.9	0.3	17.6	0.4
Local authorities	**10.3**	**0.3**	1.3	-	10.4	0.3
	3,718.5	**100.0**	3,085.4	100.0	4,058.9	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 30.06.10**		Unaudited as at 30.06.09		Audited as at 31.12.09	
	£m	**%**	£m	%	£m	%
Cash in hand and balances with the Bank of England	**1,565.7**	**42.1**	1,113.5	36.1	1,272.1	31.3
Cash with banks and building societies	**344.6**	**9.3**	386.0	12.5	437.4	10.8
Treasury bills	**-**	**-**	5.1	0.2	-	-
Gilts	**64.6**	**1.7**	63.5	2.1	152.7	3.8
Certificates of deposit	**363.2**	**9.8**	645.9	20.9	903.6	22.3
Local authority investments	**10.3**	**0.3**	1.3	-	10.4	0.3
Fixed rate bonds	**435.9**	**11.7**	103.3	3.4	283.8	7.0
Floating rate notes	**628.2**	**16.9**	438.2	14.2	684.8	16.9
Residential mortgage backed securities	**250.8**	**6.7**	266.1	8.6	255.9	6.3
Commercial mortgage backed securities	**55.2**	**1.5**	62.5	2.0	58.2	1.3
	3,718.5	**100.0**	3,085.4	100.0	4,058.9	100.0

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

22. Credit risk (continued)

Geographical exposure	Unaudited as at 30.06.10		Unaudited as at 30.06.09		Audited as at 31.12.09	
	£m	%	£m	%	£m	%
UK	**2,872.7**	**77.2**	2,238.1	72.5	3,032.6	74.7
Rest of Europe	**656.8**	**17.7**	606.3	19.7	765.5	18.9
North America	**108.3**	**2.9**	89.5	2.9	129.8	3.2
Australasia	**70.7**	**1.9**	102.3	3.3	96.2	2.4
Far East	**10.0**	**0.3**	49.2	1.6	34.8	0.8
	3,718.5	**100.0**	3,085.4	100.0	4,058.9	100.0

23. 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 Homeloans and North Yorkshire Mortgages, and deposit taking and lending in Jersey and Guernsey through Skipton International.
- Mortgage Services – mortgage administration services, principally Homeloan Management, also includes Specialist Mortgage Services and Baseline Capital.
- Estate Agency – including survey and valuations, conveyancing, lettings, asset management and mortgage broking carried out through Connells.
- Financial Advice – provision of financial advice and broking services through five separate financial advice companies.
- Credit & Marketing Solutions – provision of credit reference agency and database services by Callcredit Information Group, which became a discontinued operation from 7 December 2009 on disposal.
- 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, £8.4m (30 June 2009: £5.2m; 31 December 2009: £11.9m) was generated outside of the UK.

Further details of the profits of each segmental area is given within the unaudited Business Review on pages 12 to 13.

23. Group segmental reporting (continued)

Unaudited 6 months to 30.06.10

Continuing operations	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	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 losses 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
Impairment losses / provisions for liabilities	3.7	-	(2.1)	-	0.2	-	1.8
Other admin expenses	11.1	11.7	23.3	5.4	8.9	(1.8)	58.6
Total expenses	37.6	39.7	74.0	20.0	25.3	(1.8)	194.8
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

23. 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)
Profit before tax after non-routine items	(8.6)	0.2	31.7	2.2	(2.4)	0.9	24.0

23. Group segmental reporting (continued)

Unaudited 6 months to 30.06.09

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Invest-ment Portfolio £m	Inter-company adjustments £m	Continuing operations £m	Discontinued operation £m	Total £m
Income									
Interest receivable and similar income	301.4	0.1	0.3	0.1	1.3	(70.2)	233.0	-	233.0
Interest payable and similar charges	(262.6)	-	-	(0.2)	(1.6)	70.4	(194.0)	(0.2)	(194.2)
Fair value losses on financial instruments	(0.3)	-	-	-	-	-	(0.3)	-	(0.3)
Fees and commissions receivable	6.7	42.0	90.8	19.3	12.2	(3.2)	167.8	24.8	192.6
Fees and commissions payable	(1.0)	-	-	(2.2)	(6.6)	2.0	(7.8)	-	(7.8)
Profit on disposal of subsidiary undertakings	-	-	-	-	-	-	-	-	-
Share of profits from joint ventures	-	-	0.1	-	-	-	0.1	-	0.1
Profit on disposal of associate	-	-	-	-	-	-	-	-	-
Other income	3.2	1.2	(0.3)	-	14.3	(3.6)	14.8	-	14.8
Total income	47.4	43.3	90.9	17.0	19.6	(4.6)	213.6	24.6	238.2
Employee and pension costs	19.8	24.5	39.9	11.9	13.1	-	109.2	11.9	121.1
Depreciation and amortisation	2.0	2.6	2.0	0.7	2.5	-	9.8	2.2	12.0
Impairment losses / provisions for liabilities	18.7	-	0.1	-	0.2	-	19.0	-	19.0
Other admin expenses	16.0	11.8	28.1	4.5	5.4	(4.9)	60.9	8.2	69.1
Total expenses	56.5	38.9	70.1	17.1	21.2	(4.9)	198.9	22.3	221.2
Profit before tax	(9.1)	4.4	20.8	(0.1)	(1.6)	0.3	14.7	2.3	17.0
Taxation	1.8	(1.2)	(5.9)	-	0.1	-	(5.2)	(0.6)	(5.8)
Profit after tax	(7.3)	3.2	14.9	(0.1)	(1.5)	0.3	9.5	1.7	11.2
Total assets	18,346.0	35.0	161.8	25.1	306.8	(3,751.7)	15,123.0	61.2	15,184.2
Total liabilities	17,626.0	3.7	77.4	1.1	216.2	(3,480.8)	14,443.6	31.7	14,475.3
Capital expenditure	6.9	3.0	1.0	0.6	2.2	-	13.7	1.9	15.6

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Invest-ment Portfolio £m	Inter-company adjustments £m	Continuing operations £m	Discontinued operation £m	Total £m
Income from other segments	1.5	2.8	0.6	(0.6)	1.0	(5.3)	-	-	-
External income	45.9	40.5	90.3	17.6	18.6	0.7	213.6	24.6	238.2
Total income	47.4	43.3	90.9	17.0	19.6	(4.6)	213.6	24.6	238.2

23. 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 30.06.09

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Invest-ment Portfolio £m	Inter-company adjustments £m	Continuing operations £m	Discontinued operation £m	Total £m
Reported profit before tax	(9.1)	4.4	20.8	(0.1)	(1.6)	0.3	14.7	2.3	17.0
Non-routine items:									
Recoveries of investment securities	(3.1)	-	-	-	-	-	(3.1)	-	(3.1)
Net losses from fair value volatility	0.3	-	-	-	-	-	0.3	-	0.3
Merger expenses	3.9	0.3	-	-	-	-	4.2	-	4.2
Profit before tax after non-routine items	(8.0)	4.7	20.8	(0.1)	(1.6)	0.3	16.1	2.3	18.4

23. Group segmental reporting (continued)

Audited 12 months to 31.12.09

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Inter-company adjustments £m	Continuing operations £m	Discontinued operation £m	Total £m
Income									
Interest receivable and similar income	550.6	0.2	1.1	0.2	2.4	(132.7)	421.8	-	421.8
Interest payable and similar charges	(498.1)	-	(0.2)	(0.3)	(2.8)	132.9	(368.5)	(0.3)	(368.8)
Fair value losses on financial instruments	3.9	-	-	-	-	-	3.9	-	3.9
Fees and commissions receivable	13.1	84.2	214.8	43.1	44.1	(10.3)	389.0	48.7	437.7
Fees and commissions payable	(2.6)	-	(2.2)	(5.4)	(13.9)	4.7	(19.4)	-	(19.4)
Profit on disposal of subsidiary undertakings	-	-	-	-	-	-	-	39.7	39.7
Share of profits from joint ventures	-	-	0.2	-	-	-	0.2	-	0.2
Profit on disposal of associate	-	-	-	-	-	-	-	-	-
Other income	7.6	2.2	0.4	0.1	8.6	(5.9)	13.0	-	13.0
Total income	74.5	86.6	214.1	37.7	38.4	(11.3)	440.0	88.1	528.1
Employee and pension costs	29.3	50.1	100.2	25.4	25.6	-	230.6	22.6	253.2
Depreciation and amortisation	4.6	5.4	4.2	1.3	3.8	-	19.3	4.0	23.3
Impairment losses / provisions for liabilities	37.6	-	0.2	-	0.5	-	38.3	-	38.3
Other admin expenses	36.3	27.8	55.4	9.9	25.2	(20.8)	133.8	16.0	149.8
Total expenses	107.8	83.3	160.0	36.6	55.1	(20.8)	422.0	42.6	464.6
Profit before tax	(33.3)	3.3	54.1	1.1	(16.7)	9.5	18.0	45.5	63.5
Taxation	12.3	(1.3)	(15.8)	(0.5)	1.0	-	(4.3)	(1.6)	(5.9)
Profit after tax	(21.0)	2.0	38.3	0.6	(15.7)	9.5	13.7	43.9	57.6
Total assets	18,588.4	33.1	139.1	25.2	253.8	(3,470.8)	15,568.8	-	15,568.8
Total liabilities	17,828.4	9.7	58.6	1.1	154.9	(3,250.3)	14,802.4	-	14,802.4
Capital expenditure	18.9	6.1	1.6	1.1	4.0	-	31.7	3.9	35.6

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Investment Portfolio £m	Inter-company adjustments £m	Continuing operations £m	Discontinued operation £m	Total £m
Income from other segments	7.0	5.5	1.5	(2.1)	1.9	(13.8)	-	-	-
External income	67.5	81.1	212.6	39.8	36.5	2.5	440.0	88.1	528.1
Total income	74.5	86.6	214.1	37.7	38.4	(11.3)	440.0	88.1	528.1

23. 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 31.12.09

	Mortgages and Savings £m	Mortgage Services £m	Estate Agency £m	Financial Advice £m	Invest-ment Portfolio £m	Inter-company adjustments £m	Continuing operations £m	Discontinued operation £m	Total £m
Reported profit before tax	(33.3)	3.3	54.1	1.1	(16.7)	9.5	18.0	45.5	63.5
Non-routine items:									
Profit on sale of subsidiary companies	-	-	-	-	-	-	-	(39.7)	(39.7)
Financial Services Compensation Scheme levy	(4.3)	-	-	-	-	-	(4.3)	-	(4.3)
Recoveries of investment securities	(1.3)	-	-	-	-	-	(1.3)	-	(1.3)
Curtailment gain on closure of pension schemes	(10.4)	-	-	-	-	-	(10.4)	-	(10.4)
Provisions against loans and investments in subsidiary undertakings	5.3	0.5	-	-	12.5	(18.3)	-	-	-
Impairment of goodwill	-	-	-	0.8	1.3	9.9	12.0	-	12.0
Net gains from fair value volatility	(3.9)	-	-	-	-	-	(3.9)	-	(3.9)
Merger expenses	3.9	0.9	-	-	-	-	4.8	-	4.8
Profit before tax after non-routine items	(44.0)	4.7	54.1	1.9	(2.9)	1.1	14.9	5.8	20.7

24. Adoption of new and revised International Financial Reporting Standards

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

- IFRS 3, *Business Combinations (Revised*). This standard replaces IFRS 3, *Business Combinations (2004)* and is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The main changes in this standard in addition to the inclusion of mutual entities, are that the cost of investment will comprise the consideration paid to the vendors for equity with acquisition costs being expensed immediately; goodwill will be accounted for only upon the acquisition of a subsidiary as subsequent changes in interest will be recognised in equity and only upon the loss of control will any profit or loss be recognised in the Income Statement. Further, any pre-existing holding within the acquired entity will, where control is subsequently gained, be revalued with any profit or loss arising being credited / charged through the Income Statement.

  As part of the Group's acquisition strategy, within a number of subsidiary undertakings which have less than 100% ownership, there is an option for non-controlling shareholders to sell their shares to the Group at some point in the future. In accordance with IAS 32, *Financial Instruments: Disclosure and Presentation*, the Group recognises the present value of the non-controlling options as a financial obligation. For existing put options, IFRS 3 2004 applies. IFRS 3 2008 revised applies to put options on business combinations post 1 January 2010.

- IAS 27, *Consolidated and Separate Financial Statements (2008).* The amended standard must be applied for annual periods beginning on or after 1 July 2009. The amendments to this standard require the effects of all transactions with non-controlling interests to be recorded in equity if there has been no change in control. The changes also specify the accounting where control of an entity is lost.

- Eligible Hedged Items (Amendment to IAS 39 *Financial Instruments: Recognition and Measurement*). The amended standard must be applied for annual periods beginning on or after 1 July 2009. The amendment clarifies how the existing principles underlying hedge accounting should be applied in the designation of a one-sided risk in a hedged item and inflation in a financial hedged item.

25. Transfer of engagements

On 1 June 2010 the Society merged with the Chesham Building Society ('Chesham') under section 42B(3)(b) of the Building Societies Act on the basis of a board resolution of Skipton as permitted by a direction given by the FSA. The merger was approved by Chesham members on 31 March 2010.

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

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

	Notes	Cessation accounts Audited £m	IFRS adjustments £m	Fair value adjustments £m	**Take-on balances £m**
Assets					
Cash in hand and balances with the Bank of England		0.1	-	-	**0.1**
Loans and advances to credit institutions	f	37.6	-	(0.1)	**37.5**
Debt securities		13.0	-	-	**13.0**
Derivative financial instruments	n	-	0.1	-	**0.1**
Loans and advances to customers	g	162.6	0.2	(5.3)	**157.5**
Corporation tax asset	h	-	-	1.7	**1.7**
Deferred tax asset	h	-	-	0.3	**0.3**
Intangible assets	i	-	-	0.7	**0.7**
Property, plant and equipment	j	1.5	-	(0.5)	**1.0**
Investment property	j	0.1	-	-	**0.1**
Other assets	k	0.3	-	(0.3)	**-**
Total assets		215.2	0.3	(3.5)	**212.0**
Liabilities					
Shares	l	187.7	-	0.2	**187.9**
Amounts owed to credit institutions		13.8	-	-	**13.8**
Amounts owed to other customers		0.4	-	-	**0.4**
Debt securities in issue		-	-	-	**-**
Derivative financial instruments	n	-	0.1	-	**0.1**
Other liabilities		0.4	-	-	**0.4**
Deferred tax liability		-		-	
Provisions for liabilities	m	0.1	-	0.1	**0.2**
Retirement benefit obligations		-	-	-	**-**
Subordinated liabilities		-	-	-	**-**
Subscribed capital		-	-	-	**-**
Total liabilities		202.4	0.1	0.3	**202.8**
Reserves		12.8	0.2	(3.8)	**9.2**
Total members' interests and liabilities		215.2	0.3	(3.5)	**212.0**
Goodwill					
Fair value of net assets					**9.2**
Purchase consideration					**(6.1)**
Negative Goodwill					**3.1**

25. Transfer of engagements (continued)

Notes and adjustments

a. The income and expenditure account for Chesham for the period to 1 June 2010 is reported in the table below for information only and is not included in these financial statements.

b. The cessation accounts of Chesham have been prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP).

c. The assets and liabilities of Chesham Building Society have been included within the accounts of the Skipton Building Society at fair value. Some Balance Sheet reclassifications have been made to conform with International Financial Reporting Standards (IFRS) as endorsed by the EU. Balances have been adjusted in accordance with IFRS 3, *Business Combinations (Revised)*.

d. Financial assets and liabilities which, following the Group's accounting policies, would be carried at amortised cost, are brought on to the Balance Sheet at their fair value at acquisition and are subsequently carried at amortised cost using the effective interest rate method.

e. The cessation accounts of Chesham have been reclassified in line with the Skipton Group accounting policies and IFRS.

f. Included within liquid assets is a £0.1m adjustment in relation to the expected recovery from Heritable Bank.

g. The entry method of mortgage valuation has been used. This method considers the rates at which new lending would be made in the market by comparison to the rates applied at the origination of the mortgage book. The acquisition fair value adjustment reflects both the credit and interest rate risk associated with these assets. The conversion to IFRS has resulted in an EIR adjustment being created and part release of the mortgage loss provision.

h. A Corporation and Deferred tax asset has been provided where subsequent tax benefits or charges will arise from the fair value adjustments.

i. A £0.7m core deposit intangible has been recognised representing the intrinsic value of the retail savings book.

j. The fair value of land and buildings has been valued down by £0.5m based on an independent valuation, assessing current market value rather than value in use. Properties ancillary to branches and not used by the business are held as investment properties.

k. A fair value adjustment of £0.3m has been calculated reflecting the write off of deferred IT expenditure.

l. The fair value adjustment for shares and deposits reflect the interest rate risk associated with these liabilities.

m. The £0.1m fair value adjustment aligns the Financial Services Compensation Scheme charge relating to the Chesham balances transferred to the Group.

n. Derivative financial instruments were previously carried at amortised cost and these are now included at fair value based on discounted future cashflows, with market inputs valued consistently with the Group.

o. Imputed consideration represents the fair value of members' interests transferred. The combination of the two societies did not involve the transfer of any cash consideration. The value of the consideration has been calculated by measuring the fair value of the business of Chesham. The calculation was made with reference to publicly available valuations of quoted financial services organisations, adjusted to reflect the financial status, unquoted nature, relative size and economic diversification of the business. This resulted in a value of £6.1m attributed to the imputed consideration.

p. Net identifiable assets in excess of consideration transferred results in a gain on acquisition. IFRS 3 (Revised) requires that, where the fair value of the acquired assets exceeds the consideration transferred, the acquirer should reassess the identification and measurement of the assets, liabilities and contingent liabilities and the measurement of the consideration. After completing this additional review, in accordance with the requirements of IFRS 3 (Revised), this gain has been recognised in the Income Statement. The gain represents the fact that, in the distressed market conditions at the acquisition date, the value of net assets acquired was greater than the value of the ongoing business on a standalone basis, represented by imputed consideration.

25. Transfer of engagements (continued)

Income and expenditure account of Chesham Building Society
For the period 1 December 2009 to 1 June 2010

	£000
Net interest receivable	**(22)**
Other income and charges	**49**
Administrative expenses	**(1,756)**
Provision for Financial Services Compensation Scheme Levy	**(14)**
Loss for the period before taxation	**(1,743)**
Taxation	**11**
Loss for the period^	**(1,732)**

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

If we had transferred the engagements of the Chesham Building Society from the start of the year up until the end of May, Chesham would have contributed £23,000 to net income and a loss before tax of £1.6m.

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

Responsibility Statement of the Directors in respect of the Half-Yearly Financial Report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34, *Interim Financial Reporting*, as adopted by the European Union;
- the Half-Yearly Financial Report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

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

The Board of Directors represents those individuals responsible for the Half-Yearly Financial Report as listed below:

Mr A I Findlay	(Chairman)
Mr C N Hutton	(Vice Chairman)
Mr D J Cutter*	
Mr P R Hales	
Ms P M Hay-Plumb	
Ms A B E Kinney	
Mr J Spence	
Mr P J S Thompson	
Mr R J Twigg*	
Mr T F Wood*	
Mr W R Worsley	

* Executive Directors

Signed on behalf of the Board by

A I Findlay
Chairman
27 July 2010

Independent Review Report to Skipton Building Society

Introduction

We have been engaged by the Society to review the condensed set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2010 which comprises the condensed consolidated income statement, the condensed consolidated statement of financial position, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in members' interests and the condensed consolidated statement of cash flow and the related explanatory notes. We have read the other information contained in the Half-Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Society in accordance with the terms of our engagement to assist the 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 2010 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
27 July 2010

Stock code 138114_10-8417_02/08/10

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SKIPTON BUILDING SOCIETY