Amber Homeloans Limited

Directors' report and financial statements

31 December 2009

(Registered number 2819645)

Amber Homeloans Limited

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2009

Principal activities and future developments

The principal activity of Amber Homeloans Limited ('the Company') is the advance of loans secured on residential property and will continue to be so for the foreseeable future

Business review

a) Overview

	2009	2008
	£000	£000
Loss before tax, as reported on the Income Statement	**(23,964)**	(17,208)

The Company ceased new lending in March 2008 and throughout the current year has focussed on managing its existing mortgage portfolios

With the economy moving into a recession during the year and rising unemployment, the number of properties taken into possession in the year have increased from 276 in 2008, to 313 in 2009

During the year there were no mortgage book acquisitions (2008 £8m) and no whole loan trades (2008 Nil)

b) Objectives
With the Company having withdrawn from new lending, and with the asset trading market effectively being closed, its principal objective is to manage the existing mortgage book, and hence to minimise the level of mortgage losses

c) Principal risks and uncertainties
The Company's objective is to manage appropriately all the risks that arise from its activities, and we conform with the parent Group's formal structure for managing risks

The Company maintains a detailed Risk Assessment document which is reviewed by the senior management team throughout the year The Managing Director's reports to the Operational Board include a section which highlights the key risks each month and tracks movements in those risks over time

The Risk Assessment document is also subject to a formal annual review This exercise is facilitated by the Group Risk team who also undertake an independent review of the final documentation

The principal risks faced by the Company and an outline of the methods used to reduce them are as follows

Liquidity risk is the risk that the Company is unable to meet its current and future financial obligations as they fall due These obligations include repayment of other borrowings and loan capital

The Company works closely with and is funded by its parent, Skipton Building Society, to mitigate this risk

Operational risk is the risk of loss arising from inadequate or failed processes, people, systems or from external events For the purpose of managing operational risk we divide it into three discrete areas which include risk and compliance, operational performance, and data and management information An independent operational risk function is also provided by the Company's parent

Credit risk is the risk that customers are unable to honour their obligations may increase disproportionately to the increased returns achieved through the interest margin

As noted above, the Company has mitigated this risk by withdrawing from the new lending market

Business review (continued)

c) Principal risks and uncertainties (continued)

The Company is represented on the Group Risk and Credit Committee which meets monthly to agree impairment methodology, and impairment provisioning which is based on models used across the Skipton Group

d) Key performance indicators

Historically, the key performance indicators used to monitor and manage the Company's performance have been

- profitability, which in turn drives return on capital to the parent,
- new business origination, which is the key in enabling the Company to maintain or grow its balance sheet, as well as supporting the whole loan sale programme,
- and asset trading, which had grown to the extent that these transactions contributed around half of the Company's profitability each year

However, following the changes in the Company's business noted above, the main focus for the Company has been reducing arrears levels and minimising mortgage losses

Year	Pre-tax profit / (loss) £k	Arrears >0 833% %	Mortgage losses £k
2007	1,599	7 3	3,342
2008	(17,208)	18 0	30,053
2009	**(23,964)**	**17 5**	**32,831**

The Company's performance continues to be affected by the worsening market conditions which were first reported in the second half of 2007 The Company has reported a pre-tax loss for the second consecutive period, driven predominantly by increased funding costs and the costs associated with sustained higher levels of arrears and possessions noted above

Dividends

No interim dividend has been paid during the year (2008 £Nil) The Directors do not recommend the payment of a final dividend (2008 £Nil)

Capital

The Company's capital is represented by the share capital and retained earnings attributable to the parent Its objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders The Company is regulated by the FSA as part of a Solo Consolidation Group along with its immediate parent and other fellow group subsidiaries As such the Company individually has no specific regulated capital requirement other than the minimum share capital required by the Companies Act, with which it complies During the year, the Company saw its capital position decrease from £5,608k to £(11,648)k due to sustaining £23,964k of pre-tax losses The Company has received a letter of support from its parent undertaking (Skipton Building Society)

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 1 to 2 The financial position of the Company, its cash flows, liquidity position are described within the Company accounts on pages 6 to 9 In addition, note 11 to the financial statements includes the Company's policies and processes for managing its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk

As described in the Directors' report on page 2, the current economic environment is difficult and the Company has reported an operating loss for the year The Directors consider that the outlook presents significant challenges in terms of mortgage losses and arrears levels As explained above, the Directors have obtained a letter of obtained from the Company's parent, Skipton Building Society

The Directors have concluded that the combination of these circumstances gives a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Amber Homeloans Limited

Directors' report (continued)

Directors

The Directors who served during the year were

D J Cutter	(appointed 1 January 2009)
P Fenn	(appointed 1 July 2009)
P T Gittins	(resigned 1 July 2009)
G Jolly	(appointed 1 January 2009, resigned 1 August 2009)
R S P Litten	(appointed 30 March 2009)
R J Twigg	

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Creditor payment policy

The Company's policy concerning the payment of suppliers for the next financial year is to agree terms of payment in advance and to make payment in accordance with those agreed terms and any other legal obligations The Company has no significant external suppliers, and hence at 31 December 2009 creditor days were 0 days (2008 0 days)

Donations

During the year the Company made charitable donations totalling £730 (2008 £700) The Company has made no contributions for political purposes in the year (2008 £Nil)

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

By order of the Board

G M Davidson
Secretary
1 Providence Place
Skipton
North Yorkshire

1 February 2010

Amber Homeloans Limited

Statement of Directors' responsibilities in respect of the Directors' report and financial statements

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Amber Homeloans Limited

Independent Auditor's Report to the members of Amber Homeloans Limited

We have audited the financial statements of Amber Homeloans Limited for the year ended 31 December 2009 set out on pages 6 to 22 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

• give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its loss for the year then ended,
• have been properly prepared in accordance with IFRSs as adopted by the EU, and
• have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the period for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

• adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
• the financial statements are not in agreement with the accounting records and returns, or
• certain disclosures of Directors' remuneration specified by law are not made, or
• we have not received all the information and explanations we require for our audit

J L Ellacott
Senior Statutory Auditor
for and on behalf of
KPMG Audit Plc, Statutory Auditor
Chartered Accountants
1 The Embankment
Leeds LS1 4DW

1 February 2010

Amber Homeloans Limited

Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Interest receivable and similar income	3	**46,319**	103,296
Interest payable and similar charges	4	**(33,857)**	(86,768)
Net interest receivable		**12,462**	16,528
Fair value gains and losses		**(549)**	154
Other operating income	5	**1,565**	1,337
Administration expenses	6	**(4,611)**	(5,174)
Impairment losses on loans and advances	13	**(32,831)**	(30,053)
Loss before tax	2	**(23,964)**	(17,208)
Tax income	8	**6,708**	4,931
Loss for the year		**(17,256)**	(12,277)
Other comprehensive income			
Tax on items taken directly to equity on transition to IFRS		**-**	(2)
Total comprehensive income for the year		**(17,256)**	(12,279)
Attributable to			
Equity holders of the parent		**(17,256)**	(12,279)

The notes on pages 10 to 22 form part of these financial statements

Amber Homeloans Limited

Statement of Financial Position

As at 31 December 2009

	Notes	2009 £000	2008 £000
Assets			
Loans and advances to credit institutions	10	**2,671**	5,164
Loans and advances to customers	12	**1,290,892**	1,431,940
Investment in subsidiary undertakings	14	**26**	51
Property, plant and equipment	15	**-**	-
Current tax assets		**5,433**	3,849
Deferred tax assets	17	**3**	3
Other assets		**127**	169
Total assets		**1,299,152**	1,441,176
Equity and liabilities			
Equity attributable to the parent			
Share capital	18	**3,674**	3,674
Retained earnings		**(15,322)**	1,934
		(11,648)	5,608
Liabilities			
Amounts owed to credit institutions	16	**1,299,739**	1,405,063
Derivative financial instruments	11	**7,260**	24,831
Deferred tax liabilities	17	**667**	777
Other liabilities		**3,134**	4,897
		1,310,800	1,435,568
Total equity and liabilities		**1,299,152**	1,441,176

These financial statements were approved by the Board of Directors on 1 February 2010 and signed on its behalf by

) Directors

Company registration number 2819645

The notes on pages 10 to 22 form part of these financial statements

Amber Homeloans Limited

Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2009	**3,674**	**1,934**	**5,608**
Total comprehensive income for the year	**-**	**(17,256)**	**(17,256)**
Balance at 31 December 2009	**3,674**	**(15,322)**	**(11,648)**
Balance at 1 January 2008	3,674	14,213	17,887
Total comprehensive income for the year	-	(12,279)	(12,279)
Balance at 31 December 2008	3,674	1,934	5,608

The notes on pages 10 to 22 form part of these financial statements

Amber Homeloans Limited

Statement of Cash Flows

For the year ended 31 December 2009

	2009 £000	2008 £000
Cash flows from operating activities		
Loss before tax	**(23,964)**	(17,208)
Adjustments for		
Loss / (profit) on sale of mortgage assets	**1**	(2)
Impairment losses	**32,831**	30,053
Loans and advances written off, net of expenses	**(21,348)**	(5,117)
Depreciation charges	**-**	18
Non cash movements	**18,119**	(19,191)
Loss on sale of property, plant and equipment	**-**	13
Operating profit before changes in working capital and provisions	**5,639**	(11,434)
Net decrease in loans and advances to customers	**111,523**	78,004
Net decrease amounts owed to credit institutions	**(105,324)**	(74,849)
Proceeds from the sale of mortgage portfolios	**(77)**	(297)
Purchase of mortgage portfolios	**-**	(8,148)
Net (decrease) / increase in derivatives	**(17,571)**	19,037
Net decrease in other assets	**42**	55
Net decrease in other liabilities	**(1,763)**	(2,418)
Cash expended from the operations	**(7,531)**	(50)
Income taxes paid	**5,013**	971
Net cash from operating activities	**(2,518)**	921
Cash flows from investing activities		
Proceeds from reduction in share capital of subsidiary company	**25**	-
Proceeds on disposal of property, plant and equipment	**-**	158
Net cash from investing activities	**25**	158
Cash flows from financing activities		
Dividends paid	**-**	-
Net cash from financing activities	**-**	-
Net (decrease) / increase in cash and cash equivalents	**(2,493)**	1,079
Cash and cash equivalents at 1 January	**5,164**	4,085
Cash and cash equivalents at 31 December	**2,671**	5,164

All cash and cash equivalents are held as "Loans and advances to credit institutions"

The notes on pages 10 to 22 form part of these financial statements

Amber Homeloans Limited

Notes to the financial statements

1 Accounting policies

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

The Statement of Financial Position has been prepared to give a non-classified presentation on the liquidity basis, as the Directors believe that such a presentation provides information that is reliable and more relevant than a current / non-current presentation

(a) Basis of accounting
The Financial Statements are presented in accordance with International Financial Reporting Standards (IFRS) and its interpretations as adopted by the EU and effective at 31 December 2009

The Directors have adopted IAS 1, *Presentation of Financial Statements* (2007), IAS 23, *Borrowing Costs (Revised)*, Amendments to IFRS 7, *Improving Disclosures about Financial Instruments* and IFRS 8, *Operating Segments*

The Directors have not adopted IFRS 3, *Business Combinations (Revised)* and IAS 27, *Consolidated and Separate Financial Statements (Amended)* which although endorsed by the EU, are currently not mandatory

The financial statements are drawn up under the historic cost convention and in accordance with applicable accounting standards

(b) Key areas of estimation
The preparation of financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed periodically Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods

Key areas of estimation are

Loans and receivables - in calculating effective interest rates, the Company estimates future cash flows based on its experience of customers' behaviour considering all contractual terms of the financial instrument The estimates of future cash flows are reviewed on a regular basis

The impact of a one month increase in the expected lives of the financial instruments would result in an increase of £880k in interest income

Impairment of loans and advances - the Company reviews its loan portfolio on a quarterly basis to assess the level of impairment In determining whether an impairment loss should be recorded in the Statement of Comprehensive Income, the Company makes judgements as to whether there is any observable data indicating that there is a measurable impairment loss Where such evidence is identified it is used to revise the assumptions, such as probability of default rates, and the emergence of loss period, which underpin the impairment calculations

To the extent that actual losses incurred differ from that estimated by 10%, the impairment provision on loans and advances would change by an estimated £3,083k

(c) Investment in subsidiaries
Subsidiaries are entities controlled by the Company Control exists where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities

Subsidiaries are held on the Statement of Financial Position at cost, less the value of any impairment recognised at the Financial Position date

(d) Consolidation
These financial statements are separate statements prepared for the Company alone The Company meets all of the conditions for exemption set out in IAS 27, and so has not prepared consolidated financial statements incorporating the results of its subsidiary companies

1 Accounting policies (continued)

(e) Interest receivable and payable
Interest receivable in respect of loans and advances to customers, which are measured at amortised cost, is recognised in the Statement of Comprehensive Income using the effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant expected life of the asset or liability The effective interest rate is the rate that exactly discounts the estimated future cash flows over the expected life or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability

Any costs incurred or income received in respect of new loans advanced to customers or acquired from third parties (pre-completion costs or income) are included within Loans and advances and amortised against Interest receivable over the expected lives of the loans concerned These items include procuration fees, mortgage incentive payments and mortgage portfolio premia payable, and higher lending charges and application fees receivable

Interest payable is also accounted for on an effective interest rate basis

(f) Revenue recognition
Other operating income, which excludes value added tax, represents fees and commissions and other invoiced sales of the Company, recognised on an accruals basis

Premium received on mortgage book sales represents the gross income received before any write-back of effective interest rate adjustments which arise on disposal These adjustments are reported through interest receivable

(g) Derivative financial instruments and hedge accounting
The Company uses derivative financial instruments in order to hedge its exposure to interest rate risk in respect of certain fixed rate loans to customers

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into, and are subsequently remeasured at their fair value All derivatives are carried as assets when fair value is positive, and as liabilities when fair value is negative

The method of recognising fair value gains or losses depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged The Company designates certain derivatives as either hedges of the fair value of recognised assets or firm commitments (fair value hedges), or hedges of probable future cash flows attributable to a recognised asset or a forecast transaction (cash flow hedges) Hedge accounting is used for derivatives designated in this way provided that certain criteria are met

The Company documents the relationship between hedging instruments and hedged items, together with its risk management objective and strategy for undertaking the hedge, at the inception of each transaction The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used are highly effective in offsetting changes in fair values or cash flows of hedged items

Fair value hedges - changes in the fair values of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Income, together with any changes in the fair value of the hedged asset that are attributable to the hedged risk If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to profit or loss over the period to maturity

Cash flow hedges - the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Income Amounts accumulated in equity are recycled to the Statement of Comprehensive Income in the periods in which the hedged item will affect profit or loss When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Comprehensive Income When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Statement of Comprehensive Income

Derivatives that do not qualify for hedge accounting - Certain derivative instruments do not qualify for hedge accounting Changes in the fair value of any derivative instrument that does not qualify are recognised immediately in the Statement of Comprehensive Income

1 Accounting policies (continued)

(h) Property, plant and equipment
Property, plant and equipment are stated in the Statement of Financial Position at cost less accumulated depreciation Depreciation is charged so as to write off the cost of assets over their estimated useful lives on the following bases

Equipment, fixtures and fittings	Over 2 to 5 years on a straight line basis
Motor vehicles	At 25% of net book value

Gains and losses on the disposal of assets are included within the depreciation charge except where these are material, where they are separately disclosed

(i) Impairment losses on loans and advances
The Company assesses whether there is objective evidence that a loan or group of loans is impaired at each period end Impairment is recognised only as a result of one or more events that occurred after the initial recognition of an asset, where that event has an impact on the estimated future cash flows of the asset that can be reliably estimated

The Company first considers whether there is objective evidence of impairment on a loan by loan basis If the company determines that no such evidence exists for an individual loan, it is included in the group of loans assessed for collective impairment Loans for which an individual impairment loss is recognised are not included in a collective assessment of impairment

Where impairment is recognised, the loss is measured as the difference between an asset's carrying amount and the present value of estimated future cash flows The carrying amount of the asset is reduced through a provision account, and the amount of the loss recognised in the Statement of Comprehensive Income

When a loan is uncollectable, it is written off against impairment losses in the Statement of Comprehensive Income Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined Subsequent recovery of amounts previously written off decrease the amount of impairment losses in the Statement of Comprehensive Income

Loans subject to collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due or impaired but are treated as new loans after the minimum required number of payments under the new arrangements have been received Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or are considered to be past due

(j) Taxation
Income tax on the profits for the year comprises current tax and deferred tax Income tax is recognised in the Statement of Comprehensive Income except where items are recognised directly in equity, in which case the associated income tax asset or liability is recognised via equity

Current tax is the expected tax payable on the income for the year, using tax rates enacted or substantively enacted at the period end, and any adjustment to tax payable in respect of previous years

Deferred tax is provided using the balance sheet liability method, which recognises temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes It is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the period end

(k) Pensions
At 31 December 2009, two employees of the Company were members of the Skipton Building Society Group defined benefit pension scheme, the assets of which are held in an independently administered scheme Contributions are charged to the Statement of Comprehensive Income and are included in staff costs Full details of the scheme, including details of actuarial gains and losses, are disclosed in the Annual Report and Accounts of Skipton Building Society

The remaining employees of the Company are members of the Skipton Building Society stakeholder pension scheme, which is administered by trustees and whose assets are separate from those of the Society and its subsidiaries Contributions are transferred to the trustees on a regular basis to secure the benefits provided under the rules of the scheme The amount of contribution is a set percentage of the employees salary cost Details of this scheme are disclosed in the Annual Report and Accounts of Skipton Building Society

Amber Homeloans Limited

Notes to the financial statements

1 Accounting policies (continued)

(l) Derecognition of financial assets and liabilities
Financial assets are derecognised when the contractual right to cash flows expires, or the financial asset is transferred to another party and the right to receive cash flows is also transferred

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or has expired

(m) Cash and cash equivalents
For the purpose of the Statement of Cash Flows, cash comprises cash in hand and loans and advances to credit institutions repayable on demand, and cash and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less

The Statement of Cash Flows has been prepared using the indirect method

2 Loss before tax

	2009 £000	2008 £000
Loss before tax has been arrived at after charging		
Depreciation of property, plant and equipment	-	18
Staff costs (see note 7)	678	1,069
Auditor's remuneration and expenses (excluding VAT)		
Audit services	20	18
All other services	-	-

3 Interest receivable and similar income

	2009 £000	2008 £000
On loans and advances	70,381	100,736
Net interest (expense) / income on derivative financial instruments	(24,062)	2,560
	46,319	103,296

Included within the interest receivable and similar income is interest accrued on impaired financial assets of £8,257k (2008 £7,890k)

4 Interest payable and similar charges

	2009 £000	2008 £000
Interest payable to group undertakings	33,857	86,768
	33,857	86,768

5 Other operating income

	2009 £000	2008 £000
Fees and commissions receivable	79	70
Premium on mortgage sales	(1)	2
Sundry income	1,487	1,265
	1,565	1,337

6 Administration expenses

	2009 £000	2008 £000
Staff costs (see note 7)	678	1,069
Administrative expenses	3,933	4,087
Depreciation	-	18
	4,611	5,174

Amber Homeloans Limited

Notes to the financial statements

7 Staff numbers and costs

The average monthly number of persons employed by the Company (including Directors) during the year was as follows

	2009	2008
Directors	**5**	5
Other	**22**	23
	27	28

The aggregate payroll costs of these persons was as follows

	2009 £000	2008 £000
Wages and salaries	**575**	898
Social security costs	**51**	102
Other pension costs		
Defined contribution plans	**25**	30
Defined benefit plans	**27**	39
	678	1,069

8 Tax income

a) Analysis of credit in the year

	2009 £000	2008 £000
Current tax credit		
Current tax at 28% (2008 28 5%)	**(6,708)**	(4,301)
Adjustment for prior years	**-**	(625)
Total current tax	**(6,708)**	(4,926)
Deferred tax expense		
Origination and reversal of temporary differences	**-**	(5)
Total deferred tax	**-**	(5)
Tax credit	**(6,708)**	(4,931)

The tax credit for 2008 includes the one-off effect on the Company's deferred tax balances of the reduction in the corporation tax rate from 30% to 28% which is effective from 1 April 2008

b) Factors affecting current tax credit in the year

The credit for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows

	2009 £000	2008 £000
Loss on ordinary activities before tax	**(23,964)**	(17,208)
Tax on loss on ordinary activities at UK standard rate of 28 5%	**(6,710)**	(4,904)
Effects of		
Adjustment to tax expense in respect of prior periods	**-**	(625)
Utilisation of tax losses	**-**	594
Expenses not deductible for tax purposes	**2**	4
Effects of change in tax rates	**-**	2
Items taken directly to reserves in earlier years		
Current tax	**110**	109
Deferred tax	**(110)**	(111)
Tax credit	**(6,708)**	(4,931)

9 Dividends

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2009 (31 December 2008 £Nil)

10 Loans and advances to credit institutions

Loans and advances to credit institutions are due from the parent undertaking and have remaining maturities as follows

	2009	2008
	£000	£000
Repayable on demand	2,671	5,164
	2,671	5,164

11 Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity The Company is a retailer of financial instruments in the form of mortgages The Company uses wholesale financial instruments to help manage the risks arising from its operations

Instruments used for risk management purposes include derivative financial instruments ('derivatives') Derivatives are instruments whose value is derived from one or more underlying price, rate or index (such as interest rates, exchange rates or stock market indices) but tend to have a smaller or no initial net investment relative to financial assets and liabilities offering the same risk/return, as cash flows are generally settled at a future date

Derivatives are used by the Company to reduce the risk of loss arising from changes in interest rates, and are used by the Company for non-trading purposes only

(a) Types of derivative

The principal derivatives used by the Company are interest rate swaps, used to hedge balance sheet exposures

The key significant activity undertaken by the Company in this respect relates to fixed rate mortgage lending, where the Company has a risk in respect of its sensitivity to increases in interest rates This risk is managed through the use of fixed to floating interest rate swaps, which are accounted for using fair value hedging methods

(b) Control of derivatives

The Skipton Building Society Group has a formal structure of managing risk, including established risk limits, reporting requirements, mandates and other control procedures This structure is reviewed regularly by the Group's Asset and Liability Committee ("ALCO"), which is charged with the responsibility for managing and controlling the balance sheet exposures of the Group The minutes of ALCO are presented to the Group Board

The Board has authorised the use of certain derivatives in accordance with Section 9A (4) of the Building Societies Act 1986, in line with the policies of the parent company

The accounting policies for derivatives are described in Note 1 to the financial statements

(c) Financial risks

All of the Company's derivative activity is conducted through the parent company's Treasury function The Company has no direct dealings with third party financial institutions

The financial risks faced by the Company include interest rate risk, market risk, credit risk and liquidity risk

Interest rate risk

The Company is exposed to movements in interest rates and manages this exposure on a continuous basis, within limits set by the Board, using financial instruments

The effective interest rate for monetary financial instruments not carried at fair value through profit and loss is summarised in the table in 11 (f) below

Market risk

The Skipton Building Society Group monitors interest rate risk daily by determining the effect on the Group's current net fair value of assets and liabilities for a shift in interest rates equivalent to 3% for all maturities The effect is compared to limits set by the Board and is formally reported to ALCO and the Board on a monthly basis

The Company also monitors its own interest rate risk on the same basis Although the Company has no formal limits, the effect is compared to guidelines set by the Board, and is formally reported to the Board on a monthly basis

11 Financial instruments (continued)

Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due The Company's exposure to credit risk has been limited by the decision to stop new lending with effect from March 2008 When the Company was lending, the risk was managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations, and by changing lending limits where appropriate Exposure to credit risk was also managed in part by obtaining collateral and corporate and personal guarantees

Impairment provisions are provided for losses that have been incurred at the date of the Statement of Financial Position However significant changes in the economy or in the health of a particular industry segment that represents a concentration in the Company's portfolio, could result in losses that are different from those provided for at the period end Management therefore carefully manages its exposure to credit risk

The most significant credit risk which the Company is exposed to is in relation to Loans and advances to customers, and the majority of these loans are secured on UK residential properties Given the general downturn in UK house prices seen during 2008, the average loan-to-value of the mortgage book has increased significantly during the year The mortgage book includes lending to households across the UK with no particular geographic concentrations At the end of the period there were no other significant concentrations of credit risk The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the Statement of Financial Position Further loan to-value analysis on the Company's residential loan portfolio is set out below

	2009	2008
	%	%
Less than 70%	**13 1**	15 6
70% to 80%	**5 3**	7 6
80% to 90%	**10 0**	15 3
Over 90%	**71 6**	61 5
Average loan-to-value (indexed)	**81 5%**	73 6%

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

	2009		2008	
	£000	**%**	£000	%
Neither past due nor individually impaired	**1,030,381**	**77 5**	1,102,227	76 4
Past due but not individually impaired				
Up to 3 months	**9,588**	**0 7**	58,678	4 1
3 - 6 months	**2,858**	**0 2**	2,522	0 2
6 - 9 months	**1,845**	**0 1**	2,173	0 2
9 - 12 months	**522**	**0 1**	629	0 0
Over 12 months	**1,433**	**0 1**	282	0 0
	1,046,627	**78 7**	1,166,511	80 9
Individually impaired	**261,189**	**19 6**	242,702	16 8
Possessions	**22,745**	**1 7**	32,794	2 3
	1,330,561	**100 0**	1,442,007	100 0

£43,819k (2008 £8,165k) of loans would have been past due or impaired had their terms not been renegotiated

Fair value of collateral held

	2009	2008
	£000	£000
Not individually impaired	**1,358,453**	1,668,865
Individually impaired	**253,597**	256,780
Possessions	**21,151**	33,116
	1,633,201	1,958,761

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

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

Loans in the analysis above which are less than 3 months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears For details refer to note 13

11 Financial instruments (continued)

Liquidity risk
Liquidity is managed by the Company's parent, Skipton Building Society, on a Group basis, and full details are contained within the Group annual report and accounts

All of the Company's financial liabilities are represented by amounts due to the parent, which are repayable on demand as disclosed in note 16 Consequently no table of contractual cash flows has been disclosed

(d) Hedge accounting
A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss For each main class of fair value hedge, documentation is produced in accordance with the requirements of IAS 39

A cash flow hedge is a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss For each main class of cash flow hedge documentation is produced in accordance with the requirements of IAS 39

At the year end the company had only fair value hedging in place

(e) Fair values of financial instruments
The table below is a comparison of the book and fair values of the Company's financial instruments by category as at the period end Where available, market values have been used to determine fair values

Where market values are not available, fair values have been calculated for options by using option-pricing models and for other financial instruments by discounting cash flows at prevailing interest rates These values do not necessarily represent the amounts which would be realised in the event that these financial instruments were to be sold in the open market

2009	**Positive book value £000**	**Positive fair value £000**	**Negative book value £000**	**Negative fair value £000**	**Notional value £000**
Cash and cash equivalents	**2,671**	**2,671**	-	-	**2,671**
Loans and advances to customers	**1,290,892**	**1,284,326**	-	-	**1,290,892**
Interest rate swaps	-	-	**(7,260)**	**(7,260)**	**256,331**
Amounts owed to credit institutions	-	-	**1,299,739**	**1,299,739**	**1,299,739**
2008					
Cash and cash equivalents	5,164	5,164	-	-	5,164
Loans and advances to customers	1,407,255	1,401,840	-	-	1,407,255
Interest rate swaps	-	-	(24,831)	(24,831)	814,936
Amounts owed to credit institutions	-	-	1,405,063	1,405,063	1,405,063

Valuation techniques
Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements

Level 1
The most reliable fair values of derivative financial instruments and available-for-sale assets are quoted market prices in an actively traded market

Level 2
These are valuation techniques for which all significant inputs are taken from observable market data These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are quoted prices available for similar instruments in active markets

Basis risk derivatives are valued using discounted cash flow models, using observable market data and will be sensitive to benchmark interest rate curves

Level 3
These are valuation techniques for which any one or more significant input is not based on observable market data

The financial instruments within the table above have been valued using the level 2 technique

11 Financial instruments (continued)

(f) Effective interest rate

The table below summarises the effective interest rate for monetary financial instruments not carried at fair value through profit and loss

	Effective interest rate 2009	2008
Assets		
Loans fully secured on residential property	**5 21%**	6 86%
Liabilities		
Amounts owed to credit institutions	**2 51%**	5 89%

The table below summarises the main financial instruments used by the Company and their terms and conditions

	Significant terms and conditions	Accounting policy and methods adopted
Derivative financial instruments	- Standard terms and conditions - Pay fixed, receive variable	Fair value through profit and loss
Loans fully secured on residential property	- Loans secured on associated property - Loan period is typically over 25 years - A variety of products offering fixed and/or variable interest rates - Early redemption charges are payable on most products	Amortised cost
Amounts owed to credit institutions	- Variable rate repayable on demand	Amortised cost

12 Loans and advances to customers

	2009 £000	2008 £000
Loans fully secured on residential property	**1,284,326**	1,407,255
Gains/(losses) attributable to effective hedge accounting	**6,566**	24,685
Advances secured on residential property	**1,290,892**	1,431,940
Repayable		
In not more than three months	**419**	713
In more than three months but not more than one year	**2,517**	2,721
In more than one year but not more than five years	**22,925**	20,889
In more than five years	**1,311,266**	1,442,369
	1,337,127	1,466,692
Less Impairment		
Individual impairment	**36,605**	25,152
Collective impairment	**9,630**	9,600
	46,235	34,752
Advances secured on residential property	**1,290,892**	1,431,940

Included within the charge to the Statement of Comprehensive Income is the impact of the change in impairment charge due to the time value of money, amounting to £637k (2008 £1,323k)

13 Impairment losses on loans and advances

	2009 £000	2008 £000
At 1 January		
Individual impairment	**25,152**	3,230
Collective impairment	**9,600**	6,586
	34,752	9,816
Amounts written off during the year		
Individual impairment	**(21,348)**	(5,117)
	(21,348)	(5,117)
Statement of Comprehensive Income		
Impairment losses on loans and advances		
Individual impairment	**32,822**	27,097
Collective impairment	**30**	3,014
	32,852	30,111
Adjustment to impairment losses on loans and advances resulting from recoveries during the year		
Individual impairment	**(21)**	(58)
Charge for the year	**32,831**	30,053
At 31 December		
Individual impairment	**36,605**	25,152
Collective impairment	**9,630**	9,600
	46,235	34,752

14 Investment in subsidiaries

	2009 £000	2008 £000
At 1 January	**51**	51
Liquidations	**(25)**	-
At 31 December	**26**	51

Name of subsidiary undertaking	Principal business activity	Types of shares held	Proportion of shares held
Skipton Mortgages Limited	Dormant company	Ordinary	100% (direct)
Skipton Mortgage Corporation Limited	Dormant company	Ordinary	100% (direct)

All the above bodies are incorporated and registered in England and operate in the United Kingdom

All subsidiary undertakings are limited by shares

15 Property, plant and equipment

	Equipment fixtures and fittings £000	**Motor vehicles £000**	**Total £000**
Cost			
At 1 January 2009	18	-	18
Disposals	-	-	-
At 31 December 2009	**18**	-	**18**
Accumulated depreciation and impairment			
At 1 January 2009	18	-	18
Depreciation charge for the year	-	-	-
At 31 December 2009	**18**	-	**18**
Carrying amounts			
At 1 January 2009	-	-	-
At 31 December 2009	-	-	-

	Equipment fixtures and fittings £000	Motor vehicles £000	Total £000
Cost			
At 1 January 2008	18	300	318
Disposals	-	(300)	(300)
At 31 December 2008	18	-	18
Accumulated depreciation and impairment			
At 1 January 2008	15	114	129
Depreciation charge for the year	3	15	18
Eliminated on Disposals	-	(129)	(129)
At 31 December 2008	18	-	18
Carrying amounts			
At 1 January 2008	3	186	189
At 31 December 2008	-	-	-

16. Amounts owed to credit institutions

Amounts owed to credit institutions have remaining maturities as follows

	2009 £000	2008 £000
Repayable on demand	**1,299,739**	1,405,063
	1,299,739	1,405,063

Amber Homeloans Limited

Notes to the financial statements

17 Deferred tax

The movement on the deferred tax account is as shown below

	2009 £000	2008 £000
At 1 January	**774**	890
Tax on items taken directly to equity on transition to IFRS	**(110)**	(111)
Statement of Comprehensive Income charge	**-**	(5)
At 31 December	**664**	774

Analysis of deferred tax assets

	2009 £000	2008 £000
Fixed asset temporary differences	**3**	3
At 31 December	**3**	3

Analysis of deferred tax liabilities

	2009 £000	2008 £000
Other short term timing differences	**667**	777
At 31 December	**667**	777
Net Deferred Tax	**664**	**774**

18 Share capital

	2009 £000	2008 £000
Authorised, allotted, called up and fully paid share capital		
3,674,132 ordinary shares of £1 each	**3,674**	3,674
	3,674	3,674

19 Related party transactions

The Company has a related party relationship with its subsidiaries (see note 14) and with certain other Group companies, as detailed below All such transactions are priced on an arms-length basis

During the year to 31 December 2009, the following related party transactions were entered into with related parties

	2009		2008	
	Parent undertaking £000	**Group subsidiary undertaking £000**	Parent undertaking £000	Group subsidiary undertaking £000
a) Net interest				
Interest payable in respect of borrowings	**33,857**	**-**	86,768	-
	33,857	**-**	86,768	-

19 Related party transactions (continued)

	2009 Parent undertaking £000	2009 Group subsidiary undertaking £000	2008 Parent undertaking £000	2008 Group subsidiary undertaking £000
b) Purchase of goods and services				
Mortgage administration and related fees	-	3,283	-	3,252
Office rental and other support services	265	-	329	-
Software provision	-	155	-	175
Commission payable	1	-	25	-
	266	3,438	354	3 427
c) Outstanding balances				
Interest payable in respect of borrowings	1,299,739	-	1,405,063	-
Purchase of goods and services				
- Mortgage administration and related fees	-	274	-	316
- Software provision	-	16	-	18
	1,299,739	290	1,405,063	334
d) Key management compensation				
Salaries and other short-term employee benefits	97	-	212	-
Post-employment benefits	8	-	14	-
	105	0	226	0

"Key Management personnel" comprised up until 30th June 2009 one executive director of the company who was a member of the Skipton Building Society Group stakeholder pension scheme

With effect from 1st July 2009 "Key Management personnel" comprises one Executive Director of the Company who is a member of the Skipton Building Society Group defined pension scheme

Details of both pension schemes are outlined in note 1(k)

Compensation to key management personnel is included in the payroll costs of the company, detailed in note 7

There are no provisions in respect of goods and services to related parties either at 31 December 2008 or at 31 December 2009

The Company is party to group banking arrangements involving the pooling of funds with other group companies

20 Adoption of new and revised International Financial Reporting Standards

Disclosed below are new standards and interpretations which have been adopted during the year and have impacted these financial statements

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

Amendment to IFRS 7, *Financial Instruments Disclosures* The amendments to this standard were endorsed on 1 December 2009 and are effective from 1 January 2009 The amendment requires enhanced disclosures about fair value measurements and liquidity risk

21 Ultimate parent undertaking

The Company is a wholly owned subsidiary of Skipton Building Society, which is registered in the United Kingdom A copy of the group annual report and accounts into which the results of this company are consolidated will be available from

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